Strong rural presence to act as growth catalyst!

We initiate coverage on **Bandhan Bank** (Bandhan) and **CreditAccess Grameen** (CAG) in the microfinance space with a positive outlook over the long term. The MFI segment has successfully weathered numerous disruptions over the past decade and has exhibited quick revival while emerging stronger. This industry has grown at a healthy rate of ~42% CAGR over FY15-20 (as per MFIN data) despite demonetization, indicating huge unmet demand in the segment, especially in the rural markets. Growth remained tepid for the most of FY21E as COVID-19-led disruptions shifted microfinancier's focus on collections rather than disbursements and growth. However, with lockdown relaxations and near normal business activities, we expect the MFI segment to rebound and deliver encouraging growth over FY22E/23E.

While the MFI space is inherently risky and is characterized by higher defaults and asset quality stress during disruptions (mostly event-based), it is also the quickest to bounce back to normalcy and resume its growth trajectory. Demonetization was one of the most testing phases for the MFI industry as a whole, with higher delinquencies. However, in our opinion, both **Bandhan** and **CAG** exhibited superior risk management abilities and managed to contain credit costs well below industry levels and asset quality better than their peers.

Collections remained muted till Aug'20 as a large part of the portfolio remained under moratorium as per the RBI directives announced in light of COVID-19 disruptions. With the gradual economic re-opening and borrowers business activities picking-up, collections have witnessed an improvement across geographies. However, based on the trends observed across prominent listed MFI players, collections continue to remain below pre-COVID levels and range between 90-94%. Going ahead, higher slippages mainly from business segments and geographies which continue to remain impacted by COVID-19 are likely to build up asset quality pressures.

The microfinance business typically generates healthy spreads (capped at 10% for NBFC/NBFC-MFIs) than most other lender categories. Microfinanciers also enjoy lower credit costs with efficient collection models in place. These are the primary ROA/ROE drivers for MFI lenders. Both **Bandhan** and **CAG** have been successful in keeping their cost structure lean and enjoy best-in-class cost ratios along with lower credit costs, resulting in superior ROAs/ROEs.

BANDHAN BANK

We initiate coverage on **BANDHAN** with a BUY rating given our confidence in the robust business model of the bank. Our confidence is a reflection of the bank's strong execution capabilities witnessed during its seamless transition from a micro-financier to a bank as it smoothly scaled-up asset and liability franchise, its ability to deliver healthy ROA/ROE and maintain best-in-class asset quality. The substantially lower opex vs peers and relatively high-yielding book translates into adequate PPOP/Assets, enabling the bank to absorb asset quality shocks in disruptive times and yet deliver healthy return ratios. Though COVID-19 stress is likely to dampen near-term performance, we remain upbeat on the long-term prospects of Bandhan. In these testing times, the bank's primary focus continued to be collections rather than growth, which is evident in the normalising collection in the non-MFI segments. However, the collections in the MFI segment continue to remain below pre-COVID levels, primarily due to the recent developments in the key state of Assam have triggered a drop in collections (down from 88% in Dec'20 to 78% in mid-Jan'21). The management is confident of improvement collection efficiency going ahead as they continue to proactively engage with borrowers and trim disbursements to the troubled state. The prudent approach adopted in identifying and accounting for stress as seen in the front-loading of provisions in Q3FY21 and going into Q4FY21E, cements our confidence in the bank's intent to allow minimal stress spilling over to FY22E.

CREDITACCESS GRAMEEN (CAG)

We initiate coverage on **CAG** with a BUY rating as we believe it will be a major beneficiary of the buoyancy and huge unmet demand in the rural areas. The acquisition of Madura Microfinance will further help CAG consolidate its leadership position, thus improving its market share. Additionally, it will enable CAG to diversify into newer geographies, thereby reducing the concentration risk. CAG's rural focus and a customer-centric business model by becoming a "one-stop-shop" solutions provider has helped it build a sticky customer base and high retention. CAGs strong underwriting practices, flexible collection policy and weekly group meetings result in a lower portfolio at risk (PAR) than other collection models. Furthermore, experience-driven competence in tackling stress (as seen during demonetization) and a proven record of containing GNPA at sub-1% strengthens our confidence in the asset quality management capability of CAG. While COVID-19 is expected to create asset quality headwinds, elevate credit costs and dampen growth, impacting the short-term performance of the company, we remain confident in CAG's calibrated effort to inch back to normalcy and deliver a robust long-term performance.

Key Financials

Company	Rating	CMP (Rs)	Target (Rs)	Upside (%)	Adj. Book Value(Rs.)			P/ABV (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Bandhan Bank	BUY	355	425	20%	101.9	125.9	156.7	3.5	2.8	2.3
CreditAccess Grameen	BUY	722	865	20%	244.7	279.9	331.8	3.0	2.6	2.2

Source: Axis Securities

Microfinance Regulations for MFI players

Parameters	Banks	Small Finance Banks	MFIs
NIMs	No Margin Cap	No Margin Cap	Spread capped at 10%
Capital Adequacy	Tier 1 Capital - 7% CRAR - 9%	Tier 1 - 7.5% CRAR - 15%	Tier 1 Capital > Tier 2 capital CRAR - 15%
Leverage Ratio	Maintain a minimum leverage ratio of 4%	Maintain a minimum leverage ratio of 4%	No requirement specifically stated
CRR/SLR Requirements	CRR – 3% of NDTL *(to be restored to 3.5% from Mar'21 and 4% from May'21)* SLR – 18% NDTL	CRR – 3% of NDTL *(to be restored to 3.5% from Mar'21 and 4% from May'21)* SLR – 18% NDTL	No requirement specifically stated
Priority Sector Lending	40% of ANBC -- 18% of ANBC to Agriculture -- 7.5% of ANBC to microenterprises -- 10% of ANBC to weaker sections	75% of ANBC -- 18% of ANBC to Agriculture -- 7.5% of ANBC to microenterprises -- 10% of ANBC to weaker sections ** Minimum 50% of the portfolio should constitute loans of up to Rs. 25 Lakh	85% of loans should be towards microfinance ** Large part of the portfolio (50%) should be towards income generation loans.

Source: Axis Securities

In the recent bi-monthly monetary policy (Feb'21), RBI announced to come up with a consultative document for harmonising the regulatory frameworks that will apply to various lenders (NBFC-MFI, SCB, SFBs and NBFCs) in the MFI space. This may amount to the harmonisation of guidelines for SFB/Banks and NBFC/NBFC-MFIs.

In our view, one of the measures in the harmonization of guidelines may spell out that banks will have to follow the RBI directive for NBFC-MFIs and cap their spreads at 10%. Though no such notification in this regard has been issued as yet (expected in March'21). If such guidelines are issued, it will negatively impact the risk-reward proposition of banks such as Bandhan in the short term. However, we believe it will be structurally positive over the longer run. Capping of spread will result in NIM compression and also dent profitability. Harmonization of guidelines may also include capping the number of lenders for borrowers and borrowing cap from MFIs which is currently at Rs. 1.25 Lakh for rural areas.

Growth levers in place!

We initiate coverage on Bandhan Bank Ltd. (Bandhan) with a BUY recommendation and a Target Price of Rs. 425, implying an upside of 20% from current levels. Bandhan's strong execution capabilities are reflected in its seamless transition into a bank as it scaled up both its asset and the liability franchise with equal ease, maintained best-in-class profitability and superior control over asset quality. The company's business model continues to be robust on the backdrop of 1) Focus on achieving a diversified product portfolio, 2) NIM expansion despite portfolio shift, 3) Superior cost ratios aiding profitability, and 4) Unabated focus on maintaining asset quality.

While COVID-19 stress is expected to result in lower growth, higher credit costs and elevated asset quality stress, weighing down the near term performance, we remain upbeat on the bank's ability to quickly bounce back to its pre-COVID levels, as was visible during previous disruptions. Keeping the business stress in perspective, the bank is primarily focusing on improving collections across business segments rather than pursuing growth. Though MFI book continues to be an under-performer in terms of collections (92% in Dec'20), mainly due to disruptions in Assam (collections sub-par at 78%), the collections in the non-MFI segments are holding up well, at near pre-COVID levels (stable at 98% in the housing and commercial banking book). We believe that Bandhan's robust business model will help it weather through these tough times and emerge stronger. **We value Bandhan at a 2.7x FY23E P/ABV basis.**

Investment thesis

Loan book diversification to aid growth

The bank's efforts to diversify its loan book from MFI on transitioning into a bank was supported by Gruh merger. The management aims to reduce the mix of MFI to 30% by FY25E and in-ine with the mgmnt. vision we expect individual MFI, housing and retail loans to drive growth going ahead. A few of these segments also provide opportunities to cross-sell liability and fee-income products. We expect the non-MFI segments of the loan book to deliver a strong growth of 29% CAGR culminating in the overall loan book to grow at 24% CAGR over FY20-23E.

NIMs to expand despite portfolio shift

We expect traction on the liability side to continue (28% CAGR over FY20-23E) as Bandhan looks to replace high-cost borrowings (from the Gruh merger) with low-cost granular deposits. Though Bandhan offers slightly higher rates than most other private banks, higher yields on the asset side adequately compensate for the higher CoF, thereby supports healthy NIMs. We expect NIMs to expand marginally over FY20-23E and hover in the range of 7.4-7.6%.

Lean cost structure to support profitability

Bandhan's profitability ratios are best amongst its peers, mainly due to healthy spreads and a lean cost structure. The PPOP/Assets (best amongst peers) provides a cushion to absorb any credit shocks and also translates into superior ROA and ROE. This has been substantiated during disruptive events like demonetization and even currently during COVID-19, where despite higher credit costs (~4.9%), Bandhan is likely to exit FY21E with ROA/ROE of 2.5%/15%. With the C-A ratio expected to remain sub-3% and credit costs moderating from FY22E onwards, ROA expansion would be visible in FY22E/23E.

Focus on Asset Quality remains unabated

Despite operating in the high-risk MFI segment, the bank has been successful in maintaining its asset quality (even as a microfinancier). While asset quality stress is now showing up with proforma GNPA at 7.1% (3.5% excl. part paying customers), it is mainly due to stress in the Assam portfolio exhibiting below-par collections (78% in early-Jan'21). With a large part of the stress recognised in Q3FY21, we expect Bandhan to exit FY21E with GNPA of 5.1%. Given the stress in the MFI book, credit costs are expected to remain elevated in FY21E at ~4.9% (in-line with mgmnt. guidance of 5%) and taper FY22E onwards.

Profitable franchise; Initiate with BUY

We believe Bandhan is eligible to trade at premium valuations over peers backed by its market leadership position (20% market share), healthy asset quality, the strong ramp-up of the loan book and deposits and a competent and experienced management team. **We value the stock at 2.7x FY23E ABV and initiate coverage with a 'BUY' recommendation and a target price of Rs. 425, implying an upside of 20% over CMP.**

Key Financials (Standalone)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
NII	6,324	7,902	9,607	12,025
PPP	5446	6,869	8,091	10,073
PAT	2,956	2,452	4,173	5,513
NNPA %	0.6	1.7	1.3	1.1
EPS (Rs)	18.4	15.2	25.9	34.2
ABV/Share (Rs)	91.9	101.9	125.9	156.7
P/E (x)	19.3	23.3	13.7	10.4
P/ABV (x)	3.9	3.5	2.8	2.3
ROE (%)	22.4	14.9	21.4	23.0
ROA (%)	4.0	2.4	3.4	3.7

Source: Company, Axis Research

(CMP as of Mar 3, 2021)

CMP (Rs)	355
Upside /Downside (%)	20%
High/Low (Rs)	431/152
Market cap (Cr)	57,159
Avg. daily vol. (6m) Shrs.	1,26,76,481
No. of shares (Cr)	161.0

Shareholding (%)

	Dec-20	Sep-20	Jun-20
Promoter	40.0	40.0	61.0
FIIs	35.2	32.2	14.5
MFs	3.4	4.9	1.7
Public	21.4	22.8	22.8

Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
NII	7,902	9,607	12,025
PPP	6,869	8,091	10,073
Provisions	3,591	2,512	2,703
PAT	2,452	4,173	5,513
EPS (Rs)	15.2	25.9	34.2
EPS Growth (%)	*-17%*	*70%*	*32%*
ABV/Share (Rs)	101.9	125.9	156.7
P/ABV (x)	3.4	2.7	2.2

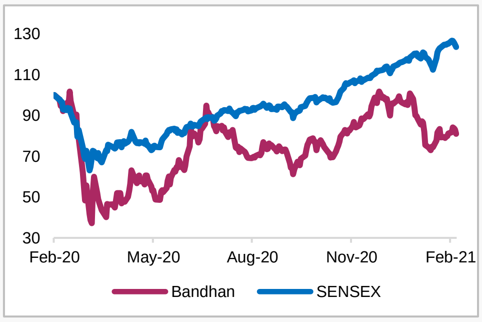
Key Drivers (%)

Y/E Mar	FY21E	FY22E	FY23E
NIM	7.4	7.5	7.6
C-I	28.6	30.4	30.6
Credit Costs	4.9	2.7	2.3

Axis vs Consensus

EPS Estimates	FY21E	FY22E	FY23E
Axis	15.2	25.9	34.2
Consensus	16.7	26.9	34.3
Mean Consensus TP (12M)			**414**

Relative performance



Source: Capitaline, Axis Securities

Dnyanada Vaidya
Research Analyst

Email: dnyanada.vaidya@axissecurities.in

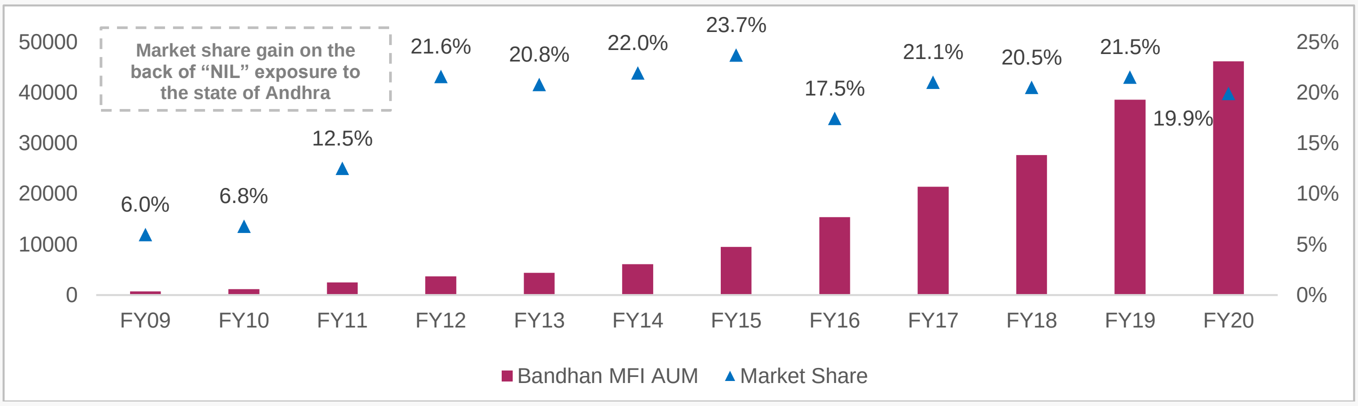
Effective Diversification of portfolio holds the key to growth

Evolution from a strong pure-play MFI player

Bandhan Bank was incorporated in December 2014 post the in-principle approval from the RBI to function as a universal bank. The banking operations commenced in August 2015, after the transfer of the MFI business from Bandhan Financial Services Ltd. In the initial years, the bank continued to focus on the MFI business.

Its market share initially zoomed up during the Andhra Pradesh MFI crisis, as the bank had no exposure to the troubled state of AP. As the industry witnessed consolidation due to the AP crisis, Bandhan continued its growth momentum to become the largest MFI portfolio by March 2012 as compared to the 4th largest portfolio in March 2010. Over the years, the bank successfully withstood difficult operating conditions in the MFI space and maintained its market share at ~20% by H1FY21.

Exhibit 1: Bandhan's evolution and market share gain trajectory (based on AUM)



Source: MFIN, Company, Axis Securities

On transitioning into a bank, even as Bandhan ventured into small enterprise loans, SME and Retail Loans comprising 2-Wheeler and Personal Loans, it continued focusing on the MFI business, resulting in a robust MFI book growth of 37.1% CAGR over FY15-20. Currently, the portfolio yields are amongst the lowest in the industry ranging between 18-19%, as the bank enjoys a lower cost of funds due to the higher share of retail deposits.

Unlike most of its peers, Bandhan has a concentrated portfolio in Eastern and North-Eastern states of West Bengal and Assam, which currently contributes ~60-65% of the portfolio collectively. Though the concentration benefits the bank with a strong brand recognition and better customer connect, it also exposes the bank to geo-political risks.

Exhibit 2: Bandhan's Geographical Mix (Branches in 9MFY21)

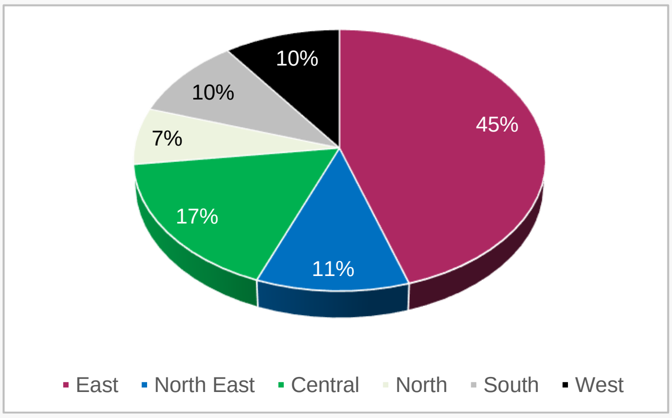


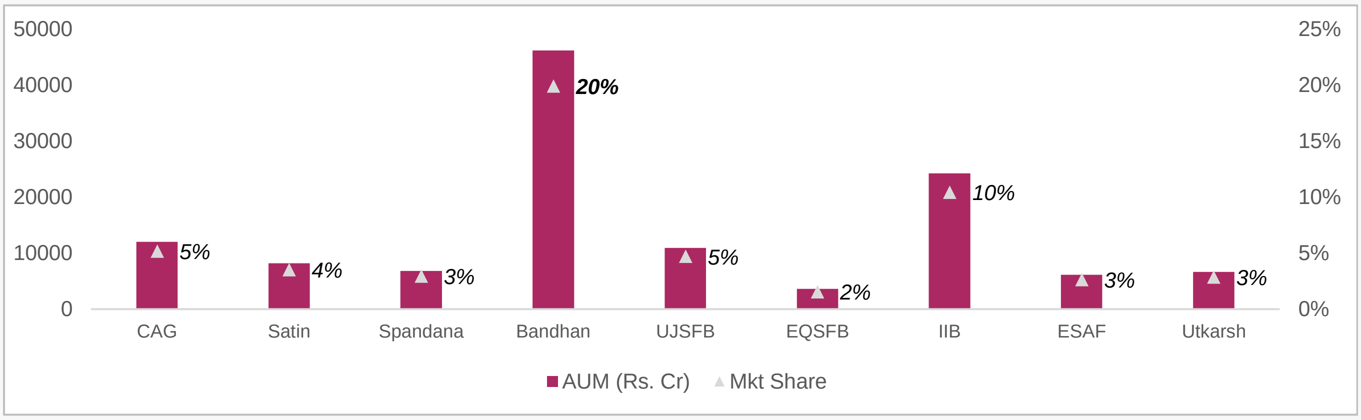
Exhibit 3: Bandhan Bank vs Peers Lending Rate

Company	Lending Rate
Bandhan Bank	***~ 18-19%***
Ujjivan SFB	~ 21-22%
Equitas SFB	~ 21%
CreditAccess Grameen	~ 19-20%
Spandana Sphoorty	~ 21-22%

Source: Company, Axis Securities

Bandhan's MFI book is characterised by a higher than industry average ticket size of ~Rs. 40,000 (with an upper cap of Rs. 50,000 for new borrowers at least for the initial 2 years) and a larger group size of 25-30 members. The bank enjoys a high customer retention ratio of ~90%, with 55% of the customers being sole borrowers of Bandhan.

Exhibit 4: Bandhan's Market share vs Peers (FY20)



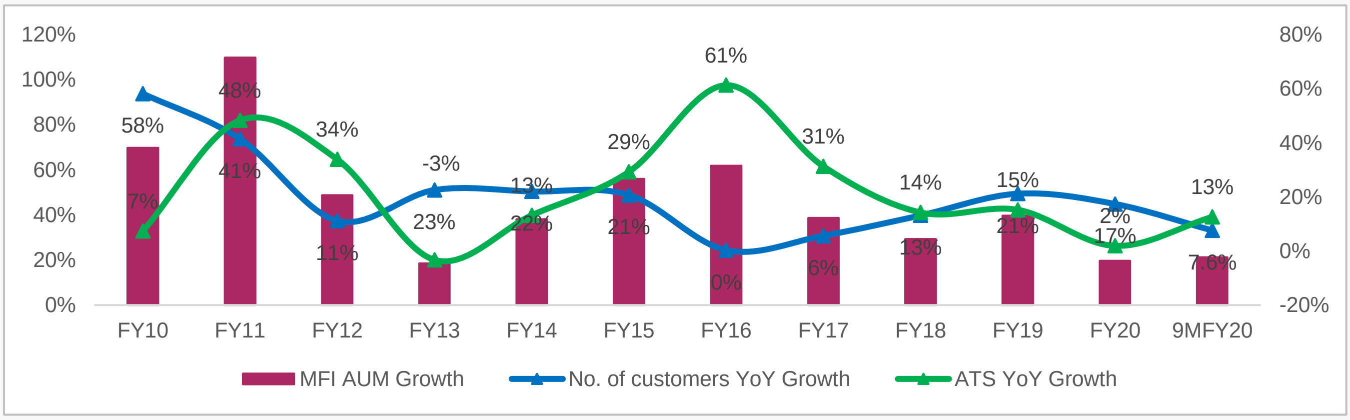
Source: MFIN, Company, Axis Securities

Robust Business Model - Key differentiator

Unlike most other microfinanciers, Bandhan operates a group based individual lending model as against the classic Join Liability Group (JLG) model. On an industry-wide level, only ~7% of microfinanciers operate this model. Under this model a group of 25-30 women that are acquainted with each other and residing in the same locality form a group. The groups are self-selected and each member is eligible to obtain loans individually as per their requirements. The group formation maintains credit discipline ensuring prudent and regular loan repayments by individual borrowers. Furthermore, the loans are extended solely to women belonging to low-income households and are mandatorily used only for their business activities.

Bandhan operates weekly collections model for each MFI customer group with no flexible repayment options available currently. In our view, the weekly collections model serves as a barometer for any stress that may arise, thus ensuring lower risk to the portfolio. This has enabled the bank to maintain robust asset quality over the years.

Exhibit 5: Bandhan's AUM growth led by both ATS and customer base expansion



Source: Company, Axis Securities

AUM growth was mainly supported by sharp growth in the average ticket size of 61% YoY as Bandhan converted into a bank, while customer acquisition remained steady. The bank has dedicated banking units (currently 4,090 units, earlier known as DSCs) to cater to the MFI customers. We believe, going ahead, the AUM growth will be led by a steady-state increase in ATS of 10-12% and a growth of 15-18% in number of borrowers. ***We expect the MFI/EEB book to grow at 22% CAGR over FY20-23E.***

Exhibit 6: MFI AUM Growth

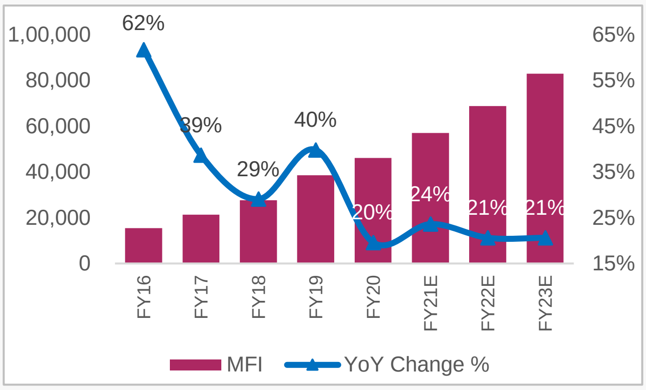
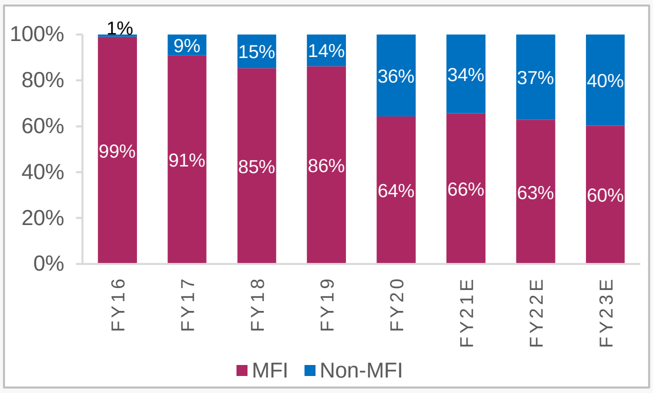


Exhibit 7: Declining Mix of MFI in portfolio



Source: Company, Axis Securities

Extension to the Group MFI Loans

In order to support the entrepreneurial journey of the existing MFI borrowers, Bandhan extended higher ticket size loans of up to Rs. 3 Lakh. These loans are offered to existing MFI customers who have completed 2 repayment cycles. The average yield on the individual MFI loans is currently the same as group MFI at ~18-19%. Individual MFI borrowers are offered the monthly repayment option as opposed to the regular weekly repayment practice for the group MFI borrowers.

Bandhan has currently identified a customer base of 5.6 mn (out of a total customer base of 17.13 mn MFI customers) which are eligible to avail Individual MFI loans. A large potential customer base coupled with MFI customers transitioning from lower ticket size group loans to higher ticket size individual loans provides the bank with ample headroom to grow. The share of individual MFI loans improved from 2% (of MFI book) in December 2019 to 10% in December 2020, growing at 691% YoY.

With the bank shifting its focus from MFI loans to non-MFI loans, we expect a drop in the mix of MFI loans to the total advances. The management has reclassified its product offerings and expects the share of Emerging Entrepreneurs Business (EEB) or the MFI loans to be 30% by FY25E. However, we do not foresee such a sharp drop in the EEB/MFI loans and expect the bank to exit FY23E with the EEB/MFI loan mix of 60%.

However, if the bank classifies the individual MFI loans as Commercial borrowing (which it will at a future date), we could see the share of EEB/MFI loans go down drastically (close to the management's guidance of 30%) in line with its vision for FY25E.

Gruh Merger provides a much-needed diversification push

Bandhan merged the housing finance business of Gruh which provided the much-needed diversification to the portfolio along with reducing the share of MFI loans in the total AUM from 86% in Q1FY20 to 61% in Q2FY20. The merger not only helped Bandhan diversify its product portfolio but also helped the bank in reducing the promoter stake to ~61% to meet the regulatory guidelines.

Exhibit 8: Housing AUMs growth

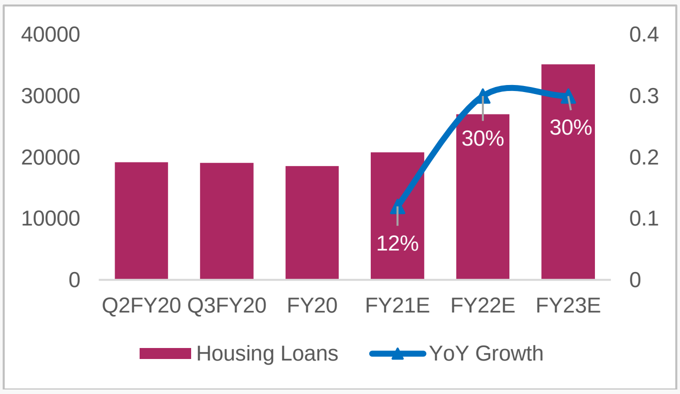
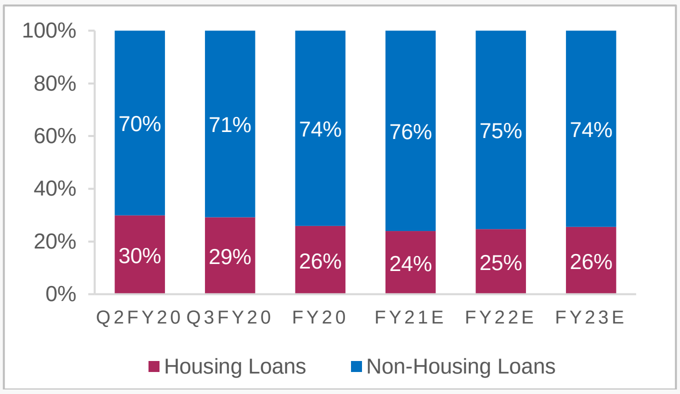


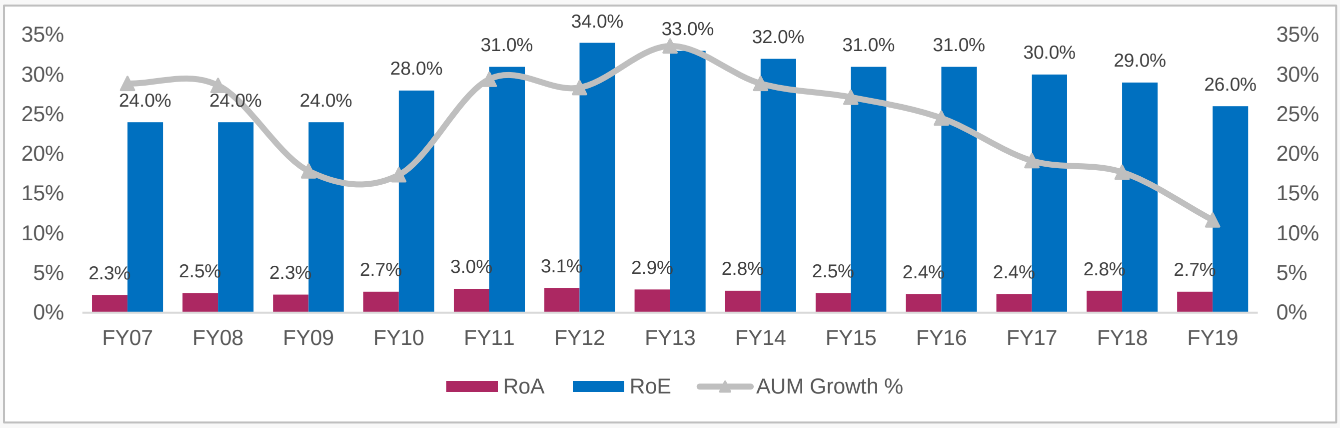
Exhibit 9: Housing loans mix to remain steady



Source: Company, Axis Securities

Gruh was primarily engaged in affordable housing finance with ~84% of the portfolio (at the time of merger) into small ticket affordable housing loans. Gruh's focus markets were in western India and the company was looking to diversify its geographical presence in eastern India (Bandhan's home markets). Few quarters prior to the merger, the company witnessed a slowdown in growth due to intensified competition in the home markets, unfavourable market conditions in the real-estate sector and slower than expected scale-up of the business in newer geographies.

Exhibit 10: Gruh's historical performance over the decade



Source: Company, Axis Securities

The merger, though expensive, is expected to derive synergies as Gruh's expertise and product suite coupled with Bandhan's distribution network and brand image in its home markets will enable the bank to scale up the business more effectively. The merger also gave Bandhan access to expand its operations in western India (Gruh's home market) along with an additional customer base of ~2.7 Lakh customers. Bandhan has identified ~106 branches in the key geographies to offer housing finance products.

Exhibit 11: Housing book break-up (Q3FY21)

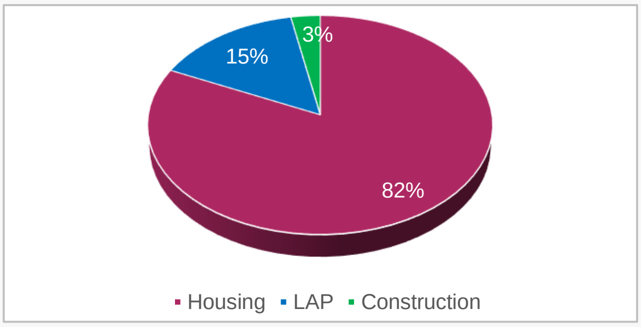
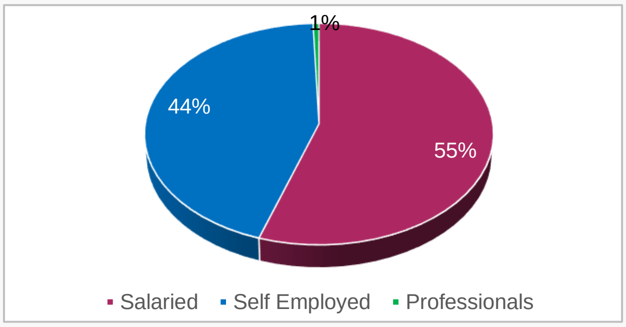


Exhibit 12: Housing customers break-up (Q3FY21)



Source: Company, Axis Securities

Currently, the average ticket size ranges between Rs. 8.5-9 Lakhs and the portfolio yields 10-11%. The average LTV on the portfolio is ~67%. The Mortgage book consists of Housing loans (82%), LAP (15%), and construction finance (3%). Bandhan is not keen on extending construction loans and hence the book will eventually run-down. We believe the affordable housing space has huge unmet demand, which will help Bandhan ramp up the book at a faster pace. ***We expect the housing book to grow at 24% CAGR over FY20-23E.***

Scaling up of smaller business verticals - Key growth driver

In Q2FY21, the bank reclassified its product portfolio to becoming a "one-stop-shop" for all its customer needs. The commercial banking segment consists of secured lending products to SMEs and other NBFCs as well as the Retail portfolio comprising of Gold Loans, 2-wheeler loans etc. ***We expect these segments to be key growth drivers and estimate the Commercial Banking loans and Retail Loans to grow at 35% and 75% CAGR respectively over FY20-23E.***

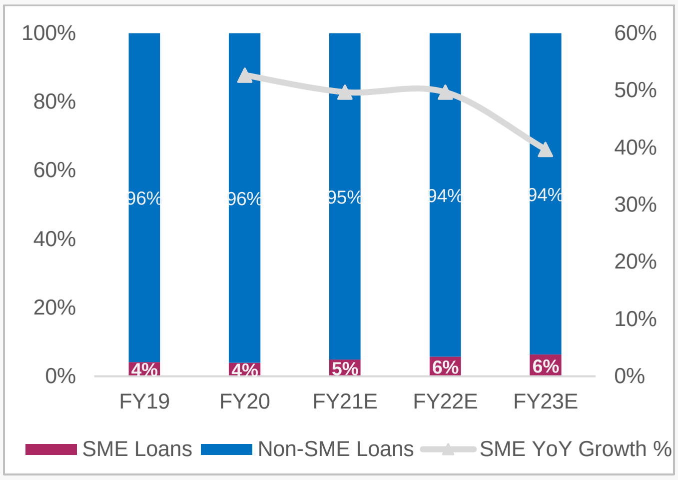
Commercial Banking

- **SME Lending** – SME loans largely comprise of working capital loans and are high ticket size loans. The portfolio yield range between 11-13% and the average LTV on the portfolio is around 65-70%. MSME financing is a relatively underpenetrated segment, especially with larger banks shying away from lending to this segment. In our opinion, SME Financing can help Bandhan accelerate its growth rate given that a large part of the MSME units in India are in the home markets of Bandhan and the bank is likely to capitalise on this opportunity. The strong geographical presence will aid the robust growth in the SME book. ***We expect the book to register a strong growth of 46% CAGR over FY20-23E, albeit on a small base, thereby improving the mix in the total portfolio to 6% from 4% currently.***

Exhibit 13: Scope for MSME book scale up in home markets

State	No. of units (Mn)	Share %
Uttar Pradesh	90.0	14%
West Bengal	***88.7***	***14%***
Tamil Nadu	49.5	8%
Maharashtra	47.8	8%
Karnataka	38.3	6%
Bihar	***34.5***	***5%***
Andhra Pradesh	33.9	5%
Gujarat	33.2	5%
Rajasthan	26.9	4%
Madhya Pradesh	26.7	4%
Top-10 states	***469.4***	***74%***
Other than Top-10 states	***164.5***	***26%***
Total	***633.9***	

Exhibit 14: Improving Share of SME Loans and portfolio growth



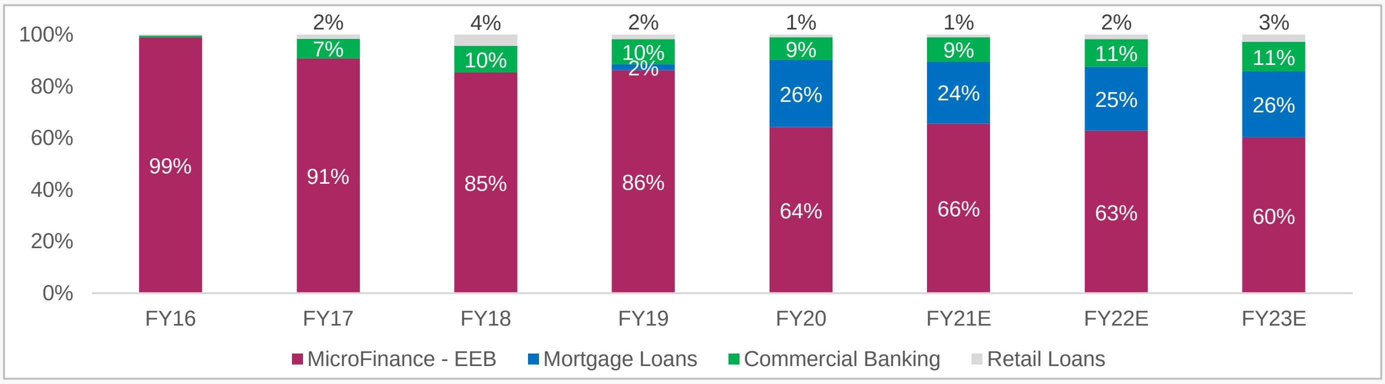
Source: Ministry of MSME (Annual Report), Company, Axis Securities

- **NBFC Financing (MFI and Others)** – The bank extends loans to both NBFCs and NBFC-MFIs having stable cash flows, strong asset quality with GNPAs generally sub-2%, robust capitalization, good track record, and experienced promoters. Though we have seen a slowdown in the lending to this segment currently due to higher post-pandemic uncertainty, we expect demand revival in the near future.

Retail Loans

In the portfolio reclassification, Bandhan aspires to take the share of Retail Loans to 10% of the Advances from 1% currently. This will be primarily driven by stellar growth in gold and personal loans. Most of the customers are new to bank customers and can be viewed as cross-sell opportunities for the liability products and fee-income earning products of the bank. The portfolio yields broadly range between 11-15% and the average LTV on the portfolio is ~60-70%.

Exhibit 15: Changing Portfolio Mix



Source: Company, Axis Securities

Liability Franchise build-up stronger and faster than peers

Bandhan's liability franchise scale-up within 3-4 years of its commencing operations as a bank has been remarkable. Until the Gruh merger, Bandhan's entire borrowings comprised of deposits that replaced high-cost borrowings from Bandhan Financial Services Ltd. (BFSL). This is a stark contrast to the SFB peers who have been finding it difficult to build a scaleable deposit base, especially a retail deposit led franchise. The bank's ability to maintain a higher share of retail deposits on a sustainable basis is commendable.

Exhibit 16: Improving share of Retail Deposits

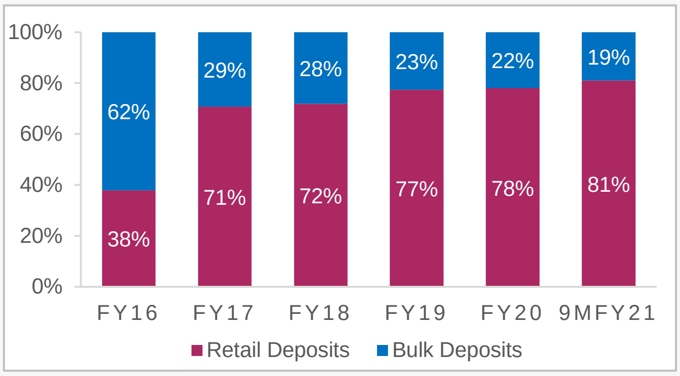
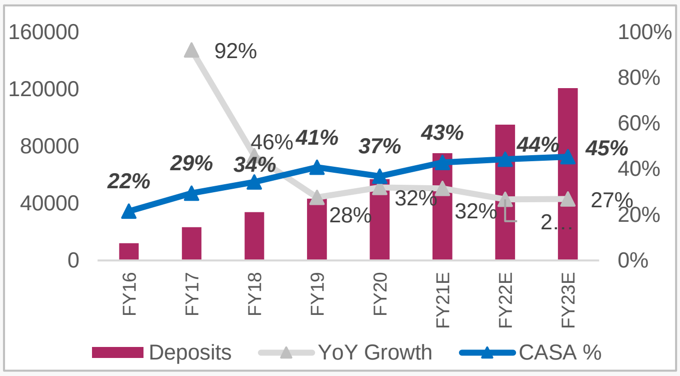


Exhibit 17: CASA deposits build-up



Source: Company, Axis Securities

The successful and rapid ramp-up of the deposits can be attributed to the bank's strong brand image it has built as a microfinancier over the years especially in its home markets of East and North-East India. Despite being identified as a MFI lender, who are not typically the "target customers" to build a deposit base Bandhan's ramp-up in the home markets has been quite impressive. Currently, the MFI customers are only ~5% of the total deposit base. RBI data on deposits suggests that the key geographies of Bandhan are characterised by higher CASA ratios, which in our opinion, is a key success factor behind the bank's healthy CASA ratio in comparison to most of its peers.

Exhibit 18: Credit Penetration and C/D Ratio

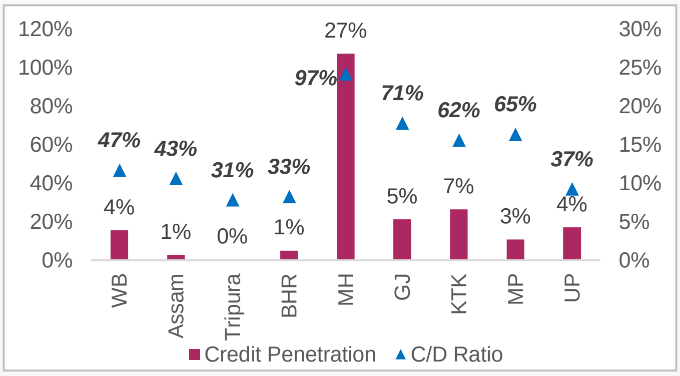
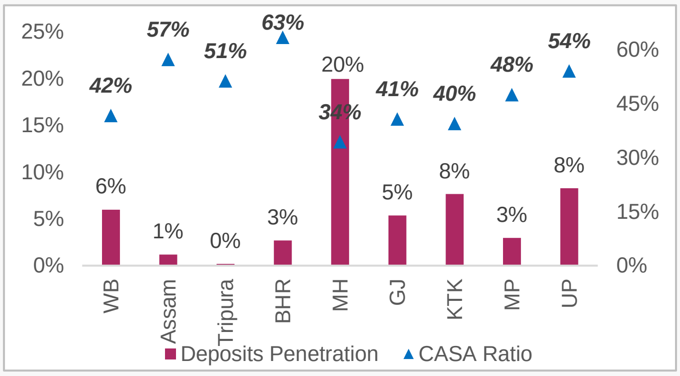
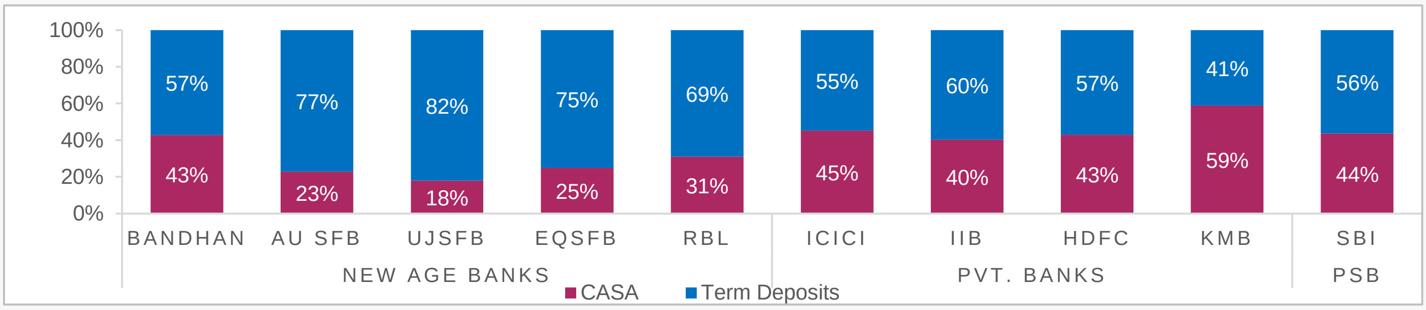


Exhibit 19: Key markets have higher CASA penetration



Source: RBI DBIE, Company, Axis Securities

Exhibit 20: Bandhan's superior CASA ratio vs peers



Source: Company, Axis Securities

The Eastern and the North-Eastern (home markets) geographies are under-penetrated in-terms of both credit and deposits, which can also be attributed as a reason for the phenomenal success of the scaling up in the liability franchise in these geographies. However, Bandhan is now looking to geographically diversify its deposits base. Though the growth in retail deposits continues to remain strong in the key geographies, the non-east geographies have also started contributing to the retail deposit growth and we believe this momentum is likely to continue.

Exhibit 21: Retail-deposits geographic mix (Q3FY21)

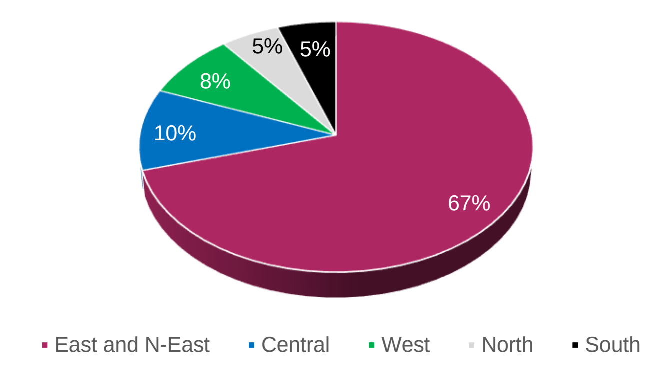
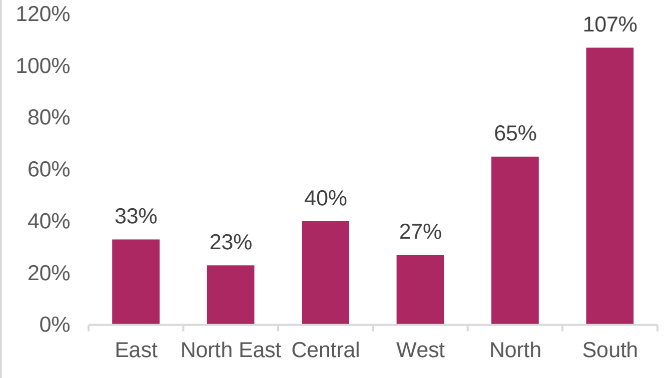


Exhibit 22: Retail-deposits geography-wise YoY growth (Q3FY21)



Source: Company, Axis Securities

Secondly, opening of 550 new branches post transitioning into a bank along with further doubling the branch network lent a helping hand in growing the deposit base. With branches in the non-east states maturing, we believe Bandhan will continue to deliver a strong performance on the deposits front. The marginally better interest rates on SA deposits than Term deposits can also be another reason for better SA accretion that Bandhan has witnessed. Currently, Bandhan offers interest rates lower than most SFB's but higher than most other larger universal bank as it continues to expand geographically and build a sustainable deposit base.

Exhibit 23: Retail TD Rates – year-wise vs peers

Retail TD Rate – Tenure wise	Small/Micro Finance Banks				Small Private Banks				PSBs
	Bandhan	**AU SFB**	**Ujjivan SFB**	**Equitas SFB**	**CUB**	**Federal**	**DCB**	**KVB**	**SBI**
1 Year Retail TDs	**5.3%**	5.5%	5.2%	5.4%	5.0%	4.4%	6.0%	5.0%	4.4%
2 Year Retail TDs	**5.8%**	6.5%	6.5%	6.4%	5.5%	5.1%	6.7%	5.5%	5.0%
3 Year Retail TDs	**5.8%**	6.8%	6.1%	6.7%	5.8%	5.4%	6.8%	5.5%	5.1%

Source: Company, Axis Securities ***Note*: *Rates are latest interest rates and effective dates vary for each bank. Dates range between June-Feb'21*

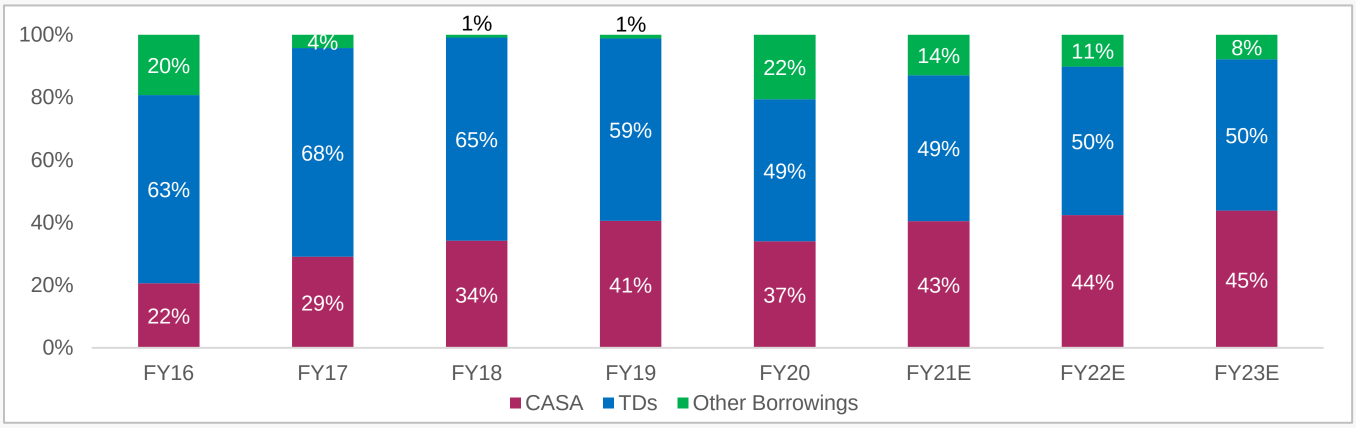
Exhibit 24: SA Rates – slab-wise vs peers

SA Rates - Slab-wise	Small Finance Banks				Small Private Banks				PSBs
	Bandhan	**AU SFB**	**Ujjivan SFB**	**Equitas SFB**	**CUB**	**Federal**	**DCB**	**KVB**	**SBI**
< Rs. 1 Lakh	**3.0%**	3.5%	4.0%	3.5%	3.5%	Repo – 1.5%	3.3%	2.8%	2.7%
Rs. 1 Lakh - 5 Lakh	**6.0%**	5.0%	5.0%	7.0%	3.8%	Repo – 1.5%	4.0%	3.3%	2.7%
Rs. 5 Lakh - 10 Lakh	**6.0%**	6.0%	5.3%	7.0%	3.8%	Repo – 1.5%	5.0%	3.3%	2.7%
Rs. 10 Lakh - 5 Cr	**6.0%**	7.0%	6.3%	7.0%	4.0%	Repo – 1.5%	5.3%	3.5%	2.7%
Rs. 5 Cr - 10 Cr	**6.0%**	6.0%	6.5%	7.0%	4.0%	Repo – 0.2%	5.5%	3.5%	2.7%
> Rs. 10 Cr	**6.6%**	N.A	6.5%	7.0%	4.0%	Repo – 0.2%	5.5%	3.5%	2.7%

Source: Company, Axis Securities ***Note*: *Rates are latest interest rates and effective dates vary for each bank. Dates range between June-Feb'21*

Post the merger with Gruh, the share of deposits reduced from ~99% to 86% at the end of FY20, as Bandhan took over the high-cost borrowings from Gruh. This also resulted in the cost of funds to spike sharply from 5.5% in FY19 to 7.8% in FY20. Over the past year, Bandhan has been trying to retire these high-cost debt and replace them with deposits. We have seen the share of deposits (to total borrowings) increase from ~75% in Q2FY20 (post-merger) to ~85% in Q3FY21. ***We expect the bank to continue expanding its deposit base at a healthy rate and witness 28% CAGR growth over FY20-23E.***

Exhibit 25: Bandhan's borrowing mix transition towards deposits forming a lion's share (post Gruh merger)



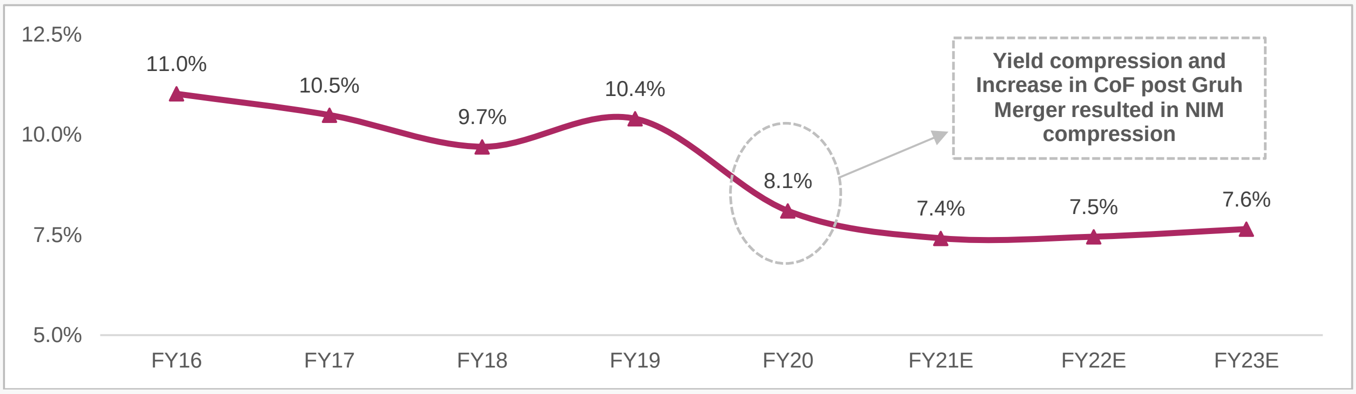
Source: Company, Axis Securities

NIMs to improve post compression in FY21E despite portfolio diversification

Bandhan is known to offer the lowest MFI interest rates, significantly lower than most peers due to its lower CoF that it enjoys on the back of a healthy deposit base. Even as Bandhan attempts to diversify its product suite and move away from the traditional Group MFI Loans, we do not expect any major dent on the yields. This is mainly as the bank will concentrate of growing the Individual MFI portfolio which also enjoys yields (18-19%) similar to the Group MFI segment. However, as the share of housing loans and other non-MFI products improves, we could see yields tread slightly downwards.

As the share of deposits to total borrowings continues to improve, we would see some downtrend in the CoF. This would partially offset the negative impact on yields, thus supporting NIMs. In FY21E, excess liquidity carried by Bandhan is expected to weigh down NIMs as investment yields (~6-7%) are significantly lower than lending yields (~14-15%). ***However, as lending activities pick-up and the excess liquidity pressure ease, we would witness marginal NIM expansion. NIMs are expected to remain in the range of 7.4-7.6% over FY20-23E.***

Exhibit 26: NIMs set to improve post compression in FY21E



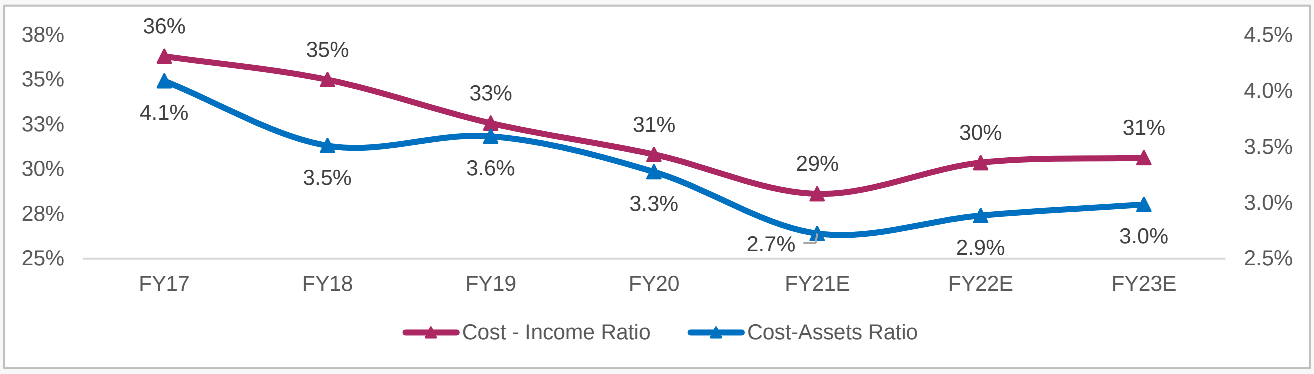
Source: Company, Axis Securities

Best-in-class cost ratios key ROA driver

Bandhan's business model has always been focussed on maintaining a lean cost structure even as a NBFC and currently enjoys a lower cost-income ratio as against most new-age banks. As a NBFC, it maintained Cost-Asset Ratio in the range of 4-4.5% as against ~8% for peers mainly because of its policy of recruiting workforce primarily from the rural and local areas where it has a significant presence. Contrary to its peers who hire externally, Bandhan trains its staff internally at 11 company-run training centres spread pan-India, enabling it to achieve a stronger connect with the customer base in each region.

We believe that Bandhan has been able to maintain its cost-assets ratio efficiently despite operating the weekly collections group lending model, primarily because of the relatively larger group size (25-30 vs an average industry group size of <15-18). This ensures that the bank can engage with a larger borrower base and generate higher loans with a limited employee base.

Exhibit 27: Cost rationalization is key ROA driver for Bandhan



Source: Company, Axis Securities

In addition to the stringent control over employee expenses, the company controls other operating expenses further by retaining low-cost banking units instead of converting them into branches. Banking units are generally low-cost establishments in remote areas closer to the borrower. Even as Bandhan transitioned into a bank and opened 550 new branches (mainly for its liability products), cost remained under control. The quick success of the liability franchise has also aided the Cost-Income ratio facilitating superior control over costs.

This is in contrast to the quantum jump in opex that most of the SFBs witnessed as they either converted their asset centres into banking branches or set up full-fledged bank branches to cater to the asset and liability customers.

Exhibit 28: Opex/Employee vs Peers (Q3FY21)

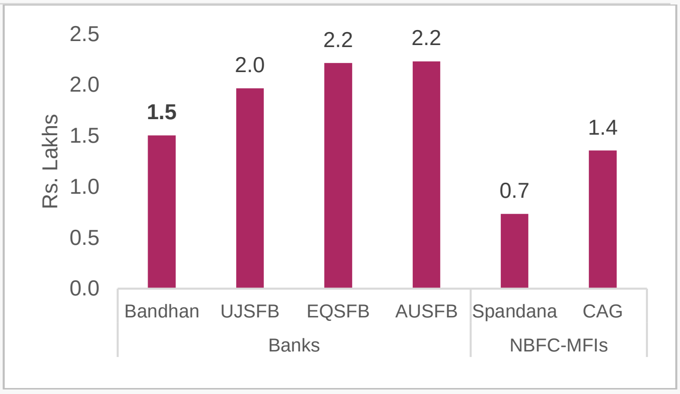
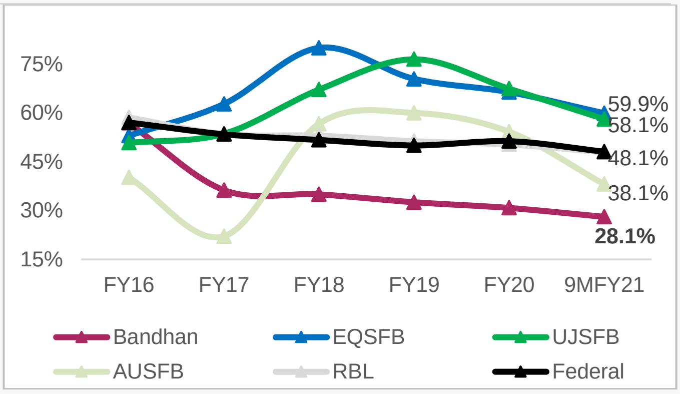


Exhibit 29: C-I Ratio trend vs new age banking peers



Source: Company, Axis Securities

In 9MFY21 Bandhan witnessed lower opex mainly due to lower business volumes and COVID-19 related lockdown. However, as business picks up, we would see opex normalising. ***We expect the C-I ratio to range between 30-31% and Cost-Assets to inch back to pre-COVID levels of 2.8-3% over FY20-23E.***

Cost optimization and Lower CoF create a moat and translate into higher PPOP and superior return ratios

Along with stringent cost control measures, Bandhan also enjoys a lower cost of funds, compared to most new-age and SFB though marginally higher than most large private banks. This results in a healthy PPOP/Asset ratio which is adequate to absorb any asset quality shocks in case of higher credit costs and yet continue to deliver healthy ROA/ROE.

Exhibit 30: Low CoF and Lower opex are key ROA drivers

	Bandhan	UJSFB	EQSFB	AUSFB
NII	8.5%	10.2%	8.5%	5.1%
Other Income	2.1%	2.0%	1.6%	1.9%
Total Income	10.6%	12.2%	10.1%	7.0%
Opex	3.3%	8.2%	6.7%	3.8%
PPOP	**7.4%**	**4.0%**	**3.4%**	**3.2%**
Provisions	2.0%	1.1%	1.4%	0.8%
PBT	5.4%	2.9%	2.0%	2.4%
Tax Rate	25.8%	24.9%	0.6%	0.6%
ROA	4.0%	2.2%	1.4%	1.8%
Leverage	5.6	7.0	7.0	9.9
ROE	22.4%	15.3%	9.7%	17.9%

Source: Company, Axis Securities

Historically, Bandhan has been very been successful in maintaining its credit costs in the range of 1-1.5% on the back of its robust risk management and credit underwriting framework. A strong PPOP/Assets and lower credit costs translate to a superior ROA of 3.5-4%.

Despite higher credit costs led by demonetization, Bandhan was able to deliver a strong ROA of 3.6% and ROE of 19.5% in FY18. Even in the prevalent COVID-19 stress, higher PPOP/Assets is adequate to absorb higher credit costs, resulting in ROA of ~2.5% in FY21E. This is significantly higher than most peers, who have taken a hit on the ROA due to elevated credit costs.

Though yields would moderate slightly from the "pure-play" MFI lender days as the bank looks to diversify the product suite, lower opex/assets will continue to support PPOP. ***As the credit costs normalise from the impact of COVID-19 and gravitate towards pre-COVID levels, Bandhan will witness ROA ranging between 3.5-3.8% over FY22-23E.***

Exhibit 31: Low CoF and Lower opex are key ROA drivers

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NII	9.6%	8.1%	8.9%	8.5%	7.8%	7.9%	8.1%
Other Income	1.6%	1.9%	2.1%	2.1%	1.7%	1.6%	1.7%
Total Income	11.3%	10.0%	11.0%	10.6%	9.5%	9.5%	9.7%
Opex	4.1%	3.5%	3.6%	3.3%	**2.7%**	**2.9%**	**3.0%**
PPP	7.2%	6.5%	7.4%	7.4%	**6.8%**	**6.6%**	**6.8%**
Provisions	0.4%	1.0%	1.5%	2.0%	3.6%	2.1%	1.8%
PBT	6.8%	5.5%	6.0%	5.4%	3.2%	4.6%	4.9%
Tax Rate	35%	35%	35%	26%	25%	25%	25%
ROA	4.4%	3.6%	3.9%	3.99%	2.42%	3.41%	3.70%
Leverage	6.4	5.4	4.9	5.6	6.2	6.3	6.2
ROE	28.6%	19.5%	19.0%	22.4%	14.9%	21.4%	23.0%

Source: Company, Axis Securities

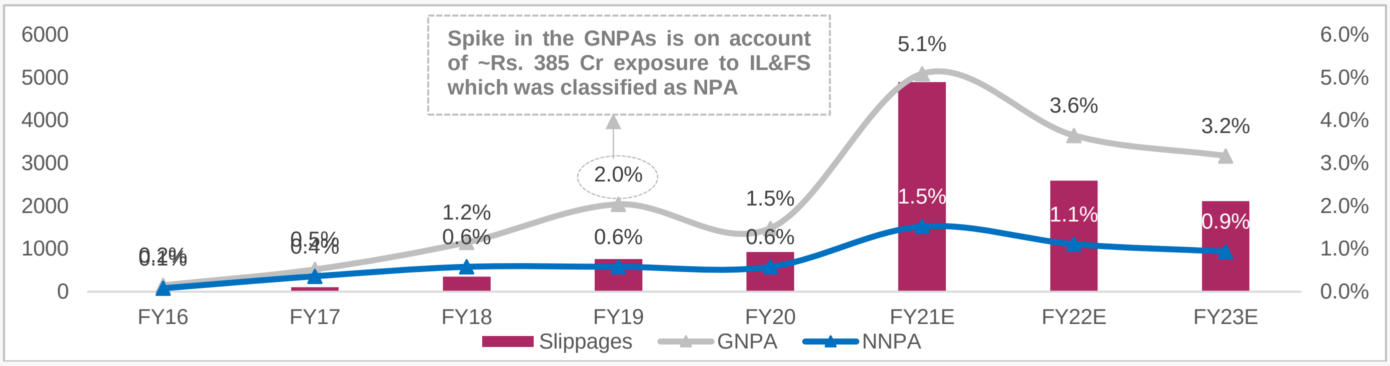
Focus on Asset Quality remains unabated

MFI lending is an inherently risky business as defaults could be significantly high as witnessed during inadvertent events such as the Andhra Pradesh MFI crisis in FY11, Demonetization in FY17 and currently during COVID-19. Bandhan has been able to maintain its GNPAs at sub-1% in the microfinance book by primarily focusing on maintaining asset quality and following prudent and conservative business practices.

The bank follows the weekly collection model and conducts weekly group meetings in the MFI business and insists each borrower to have a minimum attendance of 90%+ in the group meeting. This enables Bandhan to stay connected to its customers, understand changes in borrowers' cash flow patterns better and identify early warning signals of possible defaults.

In our opinion, extending credit solely to women borrowers facilitates the company in maintaining asset quality given that women are generally more risk-averse, have the tendency to not default which crops out the fear of not getting repeat loans and are also in a better position to meet for the weekly group meetings.

Exhibit 32: Asset Quality Trend



Source: Company, Axis Securities

Tackling the demonetization crisis

As the entire MFI industry reeled under the pressure of non-repayment of dues during the demonetization, Bandhan was successful in containing its slippages and ended FY18 with NPAs of just 1.2% (peak of 1.7% in Q2FY18) vs 3-5% NPAs of peers. This was possibly due to it operating as a bank that enabled it to accept the de-recognized notes which most of its MFI peers could not. We believe this kept Bandhan's collection efficiency healthy, resulting in minimal damage to asset quality. The bank was able to improve its delinquency levels and bounce back to normalcy within 3 months. Interpreting the MFIN data, we can infer that the home markets of Bandhan were the least impacted due to demonetization and the quickest to bounce back, which was reflected in Bandhan's performance too.

Exhibit 33: Bandhan's performance during demon (7+dpd)

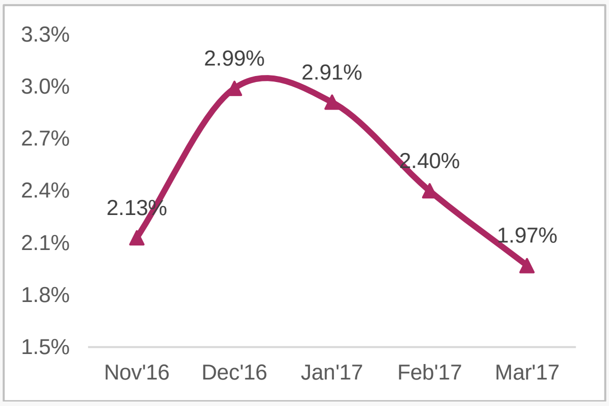
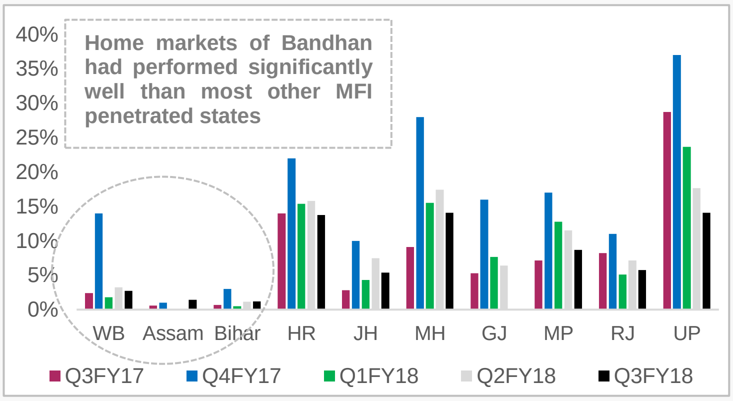


Exhibit 34: Key geographies behaved well during Demon (PAR30)



Source: MFIN, Company, Axis Securities

The Assam Microfinance Bill Crisis

The legislative assembly of the state of Assam recently passed the Assam MicroFinance Institutions Bill, 2020 to protect economically vulnerable borrowers from the high rates and coercive collection practices of microfinance institutions and money lenders.

The key highlights of the bill include:

- All MFIs will need to register with the state giving details of areas of operation along with interest rates. MFIs will have to renew their registration every 2 years.
- The MFIs cannot lend to the vulnerable sections of the society, especially to temporary tea-garden workers, resident of tea-garden areas and those whose earnings are below the nationally prescribed minimum wages. ***Bandhan does not have any significant exposure to tea-garden workers, which is a relief.***
- The total indebtedness of tea-garden permanent labours should be capped at Rs. 30,000 for borrowers having a single source of income, while total indebtedness shall be capped at Rs. 50,000 for borrowers having multiple sources of income.
- For borrowers in general, the cummulative loan per borrower should be capped at Rs. 1,25,000.
- There will be a cap of two lenders per borrower, while lenders cannot seek any collateral
- Loan repayments can happen only at designated locations and lenders cannot deploy agents to collect instalments from the homes of borrowers.
- Lenders will have to give interest moratorium for at least 3 months when natural calamities occur.

Secondly, the opposition party in Assam announced to waive-off loans ahead of the state assembly elections, if voted to power. Both these announcements have had an impact on the collection efficiency, which dropped significantly from 88% in December 2020 to 78% in the 1st fortnight of January 2021. Post the turn of events, the bank has adopted a conservative stance in lending to the state and is in constant touch with the customers to brief them about the situation and explain the impact of default on their creditworthiness. Bandhan expects the collections to inch back to normalcy on the back of continuous dialogue with the borrowers. Bandhan's exposure to the state of Assam is ~15-16%, the second largest after West Bengal.

The state of Assam is not new to disruptions and has witnessed many disruptions over the past year in the form of the MFI agitation in November 2019 and CAA-NRC protests in December 2019, which had impacted collections. From previous trends (refer to Exhibit 34) we can also infer that the collections are impacted and delinquencies are higher mainly on the announcements of loan waiver. Post demonetization too, states such as UP, Maharashtra etc has witnessed a sharp spike in PAR30 on announcements of loan waivers. We believe Bandhan's outperformance in Assam in the past has been on the back of its higher customer vintage and strong connect. We factor-in higher write-offs from the Assam portfolio (~15% of the portfolio vs 10% guidance by the management), resulting in a spike in GNPA.

Exhibit 35: Assam during CAA-NRC and MFI agitation

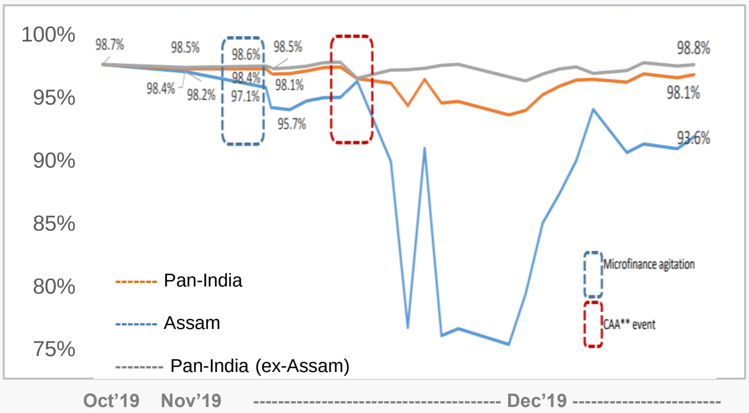
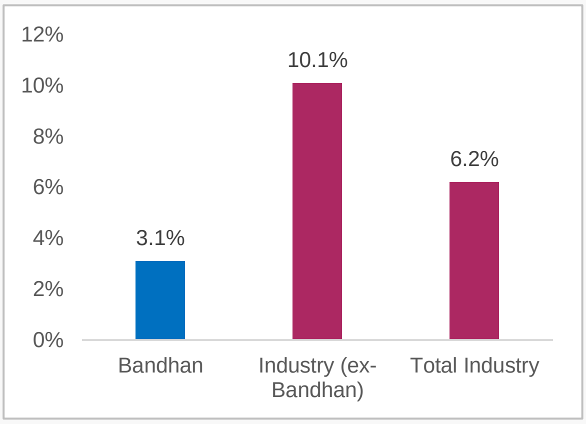


Exhibit 36: Bandhan's 90+dpd in Assam (MFI agitation)



Source: Company, Axis Securities

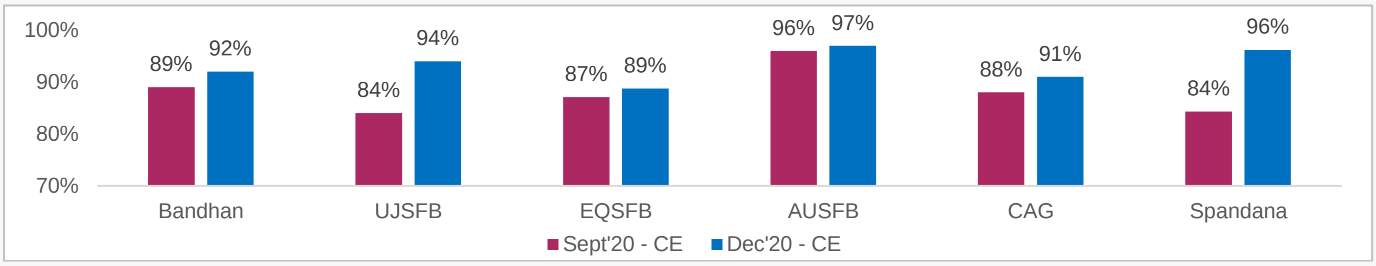
Impact of COVID-19 on Asset Quality

Post offering complete moratorium to all its customers across verticals, Bandhan's collections bounced back strongly. In the MFI segment, collections improved from "Nil" in Apr'20 to 68% in Jun'20 and further to 92% in Dec'20. We believe the quick recovery in the collections in the MFI segment was on account of the resilient borrower profile with a large portion of customers being engaged in essential activities. In terms of customer profile, ~75% are associated with essential and allied activities such as Agri & allied (~44%) and food processing & retail stores (~30%).

However post the announcement of the Assam MFI bill and the loan waiver, overall collections in Assam dropped significantly, with some impact spilling over to the neighbouring state of West Bengal, affecting overall collection efficiency (CE). The CE of West Bengal remained largely stable at 89-90%, while for Assam, it dropped by 10% over the 1st fortnight of Jan'21 to 78% from 88% in Dec'20.

As the business activities of borrowers picked-up post lockdown relaxations, collections across non-MFI segments normalised to near pre-COVID levels. The CE of the commercial banking and the housing finance vertical has been stable since Sep'20 and currently stands at 98%.

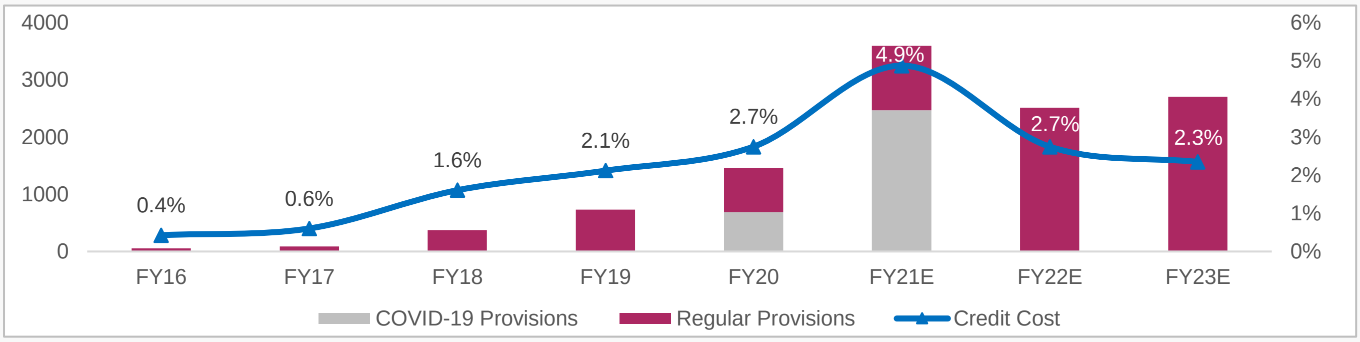
Exhibit 37: Collections similar to peers



Source: Company, Axis Securities

Considering growing stress during the lockdown period, Bandhan made accelerated provisions of Rs. 690 Cr towards the impact of COVID-19 in Q4FY20. Given the additional stress build-up especially in the MFI portfolio, the bank made an additional provision of Rs. 1000 Cr for the potential impact of COVID-19, taking the cumulative COVID-19 provision to ~Rs. 2740 Cr (~4% of Advances). The management had earlier guided for credit costs to be capped at ~3.5%. However, given the disruption in Assam and sub-par collection levels at only 78%, the management has increased its credit cost guidance to 5% for FY21E. In-line with this guidance, we factor in higher credit costs for Q4FY21, with FY21E credit costs touching 4.9%. ***We remain cautious and watchful of the Assam MFI portfolio and build in marginally higher credit costs going into H1FY22E and expect them to normalise H2FY22E onwards.***

Exhibit 38: Elevated credit costs due to additional stress from Assam and COVID-19



Source: Company, Axis Securities

The reported GNPA in Q3FY21 improved marginally to 1.1% from 1.2% in Q2FY21 and 1.9% in Q3FY20. However, the asset quality stress showed up with Proforma GNPA (without considering the SC standstill) which skyrocketed to 7.12% (vs. 1.54% in Q2FY21). ***~90% of the proforma GNPAs are from the EEB/MFI book, which translates to ~10% of GNPA in the EEB/MFI book.*** Though this figure is optically higher, Bandhan has been prudent in its stress recognition approach and the GNPA of 7.12% includes partial paying customers. ***Without considering these partial paying customers, GNPA would have been ~3.5%. In our opinion, these levels are better than most peers who have seen a sharp spike in the MFI GNPAs (Ujjivan SFB – 4.83% with a major chunk being from MFI, Equitas SFB MFI – 5.22%). We expect the GNPAs to inch up to 5.1% at the end of FY21 and improve to 3.2% by FY23E.*** While Bandhan has not restructured any loans in Q3FY21, it may look at restructuring loans of the partially paying customers by Mar'21.

Key Risk Factors

Higher exposure to informal sector

Bandhan caters to the bottom-of-the-pyramid customers, with 72% of the portfolio concentrated in rural and semi-urban areas. The cash flows of these borrowers are dependent on the smooth functioning of their businesses. Additionally, MFI business being an unsecured business is prone to higher defaults in case of occurrence of inadvertent event. Any disruptive situation such as the advent of COVID-19 is likely to trigger higher NPAs.

Geographical concentration risk

Bandhan, with over ~60-65% of its operations being based in West Bengal and Assam, faces concentration risk. Any major change in the state's policies or unfavourable swing in the regional political or business environment can adversely affect our earnings estimates. This is currently evident as the stress build-up on asset quality is visible in the key state of Assam followed by the introduction of the Assam MFI Bill and the announcement of loan waivers.

Similar to its asset products, a large part of the deposits, too, is concentrated in the Eastern and North-Eastern geographies.

MFI segment prone to disruptions

Bandhan primarily caters to the MFI customers with the MFI segment forming 66% of the portfolio. The MFI industry is exposed to multiple risks arising from natural calamities (floods and cyclones), socio-political interferences, and socio-economic events. While the industry as a whole gets severely impacted by these events, historically, it has exhibited rapid revivals.

Harmonization of MFI guidelines

The RBI in its bi-monthly monetary policy (Feb'21) announced that it would come up with a consultative document harmonising the regulatory frameworks and guidelines applicable to various regulated lenders (NBFC-MFI, SCB, SFBs and NBFCs) in the MFI space. One of these measures may lead banks to follow RBI directive for NBFC-MFIs and cap their spreads at 10%, which will result in NIM compression. Though no such notification in this regard has been issued as yet, if such guidelines are issued, it would negatively impact our earnings estimate (NII/NIMs) for Bandhan Bank.

AXIS SECURITIES

Peer Review

Exhibit 39: Peer Group Review – Operational Parameters (9MFY21)

Operational Metrics	Loan Book (Rs Cr)	NIM	CASA Ratio	C-I Ratio	Reported GNPA	Proforma GNPA	NNPA	Loan CAGR FY20-23E	PAT CAGR FY20-23E
				MFI Focused / Small Finance Banks					
Ujjivan SFB	13,638	10.3%	17.9%	58.1%	1.0%	4.8%	0.1%	24%	32%
Equitas SFB	17,373	8.7%	25.0%	59.9%	2.3%	4.2%	0.7%	25%	35%
Avg	***15,506***	***9.5%***	***21.5%***	***59.0%***	***1.6%***	***4.5%***	***0.4%***	***24.4%***	***33.5%***
				Mid-sized Banks					
RBL Bank	56,444	4.5%	31.1%	47.9%	1.8%	4.6%	0.7%	12%	15%
Federal Bank	1,28,180	3.1%	34.5%	48.1%	2.7%	3.4%	0.6%	11%	15%
Avg	***92,312***	***3.8%***	***32.8%***	***48.0%***	***2.3%***	***4.0%***	***0.7%***	***11.4%***	***15.4%***
				NBFC-MFIs					
Spandana Sphoorty	7,764	15.6%	N.A	23.4%	2.7%	2.7%	1.0%	22%	30%
CAG	12,321	8.7%	N.A	44.0%	0.9%	6.1%	0.0%	18%	34%
Avg	***10,043***	***12.2%***	***N.A***	***33.7%***	***1.8%***	***4.4%***	***0.5%***	***19.7%***	***31.7%***
Bandhan Bank	**76,775**	**8.0%**	**42.9%**	**28.1%**	**1.1%**	**7.1%**	**0.3%**	**24%**	**24%**

Source: Bloomberg, Axis Securities

Exhibit 40: Peer Valuation Matrix

Valuation	ROA				ROE				P/E (x)	P/ABV (x)
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY23E	FY23E
					MFI Focused / Small Finance Banks					
Ujjivan SFB	2.2%	1.7%	1.8%	2.0%	15.3%	10.7%	12.2%	14.8%	10.5	1.5
Equitas SFB	1.4%	1.5%	1.6%	1.8%	9.7%	10.9%	12.2%	14.6%	8.9	1.4
Avg	***1.8%***	***3.4%***	***5.1%***	***5.7%***	***14.2%***	***9.5%***	***16.5%***	***18.7%***	***8.9***	***1.5***
					Mid-sized Banks					
RBL Bank	0.6%	0.6%	1.1%	1.4%	5.7%	4.7%	8.8%	12.0%	8.9	1.0
Federal Bank	0.9%	0.8%	1.0%	1.0%	11.1%	9.5%	11.5%	12.8%	7.3	0.9
Avg	***0.8%***	***0.7%***	***1.1%***	***1.2%***	***8.4%***	***7.1%***	***10.2%***	***12.4%***	***8.1***	***1.0***
					NBFC-MFIs					
Spandana Sphoorty	6.3%	4.9%	6.0%	7.0%	15.6%	11.3%	16.3%	19.4%	5.4	1.0
CAG	3.4%	1.9%	4.2%	4.4%	12.9%	7.6%	16.7%	17.9%	12.4	2.1
Avg	***4.8%***	***3.4%***	***5.1%***	***5.7%***	***14.2%***	***9.5%***	***16.5%***	***18.7%***	***8.9***	***1.5***
Bandhan Bank	**4.0%**	**2.4%**	**3.4%**	**3.7%**	**22.4%**	**14.9%**	**21.4%**	**23.0%**	**10.1**	**2.2**

Source: Bloomberg, Axis Securities

Valuation and Recommendation

Bandhan's robust business model, a strong presence in the home markets with minimal competition, and best-in-class efficiency metrics resulting in strong return ratios make it an attractive franchise. As a bank, Bandhan is currently building a retail-focused granular book, diversifying from the core EEB/MFI book. This diversification effort has been strengthened by its merger with Gruh in FY20. With the transition into a bank, Bandhan has also been successful in replicating a strong performance on the liability side, delivering a healthy growth of 47.4% CAGR over FY16-20. The performance on the CASA front (42.9% as on Q3FY21) has been commendable and is in stark contrast to most peers who have struggled to scale-up their deposit base, leave alone CASA deposits.

As a microfinancier, Bandhan has maintained a healthy asset quality and has on most occasions outperformed peers in terms of handling the asset quality stress. We remain fairly confident in the bank's ability to handle the asset quality stress arising out of COVID-19 and the state of Assam disruption and emerge stronger. Our confidence is well-supported by the bank's past performance of tiding through disruptions efficiently while maintaining profitability. The bank's strong PPOP/Assets is adequate to absorb any asset quality shocks, and yet deliver a healthy ROA of 2.5% and ROE of 14.9% in FY21E. As credit costs normalise FY22E onwards, we expect ROA/ROE to gravitate towards historical levels. We expect Bandhan to exit FY23E with a ROA/ROE of 3.7%/23%.

We believe in the resilience of the business model and the strong fundamentals of Bandhan. The persistent focus on asset quality, robust risk management framework, visibility of growth opportunities (expectation of 24% CAGR over FY20-23E), healthy liability franchise, and a competent and experienced management team, make us believe that Bandhan is eligible to trade at premium valuations over peers. **Bandhan currently trades at 2.3x FY23E ABV, a premium to its peers. We value the company at 2.7x FY23E ABV and initiate coverage with a 'BUY' rating with a target price of Rs. 425, implying an upside of 20% from the CMP.**

Exhibit 41: Bandhan - 1-Yr Fwd P/BV Band

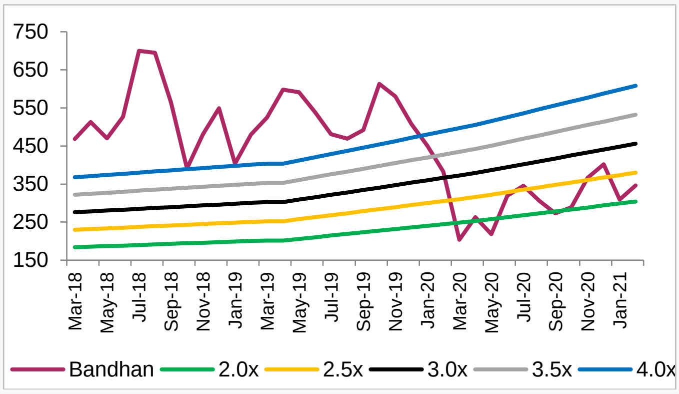
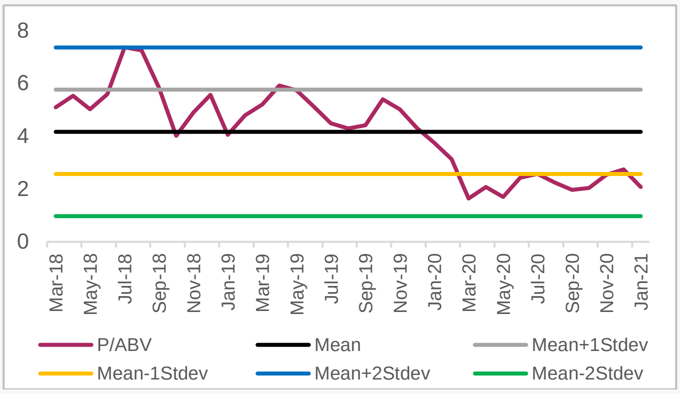


Exhibit 42: Bandhan– 1-Yr Fwd P/BV Chart



Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	6,643	10,885	12,913	15,665	19,226
Interest Expenses	2,148	4,562	5,010	6,058	7,202
Net Interest Income	**4,495**	**6,324**	**7,902**	**9,607**	**12,025**
Change	*48%*	*41%*	*25%*	*22%*	*25%*
Non-Interest Income	1,063	1,549	1,722	2,012	2,498
Total Income	**5,558**	**7,873**	**9,624**	**11,619**	**14,523**
Change	*49%*	*42%*	*22%*	*21%*	*25%*
Operating Expenses	1,810	2,427	2,755	3,528	4,450
Change	*38%*	*34%*	*14%*	*28%*	*26%*
Pre-Provision Profits	**3,748**	**5,446**	**6,869**	**8,091**	**10,073**
Change	*54%*	*45%*	*26%*	*18%*	*24%*
Provisions	735	1,461	3,595	2,512	2,703
Change	*96%*	*99%*	*146%*	*-30%*	*8%*
PBT	**3,013**	**3,985**	**3,274**	**5,579**	**7,371**
Tax	1,062	1,030	825	1,406	1,858
Profit After Tax	**1,951**	**2,956**	**2,449**	**4,173**	**5,513**
Change	*45%*	*51%*	*-17%*	*70%*	*32%*

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	1,193	1,610	1,610	1,610	1,610
Reserves & Surplus	10,009	13,585	16,034	19,804	24,833
Net Worth	**11,202**	**15,195**	**17,644**	**21,414**	**26,444**
Borrowings	**43,753**	**73,461**	**87,009**	**1,06,607**	**1,31,526**
Other Liabilities	1,487	3,062	5,817	6,067	6,217
Total Liabilities	**56,442**	**91,718**	**1,10,470**	**1,34,089**	**1,64,187**
Cash & Bank balances	5,803	8,353	6,761	7,268	8,229
Investments	10,037	15,352	21,032	22,850	25,382
Loans	39,643	66,630	80,869	1,01,892	1,28,184
YoY Growth %	*33%*	*68%*	*21%*	*26%*	*26%*
Fixed Assets & Others	958	1,383	1,808	2,079	2,391
Total Assets	**56,442**	**91,718**	**1,10,470**	**1,34,089**	**1,64,187**

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Asset Quality					
GNPA	820	993	4,142	3,741	4,091
NNPA	228	389	1,239	1,139	1,209
GNPA Ratio	2.1%	1.5%	5.1%	3.7%	3.2%
NNPA Ratio	0.6%	0.6%	1.5%	1.1%	0.9%
PCR	72%	61%	70%	70%	70%
Spread Analysis					
Yield on Loans	16.5%	17.9%	15.5%	15.3%	15.1%
Yield on Total Assets	15.4%	14.0%	12.2%	12.2%	12.3%
Cost of Borrowings	6.3%	6.9%	5.5%	5.5%	5.4%
Spread	9.1%	7.1%	6.7%	6.7%	6.9%
Net Interest Margin	10.4%	8.1%	7.4%	7.5%	7.6%
Profitability & Efficiency Ratios					
ROE	19.0%	22.4%	14.9%	21.4%	23.0%
ROA	3.9%	4.0%	2.4%	3.4%	3.7%
Cost to Income	32.6%	30.8%	28.6%	30.4%	30.6%
CAR	40.8%	36.8%	42.9%	44.4%	45.4%
Tier 1	29.2%	27.4%	26.4%	22.7%	21.2%
Valuation					
BVPS	93.9	94.4	109.6	133.0	164.2
Change	*19%*	*1%*	*16%*	*21%*	*23%*
Price-BV (x)	3.8	3.8	3.2	2.7	2.2
Adj. BVPS	92.0	91.9	101.9	125.9	156.7
Change	*19%*	*0%*	*11%*	*24%*	*24%*
Price-ABV (x)	3.9	3.9	3.5	2.8	2.3
EPS	16.4	18.4	15.2	25.9	34.2
Change	*45%*	*12%*	*-17%*	*70%*	*32%*
Price-Earnings (x)	21.7	19.3	23.3	13.7	10.4
Dividend Per Share	1.2	-	-	2.5	3.0
Dividend Yield (%)	0.4%	0.0%	0.0%	0.8%	0.9%

Source: Company, Axis Securities

Opportunities aplenty!

We initiate coverage on CreditAccess Grameen Ltd. (CAG) with a BUY recommendation and a price target of Rs. 865, implying an upside of 20% from current levels. We believe huge unmet demand and the buoyancy in the rural markets will act as a catalyst for CAGs growth story. The acquisition of Madura Microfinance has made CAG the largest pure-play microfinance NBFC (in AUM terms) in India and has further strengthened its rural presence. We expect the company to deliver robust long-term growth on account of 1) Customer-centric and rural-focused business model, 2) Prudent HR practices, 3) Focus on maintaining asset quality, and 4) Strong parentage of CreditAccess Asia.

CAG's performance has been at-par with most of its peers, with collections at 91% in Dec'20 (87% for MMFL in Dec'20) vs 90-94% range for peers. FY21E numbers are expected to be muted on account of tepid disbursement growth, elevated COVID-19 related provisions and asset quality headwinds. However, CAGs calibrated effort to inch back to normalcy by weathering the COVID-19 disruptions will help it emerge stronger and gain lost ground rapidly. Taking cue from its past resilience during demonetization, we believe CAG will be successful in tackling COVID-19 stress in one of its key markets of Maharashtra. **We value CreditAccess Grameen at 2.6x FY23E P/BV.**

Investment thesis

Customer-centric model with focus on rural markets

CAG has established itself as a "one-stop-shop" solutions provider through its multiple and customised products offerings to borrowers. This coupled with its customer-centricity has helped it build a sticky customer base. Additionally, unlike monthly repayments offered by the majority of its peers, CAG offers flexible repayment options as per borrower convenience, resulting in higher customer retention.

Deep presence in underpenetrated rural markets bodes well for CAG. The acquisition of MMFL has strengthened its leadership position in rural areas. Additionally, it has created huge growth opportunities by enabling CAG to offer retail finance to a much larger customer base. We expect CAG to register a GLP growth of 19% CAGR over FY20-23E, driven by a 23% CAGR growth in the retail finance portfolio, albeit on a smaller base.

Focus on maintaining asset quality

CAGs strong underwriting practices, flexible collection policy and weekly group meetings result in a lower portfolio at risk (PAR) than other collection models. Furthermore, experience-driven competence in tackling stress (as seen during demonetization) and a proven record of containing GNPA at sub-1% strengthens our confidence in the asset quality management capability of the company. No exposure to the troubled state of Assam and negligible exposure to West Bengal also provides relief. Though asset quality is expected to face headwinds in FY21 due to elevated slippages, we remain fairly confident of its improvement from FY22E onwards. Currently, reported GNPA is at 0.9% (consol. proforma GNPA at 6.14%) and we expect CAG to exit FY21E with a GNPA of 4.6%. With collections in Maharashtra normalising by the end of Q4FY21 and partially paying customers coming back to pay, we expect some roll-back from the 60+dpd bucket.

Strong Parentage of CreditAccess Asia

CreditAccess Asia (CAA) - a seasoned MFI lender, is the promoter of CAG and holds 74% stake in the company. In addition to India, CAA operates MFI business in Indonesia and the Philippines as well. With CAA providing access to foreign funding, CAG is able to diversify its borrowing mix and optimise its cost of funds (CoF) better than its peers.

Comfortably placed to gain; Initiate with BUY

We believe in the resilience of the business model of the company which is supported by its robust risk management framework, unabated focus on asset quality and competent management team. **We value the company at 2.6x FY23E P/BV, a premium to its peers. We initiate coverage on the stock with a BUY rating and a price target of Rs 865, implying an upside of 20% from current levels.**

Key Financials (Consolidated)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
NII	1,053	1,306	1,645	2,081
PPP	699	814	1,044	1,342
PAT	335	161	548	806
GNPA %	1.6%	4.6%	2.8%	2.1%
EPS (Rs)	23.3	10.3	35.3	51.9
BV/Share (Rs)	195.1	244.7	279.9	331.8
P/E (x)	31.0	69.8	20.5	13.9
P/BV (x)	3.7	3.0	2.6	2.2
ROE (%)	12.9%	4.8%	13.4%	17.0%

Source: Company, Axis Research

(CMP as of Mar 3, 2021)

CMP (Rs)	722
Upside /Downside (%)	20%
High/Low (Rs)	1001/306
Market cap (Cr)	11,227
Avg. daily vol. (6m) Shrs.	1,33,689
No. of shares (Cr)	15.6

Shareholding (%)

	Dec-20	Sep-20	Jun-20
Promoter	74.0	79.9	79.9
FIIs	9.5	5.4	6.2
MFs	9.4	8.9	8.4
Others	7.1	5.8	5.5

Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
NII	1,306	1,645	2,081
PPP	814	1,044	1,342
Provisions	599	311	264
PAT	161	548	806
EPS (Rs)	10.3	35.3	51.9
EPS Growth (%)	*-56%*	*241%*	*47%*
BV/Share (Rs)	244.7	279.9	331.8
P/BV (x)	2.8	2.5	2.1

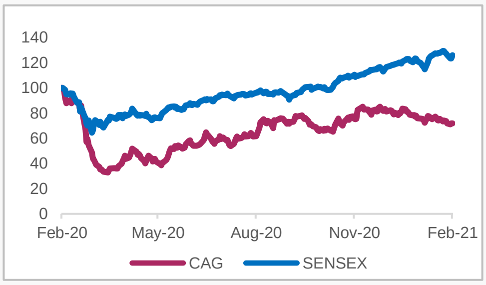
Key Drivers (%)

Y/E Mar	FY21E	FY22E	FY23E
NIM	9.0	9.6	9.8
C-I	41.4	41.0	40.3
Credit Costs	5.1	2.3	1.5

Axis vs Consensus

EPS Estimates	FY21E	FY22E	FY23E
Axis	10.3	35.3	51.9
Consensus	16.1	45.1	58.1
Mean Consensus TP (12M)			**874**

Relative performance



Source: Capitaline, Axis Securities

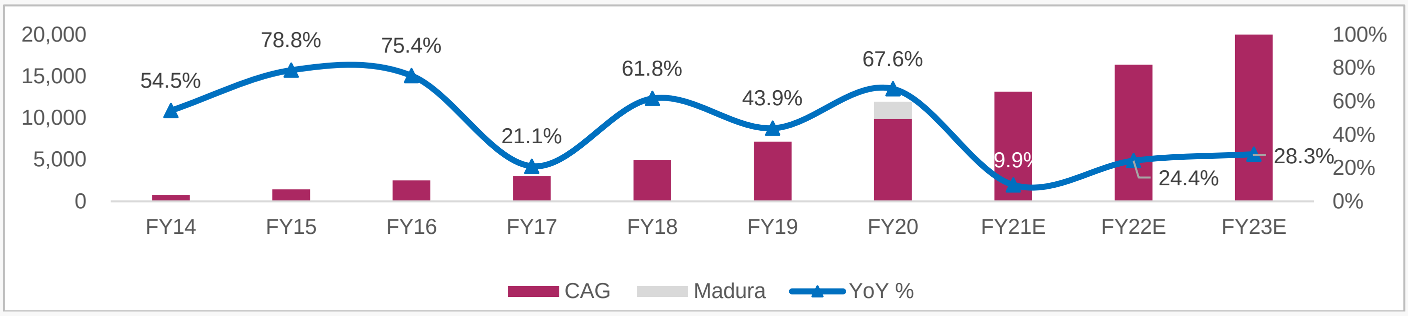
Dnyanada Vaidya
Research Analyst

Email: dnyanada.vaidya@axissecurities.in

Customer-Centric model with presence predominantly in rural areas

CreditAccess Grameen (CAG) is a rural-focused microfinancier that caters predominantly to women borrowers lacking access to the formal banking sector. CAG is present in Karnataka, Maharashtra, and Tamil Nadu and these top-3 geographies contribute 84% of the Gross Loan Portfolio (GLP) and 81% of the total borrower base. The recent acquisition of Madura Microfinance has not only helped CAG strengthen its presence in the top-3 states, but also helped it consolidate its leadership position in these markets.

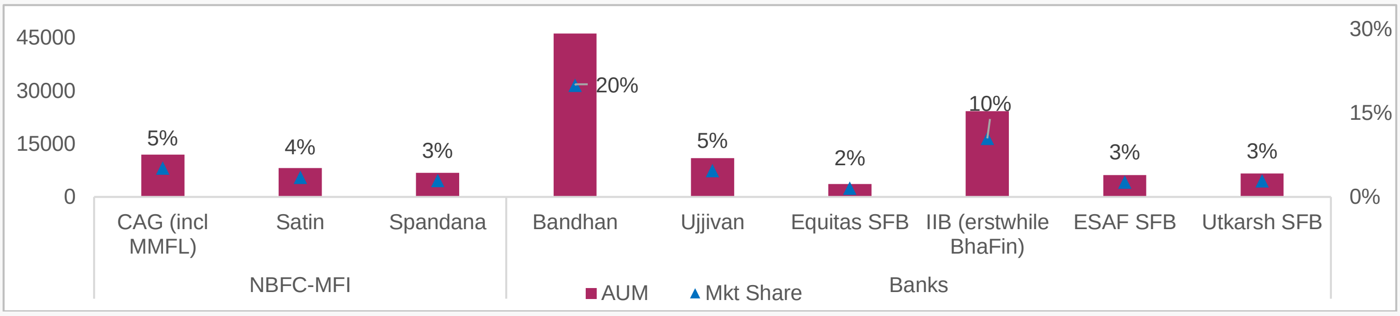
Exhibit 1: CAG's GLP growth trend



Source: Company, Axis Securities

The company has registered an impressive GLP growth of 53% CAGR over FY15-20. This can be attributed to a healthy mix of steady growth in the average ticket size (11% CAGR over FY14-20) and increasing customer base (42% CAGR over FY14-20). At the end of 9MFY21, CAG has a GLP of Rs 12,321 Cr.

Exhibit 2: Microfinanciers market share (FY20)

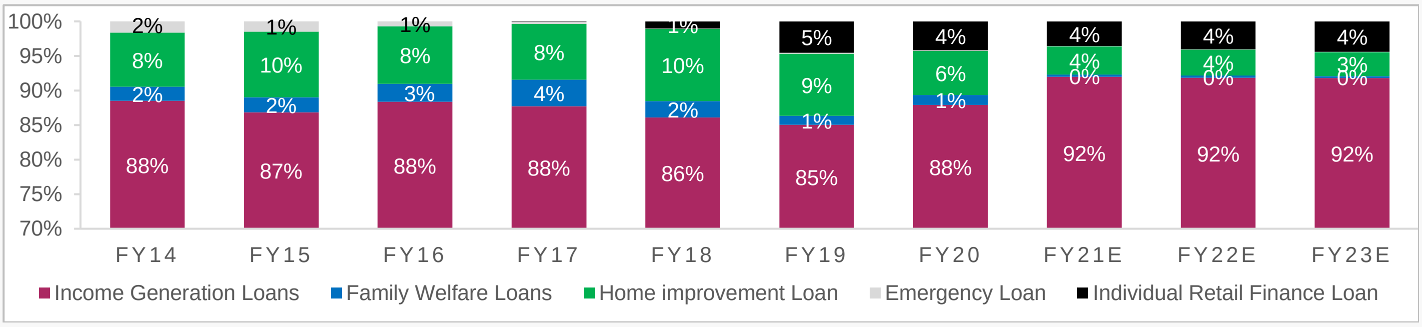


Source: Company Data, Axis Securities

Customised Product Suite

The company operates a Joint Liablity Group (JLG) business model to cater to the needs of its women borrowers. It primarily offers income generation loans along with a wide range of other offerings such as home improvement loans, emergency loans, family welfare loans, among others. This is aimed at establishing CAG as a 'one-stop-shop' lender to customers which enables it to build a sticky customer base.

Exhibit 3: CAG's Product Mix



Source: Company, Axis Securities

In addition to the MFI lending, CAG also provides higher ticket size retail financing loans to its existing MFI borrowers provided they have successfully completed over 6-7 cycles with CAG. Currently, the company has offered retail loans only to ~3% of the customer base (~69K customers) out of an eligible customer base of ~9 Lakh borrowers, indicating an ample headroom to grow the book. However, the company adopts a cautious approach while scaling-up the retail finance book. Currently, it offers unsecured retail loans (below Rs. 1.5Lakh) to its retail finance customers. ***We expect the Retail Finance book to grow at a healthy pace of 23% CAGR over FY20-23E as against core-MFI book growth of ~19% CAGR over the same period.***

Exhibit 4: GLP growth driven by ticket size growth

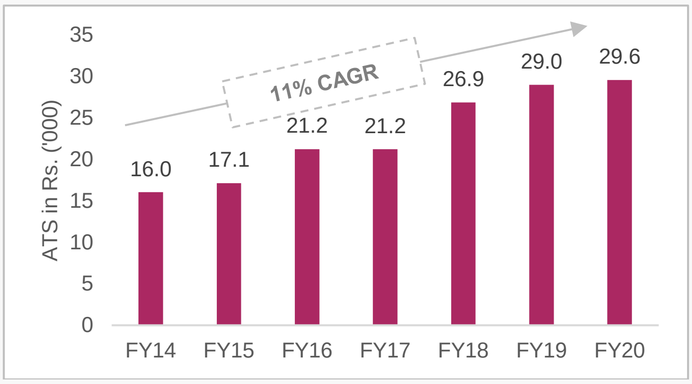
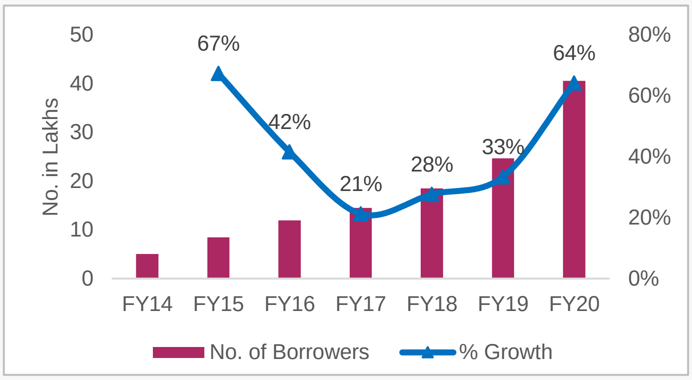


Exhibit 5: GLP growth driven by customer base expansion



Source: Company, Axis Securities

One of CAGs key success factors can be attributed to its customised product offerings. The company offers Rs. 40,000 limit to the first-time borrower and is primarily disbursed for income generation activities. The average ticket size is generally smaller given the area of operations being predominantly rural. However, the ticket size increases with each passing cycle, ensuring higher customer stickiness. CAG aims to cater to all of the borrower's needs in his entire life-cycle. This enables CAG to build a sustainable and sticky customer base without any significant incremental cost. This is reflected in CAG's strong customer retention ratio of ~85% which stands significantly higher than the industry average of 70-75%. Additionally, offering flexible repayment options – Weekly (55%), Bi-weekly (38%) and Monthly (7%) depending on the borrower convenience as compared to the monthly repayment schedule offered by the majority of the peers further helps in customer retention.

Exhibit 6: Retention rate higher than industry avg. of 70-75%

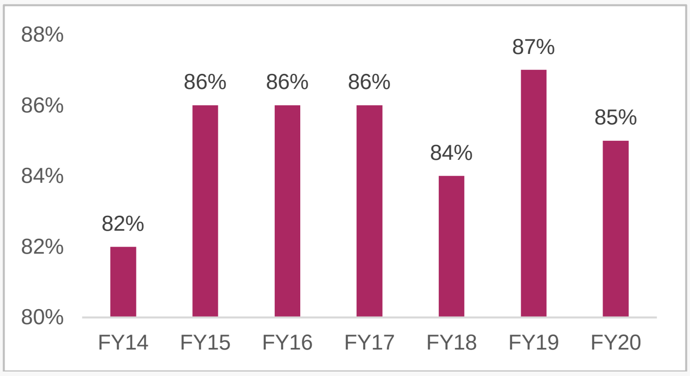


Exhibit 7: Borrower Vintage

	FY16	FY17	FY18	FY19	FY20
< 1 year	37%	27%	32%	33%	26%
1 - 3 years	42%	49%	37%	34%	42%
3 - 6 years	10%	15%	23%	25%	23%
6+ years	10%	9%	8%	8%	9%
Borrowers with 3+ year vintage	***20%***	***24%***	***31%***	***33%***	***32%***

Source: Company, Axis Securities

In addition to customer-centricity, customised offerings and flexible repayment facility, its deep presence in the rural market has played a critical role in the company's growth. On an industry wide level, the MFI industry has seen robust growth of 38% CAGR over FY18-20 in the rural markets vs urban areas which grew by 28% CAGR over the same period. Over the years, CAG has improved its rural presence from 64% in FY14 to 82% in FY20. The acquisition of MMFL which has a strong presence in rural areas (96% mix) has further improved the rural penetration to 86% at the end of FY20.

CAG has created a competitive edge in the rural markets by leveraging its deep rural penetration and considerably lower customer overlap with peers. The highest overlap is with BhaFin (now IndusInd Bank) at 12% of GLP followed by Spandana at 8-9% of GLP, Bandhan at ~3% of GLP, and with other prominent players at less than 5%.

43% of the borrowers are unique to CAG, whereas ~40% of the borrowers have exposure to only one lender other than CAG. This is on account of the company's policy of lending only to borrowers who do not have exposure to more than 2 MFIs. This policy also helps borrowers in maintaining financial discipline.

Exhibit 8: Industry-level Rural vs Urban Growth

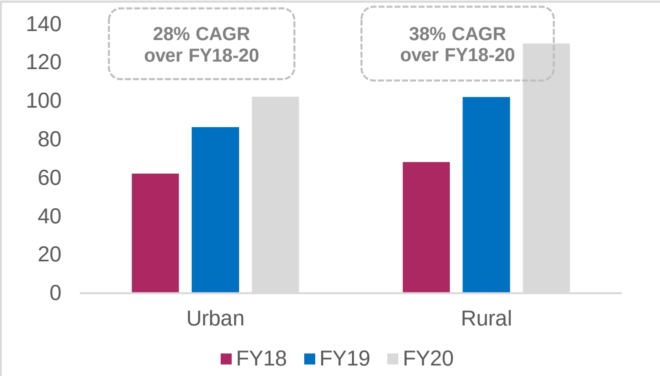
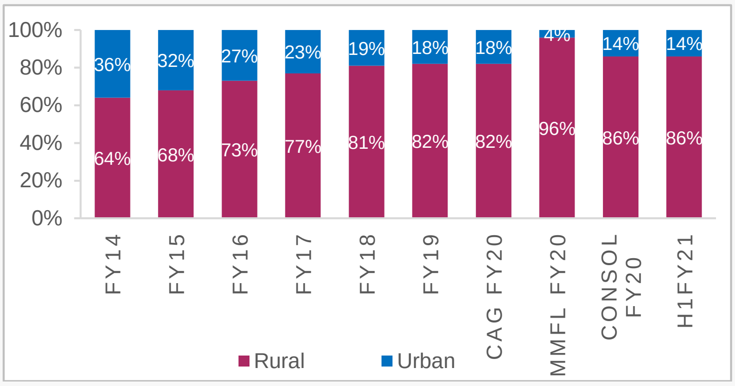


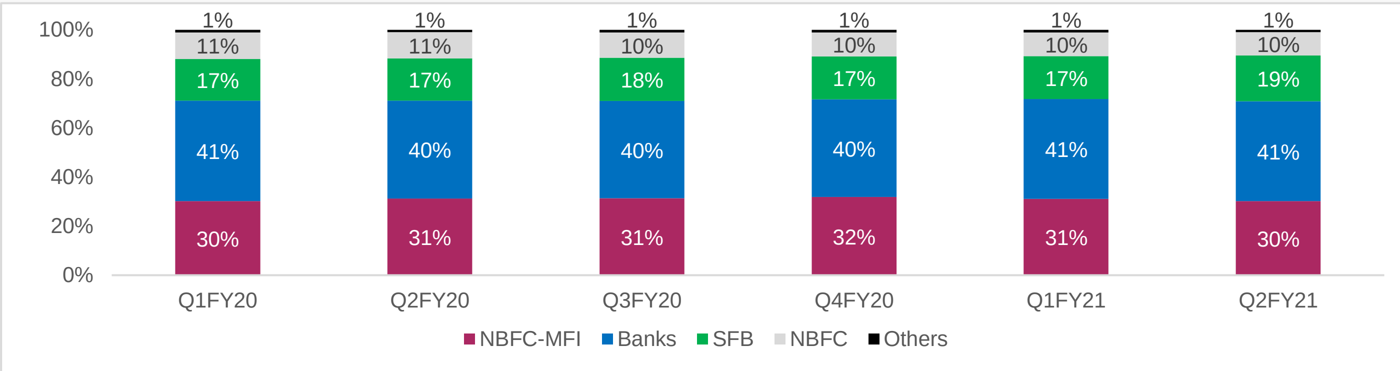
Exhibit 9: CAGs portfolio mix - Rural vs Urban



Source: Crif HighMark, Company, Axis Securities

Post the RBI issuing banking licenses to 10 lenders to transition into SFB, these lenders gradually shifted focus from the core MFI business to more secured products. CAG, however, does not have aspirations to convert into an SFB and will continue to operate as an NBFC-MFI, providing it with the opportunity to gain market share over the longer term. The slight moderation in the market share of NBFC-MFIs is mainly due to lower disbursements on the back of COVID-19 uncertainities. This led companies to adopt a cautious lending approach and primarily focus on collections.

Exhibit 10: MFI industry GLP lender-wise mix



Source: MFIN, Axis Securities

MMFL merger to consolidate leadership position

Promoted by the erstwhile promoters of Bank of Madura, Madura Microfinance is a rural-focused pureplay MF lender predominantly present in Tamil Nadu. In 2001, the Bank of Madura merged with ICICI Bank. Post the merger, the micro-lending business continued in a partnership model between ICICI Bank & Micro Credit Foundation of India (MCFI). Later, in 2005, MCFI transitioned into an NBFC - Madura Microfinance.

CAG acquired 76.2% in MMFL and plans to merge the business by acquiring the residual stake through a share swap agreement. The merger process is expected to conclude by H1FY22. The MMFL acquisition has lowered state-wise concentration in the GLP mix, with the share of Karnataka in GLP coming down to 38% in 9MFY21 from ~53% in FY19.

Secondly, the acquisition of MMFL will offer CAG access to its large branch network in untapped geographies enabling it to consolidate its leadership position. MMFL's wider customer base of additional 2.1 Lakh borrowers eligible for retail loans is expected to increase average ticket size and provide further impetus to CAGs growth.

Exhibit 11: Financial Snapshot of MMFL

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Operational Metrics							
GLP (Rs. Cr)	230	368.6	553.1	822.6	1184.2	1879.6	1973.2
% Growth		*60%*	*50%*	*49%*	*44%*	*59%*	*5%*
No. of Borrowers (Mn)	0.2	0.3	0.4	0.5	0.69	0.96	1.22
Avg. Ticket Size	*11,165.0*	*11,183.3*	*13,565.3*	*15,969.6*	*17,198.6*	*19,646.5*	*16,236.1*
Profitability Metrics							
PAT	10.9	14.6	19.2	30.2	39.8	85.5	79.8
Networth	72.1	86.8	105.9	176.1	240.5	322.0	401.6
RoA %	4.15%	4.33%	3.78%	3.89%	3.67%	5.20%	3.78%
RoE %	15.11%	18.38%	19.93%	21.41%	19.11%	30.41%	22.07%
Asset Quality							
GNPA % (calc.)	0.31%	0.17%	0.22%	0.49%	0.49%	0.91%	1.61%
NNPA %	0.15%	0.10%	0.12%	Nil	Nil	0.36%	0.59%

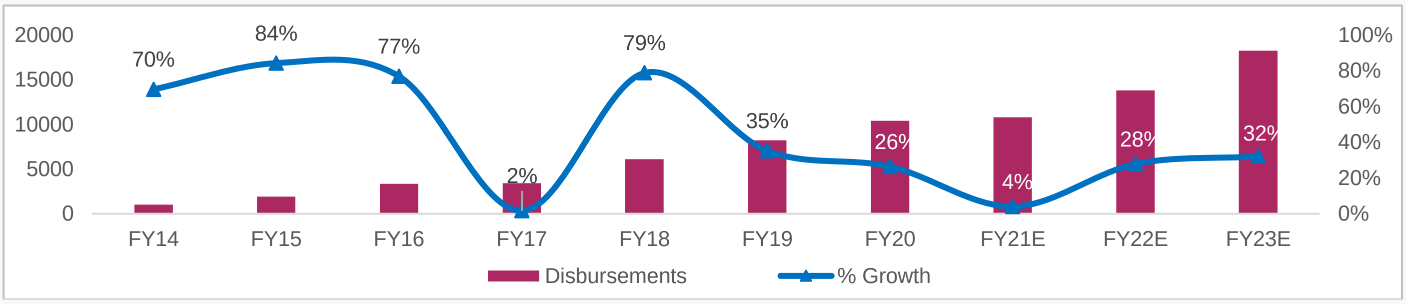
Source: MMFL Annual Reports, Axis Securities

COVID-19 to hamper near term growth

The company has adopted a cautious lending approach and disbursed only to Kendras, where all the customers have paid on-time. The new customer addition commenced only in Oct'20. In H1FY21, CAG focused solely on collections slowing down disbursements. However, Q3FY21 disbursements witnessed a healthy growth of 35% YoY and stood at Rs. 4,032 Cr. Going into Q4FY21E, we expect this growth momentum to continue and expect disbursements to reach Rs 4,750 Cr (+63% YoY, +4% QoQ). With the growth picking up in H2FY21, we expect disbursement growth to remain muted at 4% YoY in FY21E. The MMFL acquisition has resulted in a substantial addition to the customer base and a higher number of branches. This will facilitate higher disbursements going into FY22E/23E vs. its quarterly run-rate of Rs. 3000 Cr in FY20 (CAG standalone).

Given the tepid growth in disbursements, we expect CAG to deliver a subdued GLP growth of 10% in FY21E. In-line with the management guidance, we expect growth to gravitate to historical levels of 25-30% over the next 2-3 years. We believe CAG will register a growth of 19.5% CAGR over FY20-23E, driven by a healthy ~23% CAGR growth in the Retail Finance book.

Exhibit 12: Disbursement growth to be muted



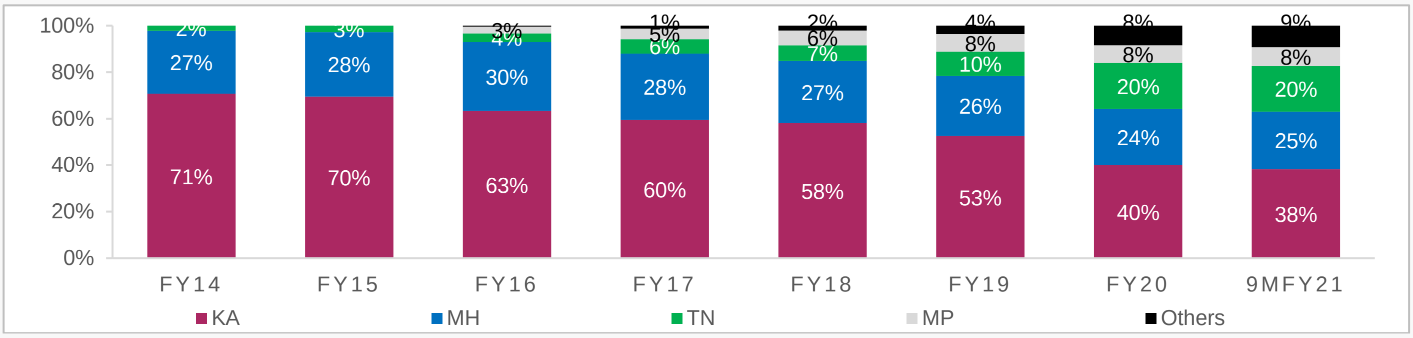
Source: Company, Axis Securities

Calibrated and Contiguous Branch Expansion Strategy

CAG has adopted a calibrated and contiguous approach while expanding its geographical presence. The geographical selection is done based on bureau data, competitive scenario, historical trend of asset quality and the level of market penetration. It aims at achieving deeper penetration in existing districts within three years of commencement of operations and then taps the adjoining district having similar customer background. This expansion strategy gives CAG a fair idea of social, default and other crucial risks as well as high-PAR incidences before entering the market. It also helps in quickly mobilising its existing and new staff to new territory and enables the company not only to replicate its business model cost-efficiently but also ramp-up its operations faster.

The top 3 states - Karnataka, Maharashtra, and Tamil Nadu, continue to form a sizeable portion of total GLPs, branch network and the customer base. However, with the acquisition of the MMFL, the share of the top 3 states has dropped from 89% in FY19 to 84% in FY20.

Exhibit 12: Geographical mix of GLP



Source: Company, Axis Securities

Exhibit 13: Top-3 states contribution to GLP

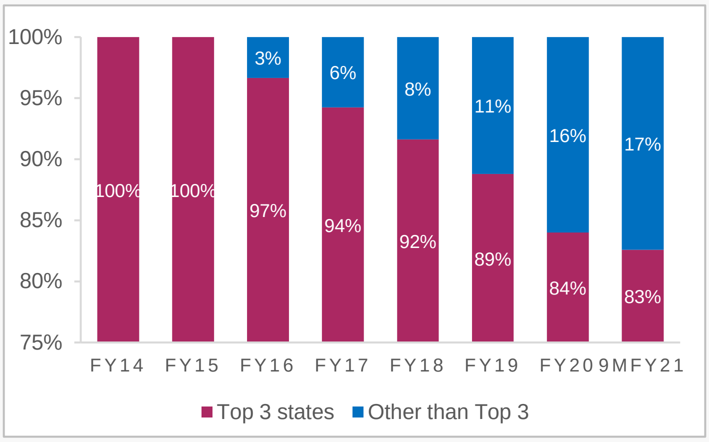
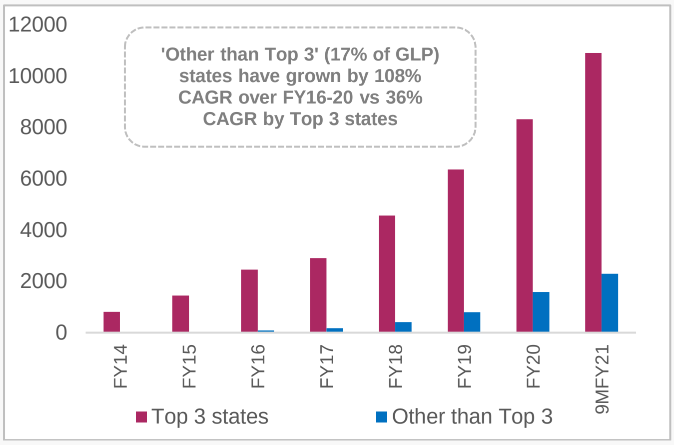


Exhibit 14: Top-3 states GLP growth trend



Source: Company, Axis Securities

The improving share of 'other-than-Top-3' states will augur well for the company. In Q2FY20, the company forayed into newer geographies of Bihar, Gujarat, Rajasthan, and Uttar Pradesh. As the business in these branches scale-up and borrower vintage improves, we expect growth to pick-up in these branches. ***The management has guided the share of Karnataka and Maharashtra will come down from 38% and 25% currently to 25-26% and 20% respectively in the next 3 years, while Tamil Nadu will continue to contribute 20% to the GLP. Thus Top-3 states will reduce from ~83% currently to 50-60% in the next 3 years.***

Despite having GLP concentrated in the top 3 states, the company has diversified the portfolio at the district level which helped it mitigating the concentration risk to some extent. CAG has managed to reduce the GLP concentration in the Top 10 districts from 41% in FY16 to 28% in 9MFY21. Furthermore, as of 9MFY21, no district contributes over 5% of the portfolio while 78% of the districts have a concentration of less than 0.5% of the portfolio.

Exhibit 15: 75%+ GLP derived from other than Top 10 districts

	FY16	FY17	FY18	FY19	FY20	9MFY21
Top 1	6%	6%	6%	5%	4%	3%
Top 3	17%	15%	15%	13%	10%	9%
Top 5	26%	23%	22%	20%	15%	14%
Top 10	41%	37%	36%	32%	24%	24%
Others	59%	63%	64%	68%	76%	76%

Source: Company, Axis Securities

Exhibit 16: Well diversified portfolio at a district level

	FY16	FY17	FY18	FY19	FY20	9MFY21
< 0.5%	38%	45%	59%	67%	75%	78%
0.5% to <1%	15%	19%	17%	12%	11%	7%
1% to <3%	38%	30%	20%	15%	11%	10%
3% to <5%	5%	4%	4%	5%	3%	4%
More than 5%	4%	2%	1%	1%	0%	0%

Source: Company, Axis Securities

Strong Parentage of CreditAccess Asia

CreditAccess Grameen is promoted by CreditAccess Asia (CAA) - An organisation committed to the microfinance business. Post the recent QIP issue, CAA currently holds 74.1% in CAG. Apart from India, CAA also operates its MFI business in Indonesia and the Philippines and is backed by a large number of marquee investors namely Asian Development Bank (8.6% stake), Olympus ACF Pte Ltd. (15.1% stake), and other Individuals/HNIs/Family Offices (76.3% stake).

CAA's investment of Rs. 550 Cr in CAG in FY17 to help it navigate stress during the demonetization period manifests its trust in the resilience and sustainability of CAG's business model.

Liquidity Management not a cause of concern

MFIs generally possess ample short-term liquidity and a positive ALM due to the weekly/monthly collections policy. CAG enjoys a strong parentage that gives it access to foreign funds and enables it to optimise its borrowing mix better than its peers. CAG's ability to raise long tenure foreign rupee-denominated money will further add to its already positive ALM.

CAG aims at keeping a higher proportion of long term loans (more than 3 years) to maintain a positive ALM, given the asset duration of 15-18 months and liability duration of ~25-28 months. Currently, long term loans are around ~45% of total borrowings. This strategy helped the company successfully navigate through the IL&FS crisis without impacting its liquidity.

Exhibit 17: Borrowing Mix (9MFY21)

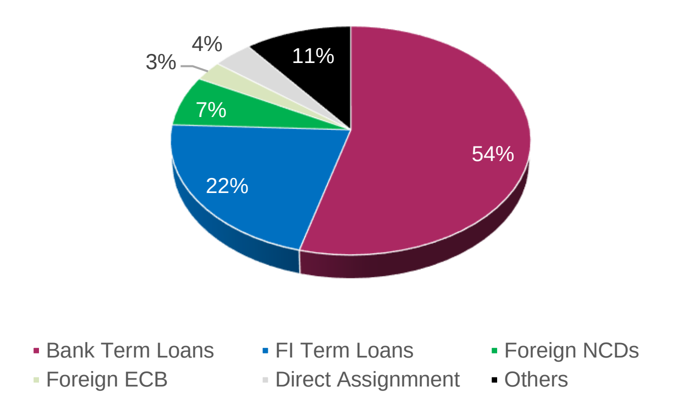


Exhibit 18: Lender category-wise Borrowing Costs

Lender	Loan Duration	Avg. Cost of Borrowing
Bank Term Loans	~2 years	9-9.5%
Financial Institutions - NABARD, Mudra Loans	~5 years	11%
Foreign Loans and NCDs	3-5 years	10.5-11.5%
Avg. Cost of Borrowing		***9.5-10%***

Source: Company, Axis Securities

Liquidity Management in testing times of COVID-19

CAG has adequate liquidity of ~Rs. 1,587 Cr on a consolidated basis as of 9MFY21 parked in liquid investment and cash and cash equivalents (CAG liquidity at 15.1% of total assets and MMFL liquidity at 11.6% of total assets). Furthermore, it has sanctions worth Rs. 4,143 Cr on a consolidated basis. Though higher liquidity is weighing down NIMs, we believe it is a prudent practice to maintain sufficient levels especially in light of uncertainties caused by COVID-19. ***The management has indicated to maintain liquidity levels at 12-15% of GLP in the near term on the back of COVID-19 uncertainties. As the macro environment normalises going into FY22E, it intends to maintain liquidity at ~8% of GLP.***

Unabated Focus on Asset Quality

MFI lending is an inherently risky business as the occurrence of an inadvertent event such as the Andhra Pradesh MFI crisis in FY2011, Demonetization in FY2017 and prevalent COVID-19 may lead to significantly higher default rates. However, CAG is well equipped to handle such a crisis better than its peers. This is on account of its conservative NPA recognition policy that classifies accounts with 60+dpd (days past due) as NPAs as against the regulatory requirement of 90+dpd. On the other hand, it adheres to a cautious credit underwriting policy by following a multi-level customer selection process before sanctioning loans. This leads to turnaround time (TAT) of ~2 weeks for first-time borrowers, higher than 6-8 days taken by its peers. For repeat customers, CAG processes the application even more rigorously and the loan is disbursed only after receiving approvals from the group and ensuring that the borrower is not over-leveraged by performing credit bureau checks. While the rejection rate for new customers ranges between 15-20% mainly due to the inability to fulfil the eligibility criteria, the rejection rate for repeat customers is even higher at 25-28%.

The onus of group formation is that of the borrowers. CAG primarily caters to a group of well-acquainted women borrowers who stay within a radius of 500 meters. The company conducts a mandatory 5-day training program for these group followed by families visit and face-to-face interaction by branch managers to analyse credit needs before final loan sanction and disbursement. With ~40-50% of the borrowers being new to credit and the majority of CAGs borrower base belonging to the informal sector, credit bureaus records are not readily available. However, the company refers to databases of multiple agencies such as MFIN, Sa-Dhan, and Equifax to ensure group members do not exceed the prescribed borrowing limit.

On a branch level too, each branch is audited bi-monthly vs. a standard industry practice of semi-annually or quarterly. Each branch is visited multiple times by the risk management team, audit team and quality control team to ensure strict adherence to processes.

Unabated focus on maintaining asset quality, stringent credit underwriting practices, and a robust risk management framework has helped CAG weather through tough times and emerge stronger. The company has been successful in maintaining a pristine asset quality of sub-1% GNP. The spike in GNPA in FY20 was due to certain external interferences and floods in Karnataka and Maharashtra, resulting in higher slippages, which in turn, impacted asset quality.

Exhibit 19: Asset Quality Trend; PCR maintained at 100%

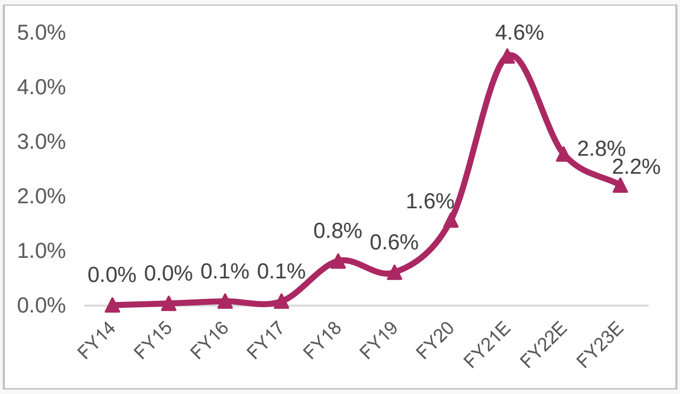
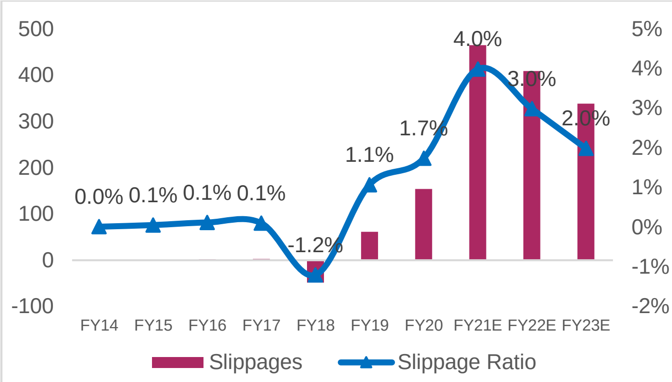


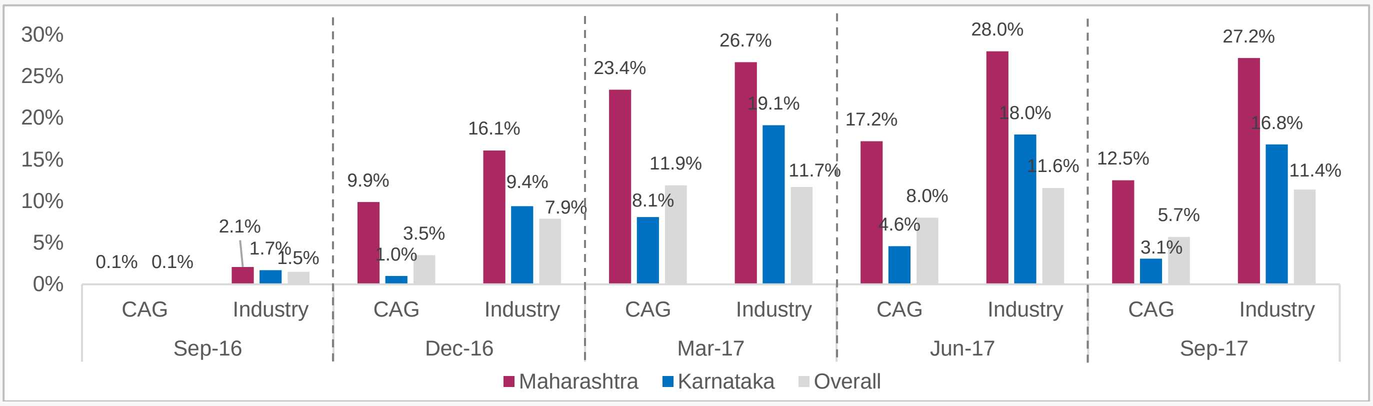
Exhibit 20: Slippages and Slippage Ratio



Source: Company, Axis Securities

As pointed out earlier, CAG offers flexible repayment options (weekly, bi-weekly and monthly) to its customers. However, it conducts centre meetings weekly and mandates a minimum of 75-80% attendance by borrowers. We believe frequent and consistent borrower connect has been one of the key factors enabling CAG to achieve 'better-than-peers' asset quality. CAG's better than the industry performance was visible during testing times of demonetization when it wrote off ~4% of the loans as compared to 7-8% write-off by the overall industry.

Exhibit 21: PAR30 trends during demonetization – Geography wise performance for CAG vs Industry



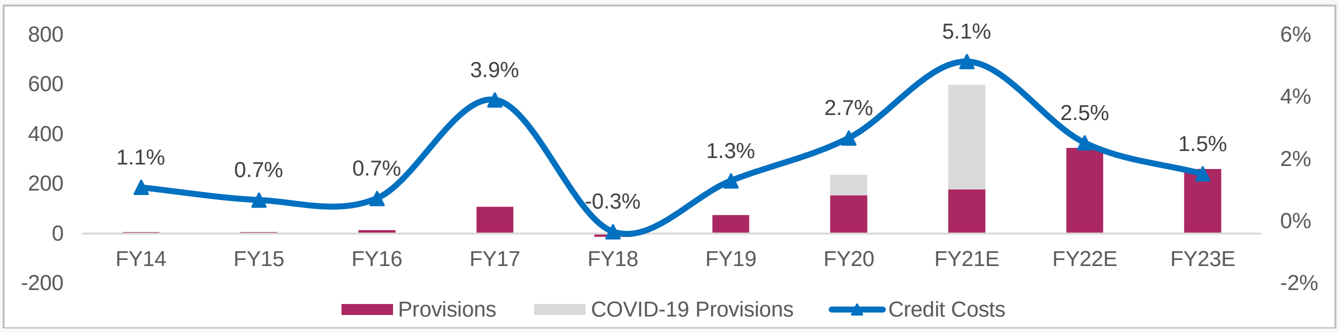
Source: RHP, Company, Axis Securities

Following sound underwriting practices and maintaining focus on a high-quality book, CAG has been able to successfully maintain its credit costs in the range of 1-1.5%. The recent inch-up in credit costs was due to higher provisions made towards the impact of COVID-19. In Q3FY21, CAG front-loaded provisions (Rs. 275.7 Cr) taking a hit on the profitability. On a consolidated basis, it currently holds an ECL cover of 5.7% vs. PAR60+ of 6.1%, while on a standalone basis, ECL cover stands at 5.94% against portfolio stress (PAR60+) of 6.84%. Had the company recognised stress on a PAR90+ basis, the provisions would have been lower by Rs. 90 Cr. CAG has also written off Rs. 111.9 Cr during the quarter (Rs. 143 Cr in 9MFY21) including accelerated write-off of Rs. 84.7 Cr.

We believe the upfront provisions cover most of the portfolio stress and credit costs should normalise FY22E onwards. However, given that the company operates in the risky MFI segment, we remain conservative and factor-in higher provisions for Q4FY21. The management has indicated that the credit costs are likely to be higher by 30-40bps on a normalised basis, mainly due to the impact of COVID-19, in line with the overall industry trend in the MFI segment. The credit costs pre-AP crisis for the MFI industry were ~10bps, which increased to 20-30bps. A similar trend was visible post demonetization where the credit costs further inched up to 60-70bps. The higher credit costs in recent times are primarily due to changing customer behaviour in light of COVID-19 disruptions and the moratorium offered by the RBI.

The company is not keen on restructuring loans for MFI borrowers. It has currently restructured only a small proportion of loans (negligible in value terms) in the retail finance portfolio.

Exhibit 22: Credit Costs to remain elevated due to COVID-19 related stress



Source: Company, Axis Securities

Large part of the COVID-19 stress taken care of, Asset Quality pressures to ease

The company had offered a moratorium to all its customers. Post a sluggish start, collection efficiency (CE) improved from 'Nil' in May'20 to 74% in June'20 and further to 76% in July'20. This recovery was led by normalising business activities post lockdown relaxations as well as relatively less affected rural markets during the COVID-19 period. Collections were temporarily slowed in the second half of Oct'20 due to cyclonic floods in some parts of the key geographies of Karnataka and Maharashtra and intermittent or extended lockdowns in certain states. However, with a continuous focus on collections, CAG further improved collections to 89% by the end of Oct'20, bringing it at par with peers. Overall, 24% of customers who didn't pay in Sept'20, have paid in Oct'20. With the situation normalising, the management expects the collections to further improve. Collections further improved in Dec'20, with the collection efficiency for CAG (standalone) at 91% and 96% (incl. arrears). Similarly, for MMFL, CE improved marginally to 87% in Dec'20 vs 83% in Sept'20.

MMFL's collections witnessed similar improvements from 54% in June'20 to 85% in Oct'20, though it remained marginally lower than the industry average of 87-91%. Encouragingly, 33% of customers who didn't pay in Sept'20, paid in Oct'20. The collections in MMFL happen every month. Hence, the % of borrowers having made partial payment are significantly higher than CAG (standalone), whereas 90+dpd is lower than CAG. The management has indicated that the MMFL collections are broadly-in-line with most other players who are operating on a monthly collections model.

Exhibit 23: Improving PAR across all key geographies for CAG (standalone)

PAR0	Sep-20	Oct-20	Nov-20	Dec-20	Improving Trend in PAR0
Karnataka	14.6%	15.2%	12.6%	8.6%	-40%
Tamil Nadu	10.4%	12.1%	12.2%	10.1%	-8%
Madhya Pradesh	14.6%	15.2%	13.5%	9.8%	-26%
Others	15.6%	15.0%	12.2%	8.3%	-31%
Total (excl. Maharashtra)	***14.0%***	***14.7%***	***12.6%***	***9.0%***	***-34%***
Maharashtra	28.8%	29.6%	25.2%	19.1%	-29%
Total	***18.1%***	***18.8%***	***16.1%***	***11.8%***	***-32%***

Source: Company, Axis Securities

While collection across all states has shown improvement, collection in Maharashtra's continue to remain sluggish vs. other states. Districts such as Solapur, Sangli, and Kolhapur have been severely affected by back-to-back disruptions caused by floods and COVID-19. The collections in Maharashtra are improving MoM and the management expects them to normalise by the end of Q4FY21. Lately, improving collections in Maharashtra have helped in lowering PAR0 from 28.8% in Sept'20 to 19.1% in Dec'20. ***However, fresh concerns arise with a sudden spike in the COVID-19 cases in Maharashtra and the fear of a severe lockdown. Currently, CAG is not facing any difficulties in collections in Maharashtra (specifically in districts like Aurangabad, Yavatmal) and will closely monitor the situation.***

Exhibit 23: Improving PAR across all key geographies for CAG (standalone)

PAR0	Sep-20	Oct-20	Nov-20	Dec-20	Improving Trend in PAR0
Karnataka	14.6%	15.2%	12.6%	8.6%	-40%
Tamil Nadu	10.4%	12.1%	12.2%	10.1%	-8%
Madhya Pradesh	14.6%	15.2%	13.5%	9.8%	-26%
Others	15.6%	15.0%	12.2%	8.3%	-31%
Total (excl. Maharashtra)	***14.0%***	***14.7%***	***12.6%***	***9.0%***	***-34%***
Maharashtra	28.8%	29.6%	25.2%	19.1%	-29%
Total	***18.1%***	***18.8%***	***16.1%***	***11.8%***	***-32%***

Source: Company, Axis Securities

Exhibit 24: Improving PAR60 and PAR90 trends, though Maharashtra remains a laggard (Dec'20)

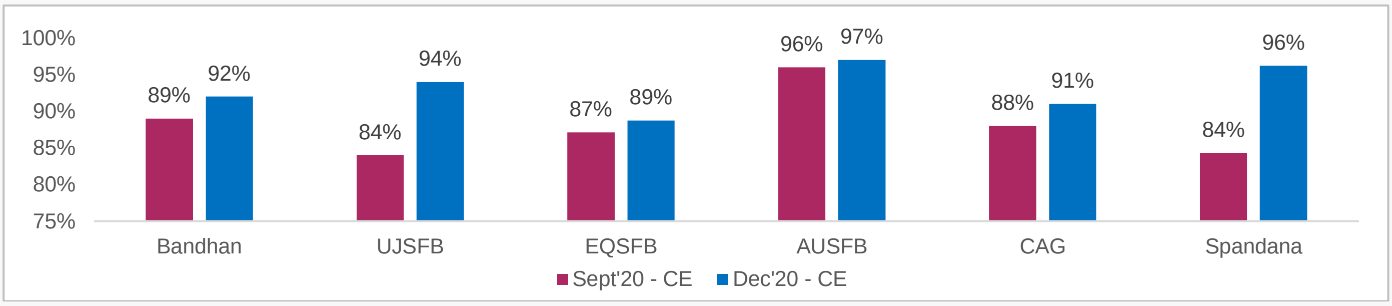
Dec'20	PAR60	PAR90
Karnataka	5.1%	3.6%
Tamil Nadu	3.7%	2.1%
Madhya Pradesh	5.8%	4.3%
Others	4.1%	2.7%
Total (excl. Maharashtra)	***4.9%***	***3.4%***
Maharashtra	12.5%	9.7%
Total	***7.0%***	***5.2%***

Source: Company, Axis Securities

Despite an improvement in collections, PAR60 and PAR continue to remain elevated at 7% and 5.2% respectively. The management expects most of the partially paying customers to regularise and 10-15% of the non-paying customers to start paying. ***It further expects total COVID-19 write-offs to be ~4% of the portfolio, similar to demonetization.***

The disbursals during June'20-Dec'20 form 49% of the standalone portfolio and has a PAR60+ of 10bps, indicating no incremental stress in the new portfolio.

Exhibit 25: Collections similar to peers



Source: Company, Axis Securities **Note**: Collections for Ujjivan, Equitas and Bandhan are for the MFI segment

CAG has further tightened its credit checks for lending in such uncertain times and is providing disbursements only to branches where all the borrowers have paid their dues. We expect the company to witness a spike in GNPAs in the near term due to COVID-19 related stress but expect asset quality to inch back towards normalcy as the macro-economic situation improves moving forward. Taking cue from its strong and better-than-industry average recoveries in past, we remain confident of a robust recovery this time around as well. ***We estimate GNPAs to inch up to 4.6% in FY21E and then trend downwards to historical levels by FY23E.***

Employee centric HR practices

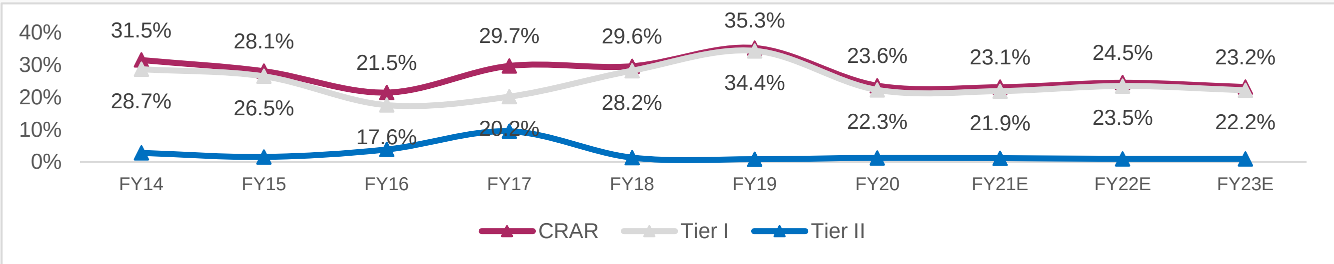
The MFI business is a high touch business as the on-field staff is in constant contact with the borrower. CAG has unique and employee-centric HR practices as can be seen in its industry-lowest employee attrition rate at 25% vs an industry average of 35-40%. By hiring ~90% employees from the rural communities and ~50-60% loan officers from the customer families, CAG ensures its employees have deep knowledge of the company's business practices and its business model. The incentives are delinked from the disbursements or collections. Instead they are linked to the number of customers that the officer services and the quality of the service they provide, to avoid any over leveraging by any customer.

The officers are generally assigned offices 50-100kms away from their residence in order to avoid any undue influence on the disbursement of loans. They have a 5-day working policy and their residential facility arrangement and all expenses are borne by the company. Training of new employees and bringing them up the learning curve helps in keeping employee productivity high and also helps in containing opex.

Adequately capitalized to support growth without dilution

CAG is adequately capitalized with a healthy CRAR of 25% and Tier-1 capital at 21%. It recently raised a capital of Rs. 800 Cr to comply with the minimum public shareholding guidelines by the regulator has further strengthened its capital position. While COVID-19 related headwinds will decelerate the growth momentum in the near term, we believe the current capital adequacy will be sufficient to drive growth and reclaim ROE of 18% over the medium term. As a practice, CAG will look to raise capital as and when the CRAR falls below 20%.

Exhibit 26: Capital Adequacy Ratios



Source: Company, Axis Securities

ROA/ROE expansion visible over medium term

CAG has had a successful run in growing GLPs at 47% CAGR (on a standalone basis, ~53% CAGR incl. MMFL) over FY15-20. Though GLP growth is expected to remain muted in FY21E amidst COVID-19 related uncertainty, we expect a revival in FY22E and onwards. CAG witnessed lower spreads over FY14-17, however, recently the spreads have improved and average at ~9.4%. CAG has the lowest lending rates (~19.6%) amongst the NBFC-MFIs. However, Bandhan Bank lends at a lower rate due to lower CoF on account of a strong liability franchise. We expect spreads to improve marginally as the MFI borrowers are interest rate agnostic with their primary concern being credit availability. Hence any transmission of a higher interest rate will not be a hassle. Additionally, improving the mix of retail finance loans in the total portfolio will further aid spreads.

In Q3FY21, CAG reversed interest income worth Rs. 60 Cr on the amount lent to partially paying customers with a decision to recognize the same only when these customers start paying. This has resulted in a drop in yields and NIM compression to the tune of 3.4%. The management has indicated that the interest reversal is a one-time event and yields should inch back to normal levels Q4FY21 onwards. The excess liquidity maintained by the company (currently at ~11% of GLP) has also put downward pressure on NIM to the tune of 30-40bps. ***Over the medium term, we expect NIMs to remain range-bound between 9% to 10%.***

The company has seen a steady improvement in the Cost-Asset Ratio (C-I) from 5.1% in FY14 to 4.3% in FY20 despite aggressively adding branches during the period. This is a combined result of improving productivity, higher customer retention and prudent HR practices resulting in lower employee attrition and better-than-industry growth. The C-I ratio for 9MFY21 stood at 40.5%, higher than the management guided range of 35-40% mainly due to lower income on account of the interest reversal in Q3FY21. We do not see any significant increase in the opex and expect C-I to stabilize at 4.8% over FY22-23E. We build in marginally higher credit costs going into FY22E and FY23E to account for the ageing of the higher ticket unsecured retail finance book and in customer behaviour change post-COVID-19 and moratorium.

Higher provisions for the impact of COVID-19 will pull down ROA in FY21E. However, moderation in credit costs will result in ROA expansion over the medium term. ***We believe the company is well-positioned to deliver a best-in-class ROA/ ROE of ~4.5%/~18% respectively over the long term.***

Exhibit 27: Dupont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NII	7.9%	9.0%	10.8%	11.6%	12.9%	10.6%	9.6%	10.2%	10.5%
Other Income	3.0%	2.4%	1.5%	0.3%	1.0%	0.7%	0.6%	0.8%	0.8%
Total Income	10.9%	11.4%	12.3%	11.9%	13.9%	11.3%	10.2%	11.0%	11.3%
Opex	5.1%	5.1%	5.0%	4.7%	4.7%	4.3%	4.2%	4.5%	4.6%
PPP	5.9%	6.3%	7.3%	7.2%	9.2%	7.0%	6.0%	6.5%	6.8%
Provisions	0.5%	0.6%	3.4%	-0.3%	1.2%	2.4%	4.4%	1.9%	1.3%
PBT	5.4%	5.7%	3.9%	7.6%	8.0%	4.6%	1.6%	4.6%	5.4%
Tax Rate	35%	36%	35%	35%	35%	27%	25%	25%	25%
ROA	3.5%	3.7%	2.5%	4.9%	5.2%	3.4%	1.2%	3.4%	4.1%
Leverage	4.7	5.4	5.5	4.1	3.3	3.8	4.1	3.9	4.2
ROE	16.5%	19.7%	13.9%	20.0%	16.9%	12.9%	4.8%	13.4%	17.0%

Source: Company, Axis Securities

Exhibit 28: Cost Efficiency major ROA driver

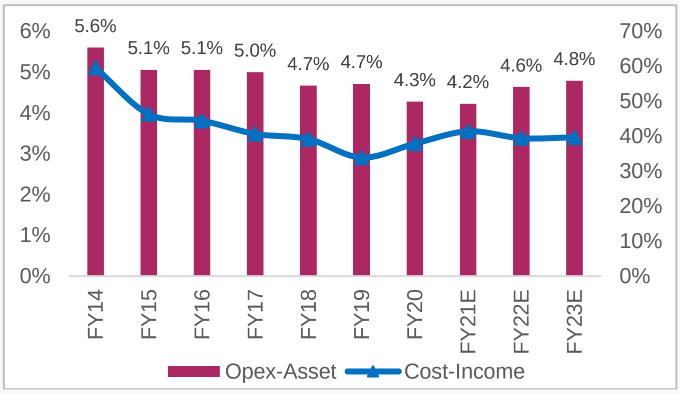
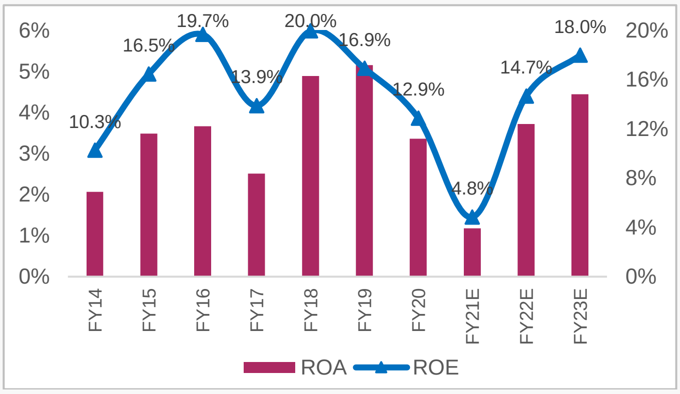


Exhibit 29: ROA & ROE expansion visible



Source: Company, Axis Securities

Key Risk Factors

Higher exposure to informal sector

CAG caters to the bottom of the pyramid customers, with 86% of the portfolio concentrated in rural areas. The cash flows of these borrowers are dependent on the smooth functioning of their businesses. Additionally, MFI business being an unsecured business is prone to higher defaults in case of occurrence of any inadvertent event. Any disruptive situation such as COVID-19 is likely to trigger higher NPAs.

Concentration Risk in Karnataka and Maharashtra

CAG faces concentration risk with over ~65% of its operations based in Karnataka and Maharashtra. Any major change in the state's policies or swing in regional environment can immediately affect our earnings estimates for the company. The rising COVID-19 cases in the state of Maharashtra is alarming and could pose as a major problem in maintaining asset quality.

Peer Review

Exhibit 30: Peer Group Review – Operational Parameters

Operational Metrics	Loan Book (Rs Cr)	NIM	Cost/Income	Reported GNPA	Proforma GNPA	NNPA	Loan CAGR FY20-23E	PAT CAGR FY20-23E
				NBFC-MFIs				
Spandana Sphoorty	7,764	15.6%	23.4%	2.7%	2.7%	1.0%	22%	30%
Satin Creditcare	7,880	8.3%	59%	9.6%	1.5%	0.0%	N.A	N.A
Avg	***7,822***	***12.0%***	***41.0%***	***6.2%***	***2.1%***	***0.5%***	***21.8%***	***29.6%***
				MFI Focused / Small Finance Banks				
Bandhan Bank	76,620	8.0%	28.1%	1.2%	1.2%	0.4%	24%	23%
Ujjivan SFB	13,638	10.3%	58.1%	1.0%	4.8%	0.1%	24%	32%
Equitas SFB	17,373	8.7%	59.9%	2.3%	4.2%	0.7%	25%	35%
Avg	***35,877***	***9.0%***	***48.7%***	***1.5%***	***3.4%***	***0.4%***	***24.4%***	***30.0%***
CAG	12,320	10.9%	40.5%	1.6%	6.1%	0.0%	19%	38%

Source: Bloomberg, Axis Securities

Exhibit 31: Peer Valuation Matrix

Valuation	ROA				ROE				P/E (x)	P/BV (x)
	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY23E	FY23E
					NBFC-MFIs					
Spandana Sphoorty	6.3%	4.9%	6.0%	7.0%	15.6%	11.3%	16.3%	19.4%	5.4	1.0
Satin Creditcare	2.3%	1.0%	2.6%	N.A	11.9%	4.4%	13.4%	N.A	4.6	0.4
Avg	***4.3%***	***3.0%***	***4.3%***	***7.0%***	***13.8%***	***7.9%***	***14.9%***	***19.4%***	***5.0***	***0.7***
					MFI Focused / Small Finance Banks					
Bandhan Bank	3.6%	2.7%	3.3%	3.5%	21.1%	15.3%	19.5%	20.3%	10.8	2.2
Ujjivan SFB	2.2%	1.7%	1.8%	2.0%	15.3%	10.7%	12.2%	14.8%	10.5	1.5
Equitas SFB	1.4%	1.5%	1.6%	1.8%	9.7%	10.9%	12.2%	14.6%	8.9	1.4
Avg	***2.4%***	***2.0%***	***2.2%***	***2.4%***	***15.4%***	***12.3%***	***14.6%***	***16.6%***	***10.0***	***1.7***
CAG	3.4%	1.2%	3.7%	4.5%	12.9%	4.8%	14.7%	18.0%	13.9	2.2

Source: Bloomberg, Axis Securities

Valuation and Recommendation

CAG primarily lends to the bottom-of-the-pyramid customers predominantly in rural areas. Its deep rural penetration which has been further bolstered by the acquisition of MMFL, diversified book at the district level and high customer retention rate achieved through customized product offerings that cater to the entire borrower 'life-cycle instils confidence in the sustainability of its business model. Additionally, a good track record, a competent and experienced management team, and improving return ratios make CAG stand out amongst its peers. The company has delivered a steady-state GLP growth of 47% CAGR (on a standalone basis, 53% CAGR incl. MMFL) over the past 5 years while simultaneously maintaining healthy asset quality.

Both GLP growth and asset quality would be negatively impacted during COVID-19 and higher credit costs are expected to dampen ROA expansion in the short term. However, with disbursements picking up momentum, we believe the growth will revive to its historical levels of 25-30% FY22E onwards. The MMFL acquisition will play a pivotal role in providing CAG a long runway for growth and consolidate its leadership position by gaining market share. Better penetration in rural markets, strengthening the leadership position in key markets of Karnataka and Maharashtra along with deepening presence in other untapped markets, a larger customer base and a wider branch network provides additional ample growth opportunities to CAG.

We believe in the resilience of the company's business model given the robust risk management framework, persistent focus on asset quality, and competent and experienced management team. **CAG currently trades at 2.2x FY23E ABV, a premium to its peers. We value the company at 2.6x FY23E ABV and initiate coverage with a 'BUY' rating with a target price of Rs 865, implying a 20% upside from the CMP.**

Exhibit 32: CAG - 1-Yr Fwd P/BV Band

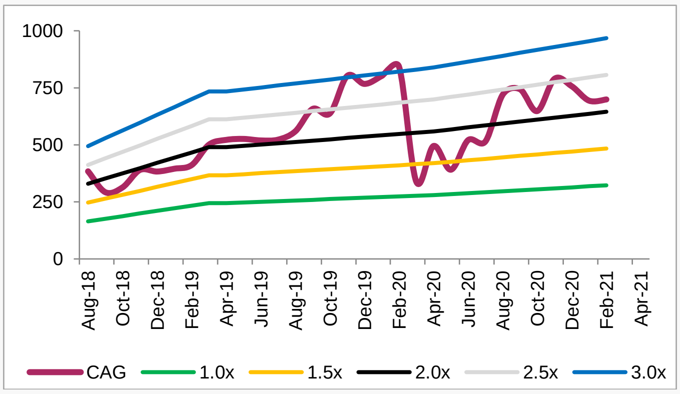
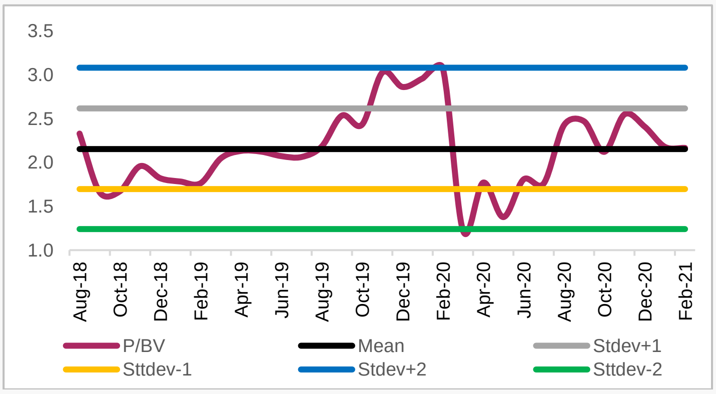


Exhibit 33: CAG – 1-Yr Fwd P/BV Chart



Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Interest Income	1,218	1,633	2,236	2,703	3,404
Interest Expenses	417	580	930	1,058	1,323
Net Interest Income	**802**	**1,053**	**1,306**	**1,645**	**2,081**
Change	*58%*	*31%*	*24%*	*26%*	*26%*
Non-Interest Income	65	72	84	126	167
Total Income	**867**	**1,126**	**1,390**	**1,771**	**2,248**
Change	*67%*	*30%*	*23%*	*27%*	*27%*
Operating Expenses	294	427	576	727	905
Change	*45%*	*45%*	*35%*	*26%*	*25%*
Pre-Provision Profits	**573**	**699**	**814**	**1,044**	**1,342**
Change	*82%*	*22%*	*16%*	*28%*	*29%*
Provisions	75	237	599	311	264
Change	*-659%*	*217%*	*152%*	*-48%*	*-15%*
PBT	**498**	**462**	**215**	**733**	**1,078**
Tax	176	126	54	185	272
Profit After Tax	**322**	**335**	**161**	**548**	**806**
Change	*51%*	*4%*	*-52%*	*241%*	*47%*

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Equity Share Capital	144	144	155	155	155
Reserves & Surplus	2,222	2,699	3,647	4,196	5,002
Net Worth	**2,365**	**2,843**	**3,803**	**4,351**	**5,157**
Borrowings	**4,867**	**9,540**	**10,530**	**12,760**	**16,378**
Other Liabilities	126	207	332	407	557
Total Liabilities	**7,357**	**12,590**	**14,664**	**17,518**	**22,092**
Cash & Bank balances	616	718	1,586	1,366	1,558
Investments	0	46	46	46	46
Goodwill	-	318	318	318	318
Loans	6,603	11,099	12,200	15,181	19,481
YoY Growth %	*35%*	*68%*	*10%*	*24%*	*28%*
Fixed Assets & Others	139	410	516	607	690
Total Assets	**7,357**	**12,590**	**14,664**	**17,518**	**22,092**

Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Asset Quality					
GNPA	39	142	455	344	341
NNPA	11	34	-	-	-
GNPA Ratio	0.6%	1.6%	4.6%	2.8%	2.1%
NNPA Ratio	0.0%	0.0%	0.0%	0.0%	0.0%
PCR	72%	76%	100%	100%	100%
Spread Analysis					
Yield on Loans	19.1%	17.3%	17.7%	18.4%	18.4%
Cost of Borrowings	10.4%	9.9%	9.3%	9.1%	9.1%
Spread	8.7%	7.4%	8.4%	9.4%	9.4%
Net Interest Margin	9.4%	9.8%	9.0%	9.6%	9.8%
Profitability & Efficiency Ratios					
ROE	16.9%	12.9%	4.8%	13.4%	17.0%
ROA	5.2%	3.4%	1.2%	3.4%	4.1%
Cost to Income	33.9%	37.9%	41.4%	41.0%	40.3%
CAR	35.3%	23.6%	22.4%	23.5%	21.7%
Tier 1	34.4%	22.3%	21.7%	23.0%	21.2%
Valuation					
BVPS	164.8	197.5	244.7	279.9	331.8
Change	*47%*	*20%*	*24%*	*14%*	*19%*
Price-BV (x)	4.4	3.7	3.0	2.6	2.2
Adj. BVPS	164.0	195.1	244.7	279.9	331.8
Change	*47%*	*19%*	*25%*	*14%*	*19%*
Price-ABV (x)	4.4	3.7	3.0	2.6	2.2
EPS	22.4	23.3	10.3	35.3	51.9
Change	*35%*	*4%*	*-56%*	*241%*	*47%*
Price-Earnings (x)	32.2	31.0	69.8	20.5	13.9
Dividend Per Share	-	-	-	-	-
Dividend Yield (%)	-	-	-	-	-

Source: Company, Axis Securities

AXIS SECURITIES

About the analyst

Analyst: Dnyanada Vaidya

Contact Details: dnyanada.vaidya@axissecurities.in

Sector: Banks

Analyst Bio: Dnyanada Vaidya is M.M.S (Finance) with 3 years of research experience.

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Dnyanada Vaidya, MBA-Finance, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, etc. in the subject company in the last 12-month period.Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Terms & Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	**Expected absolute returns over 12-18 months**
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Axis Securities Limited, Corporate office: Unit No. 2, Phoenix Market City, 15, LBS Road, Near Kamani Junction, Kurla (west), Mumbai-400070, Tel No. – 022-40508080/ 022-61480808, Regd. off.- Axis House, 8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: AnandShaha, Email: compliance.officer@axisdirect.in, Tel No: 022-42671582.SEBI-Portfolio Manager Reg. No. INP000000654