

Merger synergies to aid superior business growth...

Bandhan Bank reported merged numbers with Gruh Finance for the first time. Therefore, the numbers are not comparable YoY. Sequentially, NII growth was lower 3% to ₹ 1529 crore, due to a marginal contraction in margins due to higher cost of fund. Other income remained broadly steady at ₹ 360 crore. Operating profit of merged entity was at ₹ 1307 crore, up 50% YoY & -4% QoQ. The bank realised ₹ 374 crore from sale of PSLC in H1FY20 of which ₹ 186 crore has been accounted while remaining ~₹ 188 crore will be recognised in H2FY20.

Merged AUM grew 24% YoY to ₹ 64186 crore. Excluding Gruh Finance, AUM growth came in at 38% YoY. Healthy traction continued in micro finance segment (~61% of merged AUM) at 35.3% YoY to ₹ 39197 crore, while non-micro finance book (excluding Gruh Finance) growth came in at 53% YoY. Customer acquisition continued to remain healthy YoY as the bank added ~10 lakh customers. Accordingly, the total customer base was at 1.8 crore. Deposit accretion continued to remain healthy at 49.3% YoY to ₹ 49195 crore. Growth has been witnessed across low cost as well as term deposit but term deposit accretion has increased during the quarter. Accordingly, CASA ratio slipped ~300 bps QoQ to 33%.

Asset quality of the merged entity remain broadly stable with GNPA at 1.76%, up 6 bps QoQ. Excluding exposure to IL&FS, GNPA was at 1.22%. Absolute GNPA was at ₹ 1064 crore vs. ₹ 1020 crore in Q1FY20.

Robust growth across assets, liabilities to continue

Successful merger of Gruh has led to addition of ~₹ 18000 crore to AUM. Absorption of Gruh's senior management personnel at Bandhan provides confidence about continuity of operational direction in the home finance business. Merger synergies are seen kicking in as Gruh plans to leverage the bank's vast distribution network in eastern India. Initially, 150 branches in the east have been recognised to cross-sell home loan products. The merger synergies are expected to keep business traction healthy with advances & deposit expected to grow at 28% & 35% CAGR, respectively, in FY19-21E.

Valuation & Outlook

Bandhan bank's robust business traction & customer acquisition is poised to continue post-merger. In the current scenario facing challenge, the bank remains resilient on both - growth and asset quality. Bank envision to be a pan India player & intends to leverage distribution network of both entity for cross selling. Gradual replacement of Gruh's borrowing is seen to aid improvement in margins ahead. Given robust growth & superior asset quality, we remain positive on business growth as well profitability, along with steady asset quality. Therefore, we believe that bank's premium valuation to its peers to continue ahead on back of superior fundamentals. Accordingly, we revise our target price to ₹ 680 per share, valuing the stock (post-merger) at 24x FY21E EPS. Maintain **BUY** rating.



Particulars

Particulars	Values
Market Capitalisation	₹ 71002 crore
Networth	₹ 11202 crore
52 week H/L (₹)	741 / 369
Equity Capital	₹ 1193 crore
Face Value (₹)	10.0
DII Holding (%)	9.5
FII Holding (%)	6.3

Key Highlights

- Gradual accretion of synergy benefit expected with merger of Gruh Finance
- Focus to continue to garner strong growth on assets as well as liabilities side
- Maintain BUY recommendation with revised target price of ₹ 680

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Key Financial Summary

	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
NII	2403	3032	4496	6642	8326	36%
PPP	1173	2430	3748	5754	7253	39%
PAT	492	1346	1951	3549	4536	52%
ABV (₹)	40.0	77.2	91.8	88.4	113.0	
P/E	43.9	39.5	27.3	20.2	15.8	
P/ABV	11.1	5.8	4.9	5.0	3.9	
RoE (%)	28.6	19.5	19.0	27.2	26.7	
RoA (%)	4.4	3.6	3.9	4.8	4.3	

Exhibit 1: Variance Analysis

	Q2FY20	Q2FY20E	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Comments
NII	1,529	1,093	1,575	-2.9	1,077	41.9	Sequentially lower NII growth attributable to margin contraction
NIM (%)	8.2	10.5	10.5	-225 bps	10.3	-210 bps	
Other Income	360	340	331	8.8	230	56.3	Income from PSLC was at ₹ 186 crore in H1FY20
Net Total Income	1,889	1,434	1,906	-0.9	1,308	44.5	
Staff cost	333	335	332	0.3	234	42.1	
Other Operating Expenses	250	230	219	14.1	200	25.0	
PPP	1,306.9	869.0	1,355.1	-3.6	874.0	49.5	
Provision	145.5	162.1	125.4	16.1	124.2	17.2	Annualised credit cost largely stable at ~100 bps
PBT	1,161.4	706.9	1,229.7	-5.6	749.8	54.9	
Tax Outgo	189.6	240.3	426.1	-55.5	262.2	-27.7	Bank migrated to lower corporate rate regime
PAT	971.8	466.6	803.6	20.9	487.6	99.3	Steady provisioning coupled with benefits due to lower tax rate aided PAT growth
Key Metrics							
GNPA	1,064	1,111	1,020	4.4	413	157.5	GNPA continued to remain stable QoQ
NNPA	337	382	347	-3.1	220	52.9	
Advances	64,186	46,328	45,420	41.3	31,730	102.3	Loan growth ex Gruh continue to remain healthy at 38% YoY
Deposits	49,195	45,886	43,701	12.6	32,959	49.3	Deposit accretion healthy across CASA & Term deposite

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	5,941	6,642	11.8	7,780	8,326	7.0
Pre Provision Profit	4,841	5,754	18.8	6,305	7,253	15.0
NIM (%)	9.8	9.2	-59 bps	9.5	8.0	-153 bps
PAT	3,005	3,549	18.1	3,980	4,536	14.0
ABV (₹)	113.3	88.4	-21.9	143.5	113.0	-21.3

Source: Company, ICICI Direct Research

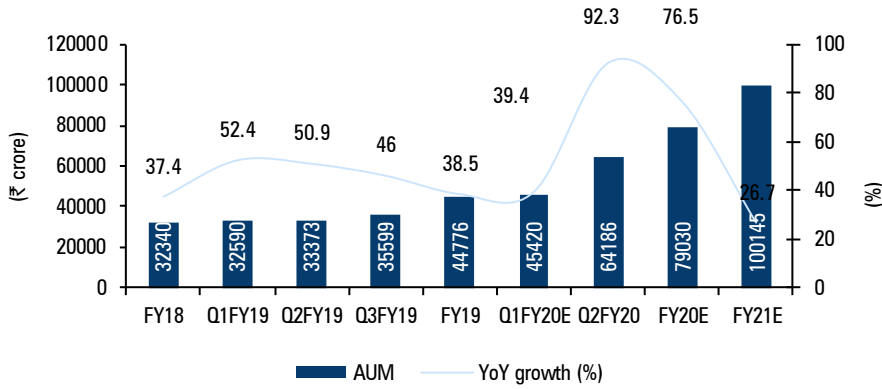
Exhibit 3: Assumption

	Current				Earlier	
	FY18	FY19	FY20E	FY21E	FY20E	FY21E
Credit growth (%)	76.5	33.4	85.8	26.8	33.0	37.2
Deposit Growth (%)	45.8	27.6	35.0	35.6	35.0	35.3
CASA ratio (%)	34.3	40.8	40.8	39.7	41.6	40.9
NIM Calculated (%)	8.4	9.4	9.2	8.0	9.8	9.5
Cost to income ratio (%)	35.0	32.6	29.0	28.7	32.7	31.6
GNPA (₹ crore)	373.1	819.5	1,304.6	1,707.5	1,125.1	1,375.8
NNPA (₹ crore)	172.9	251.7	637.7	924.2	476.5	631.0
Slippage ratio (%)	351.6	763.0	970.1	806.0	873.1	626.9
Credit cost (%)	1.2	1.9	1.6	1.3	1.6	1.4

Source: Company, ICICI Direct Research

Story in Charts

Exhibit 4: Credit growth momentum to continue ahead after merger



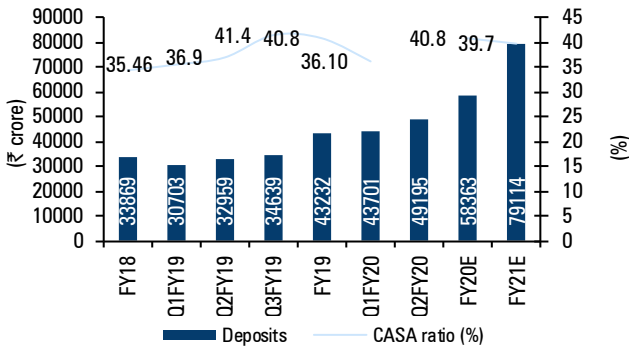
Source: Company, ICICI Direct Research

Exhibit 5: Focus on micro loan as well as non-micro loan

	Q1FY1	Q2FY19*	Q3FY19*	FY19	Q1FY2	Q2FY20	FY20E	FY21E
Gross advances (AUM)	32590	33373	35599	44776	45420	64186	79030	100145
Net advances (O/s Loan Book)	30533	31730	33873	39643	45420	64186	73676	93452
Micro loans	25953	27288	29193	33399	39166	39197	42888	53610
Non micro loans	4580	4442	4680	6244	6254	24989	30788	39842

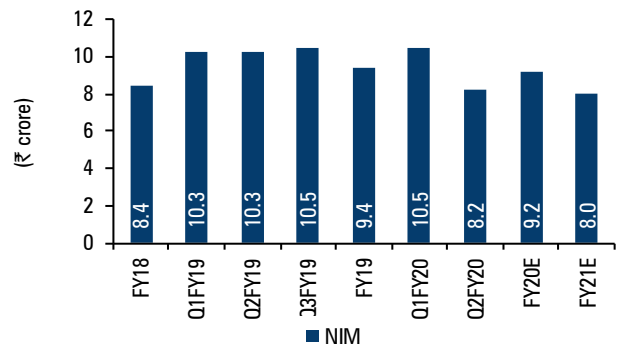
Source: Company, ICICI Direct Research

Exhibit 6: Continued focus on deposit accretion



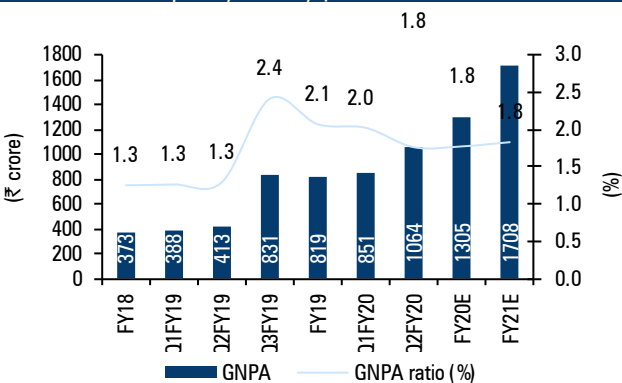
Source: Company, ICICI Direct Research

Exhibit 7: Margin of merged entity seen steady at ~8%



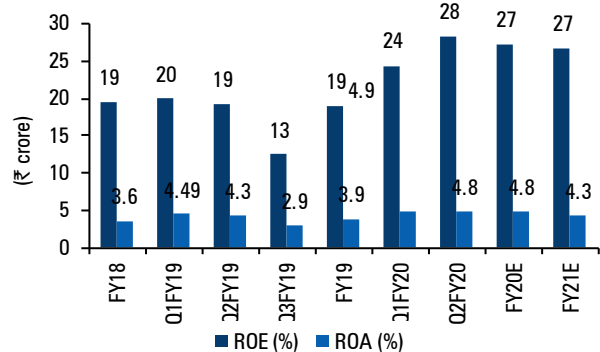
Source: Company, ICICI Direct Research

Exhibit 8: Asset quality steady post IL&FS



Source: Company, ICICI Direct Research

Exhibit 9: Return ratio to remain higher



Source: Company, ICICI Direct Research

Exhibit 10: CI ratio continue to remain better than peers

	Q1FY19	Q2FY19	Q3FY19	FY19	Q1FY20	Q2FY20	FY20E	FY21E
Operating expenses	427.3	433.9	457.6	1810.9	550.5	582.4	2348.1	2917.5
YoY growth (%)	38.5	35.1	45.0		28.8	34.2	29.7	24.3
CI ratio (%)	34.2	33.2	33.7	32.6	29.9	30.8	29.0	28.7
Opex to AUM (%)	5.2	5.2	5.1	4.0	4.8	5.1	3.0	2.9
Employee cost to AUM (%)	3.1	2.8	2.6	2.3	2.8	2.1	1.7	1.6
Other opex to AUM (%)	2.1	2.4	2.2	1.8	1.7	1.6	1.3	1.3

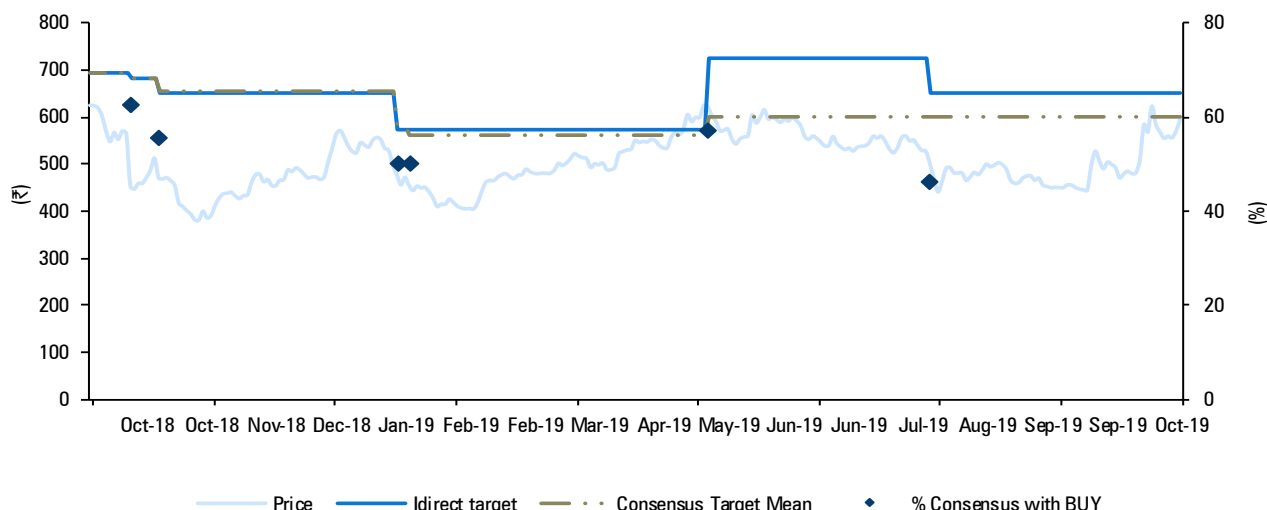
Source: Company, ICICI Direct Research

Exhibit 11: Customer accretion continue to remain healthy

Lakh	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20
Borrowers	81	83	88	96.5	100	110
Micro borrowers	80	82	87	95	98.4	101
Non micro borrowers	1.3	1.4	1.4	1.5	1.6	9.0

Source: Company, ICICI Direct Research

Exhibit 12: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 13: Top 10 Shareholders

Rank	Name	.atest Filing Date	% O/S	osition (m)	change (m)
1	Bandhan Financial Holdings Ltd	30-Jun-19	0.8	981.5	0.0
2	Caladium Investments Pte. Ltd.	30-Jun-19	0.0	54.6	0.0
3	IFC Asset Management Company	30-Jun-19	0.0	21.1	0.0
4	Axis Asset Management Company Limited	30-Jun-19	0.0	14.6	-8.8
5	Invesco Advisers, Inc.	31-Aug-19	0.0	9.8	1.4
6	Aberdeen Standard Investments (Asia) Limited	31-Aug-19	0.0	6.1	0.0
7	Aditya Birla Sun Life AMC Limited	30-Sep-19	0.0	5.2	0.0
8	The Vanguard Group, Inc.	30-Sep-19	0.0	4.1	0.0
9	Matthews International Capital Management, L.L.C.	30-Jun-19	0.0	4.0	3.8
10	Baron Capital Management, Inc.	30-Jun-19	0.0	3.7	3.7

Source: Reuters, ICICI Direct Research

Exhibit 14: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Matthews International Capital Management, L.L	29.6	3.8	Axis Asset Management Company Limited	-69.1	-8.8
Baron Capital Management, Inc.	28.6	3.7	Nomura Asset Management Singapore Ltd.	-3.9	-0.5
Invesco Advisers, Inc.	9.5	1.4	HSBC Global Asset Management (Hong Kong) Limited	-2.9	-0.4
Schroder Investment Management (Hong Kong) L	2.5	0.3	Robeco Institutional Asset Management B.V.	-1.9	-0.3
AXA Investment Managers UK Ltd.	1.9	0.3	Tata Asset Management Limited	-1.8	-0.3

Source: Reuters, ICICI Direct Research

Exhibit 15: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
Promoter	82.3	82.3	82.3	82.3	82.3
FII	5.5	5.1	5.6	6.3	6.9
DII	10.5	10.5	10.0	9.5	8.8
Others	1.8	2.1	2.2	2.0	2.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Interest Earned	4802.3	6644.1	11142.3	14380.5
Interest Expended	1770.1	2148.4	4500.3	6054.6
Net Interest Income	3,032.2	4,495.7	6,641.9	8,325.9
growth (%)	26.2	48.3	47.7	25.4
Non Interest Income	706.4	1063.4	1459.7	1844.4
Operating Income	3738.7	5559.1	8101.7	10170.3
Staff cost	688.0	1008.7	1319.6	1597.9
Other Operating expense	620.3	802.2	1028.5	1319.6
Operating profit	2430.4	3748.1	5753.6	7252.8
Provisions	374.2	735.1	990.5	1164.6
Exceptional items	0.0	0.0	0.0	0.0
PBT	2056.2	3013.0	4763.1	6088.2
Taxes	710.3	1061.6	1214.6	1552.5
Net Profit	1345.8	1951.5	3548.5	4535.7
EPS (₹)	11.3	16.4	22.0	28.2

Source: Company, ICICI Direct Research

Exhibit 17: Key Ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Valuation				
No. of Equity Shares	119.3	119.3	161.0	161.0
EPS (₹)	11.3	16.4	22.0	28.2
BV (₹)	78.7	93.9	92.4	118.8
ABV (₹)	77.2	91.8	88.4	113.0
P/E	39.5	27.3	20.2	15.8
P/BV	5.7	4.8	4.8	3.8
P/ABV	5.8	4.9	5.0	3.9
Yields & Margins (%)				
Net Interest Margins	8.4	9.4	9.2	8.0
Yields on Loans	14.9	15.4	16.5	14.8
Cost of funds	5.9	5.5	5.6	5.8
Quality and Efficiency (%)				
Cost to income ratio	35.0	32.6	29.0	28.7
GNPA	1.25	2.07	1.77	1.83
NNPA	0.58	0.63	0.87	0.99
ROE	19.5	19.0	27.2	26.7
ROA	3.6	3.9	4.8	4.3

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Capital	1193	1193	1610	1610
Reserves and Surplus	8189	10009	13267	17513
Networth	9382	11202	14877	19123
Deposits	33869	43232	58363	79114
Borrowings	285	521	16520	20650
Other Liabilities & Provisions	774	1487	1859	2323
Total	44310	56442	91619	121211
Applications of Funds				
Fixed Assets	238	331	397	477
Investments	8419	10038	14052	16863
Advances	29713	39643	73676	93452
Other Assets	5940	6430	3494	10419
Total	44310	56442	91619	121211

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
	%			
(Year-end March)	FY18	FY19	FY20E	FY21E
Total assets	46.5	27.4	62.3	32.3
Advances	76.5	33.4	85.8	26.8
Deposit	45.8	27.6	35.0	35.6
Total Income	32.8	48.7	45.7	25.5
Net interest income	26.2	48.3	47.7	25.4
Operating expenses	6.1	6.7	0.9	0.0
Operating profit	107.3	54.2	53.5	26.1
Net profit	173.7	45.0	81.8	27.8
Net worth	111.0	19.4	32.8	28.5
EPS	11.1	45.0	34.7	27.8

Source: Company, ICICI Direct Research

Exhibit 20: ICICI Direct coverage universe (BFSI)

Sector / Company	CMP		M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)			
	(₹)	TP(₹)		Rating	(₹ Bn)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
BoB (BANBAR)	92	140	Buy	354	1.8	12.2	23.1	51.5	7.5	4.0	1.1	0.8	0.7	0.1	0.3	0.6	0.9	5.6	9.4
SBI (STABAN)	282	400	Buy	2517	1.0	26.7	35.9	290.8	11	7.9	2.0	1.5	1.3	0.0	0.7	0.8	0.5	12.1	13.8
Indian Bank (INDIBA)	126	220	Hold	62	6.7	21.7	40.6	18.8	5.8	3.1	0.6	0.5	0.5	0.1	0.3	0.6	1.7	5.3	9.4
Axis Bank (AXIBAN)	708	865	Buy	1995	18.1	21.3	49.0	39	33.2	14.5	3.3	2.6	2.2	0.6	0.7	1.4	0.6	0.7	1.4
City Union (CITUNI)	206	240	Buy	152	9.3	10.4	12.0	22.2	19.8	17.2	3.5	3.0	2.6	1.6	1.6	1.6	15.3	14.8	14.8
DCB Bank (DCB)	175	260	Buy	54	10.5	12.6	16.7	16.6	13.9	10.5	2.0	1.8	1.6	1.0	1.0	1.2	12.2	12.9	14.8
Federal Bank (FEDBAN)	80	125	Buy	160	6.3	8.7	10.2	12.8	9.2	7.9	1.4	1.2	1.1	0.8	1.0	1.0	9.8	12.4	13.1
HDFC Bank (HDFBAN)	1,233	1,440	Buy	6743	38.7	47.7	56.8	31.9	25.9	21.7	4.6	4.1	3.5	1.8	1.9	1.9	16.5	16.3	17.0
IndusInd Bank (INDBA)	1,275	1,400	Buy	883	60.9	83.4	110.7	20.9	15.3	11.5	3.1	2.5	2.1	1.6	1.9	2.1	14.5	16.8	18.4
J&K (JAMKAS)	30	48	Hold	17	8.3	9.4	14.5	3.6	3.2	2.1	0.5	0.5	0.4	0.5	0.5	0.6	7.3	7.7	11.0
Kotak Bank (KOTMAH)	1,593	1,700	Hold	3042	25.5	33.7	39.8	62.5	47.3	40.1	7.4	6.5	5.7	1.7	1.9	1.9	12.1	14.0	14.4
Yes Bank (YESBAN)	50	UR	Reduce	128	6.2	6.2	8.6	8.2	8.0	5.9	0.5	0.5	0.5	0.4	0.4	0.5	5.4	5.3	6.5
Bandhan (BANBAN)	591	680	Buy	706	16.4	22.0	28.2	3.1	2.3	1.8	0.5	0.6	0.4	3.9	4.8	4.3	19.0	27.2	26.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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