

Bandhan Bank



Braving the challenges!

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Bandhan Bank

BSE Sensex
38,409S&P CNX
11,251

CMP: INR400

TP: INR500 (+25%)

BUY

**Stock Info**

	BANDHAN IN
Bloomberg	BANDHAN IN
Equity Shares (m)	1,610.0
M.Cap.(INRb)/(USD\$)	644.7 / 8.8
52-Week Range (INR)	650 / 371
1, 6, 12 Rel. Per (%)	-3/-16/-23
12M Avg Val (INR M)	1040
Free float (%)	39.0

Financial Snapshot (INR b)

Y/E March	FY19	FY20E	FY21E	FY22E
NII	45.0	62.0	79.6	98.3
OP	37.5	52.3	65.4	79.7
NP	19.5	32.3	40.3	49.3
NIM (%)	9.6	8.8	8.2	7.9
EPS (INR)	16.4	23.0	25.0	30.6
EPS Gr. (%)	39.1	40.8	8.5	22.5
BV/Sh. (INR)	94	98	119	143
ABV/Sh. (INR)	93	96	116	140

Ratios

RoE (%)	19.0	23.9	23.1	23.4
RoA (%)	3.9	4.4	3.9	3.7
Payout (%)	22.1	13.3	18.8	19.2

Valuations

P/E(X)	24.5	17.4	16.0	13.1
P/BV (X)	4.3	4.1	3.4	2.8
P/ABV (X)	4.3	4.2	3.5	2.9
Div. Yield (%)	0.9	0.8	1.2	1.5

Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	61.0	82.3	82.3
DII	8.2	8.8	10.5
FII	13.9	6.9	5.1
Others	17.0	2.0	2.1

FII Includes depository receipts

Bandhan Bank

Braving the challenges!

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[Please click here for Video Link](#)

Braving the challenges!

Return ratios strong; asset diversification to drive sustainable growth

- Bandhan Bank (BANDHAN) has strengthened its positioning as one of the key financial institutions in east/north-east India. It has maintained a healthy market share of ~19% in MFI loans with a CAGR of 35% since FY15.
- The merger with Gruh Finance (GRUH) will help improve asset diversification and provide ample opportunities to cross-sell varied asset products. Moreover, a leaner cost structure will ensure sustained cost leadership of the merged entity.
- BANDHAN has built a strong deposit franchise (53% CAGR over FY16-19) with a focus on granularity, with retail deposits forming ~76% of total deposits and CASA at 34.3%.
- With its share of volatility, the stock offers a great long-term opportunity as it has corrected significantly owing to concerns about promoter shareholding and recent state-level issues.

We nevertheless expect the bank to deliver industry leading RoA/RoE of 3.7%/23.4% for FY22. Valuations appear reasonable and reflect near-term risks emanating from Assam. Initiate with a Buy rating and a TP of INR500 (3.8x Sep'21E BV).

MFI leader with high customer vintage; funding cost advantage aids lowest lending rate

BANDHAN is a leader in MFI with a market share of ~19% by loans and ~18% by number of micro borrowers. It has delivered 35% loan CAGR since FY15 and enjoys a strong brand recall with 50%+ market share in east and north-east regions. Most of its competitors are secondary lenders and provide top-up loans. Around 54% of the bank's borrowers have vintage of >4 cycles (~6% for the industry), which allow it to operate on higher ticket size compared to peers. It has the lowest lending rate of ~18% in MFI owing to its strong funding franchise.

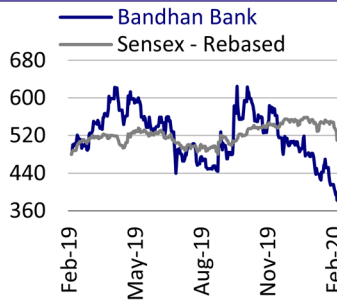
Merger with GRUH to ensure sustained cost leadership

The merger with GRUH has helped improve product diversification, reduce concentration risk and increase cross-sell opportunities (~68% of GRUH's book has a ticket size of less than INR1m). BANDHAN has best cost-ratios among peers, which, along with synergies from the merger with another cost leader (GRUH), will ensure sustained cost leadership and robust return ratios. We estimate a stable C/I ratio of ~33% over FY20-22.

Asset quality witnessing cyclical volatility; Assam – the key monitorable

BANDHAN has a long track record of successfully handling events like demonetization and GST, wherein it reverted back to the normal delinquency rate within a few months. The bank has witnessed asset quality issues in one of its core states Assam owing to recent protests; however, collection efficiency has improved to ~93.6% after hitting lows of ~80%. BANDHAN has made prudential provisions of INR2b in 3QFY20, and our scenario analysis suggests that the impact on ABV would be ~5% (assuming 10% delinquency).

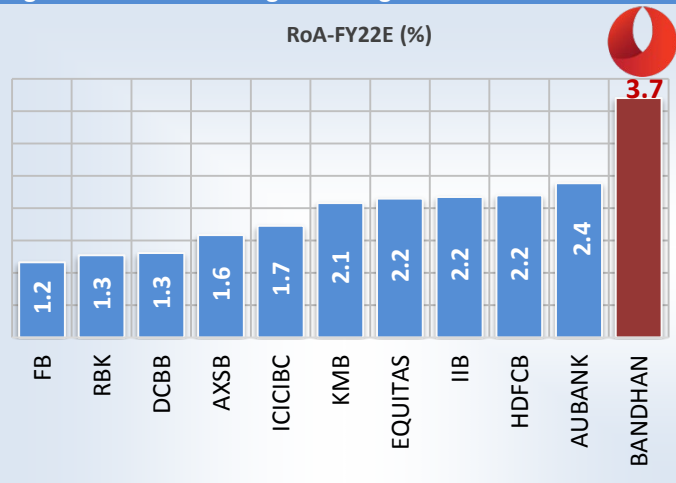
Stock Performance (1-year)



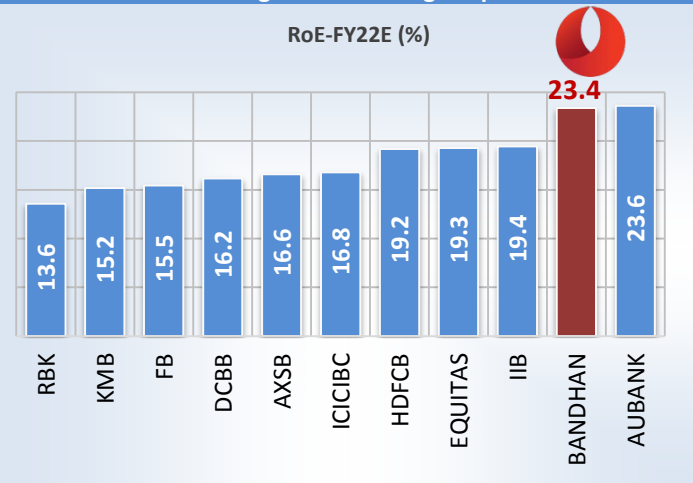
Valuation and view

The bank has demonstrated a strong track record in growing its balance sheet/earnings and maintained a robust market share/cost leadership with its low-cost DSC network. It has also deftly handled external events like demonetization/GST, wherein it restored the normal delinquency rate within three months. We estimate loan book/earnings CAGR of 26%/24% over FY20-22, driving industry leading RoA/RoE of 3.7%/23.4% for FY22. With its share of volatility, Bandhan Bank offers a great long-term investment opportunity as the stock has corrected significantly. Initiate with a Buy rating and TP of INR500 (3.8x Sep'21E BV).

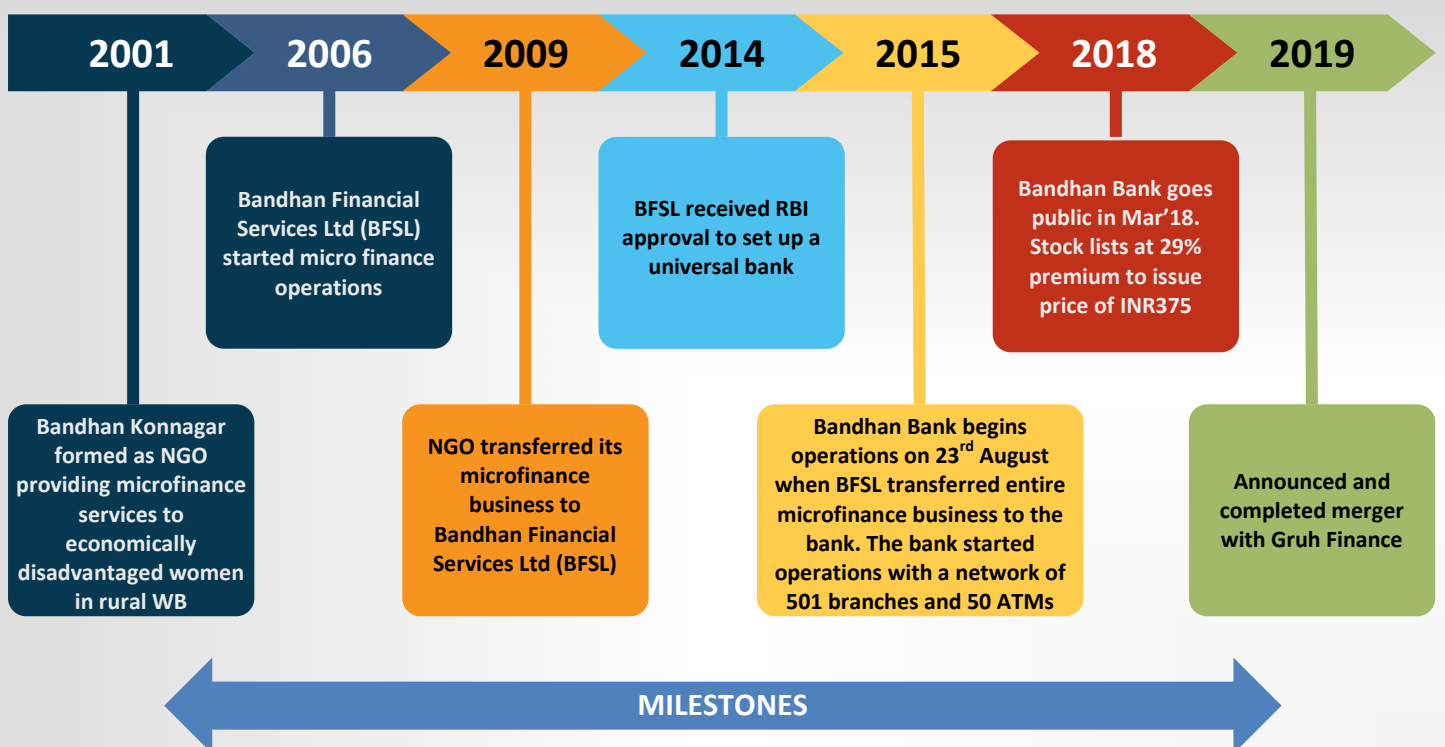
Highest RoA bank amongst coverage universe...



...while RoE is second highest due to high capitalization levels



EVOLUTION OF BANDHAN



Key charts

Exhibit 1: MFI loans CAGR of 35% over FY15-3QFY20

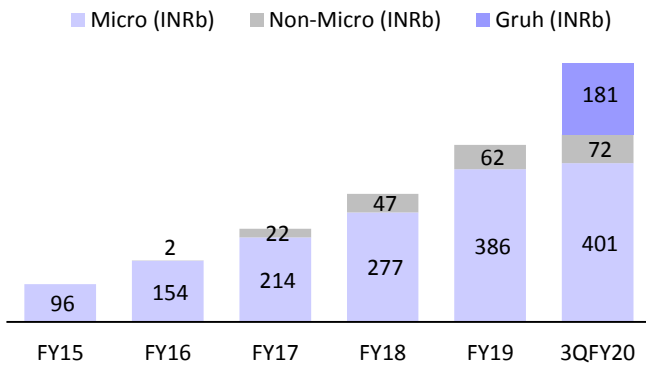


Exhibit 2: MFI loan mix declined to ~61%

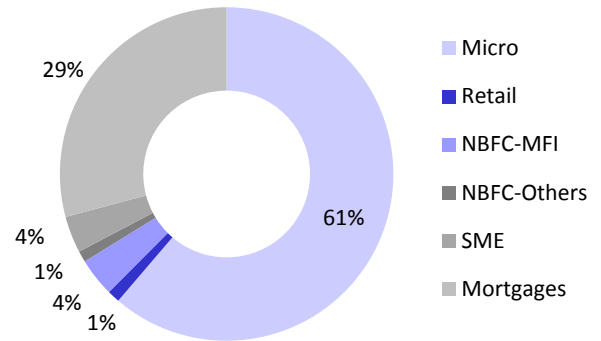


Exhibit 3: Strong presence in east and north-east regions

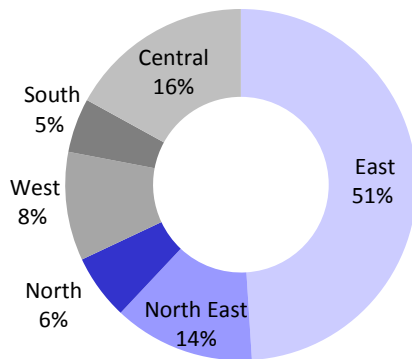


Exhibit 4: CASA ratio (%) remains strong at ~34% (3QFY20)

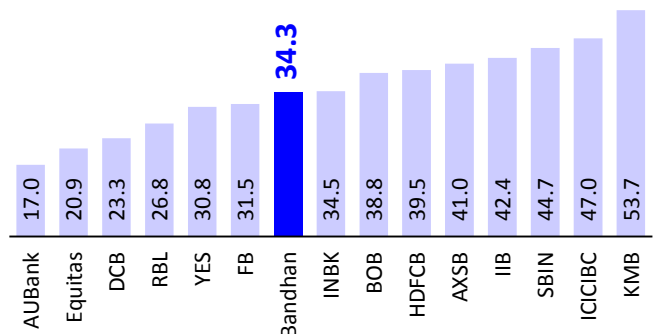
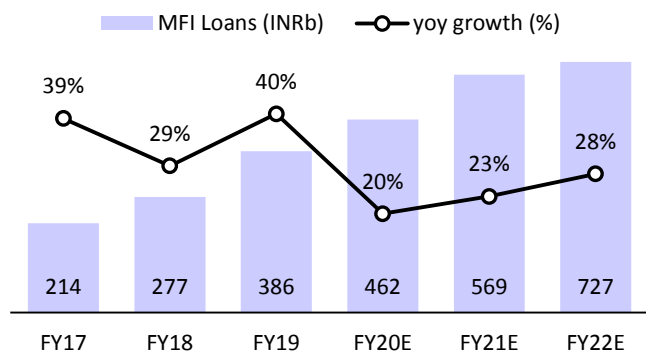
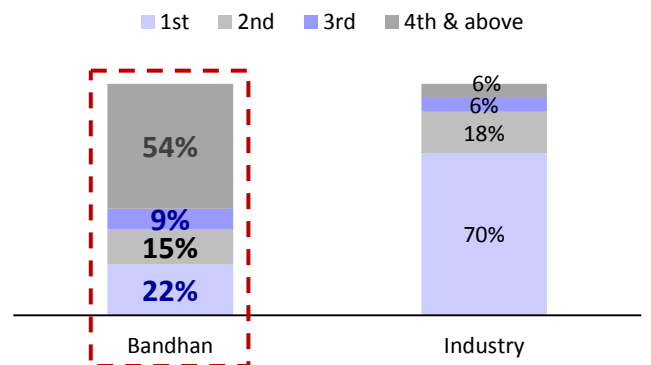


Exhibit 5: We build in MFI loan CAGR of 25% over FY20-22



Source: MOFSL, Company

Exhibit 6: Proportion of borrowers across loan cycles



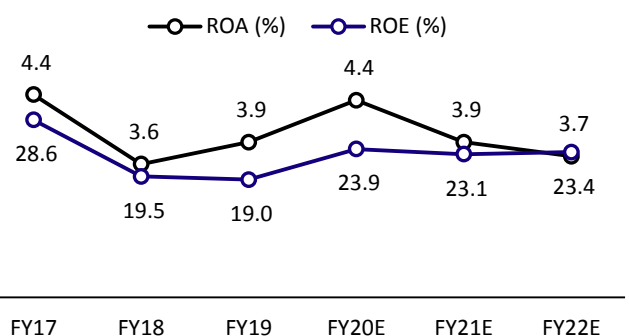
Source: MOFSL, Company; Data as per August 2019

Exhibit 7: BANDHAN has ~18.6% share in micro borrowers

As of Dec'19	m
Industry	
Active Loan accounts	101
Micro Finance Borrowers	56.4
Bandhan	
Total active micro borrowers	10.5
Market share in total micro borrowers	18.6%

Source: MOFSL, Company

Exhibit 8: RoA/RoE to reach 3.7%/23.4% by FY22



Source: MOFSL, Company

BANDHAN – Niche Positioning, Mass Appeal

BANDHAN is a universal bank catering to the under-banked and underpenetrated segments in India. The bank was incorporated in Dec'14 after its parent company, Bandhan Financial Services (BFSL), received a universal banking license in Apr'14. The bank commenced operations in Aug'15 with 501 branches and 50 ATMs after BFSL transferred its entire microfinance book and 6.8m customers to the bank.

BANDHAN has ~19% market share in microfinance segment.

The bank is a leader in microfinance with a market share of ~19%. It has a strong presence in India' east and north-east regions, which account for 75-80% of the total loan book. BANDHAN holds strong market share in its core geographies (~59% in West Bengal and ~56% in Assam).

The bank provides loans under the following segments:

- (a) **Microloans** (unsecured; average ticket size of INR64k on fresh disbursements)
- (b) **SME loans** (mix of secured and unsecured loans; ticket size of INR1m+)
- (c) **Small enterprise loans** (unsecured; ticket size ranging between INR0.1m-INR1m)
- (d) **Affordable housing portfolio** via GRUH merger (average ticket size of INR<1m)

BANDHAN has a customer base of 19.0m and presence in 34 states and union territories.

BANDHAN employs 37,331 people who operate through 1,009 branches and 3,084 doorstep service centers (DSCs) and 195 GRUH centers. The bank has a total customer base of 19.0m and presence in 34 states and union territories.

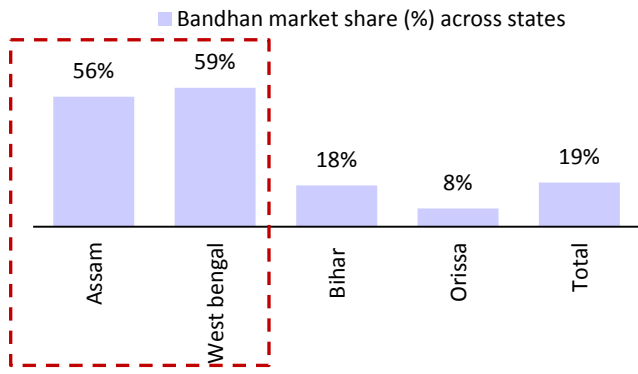
Bandhan Financial Holding Ltd (BFHL) holds ~61% stake in the bank post-merger with GRUH. However, according to the RBI norms, BANDHAN has to bring down its promoter ownership to 40% within three years of banking operations.

Exhibit 9: Evolution of BANDHAN

Year	Milestones
2001	❖ Bandhan Konnagar formed as NGO providing microfinance services to economically disadvantaged women in rural WB
2006	❖ Bandhan Financial Services Ltd (BFSL) started micro finance operations
2009	❖ NGO transferred its microfinance business to Bandhan Financial Services Ltd (BFSL)
2014	❖ BFSL received RBI approval to set up a universal bank
2014	❖ Bandhan Bank incorporated as universal bank on 23-Dec-2014
2015	❖ Bandhan Bank begins operations on 23 rd August when BFSL transferred entire microfinance business to the bank. The bank started operations with a network of 501 branches and 50 ATMs
2018	❖ Bandhan Bank goes public in Mar'18. Stock lists at 29% premium to issue price of INR375
2019	❖ Announced and completed merger with Gruh Finance

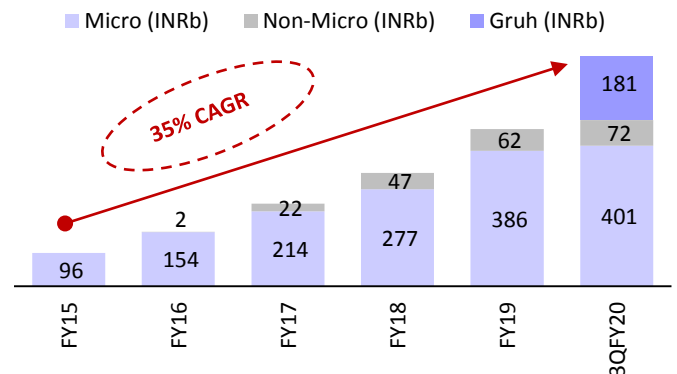
Source: Company, MOFSL

Exhibit 10: BANDHAN has nearly ~59%/~56% market share in West Bengal/Assam



Source: MOFSL, Company

Exhibit 11: Loan book CAGR of 35% over FY15-3QFY20



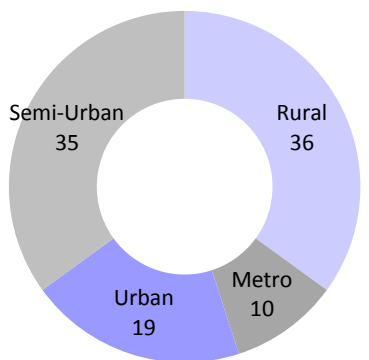
Source: MOFSL, Company

70% of the bank's branches/DSCs are located in rural/semi-urban regions.

BANDHAN has 50%+ market share in MFI loans in the east/north-east regions.

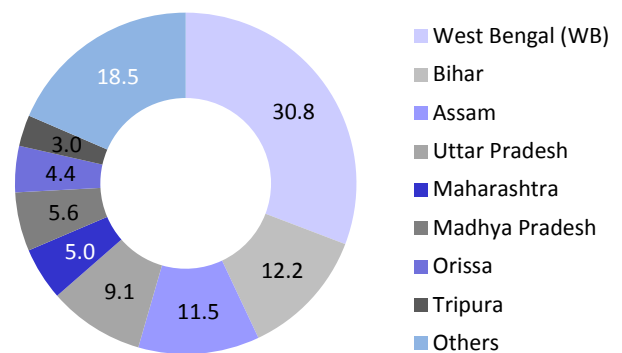
- Focused on serving rural and unbanked population:** BANDHAN has 70% of its network in rural and semi-urban regions. It has a strong brand recall amongst MFI customers compared to other private banks/NBFC-MFIs.
- Strong presence in West Bengal, Assam and Bihar:** Around 38% of branches and ~31% of DSCs are located in the home state of West Bengal, followed by Bihar (9% of branches/12% of DSCs) and Assam (~7% of branches/12% of DSCs). These three states together account for ~54% of its branch/DSC network.
- BANDHAN is the leader in microfinance with ~19% market share in microcredit.** Further, the bank has nearly 50%+ market share in MFI loans in the east/north-east regions.

Exhibit 12: 70% of network is in rural/semi-urban regions



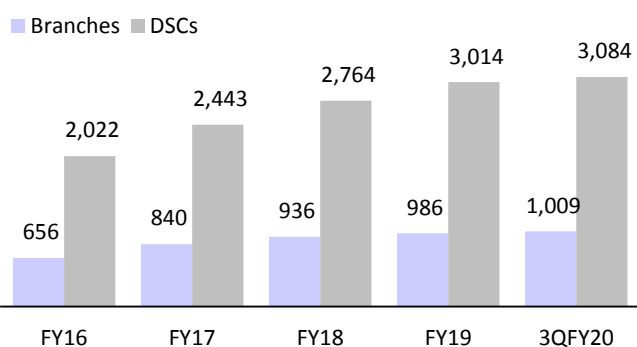
Source: MOFSL, Company

Exhibit 13: 54% of DSCs network is in WB, Assam and Bihar



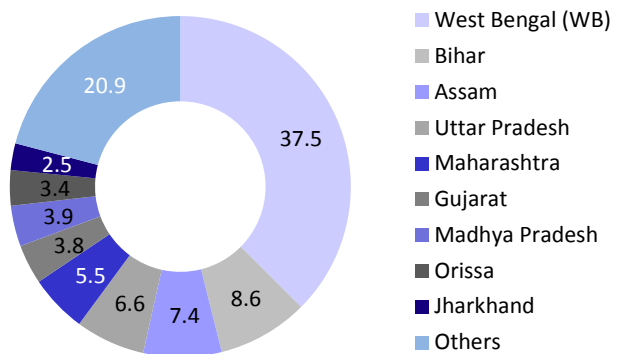
Source: MOFSL, Company

Exhibit 14: Trend in number of branches and DSCs



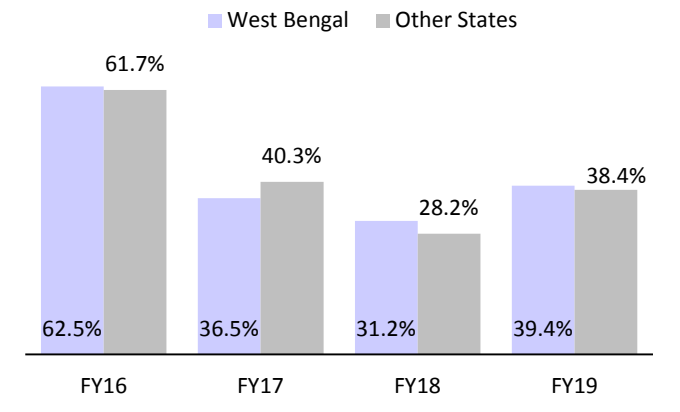
Source: MOFSL, Company

Exhibit 15: 54% of branch network is in top three states



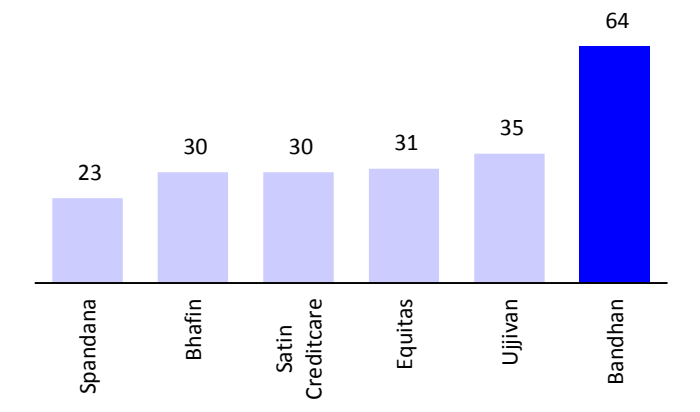
Source: MOFSL, Company, MFIN

Exhibit 16: BANDHAN – MFI growth trends in West Bengal and other states



Source: MOFSL, MFIN

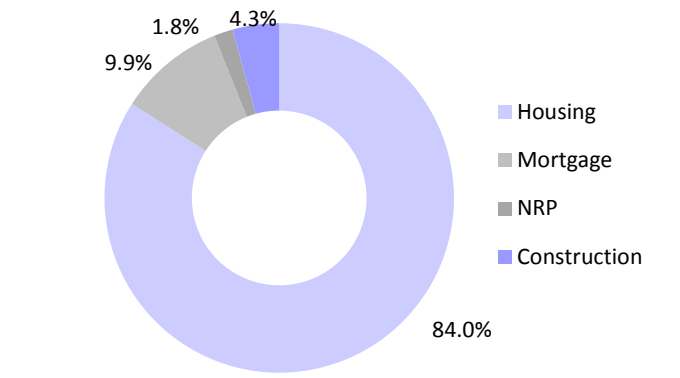
Exhibit 17: Avg. ticket size on fresh disburseals of MFI players



Source: MOFSL, MFIN, Company

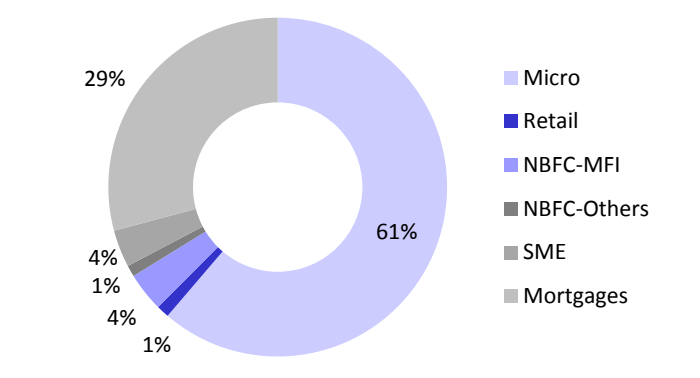
- We believe the merger with GRUH is a good addition in the bank’s portfolio as it reduces product concentration risk and facilitates geographical diversification. Further, this merger provides an opportunity to tap existing ~0.3m+ GRUH customers for mobilizing liabilities and cross-sell other banking products.

Exhibit 18: GRUH portfolio breakup as on 3QFY20



Source: MOFSL, Company

Exhibit 19: BANDHAN MFI portfolio down to 61% (3QFY20)



Source: MOFSL, Company

BANDHAN – MFI dominance continues; affordable housing offers strong growth opportunity

BANDHAN provides loans mainly to the following segments: (1) **Microloans** (unsecured, INR64k average disbursement size), (2) **SME loans** (mix of secured and unsecured; ticket size of INR1m+), (3) **Small enterprise loans** (unsecured; ticket size of INR0.1m-INR1m) and (4) **Affordable housing** through Gruh Platform.

Avg. yield on MFI loans is ~18%, while avg. disbursement ticket size is INR64k.

Microloans: This includes group-based individual loans to women, primarily for income-generating activities. The microloans portfolio is divided into agriculture & allied loans, health & education loans, and business loans. MFI loans account for ~61% of total loan portfolio and are high yielding (gross yields ~18%). These loans are for a maximum period of up to two years.

Small enterprise loans: Under this segment, BANDHAN provides unsecured loans (partly collateralised against primary security) for income-generating activities in the form of working capital/loans for asset creation or meeting short-term business requirements. These are composite loans in the form of demand/term loans for manufacturing, trading and service. They form ~4% of the total loan portfolio and have tenure of 1-3 years.

SME loans: These are provided to entrepreneurs to start or scale up their small and medium-sized enterprises by helping create income-generating assets and enhancing liquidity. These include business loans, term loans and working capital loans. The amount of funding and the tenure vary based on the type of business activities. It forms ~5% of the total loan portfolio. These loans are typically lent at interest rates between 11%-13.5% based on credit risk assessment.

Affordable housing through GRUH platform: The merger of GRUH has enabled the bank to offer affordable housing loans. GRUH has over 30 years of experience of lending into this segment and thus provides significant opportunities to scale affordable housing in the east/north-east region. Mortgage accounts for 29% of the total loan portfolio.

Other retail loans: BANDHAN also offers personal loans, loan against property, loans against term deposits, and gold loans, among others. It just contributes ~1% of the total loan portfolio.

Exhibit 20: Product characteristics and loan mix (%)

FY19	Loan mix (%)	Ticket size	Tenure	Interest rates
Micro Loans	61%	Avg. ticket size on fresh disbursement is INR64k	Up to 2 years	~18.0%
Small enterprise loans	4%	INR0.1-1.0m	1-3 years	16.0%
SME loans-NBFC MFIs	5%	INR1m+	1-7 years	11.0%-13.5%
Mortgages	29%		Long tenor loans	
Other retail loans	1%			11.0%-18.0%

Source: MOFSL, Company

Rising MFI penetration + Market leadership + Expanding footprint

BANDHAN's market share stands at ~18.6% in total micro borrowers and 19% in total MFI loans.

- **BANDHAN is a leader in MFI loans with a market share of ~19%.** Moreover, the bank enjoys a strong positioning and brand recall in its core-geographies – it has 50%+ market share in east and north-east regions, with a higher market share in the top three states – West Bengal (59%), Assam (56%) and Bihar (18%). The bank's market share in total micro borrowers stands at ~18.6%.

Exhibit 21: Maintained strong market share at ~19%

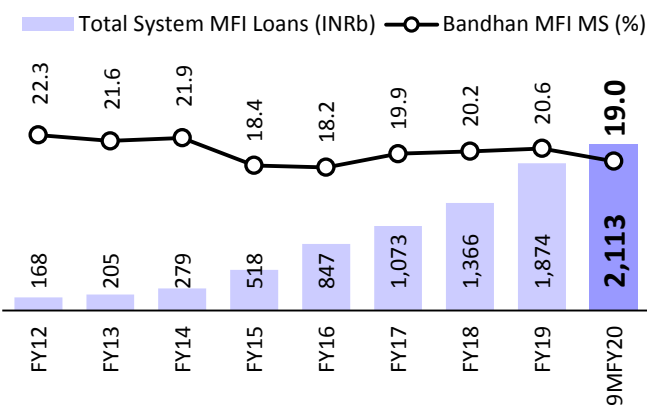
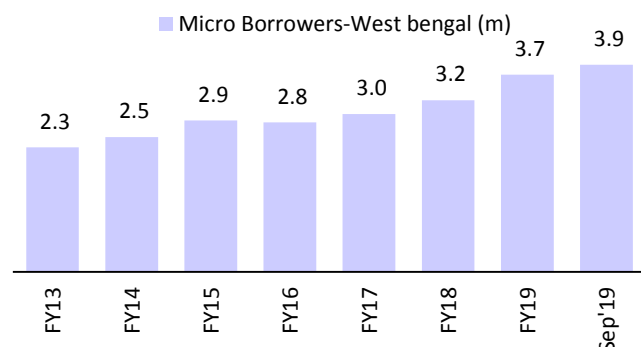


Exhibit 22: Share in total micro borrowers at ~18.6%

As of Dec'19	m
Industry	
Active Loan accounts	101
Micro Finance Borrowers	56.4
Bandhan	
Total active micro borrowers	10.5
Market share in total micro borrowers	18.6%

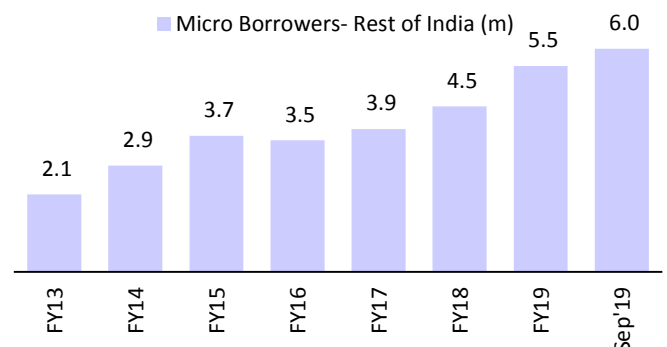
- The bank has marked its presence in states where penetration of formal financing is still the lowest. Moreover, most competitors are incremental secondary lenders in the under-penetrated eastern markets, with BANDHAN enjoying a dominant market share.
- Amongst top-five MFI states in India (West Bengal, Karnataka, Bihar, Tamil Nadu and Maharashtra), BANDHAN has a leadership positioning in only two states West Bengal & Bihar. The bank is expanding its presence in other regions with a distinct focus on New To Credit (NTC) customers while also expanding new product lines which will help it reduce concentration risk. Growth in MFI portfolio outside West Bengal came at 37.5% YoY v/s 38% YoY in overall MFI portfolio in FY19.

Exhibit 23: Micro borrowers in West Bengal increased at 8.2% CAGR over FY13-2QFY20



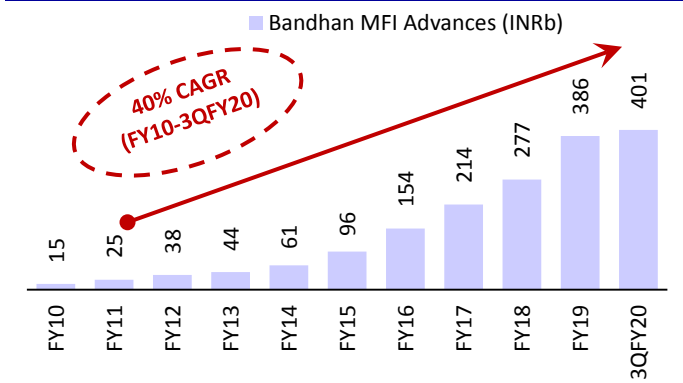
Source: MOFSL, Company

Exhibit 24: ...while outside West Bengal micro borrowers increased at 17.7% CAGR over the similar period



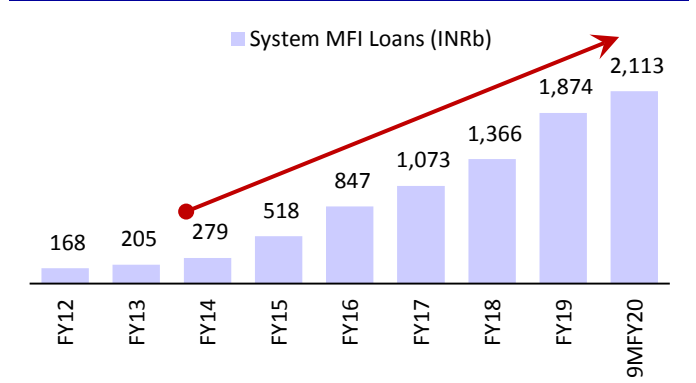
Source: MOFSL, Company

Exhibit 25: BANDHAN – loan CAGR of 40% over FY10-3QFY20



Source: MOFSL, Company

Exhibit 26: MFI industry CAGR of 41% over FY13-9MFY20



Source: MOFSL, Company

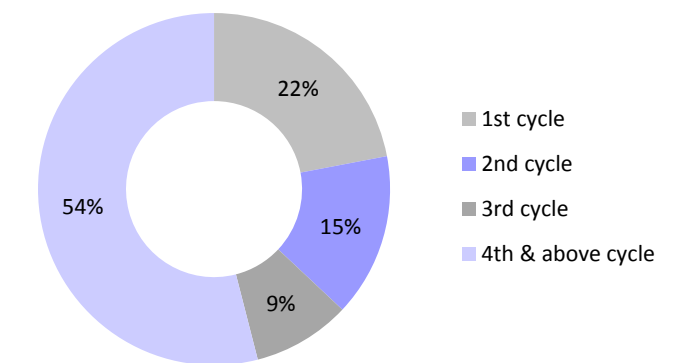
BANDHAN’s high ticket size attributed to its high-vintage customers; 54% of customers are in fourth cycle and above

Avg. ticket size is INR64k on fresh disbursements and INR39k on outstanding loans.

Around 54% of the bank’s borrowers have vintage for four or more cycles

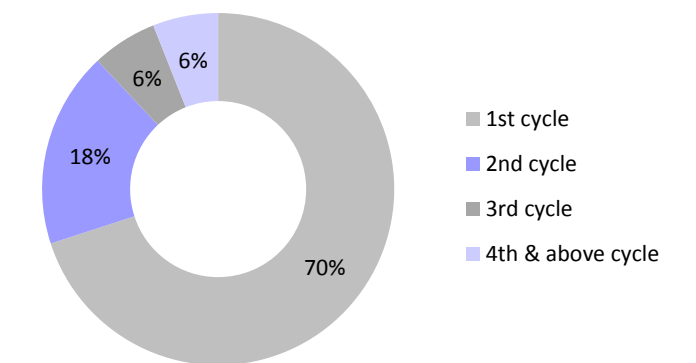
- BANDHAN delivered a loan book CAGR of 40% over FY10-3QFY20. The bank has been able to grow its loan book at a robust rate, led by an increase in the average ticket size on outstanding loans (19% CAGR over FY16-3QFY20) and MFI borrowers (14% CAGR over FY16-3QFY20).
- Most competitors are secondary lenders in the eastern markets and provide top-up loans. Therefore, the unique customer base proportion is declining. Currently, ~55% of BANDHAN’s customers are unique borrowers.
- The bank’s average ticket size for the NTC customer is typically lower than the industry average however, for customers with four or more cycles the average ticket size is significantly higher. Around 54% of the bank’s borrowers have vintage of four or more cycles (v/s only 6% for the industry) and this skews the average ticket size at the portfolio level.
- Average ticket size is INR64k on fresh disbursements and INR39k on outstanding loans. Total active micro borrowers stood at 10.5m, with a micro banking customer base of 14.6m.
- We thus believe that the bank will be able to maintain robust growth momentum in MFI loans (CAGR of 25% over FY20-22).

Exhibit 27: Bandhan Customer vintage across loan cycles ...



Source: MOFSL, Company, Data as on 2QFY20

Exhibit 28: ...vs Industry customer vintage across loan cycles



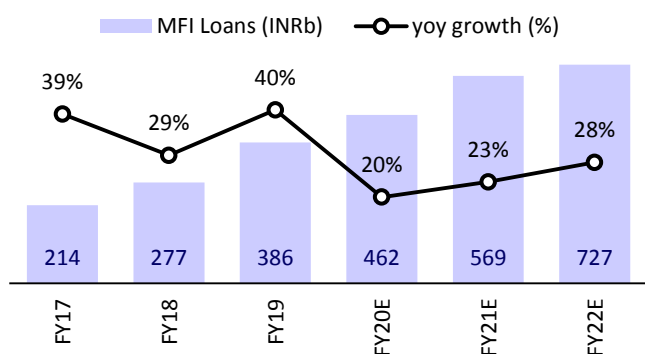
Source: MOFSL, Company; Data as on 2QFY20

Exhibit 29: BANDHAN – MFI customer base CAGR of 19% since FY16

Number of Customers (m)	23-Aug-15	FY16	FY17	FY18	FY19	3QFY20
Micro Banking	6.8	8.7	9.1	10.6	13.1	14.6
General banking	-	1.1	1.4	2.4	3.5	4.2
Gruh Finance						0.3
Total Customers	6.8	9.8	10.5	13.0	16.6	19.0

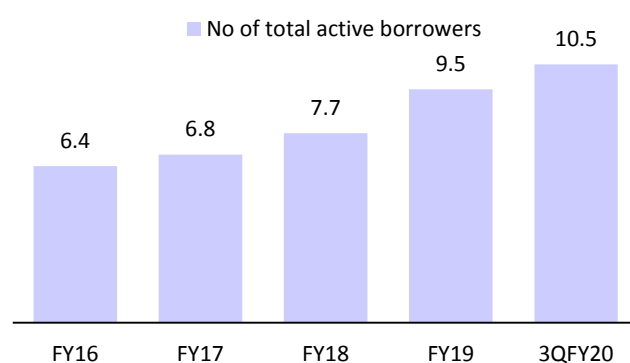
Source: MOFSL, Company

Exhibit 30: Expect MFI loan CAGR of 25% over FY20-22



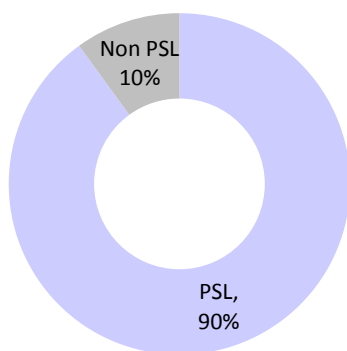
Source: MOFSL, MFIN

Exhibit 31: Micro borrower base increased to 10.5m



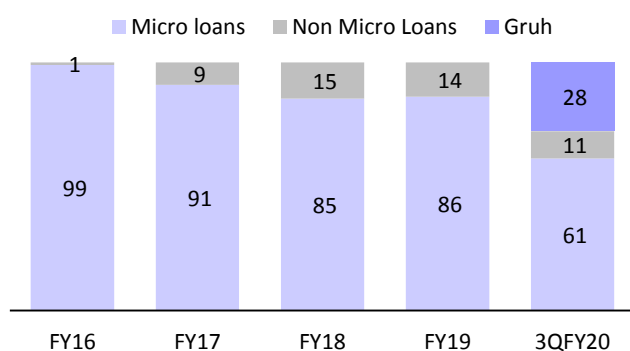
Source: MOFSL, MFIN

Exhibit 32: ~90% of loans qualify for PSL as on 3QFY20



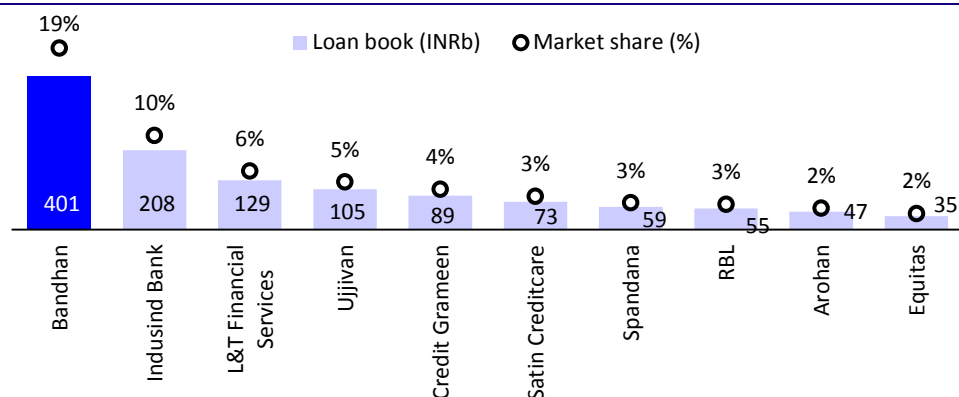
Source: MOFSL, Company

Exhibit 33: ~61% of loan book comprises of MFI loans



Source: MOFSL, Company

Exhibit 34: Top MFI players – 57% of total MFI portfolio



Source: MOFSL, Company

Incremental opportunity of ~70m individual borrowers can be tapped.

- **The microfinance market potential is pegged at over INR5-6t.** There are ~55m total unique MFI loan borrowers in India. According to 2011 census data, there are ~250m total households in the country – if 50% of these households opt for MFI loans, it will imply an incremental opportunity of **~70m individual borrowers that can be tapped.**
- Further, the average ticket size of fresh disbursement stands at INR54k. This implies a total MFI lending opportunity of INR5-6t v/s INR2.1t currently. Moreover, it indicates the untapped market potential for BANDHAN in MFI loans.

Exhibit 35: Estimate micro finance market potential to be over INR5-6t

Micro-Finance market potential

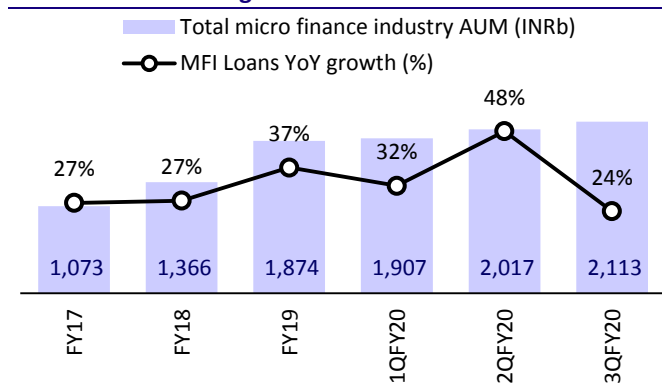
Total Population (m)	1,300
Total Households (m)	250
Eligible Households (50% assumed) (m)	125
Microfinance borrowers	55
Yet to be tapped borrowers (m)	70
Industry avg. ticket size on disbursement (INRk)	54
Total MFI market Potential	5.8
Current tapped market (INRt)	2.1
Untapped market potential (INRt)	3.7

Source: MOFSL, Company, Microlend, Microfax

Industry trends in micro finance portfolio

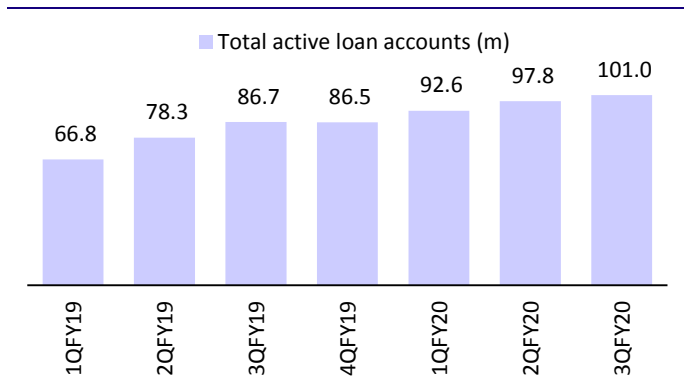
- Loan growth in the MFI industry moderated to 24% YoY (at INR2.1t) as on 3QFY20 from 48% YoY in the previous quarter. MFI disbursements also moderated to 22% YoY owing to a decline in disbursements (by 33% YoY) in the north-east geography due to unrest in Assam. Disbursement growth in the eastern geography though remains robust at 36% YoY.
- Total active microfinance loan account growth also moderated to 16% YoY (at ~101m) from 25% YoY in 2QFY20. As at 3QFY20, the number of total unique borrowers stood at 56.4m.
- Average ticket size per loan increased by 10% YoY to INR33.2k. Among the top states, West Bengal has the higher ticket size per loan at INR43.5k.

Exhibit 36: MFI loan growth moderated to 24% YoY



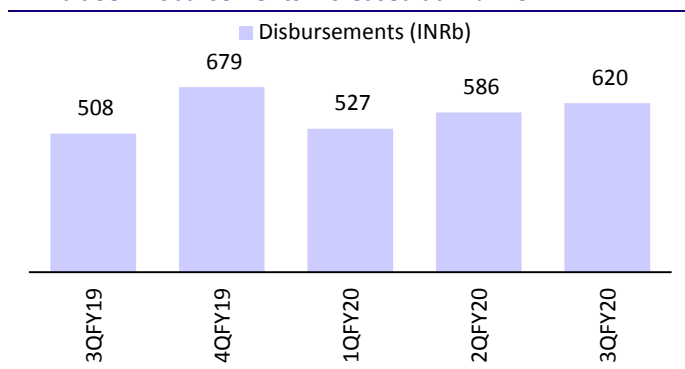
Source: MOFSL, MFIN

Exhibit 37: Active loan accounts moderated to 16% YoY



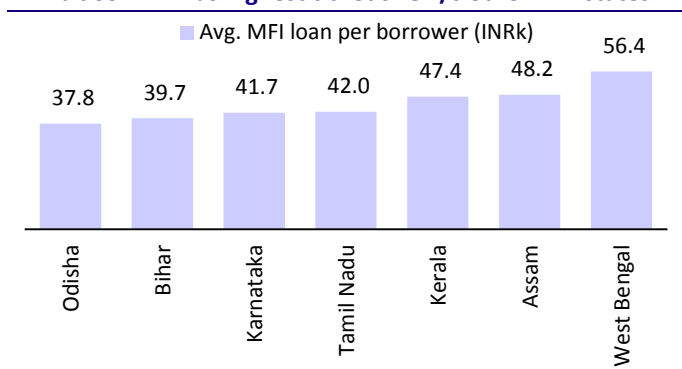
Source: MOFSL, MFIN

Exhibit 38: Disbursements increased at 22% YoY



Source: MOFSL, CFIR High Mark

Exhibit 39: WB has highest ticket size v/s other MFI states



Source: MOFSL, Equifax, MFIN

- The top five key states (West Bengal, Tamil Nadu, Bihar, Karnataka and Maharashtra) account for 55% of the total microfinance loans in the country. Further, the east and north-east regions account for ~40% of total industry. Over FY16-3QFY20, microfinance loans in Bihar/West Bengal expanded sharply at 48%/35% v/s industry growth of 30%.

Exhibit 40: Top-5 states account for 55% of the total MFI loan market share

INR b	FY16	FY17	FY18	FY19	9MFY20	CAGR FY16-9MFY20, %
West Bengal	101	152	196	270	309	35
Tamil Nadu	110	151	188	246	291	30
Bihar	53	85	117	180	229	48
Karnataka	81	99	110	153	182	24
Maharashtra	81	97	89	124	152	18
Assam	37	55	80	120	118	36
Odisha	38	52	82	114	120	36
Uttar Pradesh	72	81	84	108	134	18
Madhya Pradesh	53	60	73	99	121	25
Kerala	30	38	58	69	87	33
Total 10 states	657	869	1,077	1,484	1,744	30
System level	847	1,073	1,366	1,874	2,113	30
Market share of Top 5 states	55%	54%	51%	52%	55%	
Market share of Top 10 states	77%	81%	79%	79%	83%	

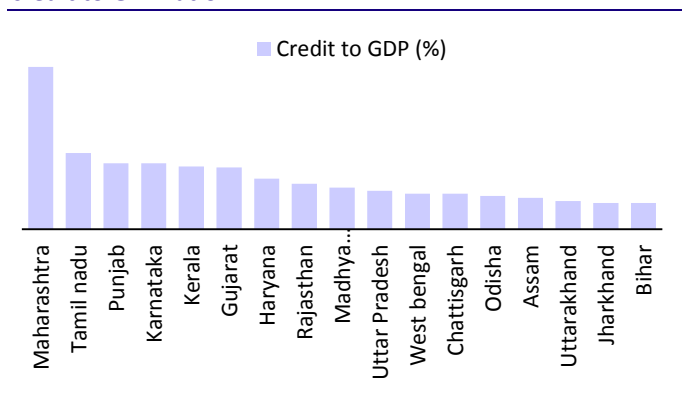
Source: MOFSL, MFIN, EQUIFAX

Exhibit 41: Microfinance penetration in West Bengal is low compared to Tamil Nadu and Karnataka

States	Active Borrowers (k)	Population Census 2011 (k)	Concentration (%)
Puducherry	110	965	11
Tripura	399	3,671	11
Tamil Nadu	6,932	72,139	10
Sikkim	24	281	9
Assam	2,460	31,169	8
Odisha	3,176	41,947	8
Karnataka	4,362	61,131	7
West Bengal	5,477	91,348	6
Kerala	1,846	33,388	6
Bihar	5,755	103,805	6

Source: MOFSL, Company; Data as on June'19

Exhibit 42: Core states of BANDHAN have relatively low credit to GDP ratio...



Source: MOFSL, Company

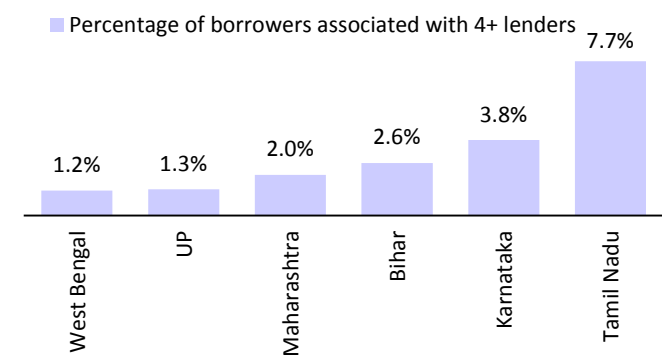
- MFI loans disbursed increased in high-ticket-size buckets. The number of loans increased by 54% YoY in ticket size between INR40-50k, by 80% YoY in INR50k-60k and by 50% YoY in ticket size of more than INR60k.

Exhibit 43: No of loans disbursed increasing in high-ticket-size loans

Ticket size	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY growth (%)
0-10k	1.1	1.0	1.0	1.0	0.8	-27
10k-20k	1.5	1.5	1.5	1.5	1.3	-13
20k-30k	5.8	6.5	6.0	6.7	4.9	-16
30k-40k	4.2	4.6	4.5	6.1	4.6	10
40k-50k	1.3	1.6	1.8	2.5	2.0	54
50k-60k	0.5	0.6	0.7	1.2	0.9	80
60k+	0.8	0.9	1.1	1.8	1.2	50
Total	15.2	16.7	16.6	20.8	15.7	3

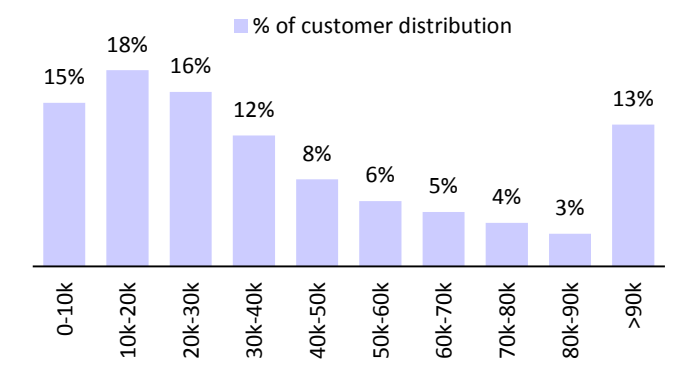
Source: MOFSL, EQUIFAX, SIDBI

Exhibit 44: Tamil Nadu has the highest percentage of borrowers associated with 4+ lenders, while West Bengal has the lowest



Source: MOFSL, CRIF High Mark

Exhibit 45: 13% of total microfinance borrowers in West Bengal have ticket size >90k

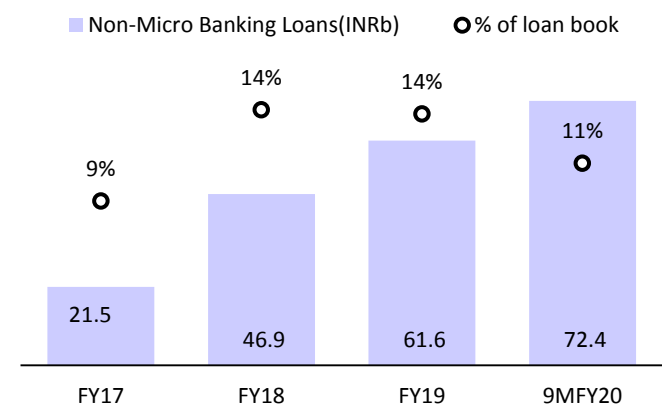


Source: MOFSL, EQUIFAX, SIDBI

Bandhan Bank: Expanding presence in SME, SEL & other segments

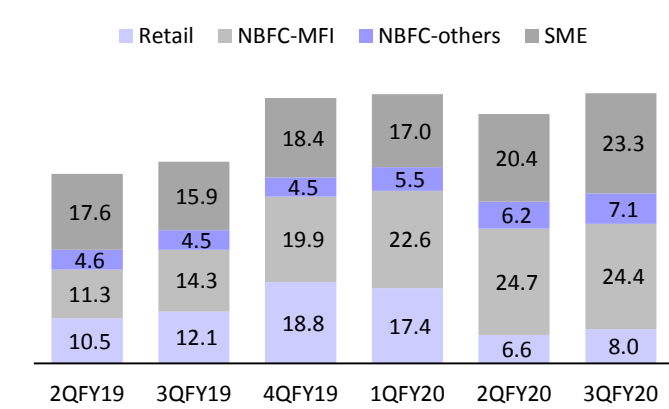
- The non-micro banking book comprises SME loans, small enterprise loans (SEL) and other retail loans like two-wheeler loans, personal loans and gold loans. Growth in the non-micro banking book is generally driven by branch productivity and cross-selling of retail products to SEL customers, and BANDHAN is progressing well to capitalize on the growth prospects in these segments. The bank added general banking customers at a 41% CAGR over FY16-3QFY20 and reached a base of 4.2m (excluding MFI customers) as of 3QFY20.
- GRUH merger also helped BANDHAN to expand its retail loan portfolio in the western region where demand for retail loans is strong.

Exhibit 46: Trend in composition of non-micro banking loans



Source: MOFSL, Company

Exhibit 47: Non-micro portfolio trends (INR b)



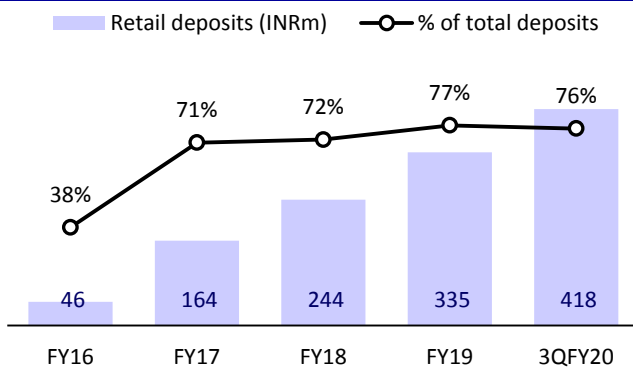
Source: MOFSL, Company

Impressive build-up of liability franchise; strong traction to continue

Retail deposits form ~76.2% of total deposits.

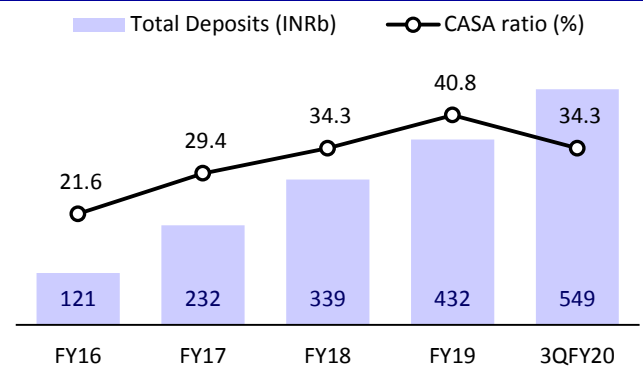
- BANDHAN has built a strong liability franchise post conversion into a bank. The bank has garnered INR549b of total deposits and built a low-ticket, granular deposit book, with retail deposits now forming ~76.2% of the total deposit base. CASA mix has steadily improved to ~34.3% from 29.4% in FY17. Thus, the bank has done a commendable job on the liability side as some of the old generation banks, new-age private banks and SFBs have not been successful with such high traction on CASA. In fact, not just CASA but also retail deposits growth momentum remains strong for BANDHAN.
- The bank has a customer base of 19m, of which 14.6m are microfinance customers, ~4.2m are general banking customers and ~0.3m are GRUH customers. Average SA balance of micro banking customers is ~INR1.9k, while that of general banking customers is ~INR40.2k. Micro banking customers just contribute ~5.14% of total deposits, while deposits from GRUH customers amount to INR14.45b (~2.6% of total deposits).

Exhibit 48: Share of retail liabilities has increased steadily



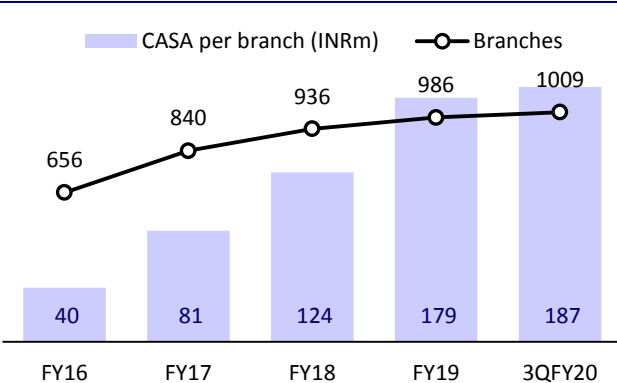
Source: MOFSL, Company

Exhibit 49: CASA ratio has improved to 34.3% as on 3QFY20



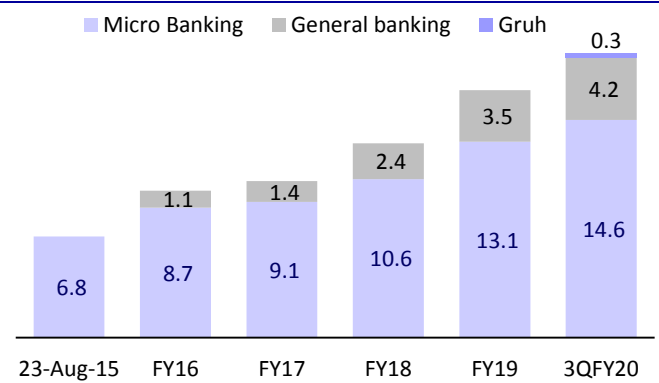
Source: MOFSL, Company

Exhibit 50: CASA/branch improved to INR187m



Source: MOFSL, Company

Exhibit 51: Customer base CAGR of 26% since Aug'15

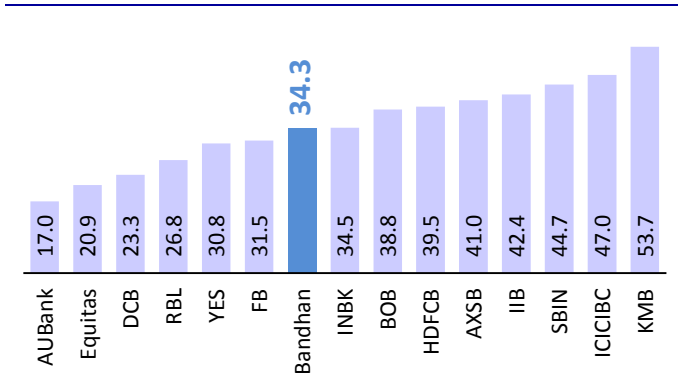


Source: MOFSL, Company

Where BANDHAN stands in comparison to its peers?

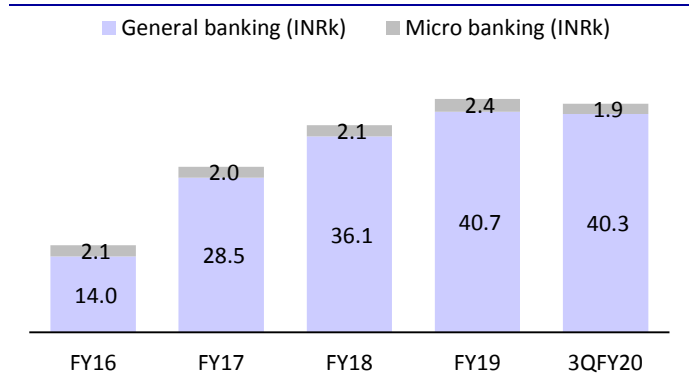
- Despite the steady build-up of the liability franchise, we note that BANDHAN’s average SA per branch of ~INR159m is much lower than that of other private banks like KMB and IIB. However, when compared to peers like AUBANK, IDFCB, DCB and Equitas, BANDHAN is significantly ahead in terms of branch productivity.
- Further, the bank has a strong brand recall/positioning in the eastern and north-east region, where competition from still benign compared to the southern and western states. The eastern region deposit market share is improving gradually, which bodes well for BANDHAN.

Exhibit 52: CASA ratio (%) compares favorably with other banks



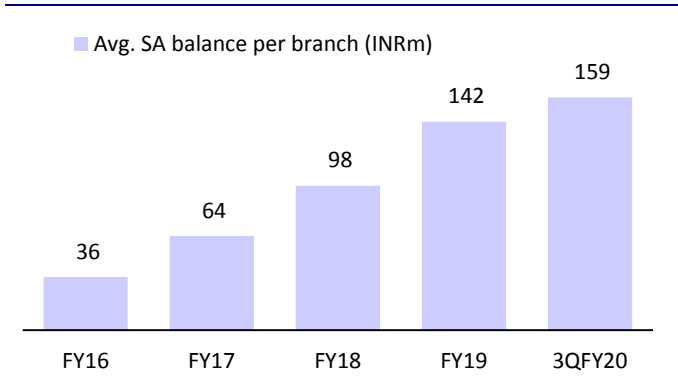
Source: MOFSL, Company

Exhibit 53: Trend in average SA balance (INR k)



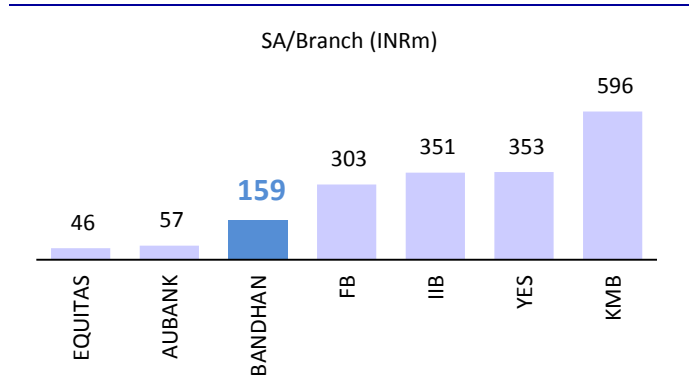
Source: MOFSL, Company

Exhibit 54: Average SA per branch (INRm)



Source: MOFSL, Company

Exhibit 55: Significant scope to further improve SA/branch (3QFY20)



Source: MOFSL, Company

BANDHAN has opened 2x branches in comparison to its peers in its early days.

Key factors facilitating robust growth in liability franchise

- BANDHAN started its banking operations with 501 branches in Aug'15 and steadily increased its branch count to 1,009 (as on 3QFY20). In addition to rural and semi-urban regions, it has opened branches in urban cities where there is a large potential deposit base. Here, it largely targets mass affluent customers and senior citizens.
- The bank has opened 2x branches in comparison to its peers in its early days, which helped it to ramp up its retail granular deposits.
- It offers a higher rate of interest on fixed deposits to senior citizens in comparison to peers.
- Our region-wise analysis suggests that though the east and north-east regions have a low proportion of deposits, the east region is fast capturing deposits market share over the past decade. The bank has a strong brand recall/positioning in these geographies (~63% of total branches are located in these regions) and the lack of focus from the large private banks has helped BANDHAN to build a strong liability franchise within a few years.

Exhibit 56: Peak term deposit rate comparison v/s peers across different maturity buckets...

Banks	Interest rates on term deposits		Interest rates on term deposits-Senior Citizens	
	1-2Yr	2-5yr	1-2Yr	2-5yr
BANDHAN	6.75	6.75	7.50	7.50
KMB	6.20	6.20	6.70	6.70
IIB	6.75	6.75	7.25	7.25
FB	6.50	6.40	7.00	6.90
AXSB	6.50	6.50	7.15	7.00
HDFCB	6.30	6.40	6.80	6.90
ICICIBC	6.30	6.40	6.80	6.90
AUBANK	7.63	7.77	8.13	8.27
RBL	7.20	7.25	7.70	7.75
DCB	7.50	7.60	8.00	8.10

Source: MOFSL, Company

Acquired Gruh Finance – a proven lender in affordable housing

GRUH’s lean operating structure and low credit cost have helped generate high RoA/RoE of 2.6%/25.9% for FY19.

- GRUH, founded in 1986, focuses solely on the rural housing finance segment. Over the years, it has mastered the art of financing India’s non-urban housing landscape.
- The company delivered a loan book CAGR of 23% over FY12-19 with a focus on smaller-ticket-size loans in small/mid-size towns. Also, ~23% of the book has a ticket size of less than INR0.5m.
- It has maintained superior asset quality, despite lending to the low-income group. The bank’s five-year average GNPL ratio of 0.4% is best-in-class.
- GRUH has also maintained a low operating cost structure (by using referral associates to source the business) and efficient employee utilization. Its C/I ratio has remained below 20% over the past several years.
- On the back of strong pricing power, the company has maintained higher yields and NIM (at 4%+). Also, the lean operating structure and low credit cost helped GRUH to generate high RoA/RoE of 2.6%/25.9% in FY19.

Exhibit 57: GRUH maintains superior asset quality v/s peers

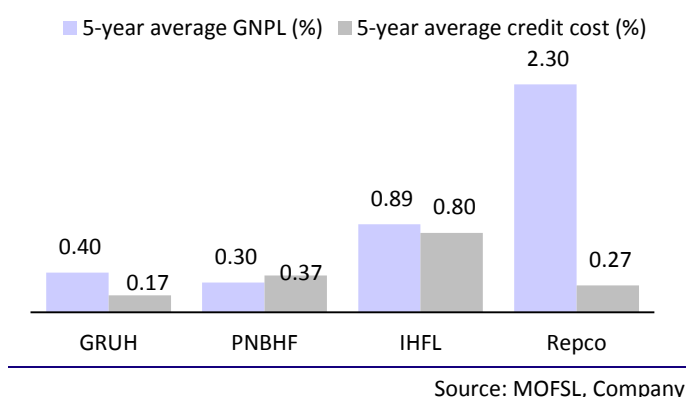


Exhibit 58: RoA decomposition for select HFCs

FY19 (%)	Canfin	PNBHF	Repco	GRUH
Net Interest Income	3.1	2.2	4.3	4.0
Net Income	3.2	3.4	4.6	4.3
Operating Expenses	0.5	0.8	0.9	0.7
Cost to Income Ratio (%)	16.4	23.6	20.7	17.5
Operating Profit	2.7	2.6	3.6	3.5
Provisions/write offs	0.01	0.3	0.2	(0.1)
PBT	2.7	2.4	3.5	3.6
Tax	1.0	0.7	1.2	1.0
Reported PAT	1.7	1.6	2.3	2.6
Leverage	10.6	10.9	7.3	9.8
RoE	17.9	17.8	16.5	25.9

Source: MOFSL, Company,

Exhibit 59: Margin profile for select HFCs

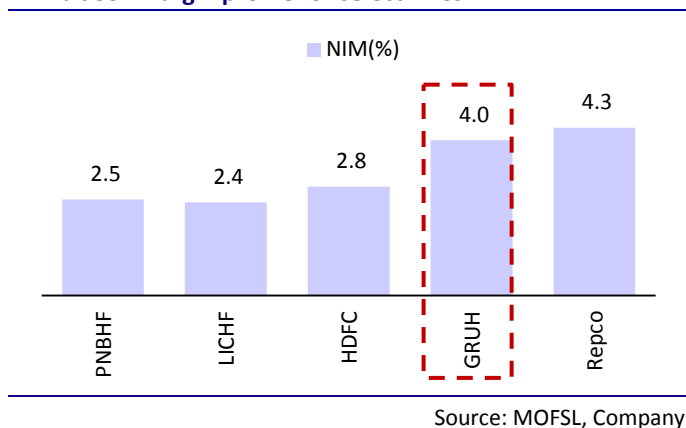
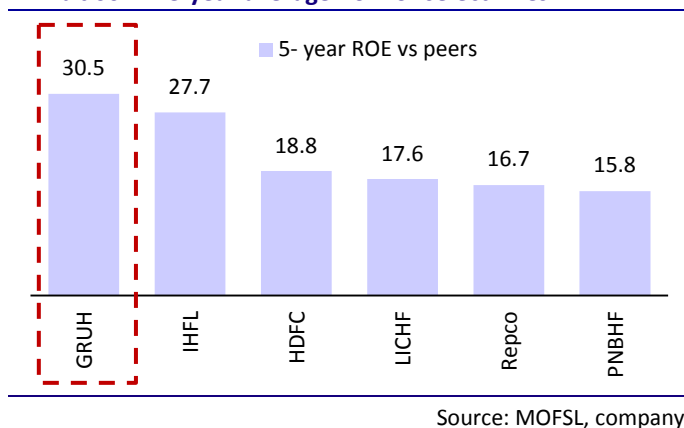
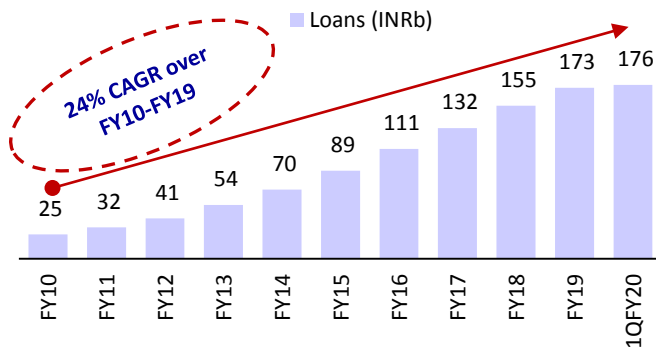


Exhibit 60: Five-year average RoE for select HFCs



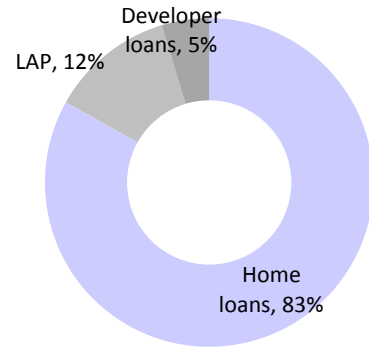
Gruh Finance: Focus charts

Exhibit 61: Loan book CAGR of 24% over FY10-19



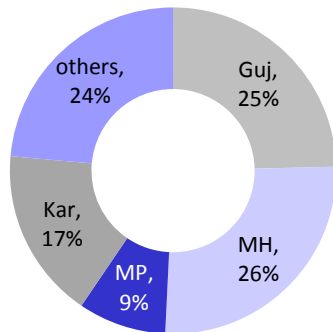
Source: MOFSL, Company

Exhibit 62: 83% of book comprises individual home loans



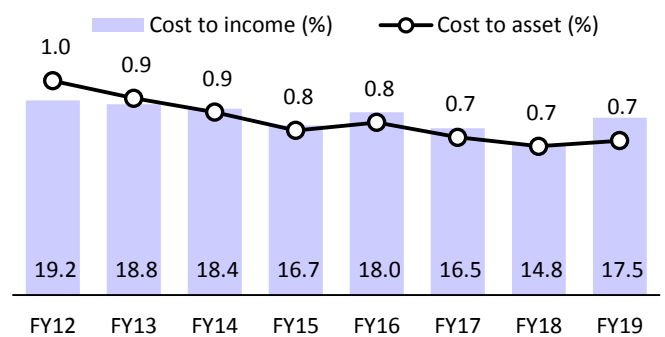
Source: MOFSL, Company

Exhibit 63: ~51% of total loan book from western region



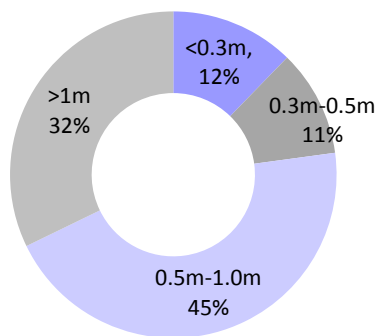
Source: MOFSL, Company

Exhibit 64: Cost ratios have been improving steadily



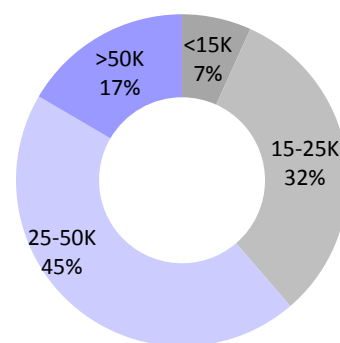
Source: MOFSL, Company

Exhibit 65: 68% of loans have ticket size of <INR1m



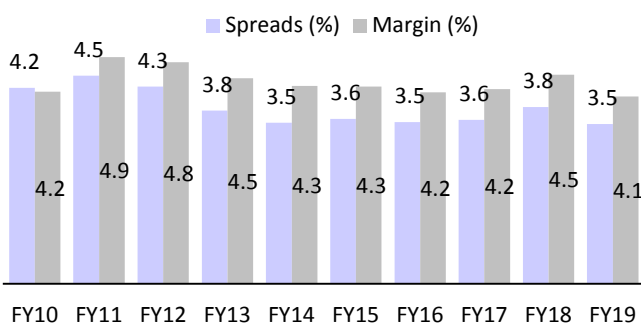
Source: MOFSL, Company

Exhibit 66: 84% of customers have income of <INR50k/mth



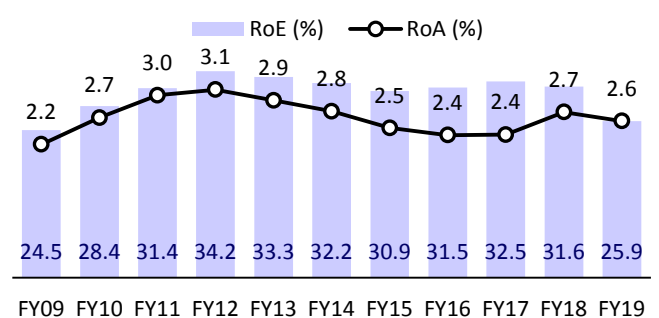
Source: MOFSL, Company

Exhibit 67: Margins have been stable over past many years



Source: MOFSL, Company

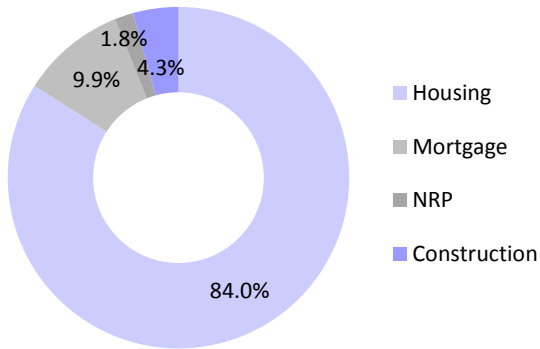
Exhibit 68: GRUH has consistently delivered high RoA/RoE



Source: MOFSL, Company

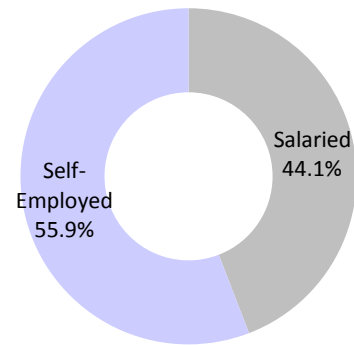
Key charts: Bandhan-GRUH housing portfolio

Exhibit 69: Mortgage portfolio breakup (%)



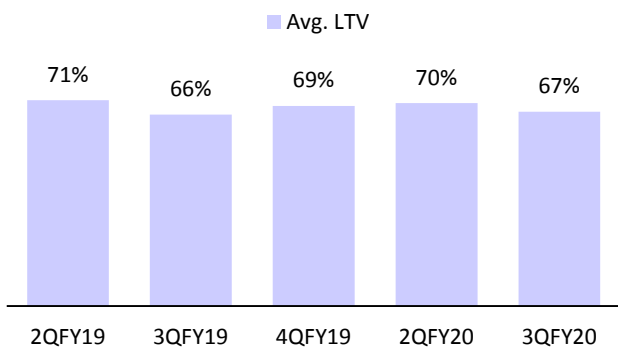
Source: MOFSL, Company

Exhibit 70: Customer profile: Salaried v/s self-employed



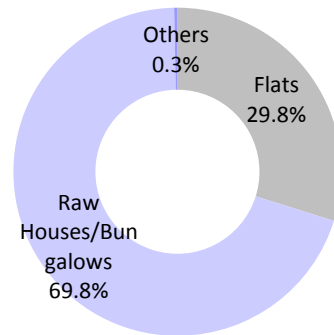
Source: MOFSL, Company

Exhibit 71: Avg. loan to value in housing portfolio



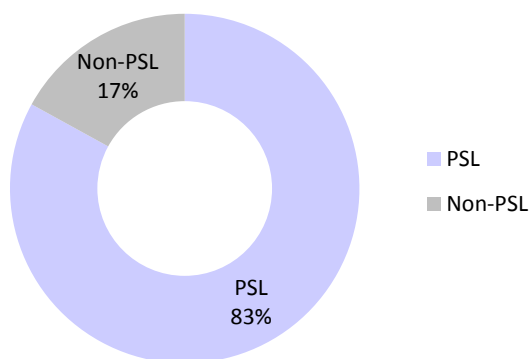
Source: MOFSL, Company

Exhibit 72: Type of property financed



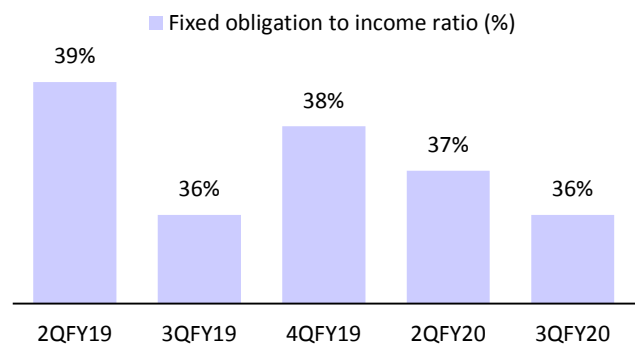
Source: MOFSL, Company

Exhibit 73: 83% of mortgage book qualifies for PSL



Source: MOFSL, Company

Exhibit 74: Avg. fixed income to obligation ratio (%)



Source: MOFSL, Company

Union of two cost leaders; opex ratios to remain benign

Cost-income ratio to remain stable at ~33%

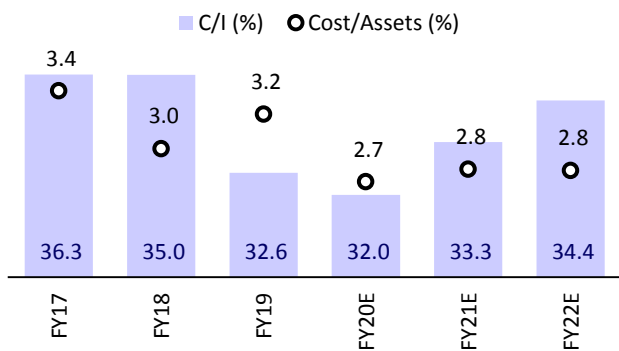
BANDHAN has the best cost metrics amongst universal banks and SFBs. The bank’s C/I ratio stood at 32.6% in FY19 (v/s average of 34% over the past two years). The merger with GRUH will further support the cost ratios as it has a very lean cost structure amongst HFCs and uses referral associates to source business, which ensures efficient employee utilization. We thus estimate the cost-income ratio to remain stable at ~33% over FY19-22.

What drives such superior cost-ratios for BANDHAN?

- Presence in low-cost geographies helps keep a check on rental and employee expenses.
- The bank is hiring largely young workforce (mostly freshers) and providing them on-field trainings. It has 12 internal training centers, where 3,500 employees are trained every month. BANDHAN’s per employee cost stood at INR312k as on FY19, significantly lower than that of any other private bank.
- BANDHAN operates asset centers through low-cost DSCs, which are largely present at rural and semi-urban locations and following a low-cost hub-and-spoke model.
- The bank has leveraged technology to achieve cost-savings and provided handheld devices to DSC employees, which has helped improve productivity/turnaround time.

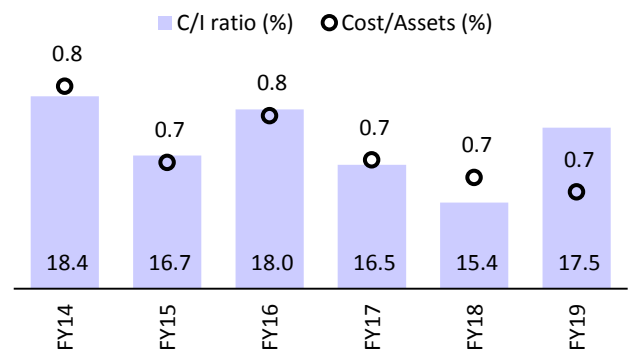
BANDHAN’s per employee cost is INR312k – lowest compared to any other private bank.

Exhibit 75: Expect C/I ratio to remain stable at ~33%



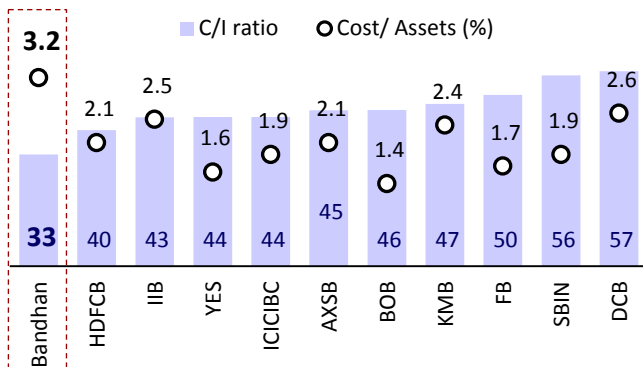
Source: MOFSL, Company

Exhibit 76: GRUH has maintained stable cost-ratios



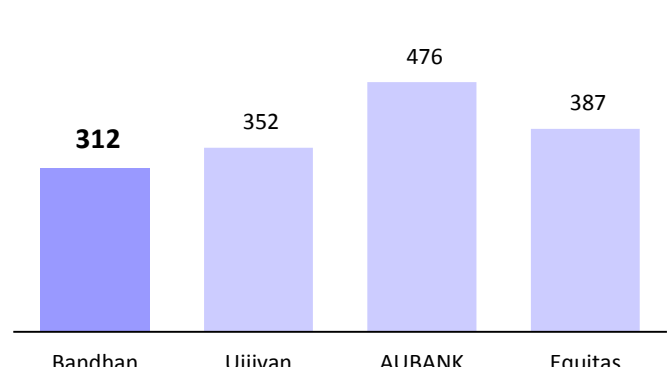
Source: MOFSL, Company

Exhibit 77: BANDHAN has lowest C/I ratio amongst banks



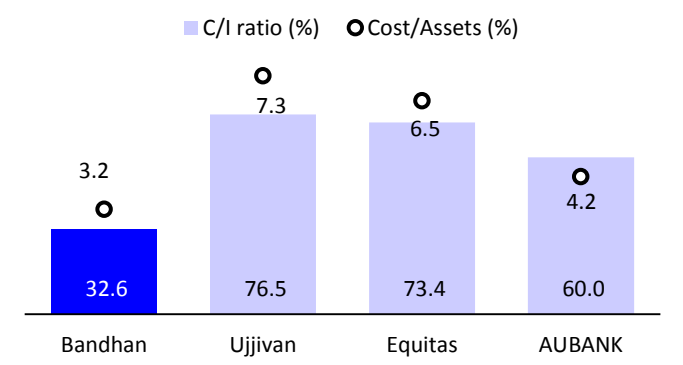
Source: MOFSL, Company; Data as on FY19

Exhibit 78: Cost per employee v/s SFB and MFI peers



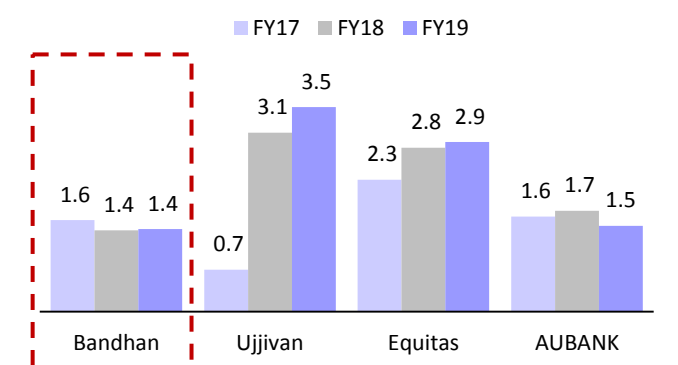
Source: MOFSL, Company; Data as on FY19

Exhibit 79: Lowest cost-ratios amongst SFBs and MFI



Source: MOFSL, Company; Data as on FY19

Exhibit 80: Lowest non-employee cost-assets ratio v/s peers



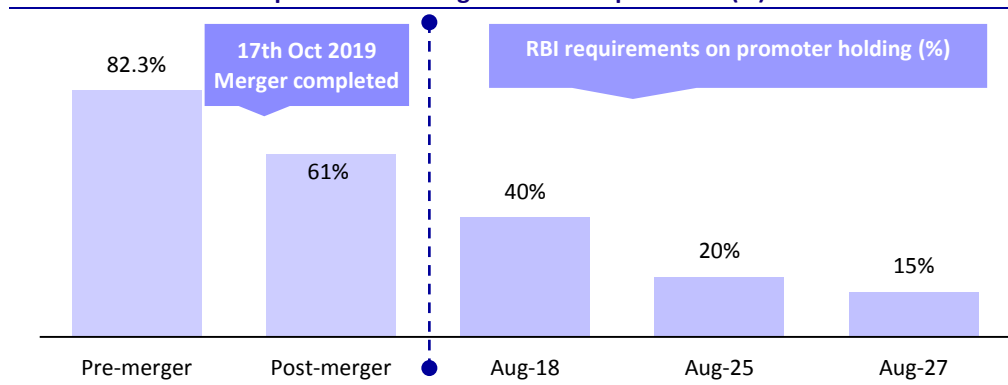
Source: MOFSL, Company

Key benefits from merger with GRUH

A step closer toward meeting RBI’s shareholding norms

- One of the biggest regulatory hurdles for BANDHAN was the requirement to bring down its promoter ownership to 40% by Aug’18. After the merger with GRUH, the promoter ownership declined to 61% (from 82.3% earlier). The bank will thus need to further reduce promoter holding to comply with the RBI’s licensing guidelines and will continue exploring options to achieve the same.
- In case of promoter dilution in Kotak Bank, the RBI has softened its stance and relaxed its norms as it allowed higher promoter holding of 26% though with capped voting rights at 15%.
- Even for Bandhan, RBI has recently allowed the bank to open branches without its prior approval thus relaxing the regulatory restrictions on branch opening. However, we remain watchful of further developments in regards to promoter shareholding.

Exhibit 81: BANDHAN – promoter holding and RBI’s requirement (%)

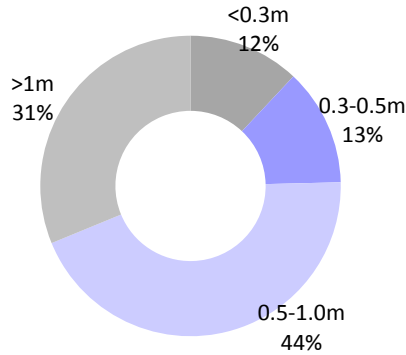


Source: MOFSL, Company

Gaining access to GRUH’s platform, enabling higher cross-sell

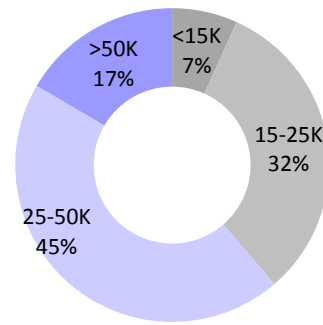
- BANDHAN gets access to GRUH’s proprietary operating systems, processes, IT and expertise which are implemented in the bank’s 106 branches to cross-sell housing products in its stronghold eastern region. Significant under penetration in the eastern and north-eastern housing markets provides BANDHAN with a big opportunity to use GRUH’s platform to cross-sell affordable housing loans.
- Both entities focus on the bottom-of-the-pyramid customers (~68% of loans extended by GRUH have a ticket size of <1m) which will facilitate cross-sell of housing loans to BANDHAN’s customers.

Exhibit 82: ~68% of GRUH’s loans have ticket size of <INR1m



Source: MOFSL, Company

Exhibit 83: ~83% of customers have income of <INR50K p.m.



Source: MOFSL, Company

Exhibit 84: Significant opportunity to cross-sell housing loans to BANDHAN’s customers

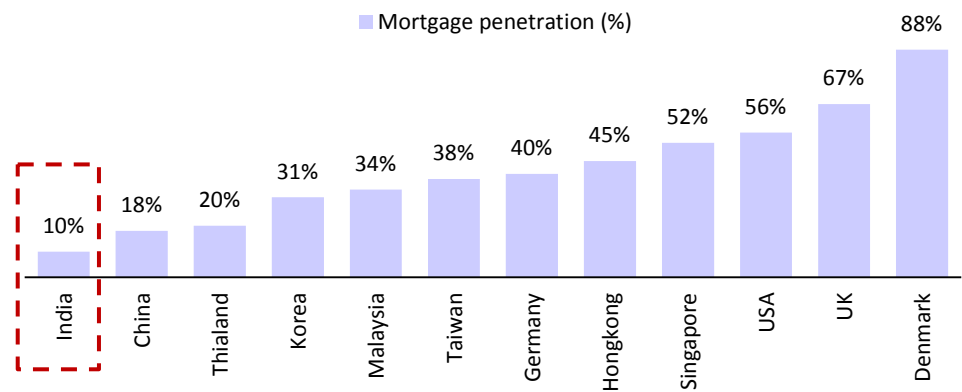
Economically Weaker Section (EWS)/ Low Income Group (LIG)		
Household income up to, INR	6,00,000	6,00,000
Loan amount, INR	600,000	600,000
Loan period in years	15	20
Less: Subsidy under CLSS, INR	220,187	267,280
Revised Loan amount, INR	379,813	332,720
Interest Rate (%)	11%	11%
EMI, INR	4,317	3,434

Source: MOFSL, Company Note: *NPV discount rate at 9% for 20 years

Merger to facilitate sustainable growth

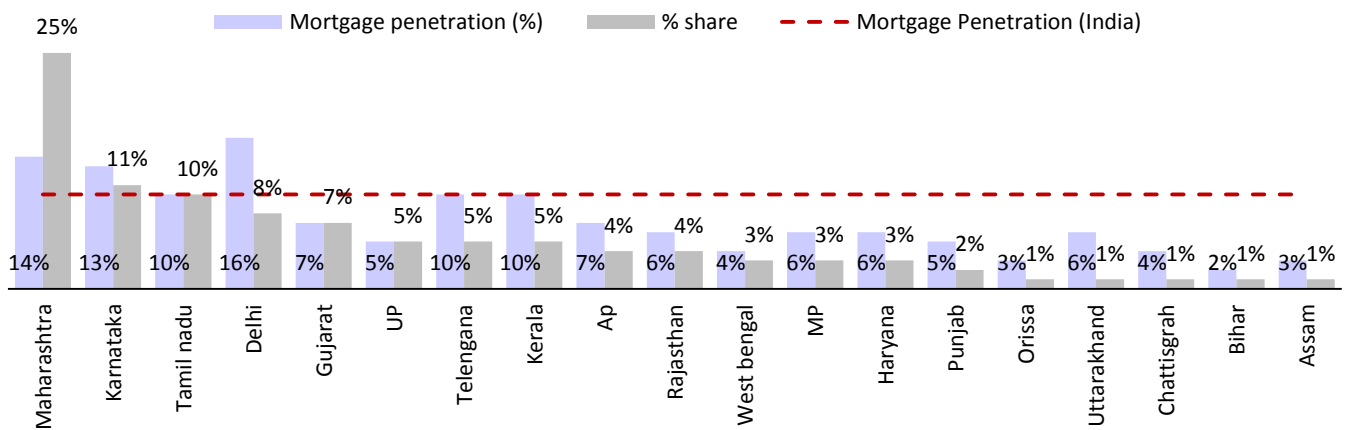
- BANDHAN’s long-term strategy is to grow its business under three verticals: microfinance, MSME lending and affordable housing. GRUH gets access to the bank’s branches and DSCs to leverage and expand operations. Also, it gets access to the bank’s strong customer base of 18.7m (4.2m general banking customers) besides establishing a strong presence in the under-penetrated east and north east regions. It will thus act as another growth engine for GRUH.
- According to the latest statistics, India needs incremental 80-100m housing units by FY22, implying home loan demand of INR50t-60t over the next few years. Thus, there is a significant opportunity in affordable housing as well.

Exhibit 85: Mortgage penetration in India stands low compared to other countries



Source: MOFSL, RBI

Exhibit 86: Huge mortgage under penetration in West Bengal, Bihar and Assam



Source: MOFSL, RBI

Exhibit 87: India needs additional ~100m housing units by FY22

Income category wise Housing Shortage	Units, mn
EWS (income up to INR0.3m)	45.0
LIG (income up to INR0.3m-INR0.6m)	50.0
MIG (income up to INR0.6m-INR1.8m) and above	5.0

Source: MOFSL, Planning commission

Exhibit 88: Aggregate home loan demand could range between INR50t-INR60t

Income category wise Housing Shortage	INR t
EWS (income up to INR0.3m)	5
LIG (income up to INR0.3m-INR0.6m)	30
MIG (income up to INR0.6m-INR1.8m) and above	22

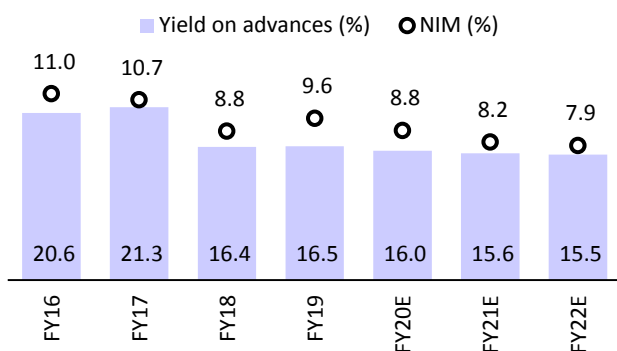
Source: MOFSL, Planning commission

NIM to moderate to 7.9% by FY22, led by a decline in advances yield as affordable housing and other retail segments gain share

Margins moderates as MFI mix declines to ~61%

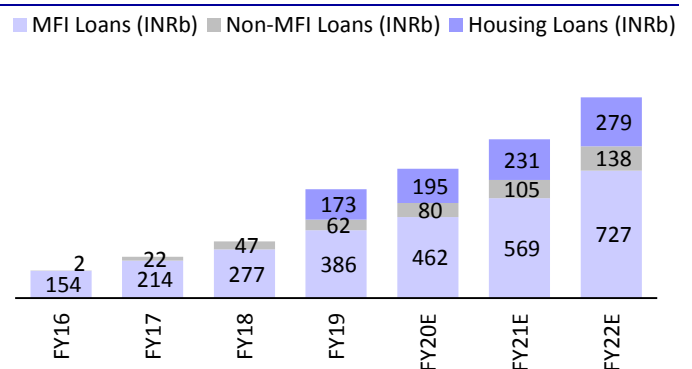
- BANDHAN enjoys a superior net interest margin due to its high proportion of high-yielding MFI portfolio. Gross yield earned is ~18% on MFI loans and 11%-18% on other lending products. The bank’s margins are thus superior to other players in the industry.
- However, post GRUH merger, NIM has started contracting due to addition of a low-margin housing portfolio, but will remain superior to peers.
- We estimate the NIM to moderate to 7.9% by FY22, led by a decline in advances yield, as affordable housing and other retail segments gain share.

Exhibit 89: NIM expected to moderate to 7.9% by FY22



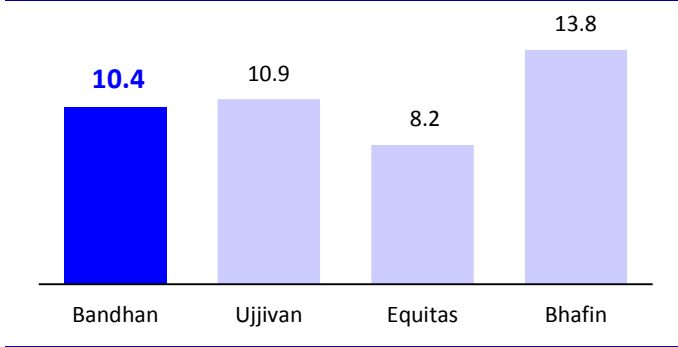
Source: MOFSL, Company

Exhibit 90: Proportion of secured portfolio will increase



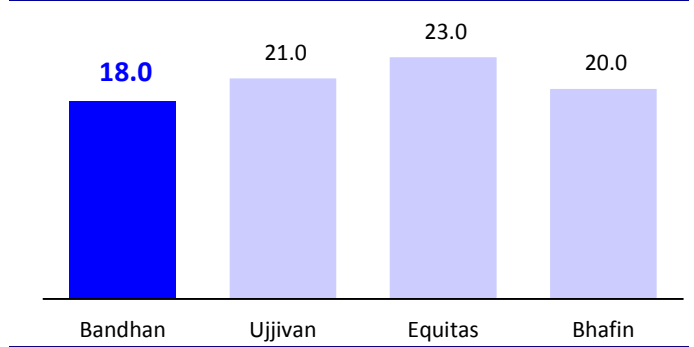
Source: MOFSL, Company

Exhibit 91: Margins – BANDHAN v/s peers



Source: MOFSL, Company; Note: NIMs as on FY19

Exhibit 92: BANDHAN has lowest lending rate v/s peers



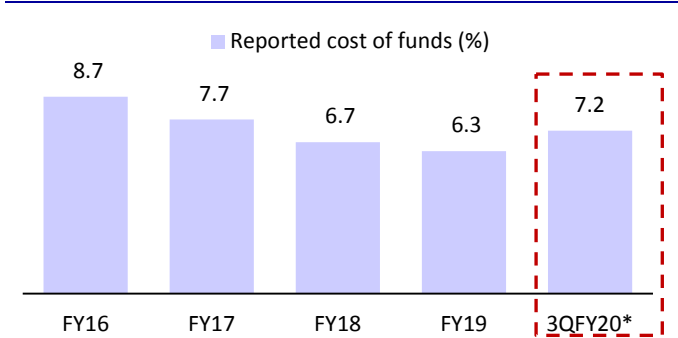
Source: MOFSL, Company; Note: Equitas as on 1QFY20 and BHAFIN as on FY19

Cost of funds compares favorably with peers aided by robust CASA mix

BANDHAN has ~100-150bp cost advantage compared to other SFBs

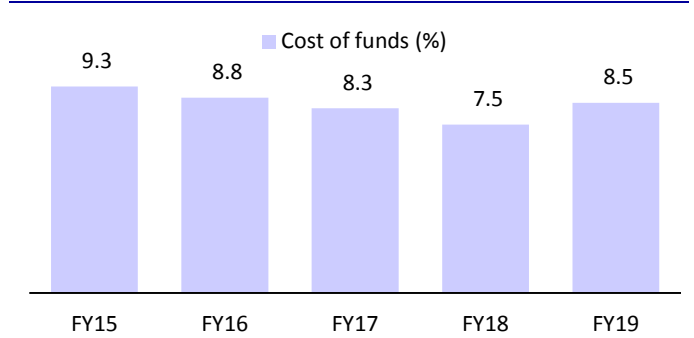
- The high proportion of retail liabilities helps BANDHAN to have lower cost of funds compared to its MFI peers. The bank has ~100-150bp cost advantage compared to other SFBs.
- This helps the bank to maintain a competitive lending yield on MFI loans (lowest amongst major peers) and yet earn superior margins. Thus, in the MFI segment, BANDHAN is the first choice for customers.
- Further, cost of liabilities on GRUH’s book is much higher than cost of funds for the bank. Thus, the initial focus for the bank is on lowering existing cost of funds for GRUH’s liabilities.

Exhibit 93: BANDHAN’s cost of funds has declined led by an improving retail deposit franchise



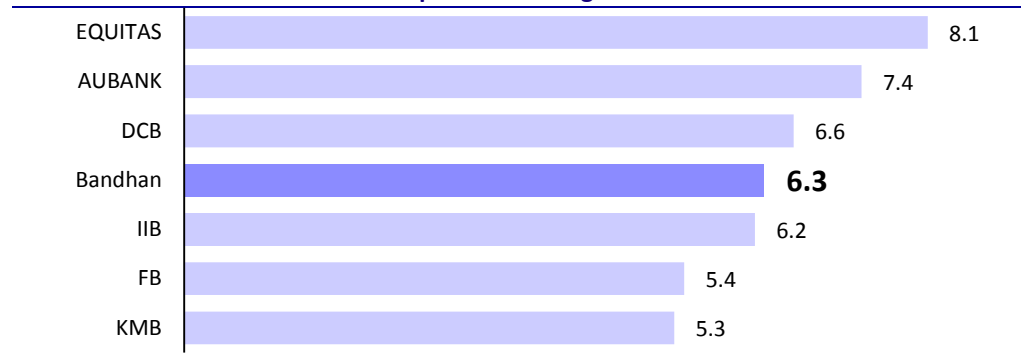
Source: MOFSL, Company; Note: 3QFY20 reflects merged entity cost of funds

Exhibit 94: GRUH’s cost of funds stands higher and will thus benefit from merger with BANDHAN



Source: MOFSL, Company

Exhibit 95: BANDHAN has ~100-150bp cost advantage over other SFBs

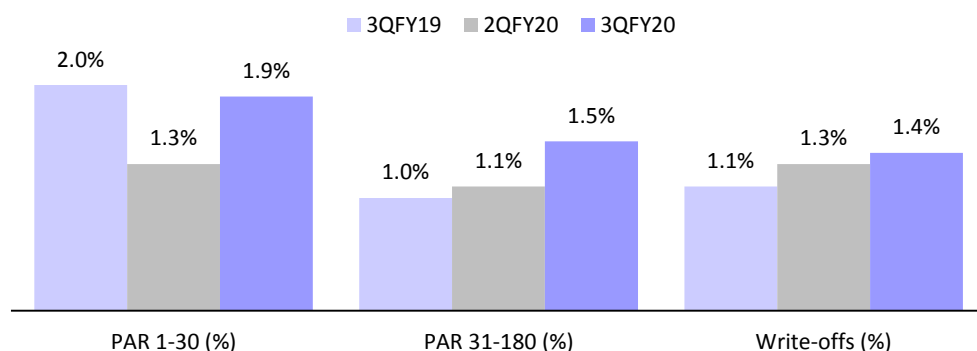


Source: MOFSL, Company; Data as on FY19

MFI Industry: PAR levels increasing though challenges limited to mainly Assam state

The delinquency trends spiked, with PAR 1-30 increasing sequentially from 1.3% to 1.9% and PAR 31-180 up from 1.1% to 1.5% while the write-offs in the MFI portfolio also increased by 10bp QoQ to 1.4%.

Exhibit 96: Asset quality deteriorates in 3QFY20



Source: CRIF High Mark

Assam – PAR levels increase sharply; small-ticket-size driving higher stress

- According to CRIF High Mark's latest release, Assam reflects higher repayment stress due to protests against MFI and CAA with delinquency trends in PAR 1-30 up sequentially from 2.3% to ~16% QoQ (+7.0x) and in PAR 31-180 up from 0.9% to 6.0% (+6.7x).
- West Bengal also witnessed a slight increase in the delinquency trend with PAR 1-30 up sequentially from 0.5% to 1.1% and PAR 31-180 up marginally to 0.7%.
- Increase in delinquency trends has been largely contributed by the small-ticket-size loans.

Exhibit 97: Delinquency trends (PAR 1-30) in Assam increased 7.0x QoQ to 16.1%

PAR1-30	3QFY19	2QFY20	3QFY20
Tamil Nadu	2.9	1.4	1.1
West Bengal	0.8	0.5	1.1
Bihar	0.7	0.5	0.6
Karnataka	1.4	1.6	1.5
Maharashtra	1.6	1.4	0.8
UP	2.1	1.1	0.9
MP	1.9	1.5	1.2
Orissa	1.5	1.8	0.9
Assam	1.2	2.3	16.1

Source: CRIF High Mark

Exhibit 98: Delinquency trends (PAR 31-180) in Assam increased 6.7x QoQ to 6.0%

PAR31-180	3QFY19	2QFY20	3QFY20
Tamil Nadu	0.7	1.2	1.3
West Bengal	0.6	0.6	0.7
Bihar	0.4	0.3	0.4
Karnataka	1.2	1.1	3.0
Maharashtra	1.2	1.3	1.3
UP	2.1	0.9	1.0
MP	1.4	1.6	1.8
Orissa	1.7	2.8	2.0
Assam	0.4	0.9	6.0

Source: CRIF High Mark

Exhibit 99: Key MFI players in Assam region

Key MFI Players	Assam Portfolio	Total Portfolio	% of Portfolio
Satin Creditcare	2.5	72.8	3%
Ujjivan	3.5	104.8	3%
RBL Bank	2.2	55.2	4%
L&T Financial Services	6.0	128.9	5%
Arohan Financial Services	10.0	46.5	22%
Bandhan Bank	65.9	401.0	16%
Total Assam Portfolio	118.5	2,113.0	6%

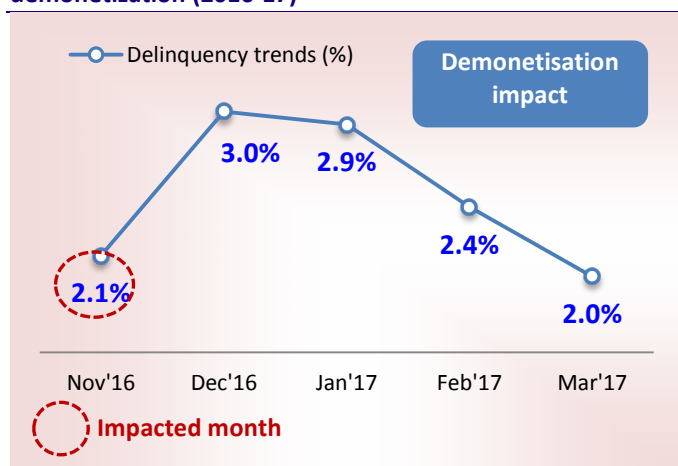
Source: MOFSL, Company

Bandhan Bank: Asset quality under watch, Assam remains the key monitorable

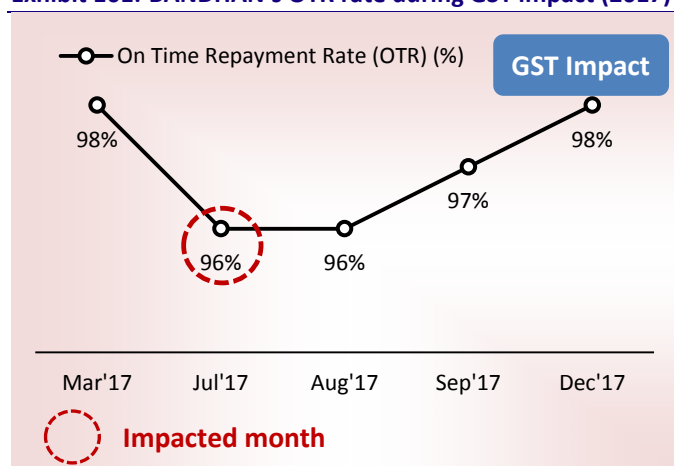
BANDHAN's asset quality had been impacted particularly in the Assam region (which contributes 16% of the bank's MFI portfolio) due to the protests against Citizenship Amendment Act. The bank has prudently made provisions of INR2b toward the impacted portfolio and plans to further step it up in the coming quarters.

Further, management believes that BANDHAN has strong credibility in handling external events like demonetization and GST, wherein the bank restored its normal repayment/delinquency rate within three months (Exhibit 50-51). Also, the bank is witnessing similar trends in Assam with the repayment rate now at 93.6% after hitting lows of ~80%. However, excluding Assam, BANDHAN's asset quality remains stable with collection efficiency at 98.8%.

Overall, GNPA ratio increased to 1.9% (+17bp QoQ) as the bank changed NPA recognition norms on GRUH's mortgage portfolio (it earlier followed HFC norms) and maintained lower provision coverage on its secured portfolio compared to BANDHAN's MFI portfolio. This led to a decline in the provision coverage ratio to 58.4% v/s 72% in FY19.

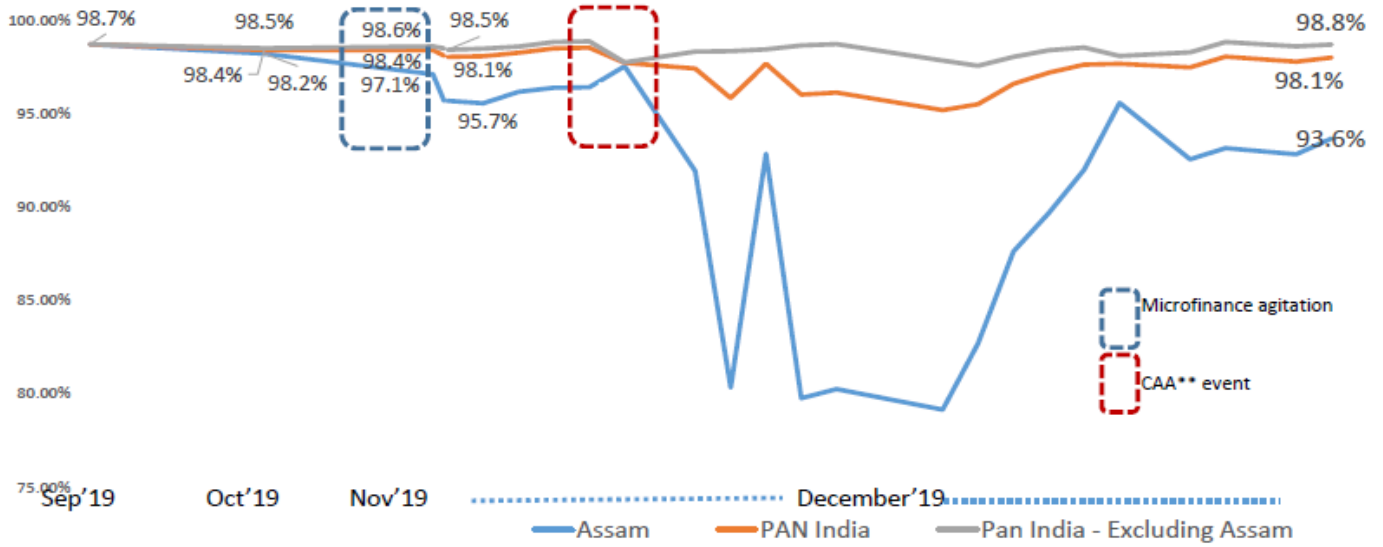
Exhibit 100: BANDHAN's delinquency trends during demonetization (2016-17)

Source: MOFSL, Company

Exhibit 101: BANDHAN's OTR rate during GST impact (2017)

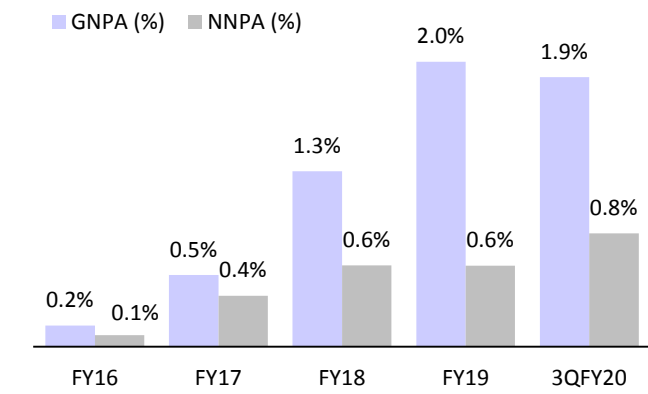
Source: MOFSL, Company

Exhibit 102: BANDHAN's On Time Repayment rate over the recent period



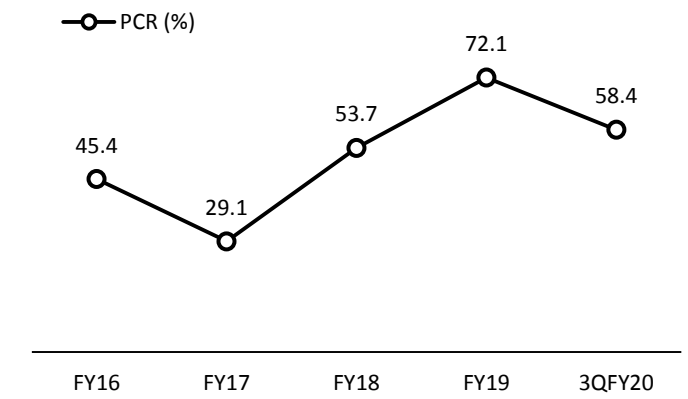
Source: MOFSL, Company

Exhibit 103: NNPA at 0.8% reflects robust asset quality



Source: MOFSL, Company

Exhibit 104: PCR declined to 58.4% led by lower provisions maintained on GRUH portfolio



Source: MOFSL, Company

Exhibit 105: Scenario analysis: Potential impact on GNPA & ABV due to recent issues in Assam

INR b	Scenario-1	Scenario-2
Assam Portfolio	65.9	65.9
Delinquency rate(Assumed)	5%	10%
Potential delinquencies	3.3	6.6
Provisions already made	2.0	2.0
Further provisions required	1.3	4.6
Impact on GNPA (bp)	50	100
Impact on Adjusted Book Value (%)	-1%	-5%

Source: MOFSL, Company

Experienced management team with a strong track record

BANDHAN has an experienced management team led by **Mr Chandra Shekhar Ghosh** (founder, MD & CEO). Over the past two decades, he has transformed a small NGO providing microfinance services to economically disadvantaged women in rural WB into a universal bank present in 34 states with a loan book size of INR654b and successful deposit franchise with deposits of more than INR549b.



- **Mr. Chandra Shekhar Ghosh:** He is the Founder, Managing Director and CEO has a total experience of 27 years in the field of microfinance and development and founded Bandhan in 2001. Mr Ghosh has been conferred many awards like C. Rangarajan award for 'Excellence in Banking', 'Lifetime contribution to MFI sector by an individual' etc. He holds a masters' degree in science (statistics) from the Dhaka University.

Exhibit 106: Key management team members

Name	Designation	Previous Experience
Mr. Sudhin Choksey	Executive Director (Designate)	<ul style="list-style-type: none"> ❖ 35+ years' experience in financial industry ❖ Previously served as Managing Director at Gruh Finance Ltd
Mr Deepankar Bose	Head, Corporate Centre	<ul style="list-style-type: none"> ❖ 36+ years of experience in banking industry ❖ Previously served as Chief General Manager and Head of Wealth management business at SBI
Mr. Sanjeev Naryani	Head-Business	<ul style="list-style-type: none"> ❖ 32+ years of experience in banking industry ❖ Previously worked as Chief General Manager and Head of Real Estate and Housing Business units at SBI
Mr Nand Kumar Singh	Head, Banking Operations & customer services	<ul style="list-style-type: none"> ❖ 27+ years of experience in banking industry ❖ Previously served as Retail Banking Head, Patna Circle at Axis Bank
Mr Arvind Kanagasabai	Head, Treasury	<ul style="list-style-type: none"> ❖ 30+ years of experience at PSU Bank ❖ Previously worked with SBI in various capacities
Mr. Siddhartha Sanyal	Chief Economist and Head Research	<ul style="list-style-type: none"> ❖ 20+ years of experience in the field of Macro Economics ❖ Previously served as Director and Chief India Economist at Barclays Bank PLC.
Mr. Biswajit Das	Chief Risk Officer	<ul style="list-style-type: none"> ❖ 28 years of experience in the banking industry ❖ Previously served as Head-RBS and regulatory reporting at ICICI Bank
Mr. Santanu Banerjee	Head, HR	<ul style="list-style-type: none"> ❖ 27+ years of experience in the field of banking and Finance ❖ Previously worked as Head of HR Business Relationship at Axis Bank
Mr Sunil Samdani	Chief Financial Officer (CFO)	<ul style="list-style-type: none"> ❖ 17+ years of experience in financial industry ❖ Previously served as head of business analytics and strategy at Development Credit Bank and as CFO at Karvy Financial Services Ltd

Source: MOFSL, Company

Bull & Bear case



Bull Case

- ☑ In our bull case, we assume strong loan CAGR of 33% (v/s 26% in base case) over FY20-22. In our view, BANDHAN's micro loans growth will exceed due to its market leadership in the MFI segment. Moreover, Gruh growth will pick up pace after being impacted in the merger process.
- ☑ We expect the margin to expand to 8.9% in FY22, aided by strong loan growth in the MFI segment (v/s 7.9% in base case).
- ☑ Asset quality would be slightly better, with GNPA of 1.6% by FY22 (v/s 1.9% in our base case).
- ☑ This results in PAT CAGR of 39% (v/s 24% in our base case) over FY20-22, with RoA/RoE of 4.8%/29.2% in FY22.
- ☑ Based on the above assumptions, we value BANDHAN at INR650 (4.7x Sep'21E BV) – an upside of 62%.



Bear Case

- ☑ In our bear case, we assume loan growth CAGR of 18% (v/s 26% in our base case) over FY20-22 led by slowdown or deterioration in asset quality in MFI core-states can witness higher delinquency for Bandhan. Also, if the bank management is unable to retain Gruh's team, it can have a detrimental impact on the bank.
- ☑ We expect the margin to shrink to 7.3% in FY22 (v/s 7.9% in our base case) due to slowdown in loan growth.
- ☑ Asset quality is likely to deteriorate with higher slippages coming from the MFI segment. Accordingly, we model in a GNPL ratio of 2.4% by FY22 (v/s 1.9% in our base case).
- ☑ This results in PAT CAGR of 10% (v/s 24% in our base case) over FY20-22, with RoA/RoE at ~3.0%/~20% in FY22.
- ☑ Based on the above assumptions, we value BANDHAN at INR275 (2.2x Sep'21E BV) – a downside of 31%.

Exhibit 107: Scenario analysis – bull case

Bull Case	FY20E	FY21E	FY22E
NII	62.2	85.4	117.6
Opex	24.6	32.7	41.8
Provisions	7.7	9.1	12.2
PBT	44.7	62.3	86.9
PAT	33.4	46.6	65.0
NIM (%)	8.9	8.6	8.9
RoA (%)	4.5	4.5	4.8
RoE (%)	24.6	26.2	29.2
EPS	23.9	28.9	40.4
BV	99	122	154
Target multiple	4.7		
Target price (INR)	650		
Upside (%)	65%		

Source: Company, MOFSL

Exhibit 108: Scenario analysis – bear case

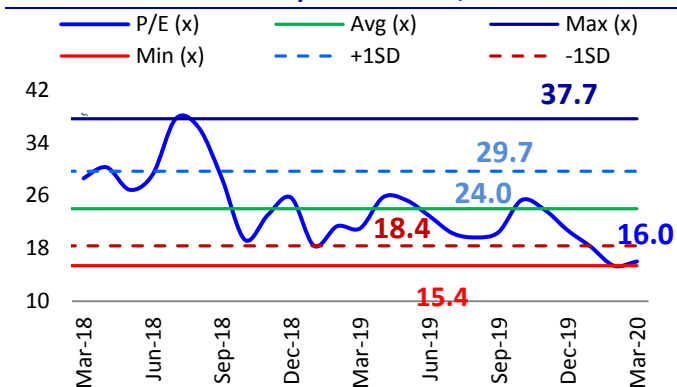
Bear Case	FY20E	FY21E	FY22E
NII	62.2	75.6	84.0
Opex	24.6	32.7	41.8
Provisions	7.7	11.4	13.5
PBT	44.7	50.0	52.0
PAT	33.4	37.4	38.9
NIM (%)	8.9	7.9	7.3
RoA (%)	4.5	3.6	2.9
RoE (%)	24.6	21.6	19.4
EPS	23.9	23.2	24.2
BV	99	116	132
Target multiple	2.2		
Target price (INR)	275		
Downside (%)	30%		

Source: Company, MOFSL

Valuation and view: Initiating coverage with BUY rating

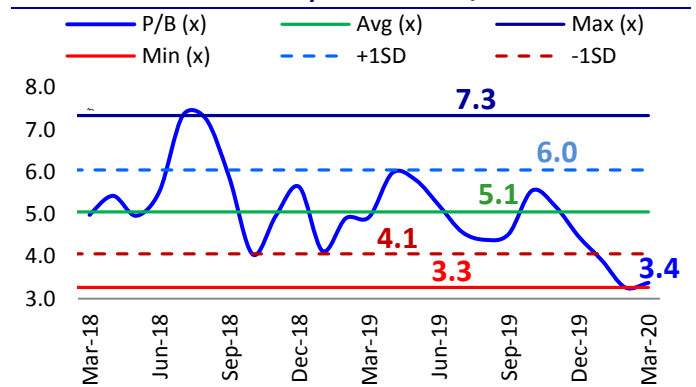
- BANDHAN has strengthened its positioning as one of the key financial institutions in east/north-east India. It has maintained a healthy market share of ~19% in MFI loans with a CAGR of 35% over FY15-3QFY20.
- The bank has one of the best operating metrics as it runs on a low-cost operation model – it has the lowest cost per employee and the lowest cost asset centers in rural/semi-urban geographies. Further, synergies from the merger with GRUH will drive a further improvement in operating leverage. We thus estimate the cost-income ratio to remain stable at ~33% over FY20-22.
- The bank has demonstrated strong execution skills in building its deposit franchise. Notably, it has scaled up its deposit base to INR549b within a few years of banking operations with a focus on a low-ticket, granular book (CASA mix at ~34%; retail TDs form nearly ~76% of total deposit base). BANDHAN has ~100-150bp cost of funds advantage compared to other SFBs.
- Around 54% of the bank’s borrowers have vintage of four or more cycles (v/s only 6% for the industry), which allows the bank to offer higher-ticket-size loans.
- The bank has demonstrated a strong track record in handling challenging situations like demonetization and GST, wherein it reverted back to the normal delinquency rate within a few months.
- **Valuation and view:** Bandhan has demonstrated a strong track record in growing its balance sheet/earnings and maintained a strong market share/cost leadership with its low-cost DSC network. It has also deftly handled external events like demonetization/GST, wherein it restored the normal delinquency rate within three months. We estimate loan book/earnings CAGR of 26%/24% over FY20-22 driving industry leading RoA/RoE of 3.7%/23.4% for FY22E. With its share of volatility Bandhan offers a great long term investment opportunity as the stock has corrected significantly. Initiate with Buy and TP of INR500 (3.8x Sep’21E BV).

Exhibit 109: Trend in one-year forward P/E



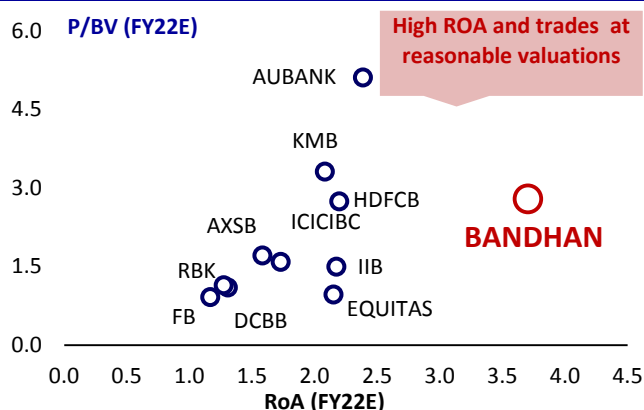
Source: MOFSL, Company

Exhibit 110: Trend in one-year forward P/BV



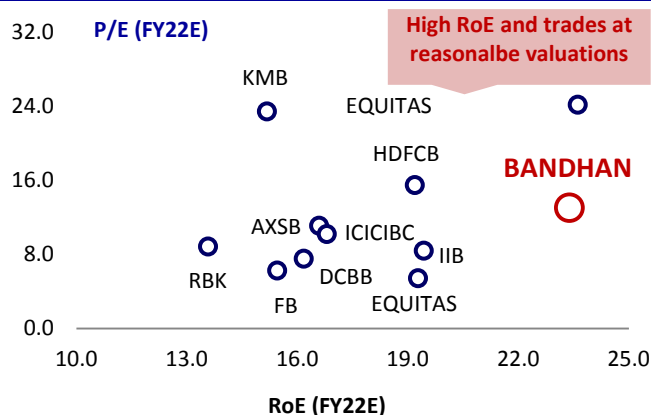
Source: MOFSL, Company

Exhibit 111: Scatter chart based on P/BV & ROA for FY22E



Source: MOFSL, Company

Exhibit 112: Scatter chart based on P/E & ROE for FY22E



Source: MOFSL, Company

Exhibit 113: DuPont Analysis

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Income	15.6	12.9	13.2	13.6	13.1	12.8
Interest Expense	6.0	4.7	4.3	5.2	5.4	5.4
Net Interest Income	9.6	8.1	8.9	8.4	7.7	7.4
Fee income	1.6	1.8	2.0	2.0	1.7	1.7
Trading and others	0.1	0.1	0.1	0.1	0.1	0.1
Other Income	1.6	1.9	2.1	2.0	1.8	1.7
Total Income	11.3	10.0	11.0	10.4	9.4	9.1
Operating Expenses	4.1	3.5	3.6	3.3	3.1	3.1
Employees	2.2	1.8	2.0	1.9	1.8	1.8
Others	1.9	1.7	1.6	1.5	1.4	1.4
Operating Profits	7.2	6.5	7.4	7.1	6.3	6.0
Core operating Profits	7.1	6.4	7.4	7.0	6.2	5.9
Provisions	0.4	1.0	1.5	1.2	1.1	1.0
NPA	0.2	0.6	1.3	1.1	1.0	0.9
Others	0.2	0.4	0.1	0.2	0.1	0.1
PBT	6.8	5.5	6.0	5.9	5.2	5.0
Tax	2.4	1.9	2.1	1.5	1.3	1.2
RoA	4.45	3.61	3.87	4.4	3.9	3.7
Leverage (x)	6.4	5.4	4.9	5.5	5.9	6.3
RoE	28.6	19.5	19.0	23.9	23.1	23.4

Source: MOFSL, Company



Key risks

- BANDHAN has demonstrated strong execution in building the deposit franchise within few years of banking operations. However, it faces stiff competition from large private banks which are also focusing on scaling up their deposit base.
- High-ticket-size lending in the core states increases individual household leverage – a key risk for asset quality.
- GRUH’s superior performance compared to peers was driven by stable top management team under current MD & CEO Mr. Sudhin Choksey (since 1988). Any undue attrition at GRUH – particularly as BANDHAN operates on a leaner cost structure – may pose a challenge.

Financials and Valuations

Income Statement							(INR b)
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Interest Income	15.8	39.1	48.0	66.4	100.1	136.2	170.5
Interest Expense	6.5	15.1	17.7	21.5	38.1	56.6	72.2
Net Interest Income	9.3	24.0	30.3	45.0	62.0	79.6	98.3
Growth (%)	NM	157.7	26.2	48.3	37.9	28.4	23.5
Non Interest Income	1.5	4.1	7.1	10.6	14.9	18.5	23.1
Total Income	10.8	28.1	37.4	55.6	76.9	98.1	121.4
Growth (%)	NM	160.0	32.8	48.7	38.3	27.6	23.8
Operating Expenses	6.2	10.2	13.1	18.1	24.6	32.7	41.7
Pre Provision Profits	4.7	17.9	24.3	37.5	52.3	65.4	79.7
Growth (%)	NM	284.1	35.5	54.2	39.4	25.1	21.9
Core PPOp	4.6	17.7	23.8	37.1	51.8	64.8	79.0
Growth (%)	NM	281.1	34.6	55.7	39.6	25.2	21.9
Provisions (excl tax)	0.5	0.9	3.7	7.4	9.1	11.6	13.8
PBT	4.1	17.0	20.6	30.1	43.2	53.8	65.9
Tax	1.4	5.9	7.1	10.6	10.9	13.6	16.6
Tax Rate (%)	33.4	34.8	34.6	35.2	25.2	25.2	25.2
PAT	2.8	11.1	13.5	19.5	32.3	40.3	49.3
Growth (%)	NM	304.0	21.0	45.0	65.4	24.7	22.5
Balance Sheet							
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Equity Share Capital	11.0	11.0	11.9	11.9	16.1	16.1	16.1
Reserves & Surplus	22.4	33.5	81.9	100.1	142.2	174.9	214.7
Net Worth	33.3	44.5	93.8	112.0	158.3	190.9	230.8
Deposits	120.9	232.3	338.7	432.3	605.2	817.1	1,086.7
Growth (%)	NM	92.2	45.8	27.6	40.0	35.0	33.0
of which CASA Dep	26.1	68.4	116.2	176.2	210.6	294.1	399.9
Growth (%)	NM	162.4	70.0	51.6	19.6	39.7	36.0
Borrowings	30.5	10.3	2.9	5.2	126.6	139.3	156.0
Other Liabilities & Prov.	12.8	15.3	7.7	14.9	19.4	20.4	21.4
Total Liabilities	197.6	302.4	443.1	564.4	909.6	1,167.7	1,494.9
Current Assets	31.7	73.6	55.1	58.0	71.8	90.1	118.0
Investments	37.6	55.2	83.7	100.4	142.2	191.9	249.5
Growth (%)	NM	46.8	51.8	19.9	41.6	35.0	30.0
Loans	124.4	168.4	297.1	396.4	686.0	850.5	1,087.0
Growth (%)	NM	35.4	76.5	33.4	73.1	24.0	27.8
Fixed Assets	2.4	2.5	2.4	3.3	4.0	4.4	4.9
Total Assets	197.6	302.4	443.1	564.4	910.0	1,167.7	1,494.9
Asset Quality							
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
GNPA	0.2	0.9	3.7	8.2	12.8	15.9	19.6
NNPA	0.1	0.6	1.7	2.3	5.5	6.7	7.9
GNPA Ratio	0.2	0.5	1.3	2.1	1.9	1.9	1.8
NNPA Ratio	0.1	0.4	0.6	0.6	0.8	0.8	0.7
Credit Cost	0.0	0.3	1.0	1.9	1.5	1.4	1.3
PCR (Excl Tech. write off)	45.4	29.1	53.7	72.1	56.8	57.6	59.4

E: MOFSL Estimates

Financials and Valuations


Ratios							
Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Spread Analysis (%)							
Avg. Yield- on Earning Assets	18.7	17.3	13.9	14.2	14.3	13.9	13.8
Avg. Yield on loans	20.6	21.3	16.4	16.5	16.0	15.6	15.5
Avg. Yield on Investments	7.0	9.2	7.1	6.7	7.5	7.1	7.2
Avg. Cost of Int. Bear. Liab.	8.7	8.0	6.5	6.0	6.9	7.0	6.9
Avg. Cost of Deposits	7.0	6.8	6.7	6.5	6.4	6.6	6.5
Interest Spread	10.0	9.4	7.5	8.2	7.4	6.9	6.9
Net Interest Margin	11.0	10.7	8.8	9.6	8.8	8.2	7.9
Capitalisation Ratios (%)							
CAR	29.0	26.4	31.5	29.2	23.4	21.4	19.7
Tier I	26.7	24.8	30.3	27.9	22.8	21.0	19.4
Tier II	2.3	1.6	1.2	1.3	0.5	0.4	0.3
Business and Efficiency Ratios (%)							
Loans/Deposit Ratio	102.9	72.5	87.7	91.7	113.3	104.1	100.0
CASA Ratio	21.6	29.4	34.3	40.8	34.8	36.0	36.8
Cost/Assets	3.1	3.4	3.0	3.2	2.7	2.8	2.8
Cost/Total Income	56.9	36.3	35.0	32.6	32.0	33.3	34.4
Cost/Core income	57.0	36.6	35.4	32.8	32.2	33.5	34.6
Int. Expense/Int.Income	41.0	38.5	36.9	32.3	38.1	41.5	42.3
Fee Income/Total Income	13.7	13.8	17.7	18.4	18.7	18.2	18.4
Non Int. Inc./Total Income	13.8	14.6	18.9	19.1	19.4	18.8	19.0
Empl. Cost/Total Expense	52.8	53.4	52.6	55.7	55.7	56.6	56.8
Investment/Deposit Ratio	31.1	23.7	24.7	23.2	23.5	23.5	23.0
Profitability Ratios and Valuation							
RoE	8.3	28.6	19.5	19.0	23.9	23.1	23.4
RoA	1.4	4.4	3.6	3.9	4.4	3.9	3.7
RoRWA	2.2	7.4	5.6	5.7	6.0	5.0	4.7
Book Value (INR)	30	41	79	94	98	119	143
Growth (%)	NM	33.3	93.7	19.4	4.7	20.6	20.9
Price-BV (x)	13.2	9.9	5.1	4.3	4.1	3.4	2.8
Adjusted BV (INR)	30	40	78	93	96	116	140
Price-ABV (x)	13.2	10.0	5.2	4.3	4.2	3.5	2.9
EPS (INR)	2.5	10.2	11.8	16.4	23.0	25.0	30.6
Growth (%)	NM	NM	15.8	39.1	40.8	8.5	22.5
Price-Earnings (x)	159.4	39.5	34.1	24.5	17.4	16.0	13.1
Dividend Per Share (INR)	0.0	0.0	1.2	3.6	3.1	4.7	5.9
Dividend Yield (%)			0.3	0.9	0.8	1.2	1.5

E: MOFSL Estimates

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Tactical Shift

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ICI Prudential Life Insurance



Moving up the profitability curve

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The Specialist

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Flight of rebirth

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