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Bandhan Bank

BSE Code	:	**541153**
Time Duration	:	**18 months**
CMP	:	**₹480.60 (as on 24 May, 2018)**
Target Price	:	**₹620**

LargeRhino
Swiftest Performers Among Heavy Weights

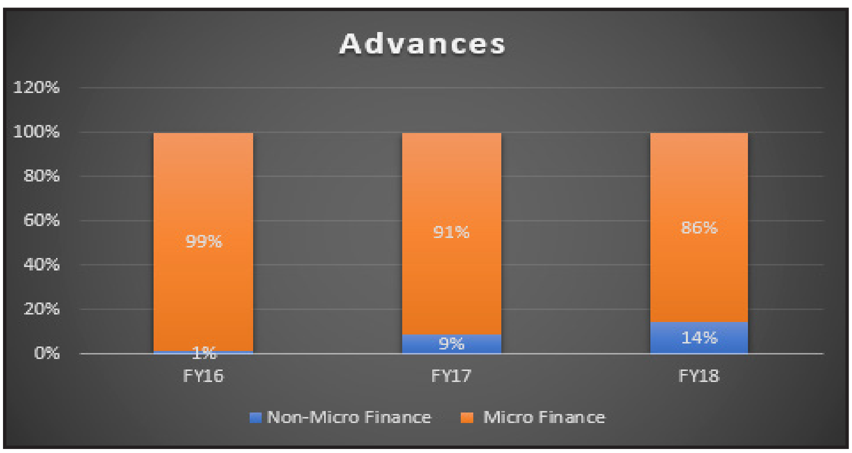
The large rhino for the month of May is Bandhan Bank. It is the largest micro finance lender in the country with best-in-class asset quality and the most profitable universal banking franchise. Its core business lies in micro finance lending and also has significant reach in the under penetrated eastern states of the country. Going forward, it intends to increase its geographical presence in the country and its product suite. The BFSL was incorporated on December 23, 2014 and began operations on August 23, 2015 when Bandhan Financial Services Limited ("BFSL"), parent company, transferred its entire microfinance business to Bandhan Bank and simultaneously commenced general banking activities. By the time BFSL transferred its microfinance business, it was India's largest micro finance company by number of customers and size of loan portfolio.

Strong network with rural focus

The bank's network is sprawled through 3,700 banking outlets consisting 936 branches and 2,764 DSC (Doorstep service centres). The bank currently serves 13.01 million with 2.6 million newly added customers. It has strong presence in theNortheast West Bengal, Assam and Bihar accounting for 57.75 per cent of the branches and 58.13 per cent of the DSC's. It alsohas the third largest banking outlet after HDFC Bank and ICICI Bank and envisages to increase the network by expanding its branches to 1,000 branches. It has strong rural network with 37% of total business coming from rural, followed by 34 per cent semi urban,19 per cent urban and 10 per cent metros.

Robust advances

The bank's competitive advantage lies in lending to the under penetrated rural areas which have been left out of the financial system. In Northeast regions of India, where the banking network is weak it has emerged to be the bank with highest distribution network. This has aided strong Advance growth for the bank at 44 per cent CAGR over FY16-18 . The total advances for FY16 stood at Rs.15,580 crore and has grown to Rs.32,440 crore in FY18. The emphasis remains on micro finance lending which now constitutes 86 per cent of total Advances and remaining 14 per cent comes from retail lending. In the current scenario, the banking sector has underwent stressful events like demonetization, NPA problem and recently the banking frauds. Despite all this, the bank has maintained its robust growth where other private and public banks are struggling to garner such strong growth. Going forward, its expanding geographical presence and changing product suite gives enough scope to maintain its growth rate.



Low cost funding and superior margins

Bank has garnered strong deposit base over the years with its widespread network and DSCs having playeda significant role in buildingthe same. The deposits have grown at 67 per cent CAGR over FY16-18. Further, the CASA has also grown to 34.3 per cent aiding more low cost funding. Also,72 per cent of its deposits are retail in nature. The borrowing profile of the bank has changed drastically, it has moved towards cheaper funding source with 99 per cent of the funds for lending gathered from deposits vs 80 per cent in FY16. Further the DSCs help implement weekly collection from the borrowers. This helps in reducing employee costs for the bank, aiding lower operating expenses and better recovery. In terms of margins, the bank in its third business year has achieved 9.7 per cent NIM, which is quite commendable. Although, it has come down from 10.4 per cent in the previous year due to lower lending rates to its small micro finance borrowers. Going forward, the narrowingof the cost of funds will aid strong margin accretion.

Best-in-class asset quality

In times when banks are struggling with ever increasing NPAs and consequent increase in provisions to counter it, Bandhan Bank has kept its asset quality at superior levels. The GNPA and NNPA for FY18 stood at 1.25 per cent and 0.58 per cent, respectively. Over the years, the bank has maintained system of weekly meetings with borrowers and weekly collections from them, which ensured consistent recovery of loans. Further, the higher granularity of the portfolio gives enough confidence about the superior asset quality of the bank. Going forward, the non-micro finance portfolio may witness some asset quality stress. However, its otherwise granularportfolio and strong recovery mechanism provides nessecary stability to the bank.

Financials

The FY18 numbers for the bank are quite satisfactory considering its business growth since inception. The Net interest income for the quarter rose by 18 per cent qoq and 25 per cent yoy to Rs.862 crore in Q4FY18 vs Rs.689 crore in Q4FY17 and Rs.731 crore in Q3FY18. For full year net interest income grew by 26 per cent. The provisions for the quarter declined by 11 per cent qoq to Rs.109.8 crore in Q4FY18 vs Rs.122 crore in Q3FY18. The resultant net profit for the quarter rose by 29 per cent qoq and 20 per cent yoy to Rs.387 crore in Q4FY18 vs Rs.300 crore in Q3FY18 and Rs.322 crore in Q4FY18. For the full year ended to net profit grew by 21 per cent yoy to Rs.1,345 crore in FY18.The asset quality also improved from GNPAs of 1.25 per cent in Q4FY18 vs 1.67 per cent in Q3FY18.

Valuation & Outlook

The stock continues to trade at higher valuations citing its robust financials. It is currently trading at 6.1x P/BV of Rs.78 per share, compared to its peers which are trading at much lower valuations. However, the bank boasts competitive advantage of micro finance lending, where as other banks face fierce competition amongst themselves. Its wide spread network gives huge opportunity for taping under-penetrated areas and garner significant business. Going forward, its highly granular portfolio assures asset quality comfort and we expect it to sustain it in the coming quarters.Thelow cost funding model and speedy recovery mechanism will aid margin expansion. However, Its non-micro finance may pose risk to asset quality.

Quarterly : Financial Snapshot

Particulars	Q4FY18	Q3FY18	Q4FY17	QoQ	Yoy
Total Interest Earned	1350.59	1178.23	1078.34	15%	25%
Interest Expended	487.19	446.44	388.61	9%	25%
Net interest income	863.4	731.79	689.73	18%	25%
Provisions And Contingencies	109.09	122.55	36.44	-11%	199%
Net Profit/Loss For the Period	387.86	300.05	322.41	29%	20%
(%) of Gross NPA	1.25	1.67	0.51	-0.42	0.74
(%) of Net NPA	0.58	0.8	0.36	-0.22	0.22

Yearly : Financial Snapshot

	FY18	FY17	FY16	CAGR FY16-18
Total Interest Earned	4802.3	3908.71	1581.36	74%
Interest Expended	1770.06	1505.21	648.53	65%
Net interest income	3032.24	2403.5	932.83	80%
Provisions And Contingencies	374.21	88.44	55.3	160%
Net Profit/Loss For the Period	1345.56	1111.95	273.25	122%
(%) of Gross NPA	1.25	0	0	
(%) of Net NPA	0.58	0	0