SMART SYNC SERVICES

Bandhan Bank Q1FY21

Financial Results & Highlights

Brief Company Introduction

Bandhan started in 2001 as a not-for-profit enterprise that stood for financial inclusion and women empowerment through sustainable livelihood creation. It turned into an NBFC a few years later but the core objective remained financial inclusion. When Bandhan Bank started operations on August 23, 2015, it was the first instance of a microfinance entity transforming into a universal bank in India. On the day of launch itself, Bandhan Bank started with 2,523 banking outlets. It offers world-class banking products and services to urban, semi urban and rural customers alike. In the last few years of operations, Bandhan Bank has spread its presence to 34 of the 36 states and union territories in India with 4,559 banking outlets serving 2.01 crore customers, as on March 31, 2020.

Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	3405	2962	14.96%	3346	1.76%
PBT	735	1230	-40.24%	693	6.06%
PAT	550	804	-31.59%	517	6.38%

Detailed Results:

1. The revenues for Q1 grew 15% YoY. PAT fell 21% YoY mainly due to higher provisions of Rs 849 Cr vs Rs 125 Cr last year.
2. Deposit portfolio grew 35.3% YoY and 6.18% QoQ.
3. Loan portfolio (on book + off book) grew 17.68% YoY.
4. CASA grew 47.3% YoY.
5. CASA ratio at 37.08% (excluding GRUH deposits 37.83%) against 36.84% QoQ.
6. Added 2.13 lakh customers during the quarter with a total customer base at 2.03 crore as on June 30, 2020.
7. Capital Adequacy Ratio (CRAR) at 26.45%; Tier I at 23.22%.
8. During the quarter the Bank has taken accelerated additional provision on standard advances amounting to Rs 750 Cr. With this provision and additional Standard Assets provision that Bank is carrying in Micro banking portfolio total additional provision in books stands at Rs 1,769 Cr.
9. Net Interest Income (NII) for the quarter grew by 14.98% YoY to Rs 1,811 Cr as against Rs 1,575 Cr in the corresponding quarter of the previous year.
10. Non-interest income grew by 16.92% YoY to Rs 387 Cr for the quarter against Rs 331 Cr in the corresponding quarter of the previous year.
11. Operating Profit for the quarter increased by 16.81% YoY to Rs 1,584 Cr against Rs 1,356 Cr in the corresponding quarter of the previous year.
12. Net Interest Margin (annualized) for the quarter stood at 8.15% (merged) against 8.13% on June 30, 2020.

13. Total Advances (on book + off book + TLTRO) grew by 17.68% YoY to Rs 74,331 Cr at the end of Q1FY21 against Rs 63,164 Cr in the previous year, and 3.46% QoQ against Rs 71,846 crores in the previous quarter.
14. Total Deposits increased by 35.3% YoY to Rs 60,610 Cr in Q1 as compared to Rs 44,796 Cr in the previous year, and 6.18% QoQ against Rs 57,082 Cr in the previous quarter.
15. Gross NPAs as on June 30, 2020, is at Rs 1007 Cr (1.43%) against Rs 1020 Cr (1.7%) last year.
16. Net NPAs as on June 30, 2020 is at Rs 336 Cr (0.48%) against Rs 348 Cr (0.59%) last year.
17. Cost to income ratio was at 27.9% in Q1 vs 28.9% last year.
18. The retail deposit to total deposits was 77.7%.
19. Daily collection efficiency had reached 70% at the start of July.
20. In Micro banking, additional loans were given to only 5% of existing customers.
21. The segment saw asset growth of 21.2% YoY and borrower base growth of 13.82% YoY to 11.2 million.
22. Non-Micro Banking Asset growth was at 11.9% YoY.
23. The average LTV in the Mortgage segment was at 67%.
24. The cost of funds was at 6.9% in Q1.
25. No new locations opened in Q1.

Investor Conference Call Details:

1. The management expects collection efficiency to improve going forward and to reach pre-COVID levels by September.
2. Maharashtra collections were at 54%.
3. Other retail loans grew greater than 50% YoY which has been attributed to a rise in gold loans. The company is currently offering this service in more than 500 branches vs less 100 branches a year ago.
4. Overall disbursement in micro banking was at Rs 45000. The top-up loans in this segment were at an average of Rs 35000.
5. In the microcredit portfolio, 70-75% is in West Bengal, Assam, Tripura, and Bihar.
6. The SEL portfolio remains unsecured and is now at Rs 2000 Cr.
7. The company expects around 67-68% of customers to be paying their dues in June.
8. The management does not expect any big changes in opex going forward.
9. The NPAs in the mortgage has indeed gone up marginally as collection efficiency in this segment has reduced slightly from 87% in April to 85% in June.
10. PSLC income in Q1 was at Rs 119 Cr.
11. Collection efficiency has been calculated considering the total customer set has not applied for the moratorium.
12. Credit cost in terms of the NPAs is at 1.37% as of the 30th of June, which is 1.3% of the outstanding loan portfolio.
13. The management admits that the portfolio will be considered stabilized once collection efficiency goes above 90% in the mortgage category.
14. Around 70-75% of the total provision is towards microfinance.
15. The management has stated that Q1 and Q2 have been a muted quarter historically in terms of disbursement.
16. Historically the company has maintained a growth rate in micro banking of 30% YoY. Around 10% of this 30% comes from new customers and the rest 20% comes from existing customers. But in

the current year, new customer acquisition has been slow and the company is looking to boost the growth using the existing customer set.

17. They have added extra field officers as they were not having full-fledged group meetings. These extra field officers can be used to mitigate industry attrition which is currently at 8-9%. This new worker group can also be used as ready staff available with experience to be posted in the new branch to start that business. Typically, the company adds 8-10% in the employee strength each year.
18. On the whole, the core business models of micro banking and mortgage remain unchanged for the company.
19. The lending for additional loans to existing customers is given at a 1% high rate of 18.85%.
20. The labour migration does not seem to have affected the company a lot as most of the borrowers have locally entrenched families and are running local businesses and the primary borrower is not involved in migratory labour activities.
21. The company has seen that the number of customers opting for a moratorium under phase 2 is at least 20% lower than the phase 1.
22. Collection efficiency has not dropped for customers who have restarted their repayment activities.
23. 50% of MFI borrowers have a single loan only from Bandhan. The company feels that there are a lot of cross-selling opportunities in this customer set for other loans like MSME, etc.
24. 30% of MFI borrowers have a loan from another entity. The company is also looking to consolidate here so that it becomes the first choice for borrowing in this customer set for other loans like housing, etc.
25. According to the management, portfolio buyout under IBPC in the mortgage is more of a liquidity management exercise as the company has a lot of priority sector loans. The company issues it at a low grade and to deploy that money because reverse repo today has come down substantially. Between selling and buying, the company makes a spread of 100+ bps.
26. Disbursements in the mortgage have come back to 77% of pre-COVID levels. In June it was at Rs 240 Cr compared to Rs 300 Cr in Feb.
27. The management has stated that it would like to merge the holding company with the bank to solve the issue of bringing the promoter holding down to a regulatory limit of 40%.
28. The management has stated that any customers that have not made their payments are automatically considered to be under moratorium.
29. There shouldn't be any impact of the upcoming state elections on the customer set and operations in those particular states.
30. The company has given out new business loans to roughly 5% of customers.
31. Around 44.4% of loans are taken for agriculture and allied activities. Around 30.3% is from food processing and small retail store. Most of the new business loans in rural areas in the above spaces which have not been affected too much from the lockdown.
32. Close to 30% of borrowers have not made any payments in the moratorium period at the end of June. This is reflected in the fact that collection efficiency for June was at 68%.
33. The NBFC-MFI portfolio has reported 100% collections for the month of June. This is mostly due to easy liquidity available to such entities under NABARD and the TLTRO option.
34. The management expects to reach 90% in collections by September.

Analyst's View:

Bandhan Bank has aggressively grown its business over the last few years. The company had a decent quarter with god YoY growth in deposits and loans. Management is confident that the business would come back to normalcy by September. The company is seeing good traction in mortgage and NBFC businesses. It is also confident of leveraging its existing customer set effectively to maintain its growth rate and mitigate the fall in new customer acquisition from COVID-19. There are still a lot of uncertainties due to external events and the internal structure of the business is putting pressure on the stock price. It remains to be seen how the story plays out in the medium term and whether things will come back to normalcy as reported by the management when the moratorium period ends. Nonetheless, given its consistent growth momentum in recent years and its rapidly expanding customer set, Bandhan Bank remains an interesting company to keep track of the microfinance and small finance banking industry in India.