

Bandhan Bank Q2FY21

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) | | | | | | | | |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|---------|
| | Q2FY21 | Q2FY20 | YoY % | Q1FY21 | QoQ % | H1FY21 | H1FY20 | YoY |
| Sales | 3579 | 3051 | 17.31% | 3405 | 5.11% | 6984 | 6013 | 16.15% |
| PBT | 1233 | 1161 | 6.20% | 735 | 67.76% | 1968 | 2391 | -17.69% |
| PAT | 920 | 972 | -5.35% | 550 | 67.27% | 1470 | 1775 | -17.18% |

Detailed Results:

1. The revenues for Q2 grew 17% YoY. PAT fell 5% YoY mainly due to higher provisions of Rs 395 Cr vs Rs 145 Cr last year.
2. The company saw its highest ever quarterly PBT in Q2.
3. Deposit portfolio grew 34.4% YoY and 9.1% QoQ.
4. Loan portfolio (on book + off book + TLTRO) grew 19.4% YoY.
5. CASA grew 56.2% YoY.
6. CASA ratio at 38.2% against 37.1% QoQ.
7. Added 5.02 lakh customers during the quarter with a total customer base at 2.08 crore as on Sep 30, 2020.
8. Capital Adequacy Ratio (CRAR) at 25.7%; Tier I at 22.2%.
9. During the quarter the Bank has taken accelerated additional provision on standard advances amounting to Rs 300 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 2096 Cr.
10. Net Interest Income (NII) for the quarter grew by 25.8% YoY to Rs 1,923 Cr as against Rs 1,529 Cr in the corresponding quarter of the previous year.
11. Non-interest income grew by 6.1% YoY to Rs 381.8 Cr for the quarter against Rs 360 Cr in the corresponding quarter of the previous year.
12. Operating Profit for the quarter increased by 24.6% YoY to Rs 1,627 Cr against Rs 1,307 Cr in the corresponding quarter of the previous year.
13. Net Interest Margin (annualized) for the quarter stood at 8% (merged) against 8.2% on Sep 30, 2019.

14. Total Advances (on book + off book + TLTRO) grew by 19.4% YoY to Rs 76,615 Cr at the end of Q2FY21 against Rs 64,185 Cr in the previous year, and 3.1% QoQ against Rs 74,330 crores in the previous quarter.
15. Total Deposits increased by 34.4% YoY to Rs 66,128 Cr in Q2 as compared to Rs 49,195 Cr in the previous year, and 9.1% QoQ against Rs 60,610 Cr in the previous quarter.
16. Gross NPAs as on Sep 30, 2020, is at Rs 874 Cr (1.2%) against Rs 1064 Cr (1.8%) last year.
17. Net NPAs as on Sep 30, 2020 is at Rs 262.5 Cr (0.4%) against Rs 337 Cr (0.6%) last year.
18. Cost to income ratio was at 29.4% in Q2 vs 30.8% last year.
19. The retail deposit to total deposits was 77%.
20. EEB collection efficiency had reached 89% of value and 94% of customers at the start of Oct.
21. The average LTV in the Mortgage segment was at 67%.
22. The cost of funds was at 6.2% in Q2.
23. 142 new locations opened in Q2.

Investor Conference Call Details:

1. September overall banker collection efficiency has come at 92% in the overall bank.
2. Collection efficiency in micro banking has come at 91%.
3. In October, 95% of Microcredit customers have started repaying.
4. The bank plans to open up 574 new locations in FY21.
5. Another 500 outlets are planned in housing finance business in FY21.
6. The company is developing a new 5 year development plan. According to it the EEB (Emerging Entrepreneurs Business) or the microcredit business should be at 30% of overall business for the bank. And all of the bank's existing offerings like different loans, deposits, etc should be enabled through its microcredit branches.
7. 2nd part of the plans is to grow the housing finance business to 30% of overall business. The idea is to offer 2 types of loans, a micro housing loan and a prime housing loan.
8. 3rd part is the commercial banking business which should come to 30% of business. This business should help promote existing customers from micro credit which is an individual loan to MSME loan.
9. The 4th part will be to develop personal, vehicle loans which are namely consumer loans. This should be at 10% of business.
10. The management is not concerned with the fall in average deposits for microfinance customers from Rs 2100 to Rs 1600 in last 6 months as it is indicative of the current uncertain times that the whole country is going through.
11. Instead of conducting a big group meeting of 20-25 people, the collection agents are instead going to their individual homes in order to prevent large gatherings.
12. Micro housing will go under the EEB division while housing finance will be going on with affordable housing. Average ticket size is near 9-10 Lacs and is steadily increasing.
13. The company will aim to preserve current yields as it looks to implement its 5 year plan and see the product mix evolve.
14. The management has clarified that prime housing will have lower yield but micro housing will come with higher yield.
15. Collection efficiency from WB was at 90% and from rest of India was at 91%.
16. A big stumbling block in the way of collections is train services not running as before. If train services normalised, collection efficiency would have risen 5% according to management.

17. The company is now allowing top up loans and has relaxed its one loan policy due to the current economic environment. It disbursed a total of 21,27,817 new loans in Q2.
18. The percentage of top-up loans currently stands at 7.6% of the total EEB book.
19. In terms of customer base, around 12.3% of EEB customer set have taken top up loans.
20. The bank will not be charging any interest on interest for any customer and any missing payments will only push back the payment schedule.
21. The company started top up loans as Bandhan was the only one in the industry doing the 1 loan only policy and thus its customers would go to other players for top up loans.
22. The same considerations done when evaluating a customer at the time of a fresh loan is done for top up loan as well.
23. The bank has a policy to never provide fresh loans to preclose existing loans.
24. The management reiterated that the end goal for high vintage micro banking customers is to move them into the MSME segment. Since the bank has had a long association with such customers and has long payment history, it has better information on credit and risk position of such a customer.
25. The bank's main advantage in its home region of East India is the deep distribution network and the 10 year long history which has helped the bank acquire and retain quality customers.
26. The bank has written off Rs 109.21 Cr of micro loan book in Q2.
27. Collection efficiency in Assam has reached 87%.
28. 95-96% of borrowers have started operating their businesses.
29. The average ticket size of top up loans in H1 was at Rs 35,000.
30. 76% of customers are making full payments on schedule.
31. The bank has reduced the term deposit rate by almost 150 basis points in H1 and it will reprice it in a quarter or more.
32. In savings deposits, 63% of customers have deposits of greater than Rs 1 Lac.
33. Total fee income for Q2 was at Rs 382 Cr.
34. MFI AUM breakup for top 4 states is 47% for WB, 17% for Assam, 9% for Bihar, & Maharashtra 3-5%.
35. The company operates in 3 verticals for commercial banking. In one vertical the ticket size is at Rs 2 Cr or more where the bank competes with NBFC and banks. Another has a ticket size of Rs 30 Lacs for smaller SMEs and the last one has ticket size of Rs 3-3.5 Lac.

Analyst's View:

Bandhan Bank has aggressively grown its business over the last few years. The company had a decent quarter with good YoY growth in deposits and loans. Management is confident that the business is back to normalcy and is now looking to implement a new 5-year development plan. The company is seeing good traction in mortgage and commercial lending businesses. It is also confident of leveraging its existing customer set effectively to maintain its growth rate and upscale old MFI customers into SME loans. 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. 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.



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