Better repayment, pick-up in loans, flexibility in pricing: why Bandhan shares could smile again

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Getty Images
Chandra Shekhar Ghosh, Founder MD and CEO, Bandhan Bank

Bandhan Bank's stock has been facing the heat since August 2018. But things are looking up now. The stock has been outperforming Nifty 50 and Bank Nifty since the start of 2022. While there are some key positives, including new liberal lending rules and post-Covid-19 normalisation of business, one must keep an eye on factors that may play spoilsport.

Since the beginning, it was a rags-to-riches story every entrepreneur wanted to script. And Chandra Shekhar Ghosh, son of a sweet shop owner in Tripura, who, along with 30 others, put his savings to start Bandhan as a microfinance entity back in 2001, wrote one. Then came the banking licence in 2014, and a dream IPO in March 2018.

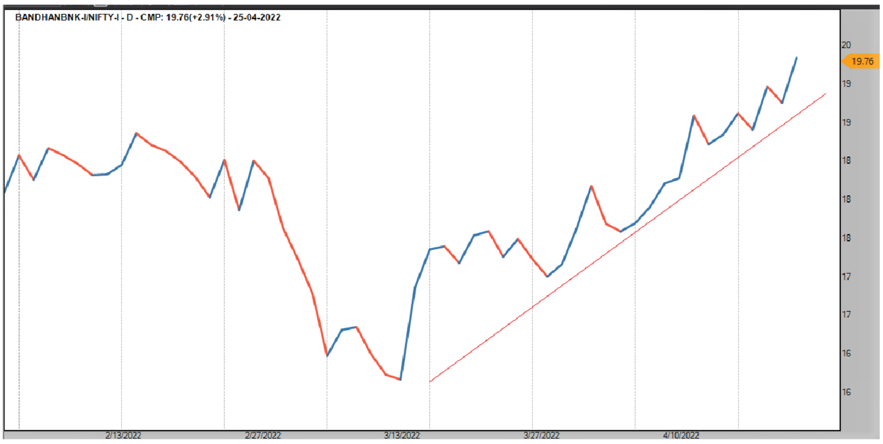
As Bandhan Bank listed at INR499, people who trusted Ghosh with the risk capital became millionaires overnight. But like every real-life story, twists and turns had to come. And they came, sooner than expected.

Bandhan Bank's stock has been under pressure since August 2018 when it made its all-time high of INR700 levels. During the March 2020 sell-off, the stock made a low of INR180. The Bank Nifty, which witnessed a sinking feeling at 16,200 levels in March 2020, went on to make life-time highs of 41,800 levels in October 2021, a return of more than 158%. But Bandhan Bank remained flat and recovered marginally to INR280 levels. It was the worst-performing stock in the entire banking space over the last two years.

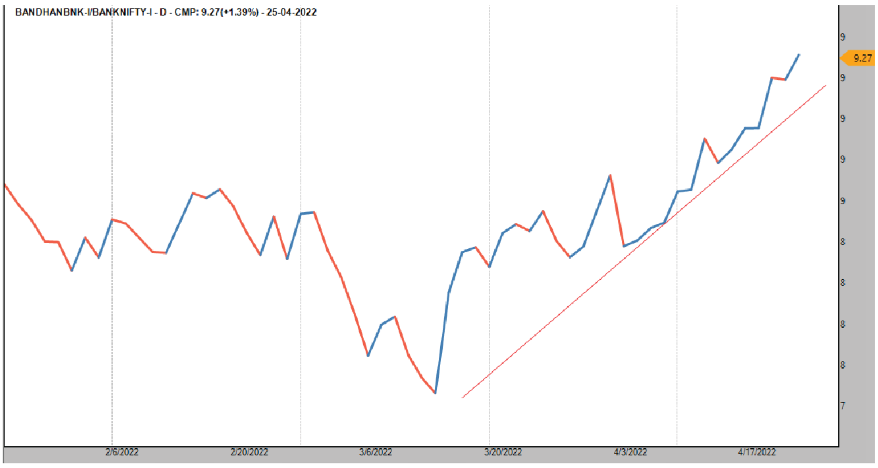
Now, it looks like the fortunes are looking up for the stock once again. It has been outperforming both Nifty 50 and Bank Nifty since the start of this calendar year. The stock has given year-to-date absolute returns of 33.76%, compared with a 1.89% decline in the Sensex during the same period, as per the BSE data.

The outperformer

Bandhan Bank outperforming Nifty 50



Bandhan Bank outperforming Bank Nifty



Source: *ET Prime research*

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So, what are the triggers propelling Bandhan Bank's stock? And where does it go from here?

Let's answer the second question first.

Up and about

The period of underperformance may now be over for the Bandhan Bank stock. Even on parameters, including momentum indicators and moving averages, the stock has turned from mildly bullish to bullish in the short-to-medium term. The number of foreign institutional investors (FIIs) holding stake in the bank has increased from 523 to 539 as of December 2021.

Once the stock closes above INR350, it would be heading towards its next target of INR440 levels. Immediate support for the stock is seen at around INR280 levels.

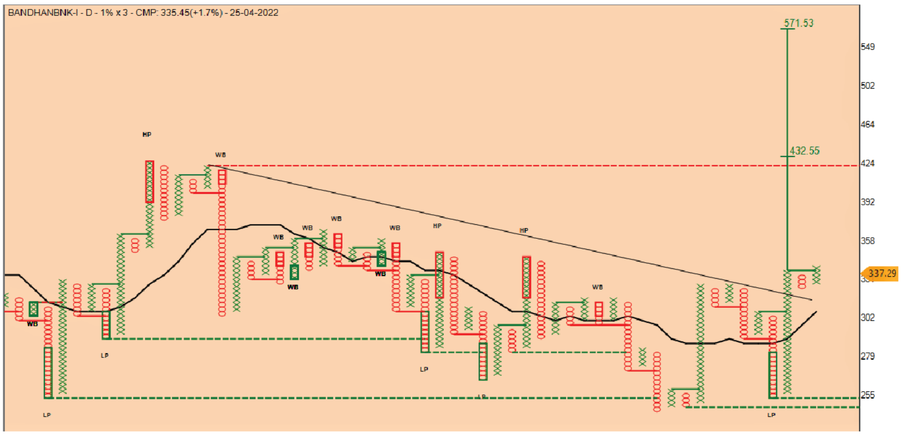
Mutual funds (MFs) and big-ticket players have started showing interest in the stock. MFs have substantially increased their stake in Bandhan Bank. From 1.88% in December 2021, their stake was at 4.19% by March 2022 quarter. Domestic institutions have also increased their holding from 0.05% to 0.37% in the same period.

Finance and capital-market advisors Nomura and CLSA have upgraded the stock and believe that the dark phase of the last three-four years is over for the bank.

Vijai Mantri, co-founder and chief mentor at Jeevantika, a consultancy service, is bullish on the entire banking space. He says, "Credit demand has been very robust and post-pandemic recovery is very fast and broad-based. The margin of banks will continue to improve from here on".

What's in store

Bandhan Bank on point and figure chart



Technical indicators turning bullish in the near term

Technicals- Summary

Indicator	Weekly	Monthly
MACD	Bullish	Mildly Bearish
RSI	No Signal	No Signal
Bollinger Bands	Bullish	Bullish
Moving Averages	Bullish (Daily)	
KST	Bullish	Bearish
Dow Theory	No Trend	Mildly Bullish
OBV	No Trend	Mildly Bullish

Technical Indicator Scale: Bearish, Mildly Bearish, Sideways, Mildly Bullish, Bullish

▲ Turned Bullish ● Reversed Bullish ● Reversed Bearish ▼ Turned Bearish

Source: *ET Prime research; Marketsmojo.com*

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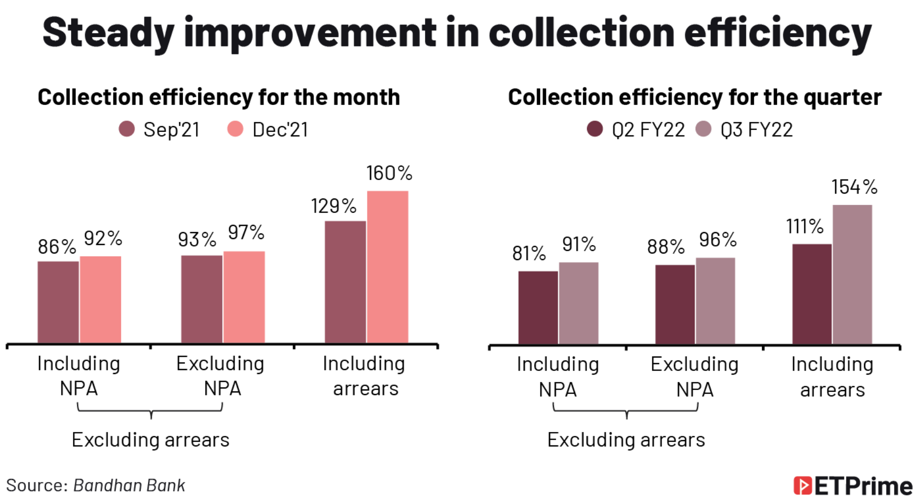
Let us now understand the factors working in Bandhan Bank's favour.

Trigger #1: Improving collection efficiency
Jayant Parasramka, an analyst at Motilal Oswal Financial Services, points out that improving trends in collection efficiency should continue to moderate credit cost and support earnings for

Bandhan Bank. It would also curtail forward flow in slippages and moderate the emerging entrepreneur business (EEB) stress pool. Also, disbursement growth is expected to be encouraging both for EEB business as well as housing finance.

In its business update shared with the stock exchanges on April 5, 2022, Bandhan Bank said the collection efficiency for EEB, excluding NPAs and arrears, was at 99% in March 2022, up from 97% in December 2021 and 93% in September 2021. The EEB portfolio, which is essentially microfinance loans, has been a key source of stress for the lender. This segment accounted for 52% of the total loans and advances of INR88,000 crore for Bandhan Bank at December-end 2021.

"EEB collection efficiency for March 2022, excluding NPA and arrears is back to pre-Covid levels of 99%," the bank said in the stock-exchange filing. There has been a steady improvement in collection efficiency in Assam and West Bengal, where Covid-19 lockdown and announcements on possible farm-loan waivers ahead of elections had led to sharp fall in repayments.



Responding to an ET Prime questionnaire relating to its business performance, a Bandhan Bank spokesperson said on April 13 that "We are firmly in the middle of our silent period ahead of our Q4 and FY22 earnings," and therefore not in a position to respond to the queries.

Jefferies, an investment bank and financial-services company, in its research paper on March 23 said, "With a large part of stressed loans already recognised as NPL (non-performing loan) and over 60% of such borrowers repaying dues, the bank can see negative net slippages (i.e. recoveries and upgrades > slippages). Moreover, the bank's provisioning buffers have been built without factoring recoveries from Assam government's waiver, hence any reduction in expected payout should not impact credit costs. The state government has paid dues to current borrowers in FY22 and factored about INR25 billion as relief to overdue borrowers with scope for review".

Trigger #2: Liberal lending rules

On March 14, 2022, the Reserve Bank of India issued new guidelines for microfinance institutions (MFIs). This is expected to unlock their next phase of growth.

The earlier regulations said lenders can only charge a margin of 10%-12% over their cost of funds. The new norms allow individual lenders to price their loans with their board having oversight.

As per the new rules, all collateral-free loans to households with annual income not more than INR3 lakh can be classified as micro-loans, up from INR1.25 lakh for rural areas and INR2 lakh for urban areas earlier. This enables a new set of borrowers who are now potential customers capturing almost 100 million households.

A measure that aims to contain indebtedness, lenders must now ensure that the monthly EMI does not exceed 50% of the monthly household income.
"The new regulation is expected to usher in a new phase of growth in the microfinance sector which is more client centric and responsible and will enable regulated entities to reach out to new unreached areas/excluded households."

— Alok Misra, CEO, Microfinance Institutions Network

“Earlier norms did not permit lending by more than two NBFC-MFIs to the same borrower and capped the loan quantum for lending cycles. By removing the lender and cycle limit norms and instead prescribing a limit on total loan-repayment obligations, all lenders will now have to analyse the comprehensive credit information of the borrowers and not just their microfinance loans,” ratings agency Crisil said in a note on March 28, 2022.

The new rules, which kicked off from April 1, 2022, are expected to lead to a better repayment record for borrowers in this segment.

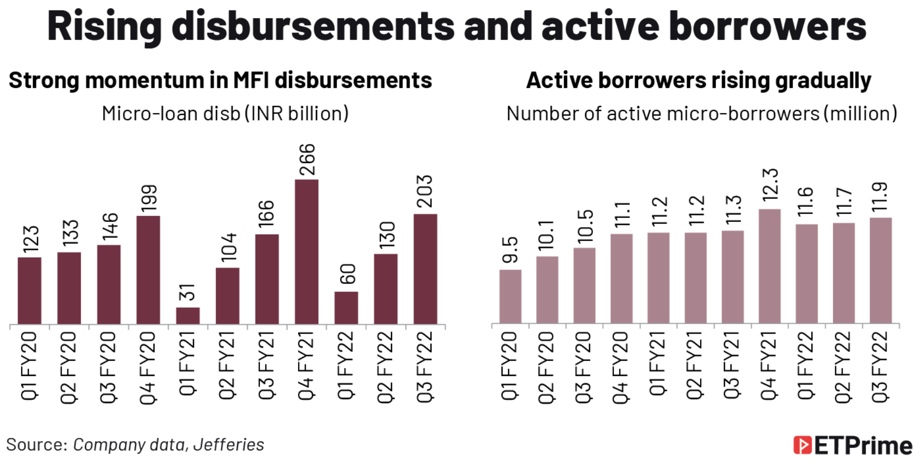
Alok Misra, CEO of Microfinance Institutions Network (MFIN), says, “The announcement of the Regulatory Framework for Microfinance Loans, 2022, by the RBI came at a very opportune time when the industry seemingly navigated the stressful Covid-19 period well and started showing signs of normalcy”.

“The new regulation is expected to usher in a new phase of growth in the microfinance sector which is more client centric and responsible and will enable regulated entities to reach out to new unreached areas/excluded households,” he adds.

Trigger #3: Booming business
According to latest data published by MFIN, the microfinance loan portfolio of all lenders grew about 10% year-on-year to INR2.56 lakh crore at the end of December 2021, compared with INR2.33 lakh crore a year ago.

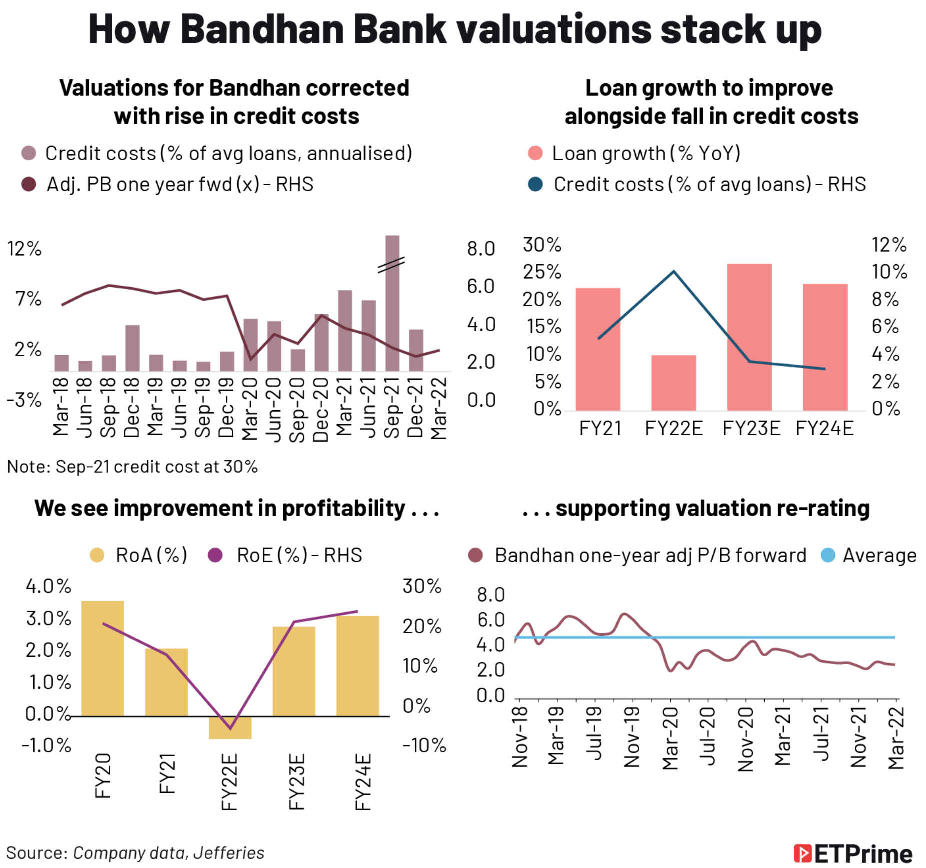
At the end of last year, 13 banks together held the largest share of the micro-loan portfolio with total loan outstanding at INR1.04 lakh crore, which is 40.4% of the microfinance universe. NBFC-MFIs are the second largest provider of micro-loans with collective loans outstanding of INR87,444 crore, accounting for 34.2% of the total. Small finance banks have a total loan outstanding of INR42,847 crore with a total share of 16.7%. NBFCs account for another 7.6% share and other MFIs account for 1.1% of the universe.

Normalisation of business with Covid-19 scars fading and above-mentioned liberal regulatory rules bode well for Bandhan Bank, the top listed player in this segment.



Since 2020, Bandhan Bank is following a five-year business road map with a target to increase the housing-loan share in total assets to 30%. It wants to reduce the share of microfinance group loans to 30% and the share of MSME-plus individual loans to also 30%. The balance 10% will be the retail book other than housing.

"Demand for loans is picking up, as business is normalising and even disbursements on housing loans have improved. The recent hike in interest rates on MFI loans should help margins even as the share of low-yielding housing loans rises...We rate the stock as 'buy' with a price target of INR380 based on 2.8x December 23 adjusted PB (price-to-book)," Jefferies said in the report mentioned earlier.



The bottom line
Some brokerages are positioning Bandhan Bank as a 'turnaround' lender this year.

But analysts also stress that the bank's NPA position should be tracked closely. Parasramka from Motilal Oswal Financial Services cautions that "the movement in the special mention account (SMA) book and the performance of the restructured book remain a key monitorable". SMAs are those accounts which could become non-performing.

Bandhan Bank's EEB stress pool is at INR17,010 crore as of December 2021, of which NPAs were at INR7,900 crore, restructured accounts at INR5,780 crore, and SMA book at INR3,330 crore. Against this stress pool, the bank has already made a provision of INR9,170 crore while it expects a total recovery of INR16,670 crore.

"The recovery estimate is conservatively based on the actual recovery made from the stress pool in Q3 FY22. Historically, Q4 has always been the best quarter in terms of recovery," Bandhan Bank said in its January 21, 2022, investor presentation, while releasing financial results for Q3.

Investors will surely keep their ear to the ground and take a call.

(*Graphics by Mohammad Arshad*)


BY

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