Bandhan Bank shows virus signs, ease of lockdown key to revival

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Bandhan Bank's shares fell a whopping 69% between mid-January and end-March; it has since recovered about 21% of these losses. The shares are now down 55% from their highs in mid-January.

In an update to stock exchanges last month, when the bank said its loan book grew 60% year-on-year for the March quarter, investors took it as a sign of a strong balance sheet, which led to the recovery in the shares.

But, as they say, the devil is in the details.

Sure, a 60% loan book growth in a quarter where anxiety over covid-19 reached a peak and concluded with a national lockdown on 24 March, is commendable. But remove the newly acquired Gruh Finance's book from Bandhan Bank and the loan growth is just 20%. That is far lower than the roughly 30% the bank has averaged in the past several quarters.

Bandhan Bank swallowed Gruh Finance in October last year as part of its plan to bring down promoter shareholding. This was to meet regulatory norms as also to diversify its portfolio.

At 20% growth, the effect of the lockdown is very much visible on Bandhan Bank. Physical restrictions due to the lockdown meant that the bank's staff could not do its door-to-door service for which it is famous, Chandra Shekhar Ghosh, managing director and chief executive officer told *Mint*. Note that Bandhan Bank is still largely a micro lender with microfinance loans comprising more than half of its loan book.

What should also worry investors is that 71% of the bank's borrowers have opted for the three-month moratorium on repayments that the regulator has allowed banks to give. All its microfinance borrowers have opted for the moratorium.

This shows that borrowers are conserving cash in uncertain times. But Ghosh said the moratorium had to be given not just because of stress but also since the bank's staff are not able to collect repayments due to physical restrictions. "Moratorium is not the problem, the lockdown is the problem," Ghosh said. Collections, however, were a robust 98.7% just before the lockdown.

The ₹690 crore provisions set aside specifically for covid-19 risks should comfort investors.

Moreover, the management believes its customers have not been hit hard, given that most of them are either employed in farming and allied activities or largely involved in essential items. These are not restricted during the lockdown. "As lockdown gradually lifts and collections start normalizing over the next six months, we believe the business can rebound quickly," wrote analysts at JP Morgan India Private Ltd in a note dated 6 May.

Still, the fact that the company's shares have fallen as much as 55% shows that investors are worried it may take a while before things bounce back to normal.

QUARANTINED GROWTH

THE lender's loan book excluding Gruh Finance grew by 20% in Q4, lower than the previous quarters

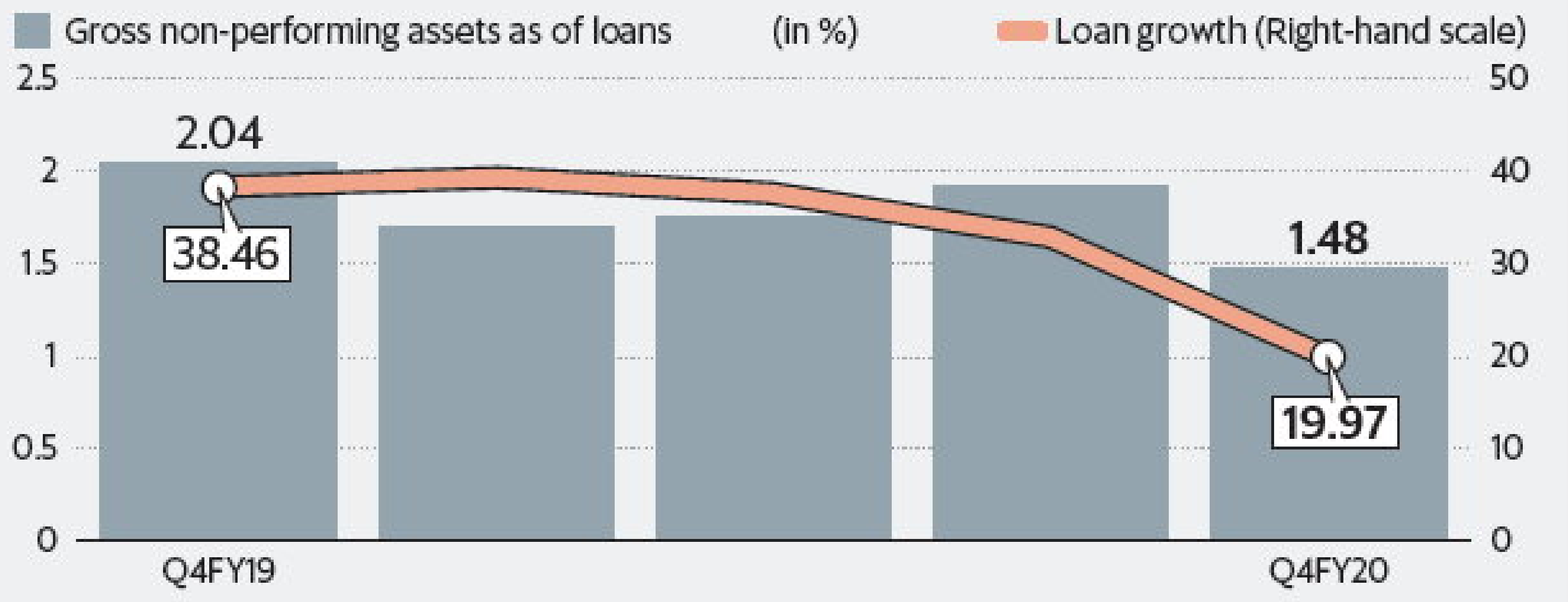
NEARLY 71% of the bank's borrowers opted for moratorium on interest payment

ANALYSTS see business improving once the lockdown restrictions begin to ease

Chartered accountants shifting to cloud tech for tax, GST filing due to lockdown
bit.ly/3boLcDY

Lockdown load

Excluding the Gruh Finance merger, Bandhan Bank saw its loan growth drop in Q4 but managed to keep bad loans constrained.



Q4FY20 loan growth excludes Gruh Finance.
Gross NPA includes performance of Gruh Finance Ltd from Q2FY20 onwards.

Source: Bank presentations

SANTOSH KUMAR SHARMA/MINT