

Bandhan Bank | BUY

Leadership clarity and CGFMU outcomes are positives

Bandhan Bank today announced that RBI has approved the appointment of Mr. Partha Pratim Sengupta as MD&CEO of the bank for a period of 3 years. He is expected to take charge before 10th November, 2024. Mr. Sengupta was earlier MD&CEO of Indian Overseas Bank until December 2022. Mr. Sengupta has also served as Deputy Managing Director and Chief Credit Officer of State Bank of India earlier. He was also the Chairman of the Corporate Centre Credit Committee, the highest sanctioning committee of the bank just below the board. A brief profile of Mr. Sengupta is given [here](#).

- We believe the appointment brings clarity on leadership at Bandhan Bank which in turn removes a critical overhang. Mr. Sengupta's career experience in credit across retail and corporate banking should help Bandhan Bank, where credit performance has been challenging over the past few years. With this, we believe that managing transition at Bandhan Bank is now largely complete (2 Executive Directors and CFO were appointed over last 18months).
- Additionally, Bandhan Bank also announced the outcome of the forensic audit under the claims made under CGFMU and ECLGS schemes during Covid19. As per the outcome of the total claims of INR22.12bn (of which the bank had already received INR9.16bn earlier), the NCGTC has allowed claims of INR12.31bn, which results into residual claim that has been approved at INR3.14bn. In addition, the bank has recoveries worth INR2.28bn on this portfolio which the bank holds on its balance sheet. As a result, the bank will account for Other Income through these events worth INR5.43bn in 2Q25 (38% of 2QFY25e PBT). In addition, NCGTC has allowed a fresh claim worth INR3.47bn to be submitted under ECLGS for consideration.
- We believe while the amount approved by NCGTC is lesser than the initial claims, the closure of the pending issues and the fact that these have been approved post a forensic audit is a heartening outcome given concerns on processes that had emerged, which to a large extent have now been put to rest.
- Clarity on leadership should get the focus back on the bank's fundamentals and strategic direction to be undertaken going ahead. While microfinance as a space remains under asset quality pressure, we believe that Bandhan Bank has grown meaningfully slower than rest of the industry in this cycle which should mitigate incremental stress. We will review our estimates post 2QFY25 results. The stock currently trades at inexpensive valuations of 1.0x FY26e P/BV and offers attractive risk-reward in our view. Maintain BUY with a TP of INR 260.



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Recommendation and Price Target

| | |
|----------------------------|-------|
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Current Price Target (12M) | 260 |
| Upside/(Downside) | 38.5% |
| Previous Price Target | 260 |
| Change | 0.0% |

Key Data – BANDHAN IN

| | |
|--------------------------|---------------------|
| Current Market Price | INR188 |
| Market cap (bn) | INR302.4/US\$3.6 |
| Free Float | 56% |
| Shares in issue (mn) | 1,611.0 |
| Diluted share (mn) | |
| 3-mon avg daily val (mn) | INR3,684.1/US\$43.9 |
| 52-week range | 263/169 |
| Sensex/Nifty | 81,611/24,998 |
| INR/US\$ | 84.0 |

Price Performance

| % | 1M | 6M | 12M |
|-----------|------|------|-------|
| Absolute | -6.2 | 2.8 | -25.5 |
| Relative* | -6.3 | -5.5 | -39.3 |

* To the BSE Sensex

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| Financial Summary | | | | | | (INR mn) |
|----------------------|--------------|-------------|-------------|-------------|-------------|----------|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E | |
| Net Profit | 1,258 | 21,946 | 22,296 | 37,959 | 48,742 | |
| Net Profit (YoY) (%) | -94.3% | 1,644.6% | 1.6% | 70.3% | 28.4% | |
| Assets (YoY) (%) | 20.8% | 12.1% | 14.2% | 16.9% | 17.2% | |
| ROA (%) | 0.1% | 1.5% | 1.3% | 2.0% | 2.2% | |
| ROE (%) | 0.7% | 11.9% | 10.8% | 16.2% | 17.7% | |
| EPS | 0.8 | 13.6 | 13.8 | 23.6 | 30.3 | |
| EPS (YoY) (%) | -94.3% | 1,644.6% | 1.6% | 70.3% | 28.4% | |
| PE (x) | 240.7 | 13.8 | 13.6 | 8.0 | 6.2 | |
| BV | 108 | 122 | 134 | 156 | 185 | |
| BV (YoY) (%) | -0.2% | 12.7% | 10.3% | 16.4% | 18.4% | |
| P/BV (x) | 1.74 | 1.55 | 1.40 | 1.20 | 1.02 | |

Source: Company data, JM Financial. Note: Valuations as of 10/Oct/2024

Financial Tables (Standalone)

| Profit & Loss | | | | | | (INR mn) |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|----------|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E | |
| Net Interest Income | 87,145 | 92,596 | 1,03,256 | 1,24,277 | 1,47,840 | |
| Profit on Investments | 2,775 | -1,064 | 4,087 | 4,765 | 5,782 | |
| Exchange Income | 6 | -25 | -331 | -384 | -445 | |
| Fee & Other Income | 25,444 | 25,775 | 17,890 | 20,183 | 24,202 | |
| Non-Interest Income | 28,225 | 24,686 | 21,647 | 24,565 | 29,539 | |
| Total Income | 1,15,370 | 1,17,282 | 1,24,903 | 1,48,841 | 1,77,378 | |
| Operating Expenses | 35,236 | 46,368 | 58,508 | 67,827 | 76,953 | |
| Pre-provisioning Profits | 80,134 | 70,913 | 66,395 | 81,015 | 1,00,426 | |
| Loan-Loss Provisions | 66,986 | 52,257 | 36,842 | 30,911 | 36,089 | |
| Provisions on Investments | 0 | 0 | 0 | 0 | 0 | |
| Others Provisions | 11,862 | -10,273 | 124 | 0 | 0 | |
| Total Provisions | 78,848 | 41,984 | 36,966 | 30,911 | 36,089 | |
| PBT | 1,286 | 28,930 | 29,429 | 50,103 | 64,337 | |
| Tax | 28 | 6,983 | 7,134 | 12,145 | 15,595 | |
| PAT (Pre-Extraordinaries) | 1,258 | 21,946 | 22,296 | 37,959 | 48,742 | |
| Extra ordinaries (Net of Tax) | 0 | 0 | 0 | 0 | 0 | |
| Reported Profits | 1,258 | 21,946 | 22,296 | 37,959 | 48,742 | |
| Dividend paid | 0 | 2,416 | 2,416 | 2,416 | 2,416 | |
| Retained Profits | 1,258 | 19,530 | 19,879 | 35,542 | 46,325 | |

Source: Company, JM Financial

| Key Ratios | | | | | |
|-----------------------------|--------|----------|--------|--------|--------|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E |
| Growth (YoY) (%) | | | | | |
| Deposits | 23.5% | 12.2% | 25.1% | 18.0% | 18.0% |
| Advances | 15.1% | 11.5% | 15.6% | 16.8% | 17.3% |
| Total Assets | 20.8% | 12.1% | 14.2% | 16.9% | 17.2% |
| NII | 15.2% | 6.3% | 11.5% | 20.4% | 19.0% |
| Non-interest Income | 39.6% | -12.5% | -12.3% | 13.5% | 20.2% |
| Operating Expenses | 25.1% | 31.6% | 26.2% | 15.9% | 13.5% |
| Operating Profits | 18.4% | -11.5% | -6.4% | 22.0% | 24.0% |
| Core Operating profit | 18.2% | -7.0% | -13.4% | 22.4% | 24.1% |
| Provisions | 106.4% | -46.8% | -12.0% | -16.4% | 16.7% |
| Reported PAT | -94.3% | 1,644.6% | 1.6% | 70.3% | 28.4% |
| Yields / Margins (%) | | | | | |
| Interest Spread | 6.42% | 6.12% | 6.09% | 6.26% | 6.30% |
| NIM | 7.10% | 6.67% | 6.62% | 6.83% | 6.90% |
| Profitability (%) | | | | | |
| Non-IR to Income | 24.5% | 21.0% | 17.3% | 16.5% | 16.7% |
| Cost to Income | 30.5% | 39.5% | 46.8% | 45.6% | 43.4% |
| ROA | 0.10% | 1.49% | 1.34% | 1.97% | 2.16% |
| ROE | 0.7% | 11.9% | 10.8% | 16.2% | 17.7% |
| Assets Quality (%) | | | | | |
| Slippages | 11.97% | 10.46% | 5.49% | 3.40% | 3.40% |
| Gross NPA | 6.46% | 4.87% | 3.84% | 3.79% | 3.76% |
| Net NPAs | 1.66% | 1.17% | 1.11% | 1.09% | 1.08% |
| Provision Coverage | 75.5% | 76.8% | 71.8% | 72.0% | 72.0% |
| Specific LLP | 5.88% | 6.60% | 3.17% | 2.22% | 2.21% |
| Net NPAs / Networth | 9.0% | 6.3% | 6.2% | 6.1% | 6.0% |
| Capital Adequacy (%) | | | | | |
| Tier I | 18.89% | 18.70% | 17.21% | 15.60% | 15.75% |
| CAR | 20.10% | 19.76% | 18.28% | 16.43% | 16.45% |

Source: Company, JM Financial

| Balance Sheet | | | | | | (INR mn) |
|--------------------------|------------------|------------------|------------------|------------------|------------------|----------|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E | |
| Equity Capital | 16,108 | 16,108 | 16,110 | 16,110 | 16,110 | |
| Reserves & Surplus | 1,57,704 | 1,79,733 | 1,99,987 | 2,35,529 | 2,81,854 | |
| Deposits | 9,63,306 | 10,80,693 | 13,52,020 | 15,95,383 | 18,82,552 | |
| Borrowings | 1,99,212 | 2,47,108 | 1,63,715 | 1,80,087 | 1,98,095 | |
| Other Liabilities | 53,622 | 34,057 | 46,585 | 51,244 | 56,368 | |
| Total Liabilities | 13,89,952 | 15,57,700 | 17,78,417 | 20,78,352 | 24,34,980 | |
| Investments | 2,90,787 | 3,23,659 | 2,92,876 | 3,95,875 | 4,64,379 | |
| Net Advances | 9,39,749 | 10,47,568 | 12,11,368 | 14,15,121 | 16,60,149 | |
| Cash & Equivalents | 93,214 | 82,497 | 1,61,705 | 1,60,801 | 1,88,554 | |
| Fixed Assets | 5,879 | 8,546 | 11,734 | 13,090 | 14,605 | |
| Other Assets | 60,323 | 95,430 | 1,00,733 | 93,465 | 1,07,292 | |
| Total Assets | 13,89,952 | 15,57,700 | 17,78,417 | 20,78,352 | 24,34,980 | |

Source: Company, JM Financial

| Dupont Analysis | | | | | |
|-----------------------|-------|-------|-------|-------|-------|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E |
| NII / Assets | 6.86% | 6.28% | 6.19% | 6.44% | 6.55% |
| Other Income / Assets | 2.22% | 1.67% | 1.30% | 1.27% | 1.31% |
| Total Income / Assets | 9.08% | 7.96% | 7.49% | 7.72% | 7.86% |
| Cost / Assets | 2.77% | 3.15% | 3.51% | 3.52% | 3.41% |
| PBP / Assets | 6.31% | 4.81% | 3.98% | 4.20% | 4.45% |
| Provisions / Assets | 6.21% | 2.85% | 2.22% | 1.60% | 1.60% |
| PBT / Assets | 0.10% | 1.96% | 1.76% | 2.60% | 2.85% |
| Tax rate | 2.2% | 24.1% | 24.2% | 24.2% | 24.2% |
| ROA | 0.10% | 1.49% | 1.34% | 1.97% | 2.16% |
| RoRWAs | 0.15% | 2.28% | 2.01% | 2.75% | 2.87% |
| Leverage | 8.0 | 8.0 | 8.2 | 8.3 | 8.2 |
| ROE | 0.7% | 11.9% | 10.8% | 16.2% | 17.7% |

Source: Company, JM Financial

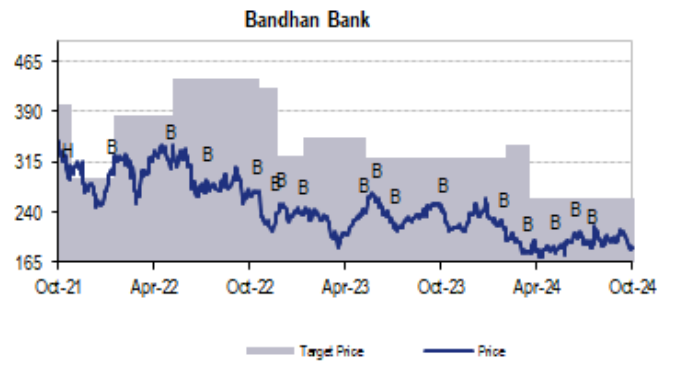
| Valuations | | | | | |
|-----------------|---------|----------|---------|---------|---------|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E |
| Shares in Issue | 1,610.8 | 1,610.8 | 1,611.0 | 1,611.0 | 1,611.0 |
| EPS (INR) | 0.8 | 13.6 | 13.8 | 23.6 | 30.3 |
| EPS (YoY) (%) | -94.3% | 1,644.6% | 1.6% | 70.3% | 28.4% |
| PER (x) | 240.7 | 13.8 | 13.6 | 8.0 | 6.2 |
| BV (INR) | 108 | 122 | 134 | 156 | 185 |
| BV (YoY) (%) | -0.2% | 12.7% | 10.3% | 16.4% | 18.4% |
| ABV (INR) | 108 | 122 | 134 | 156 | 185 |
| ABV (YoY) (%) | 6.8% | 12.7% | 10.3% | 16.4% | 18.4% |
| P/BV (x) | 1.74 | 1.55 | 1.40 | 1.20 | 1.02 |
| P/ABV (x) | 1.74 | 1.55 | 1.40 | 1.20 | 1.02 |
| DPS (INR) | 0.0 | 1.5 | 1.5 | 1.5 | 1.5 |
| Div. yield (%) | 0.0% | 0.8% | 0.8% | 0.8% | 0.8% |

Source: Company, JM Financial

History of Recommendation and Target Price

| Date | Recommendation | Target Price | % Chg. |
|-----------|----------------|--------------|--------|
| 30-Mar-21 | Buy | 535 | |
| 8-May-21 | Buy | 450 | -15.9 |
| 31-Jul-21 | Buy | 400 | -11.1 |
| 31-Oct-21 | Hold | 290 | -27.5 |
| 23-Jan-22 | Buy | 385 | 32.8 |
| 15-May-22 | Buy | 440 | 14.3 |
| 22-Jul-22 | Buy | 440 | 0.0 |
| 28-Oct-22 | Buy | 425 | -3.4 |
| 2-Dec-22 | Buy | 325 | -23.5 |
| 12-Dec-22 | Buy | 325 | 0.0 |
| 22-Jan-23 | Buy | 350 | 7.7 |
| 20-May-23 | Buy | 320 | -8.6 |
| 13-Jun-23 | Buy | 320 | 0.0 |
| 16-Jul-23 | Buy | 320 | 0.0 |
| 18-Oct-23 | Buy | 320 | 0.0 |
| 11-Feb-24 | Buy | 340 | 6.3 |
| 28-Mar-24 | Buy | 260 | -23.5 |
| 18-May-24 | Buy | 260 | 0.0 |
| 25-Jun-24 | Buy | 260 | 0.0 |
| 28-Jul-24 | Buy | 260 | 0.0 |

Recommendation History



APPENDIX I

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|-----------------------|---|
| Rating | Meaning |
| Buy | Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields. |
| Hold | Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months. |
| Sell | Price expected to move downwards by more than 10% from the current market price over the next twelve months. |

* REITs refers to Real Estate Investment Trusts.

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