

BUY **Bandhan Bank****Asset quality slips again; reinforcing Mgmt strength**BFSI - Banks ▶ Result Update ▶ **October 19, 2023****TARGET PRICE (Rs): 290**

Despite slower growth, Bandhan Bank reported in-line PAT at Rs7.2bn, mainly owing to lower provisions. Slippages were slightly elevated by 57bps QoQ to 7.3%, due to flood-related impact and higher stress-flow in Assam. CGFMU recovery in 2Q was delayed on account of audit and is expected to flow through in 2HFY24. Separately, the long elusive recovery from the Assam loan-relief scheme has begun, but the quantum remains limited. Bank sees credit cost at ~2% for FY24. Recently, the bank hired an additional ED (awaits RBI approval). Further, considering that the tenure of the current CFO is ending on 19-Oct-23, the bank has appointed Abhijit Ghosh, Head - Finance & Accounts, as the interim CFO w.e.f. 20-Oct-23.

We cut FY24-26E earnings by 2%-7%, building-in the slower growth and higher opex. However, we expect RoA to improve to 2-2.5% and RoE progressing to 16-20% over FY24-26E, from a low of 1.5% and 12%, respectively, in FY23. We retain BUY, with revised TP of Rs290/sh, rolling forward on 1.7x Sep-25E ABV.

Bandhan Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	1,258	21,946	34,228	47,210	59,885
Loan growth (%)	15.1	11.5	15.9	21.6	24.6
NII growth (%)	15.2	6.3	9.2	16.0	19.7
NIM (%)	7.2	6.7	6.5	6.4	6.3
PPOP growth (%)	18.4	(11.5)	(3.0)	18.7	22.7
Adj. EPS (Rs)	0.8	13.6	21.2	29.3	37.2
Adj. EPS growth (%)	45.2	1,644.5	56.0	37.9	26.8
Adj. BV (INR)	100.6	115.9	131.3	157.1	190.2
Adj. BVPS growth (%)	6.2	15.1	13.3	19.6	21.1
RoA (%)	0.1	1.5	2.0	2.4	2.5
RoE (%)	0.7	11.9	16.2	19.1	20.3
P/E (x)	304.9	17.5	11.2	8.1	6.4
P/ABV (x)	2.4	2.1	1.8	1.5	1.3

Source: Company, Emkay Research

Growth remains sub-par, but Management guides for acceleration in 2H

Bandhan Bank posted AUM growth of 13% YoY/4% QoQ, which remains sub-par vs peers'. This is mainly due to continued weakness in MFI and the housing segment. Deposit growth too was sluggish at 13% YoY/3% QoQ, but CASA ratio improved QoQ to 38.5%. Bank carries a healthy liquidity buffer, with LCR at 163%. NIM has been stable for the past two quarters, but declined by 10bps to 7.2% in Q2FY24 (7.3% for Sep-23, reflective of the festive demand) due to rising CoF. Bank expects to maintain NIM at 7-7.5% levels in FY24, owing to healthy yields and contained CoF.

Asset quality slips yet again

After a spike of 190bps QoQ in the GNPA ratio to 6.8% in 1Q due to recognition of the ECLGS stress pool of up to Rs5.8bn, as mandated by the recent RBI circular, the bank has seen further increase in the ratio by 57bps QoQ to 7.3% due to higher slippages from the Assam portfolio. CGFMU recovery has been delayed (vs expectations of recovery in 2Q) due to the audit, but could flow-through in 2H. Separately, the long-awaited recovery from the Assam loan relief scheme has started, but the quantum is limited and the bank is not pinning much hope on the recovery.

Outlook and Valuations

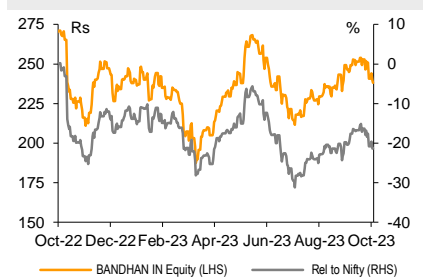
We cut FY24-26E earnings by 2%-7%, factoring-in the slower growth and higher opex. However, we expect improvement in RoA to 2-2.5% and in RoE to 16-20% over FY24-26E, from a low of 1.5% and 12%, respectively, in FY23. We retain our BUY on Bandhan Bank, with revised TP of Rs290/share, rolling forward on 1.7x Sep-25E ABV. Further, considering that the tenure of the current CFO ends on 19-Oct-2023, the bank has appointed Abhijit Ghosh, Head - Finance & Accounts, as the interim CFO w.e.f. 20-Oct-2023. Key risks: Micro-economic risk leading to delay in growth/asset-quality recovery; Senior Management attrition.

Target Price - 12M	Sep-24
Change in TP (%)	1.8
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.8
CMP (18-Oct-23) (Rs)	238.1

Stock Data	Ticker
52-week High (Rs)	275
52-week Low (Rs)	182
Shares outstanding (mn)	1,610.9
Market-cap (Rs bn)	384
Market-cap (USD mn)	4,606
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	12
ADTV-3M (Rs mn)	2,759.9
ADTV-3M (USD mn)	33.1
Free float (%)	0.5
Nifty-50	19,671
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	40.0
FPIs/MFs (%)	32.8/17.5

Price Performance

(%)	1M	3M	12M
Absolute	(3.4)	11.1	(12.0)
Rel. to Nifty	(1.2)	11.5	(21.8)

1-Year share price trend (Rs)**Anand Dama**

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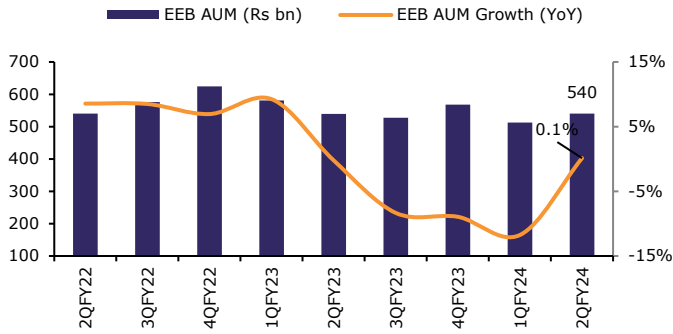
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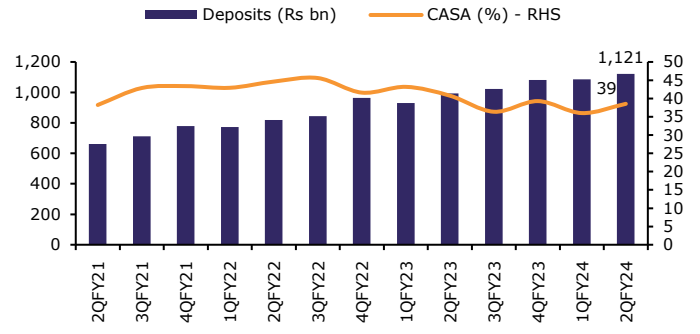
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Exhibit 1: Growth remains sub-par vs. peers due to continued drag on MFI and the housing segment



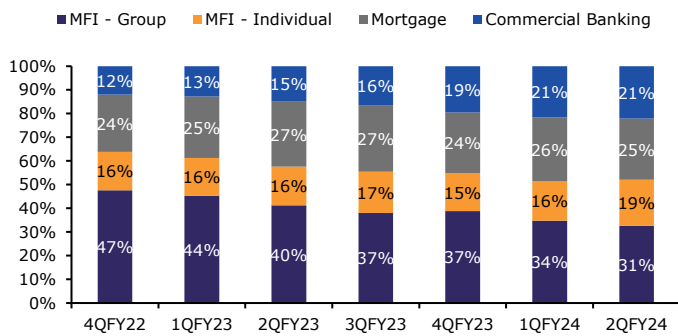
Source: Company, Emkay Research

Exhibit 2: Moderate deposit growth, but CASA improves



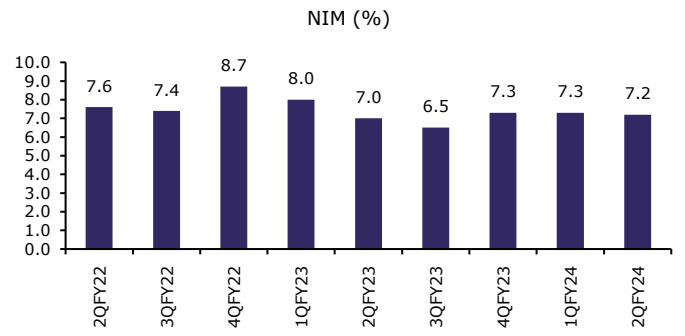
Source: Company, Emkay Research

Exhibit 3: Bank persists on diversifying away from the Group MFI business



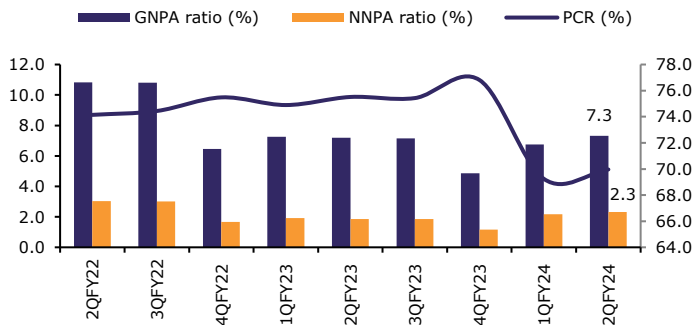
Source: Company, Emkay Research

Exhibit 4: Rising CoF led to a slight dip in NIMs



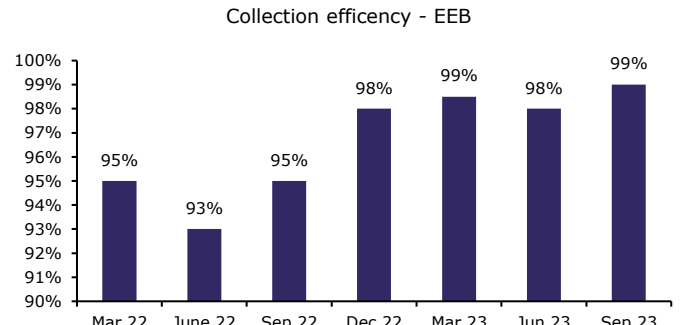
Source: Company, Emkay Research

Exhibit 5: Higher stress flow in Assam and flood-related impact led to surge in NPAs



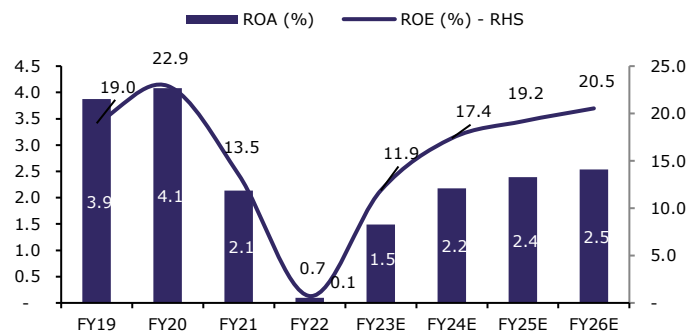
Source: Company, Emkay Research

Exhibit 6: Collection efficiency improves to 99%



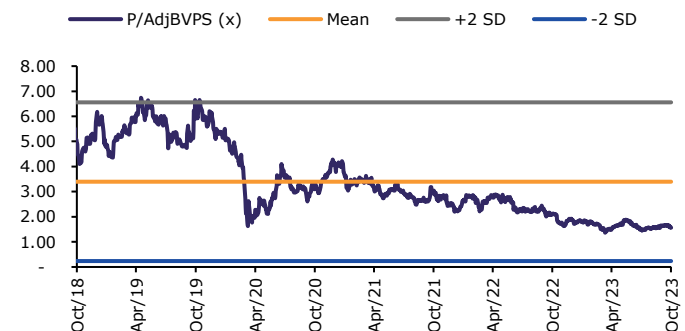
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to increase by FY25E



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1.7x one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs. Estimates (Q2FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	29,836	30,550	29,592	-2%	1%	Decline in NII led to a miss
PPOP	15,834	16,637	18,559	-5%	-15%	Lower Net income along with higher staff expenses led to the miss
PAT	7,212	7,071	7,112	2%	1%	Lower provisions led to a PAT beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	FY23	FY24E	YoY (%)
Interest Earned	37,735	38,076	42,683	45,229	44,919	19	-1	1,59,047	1,87,754	18
Interest Exp	15,805	17,272	17,965	20,323	20,486	30	1	66,451	86,660	30
Net Interest Income	21,930	20,804	24,718	24,906	24,434	11	-2	92,596	1,01,094	9
Global NIMs (reported)	7.00	6.50	7.30	7.30	7.20	20bps	-10bps	6.73	6.62	-11bps
Non-interest Income	4,764	10,333	6,291	3,851	5,403	13	40	24,686	24,579	0
Operating Expenses	11,165	11,916	13,053	13,134	14,002	25	7	46,368	56,916	23
Pre Provisioning Profit	15,529	19,222	17,957	15,623	15,834	2	1	70,913	68,758	-3
Provision & Contingencies	12,797	15,415	7,348	6,021	6,362	-50	6	41,984	22,999	-45
PBT	2,732	3,807	10,609	9,602	9,472	247	-1	28,930	45,759	58
Income Tax Expense (Gain)	640	901	2,526	2,392	2,261	254	-5	6,983	11,531	65
Net Profit/(Loss)	2,093	2,906	8,083	7,211	7,212	245	0	21,946	34,228	56
Gross NPA (%)	7.19	7.15	4.87	6.76	7.32	14bps	57bps	4.87	5.13	27bps
Net NPA (%)	1.86	1.86	1.17	2.18	2.32	46bps	14bps	1.17	1.60	43bps
Deposits (Rs bn)	994	1,023	1,081	1,085	1,121	13	3	1,081	1,258	16
Net Advances (Rs bn)	902	921	1,048	982	1,020	13	4	1,048	1,214	16

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	1,29,191	1,25,673	-2.7%	1,53,163	1,47,385	-3.8%	1,83,407	1,75,405	-4.4%
PPOP	73,216	68,758	-6.1%	88,243	81,624	-7.5%	1,08,514	1,00,147	-7.7%
PAT	36,917	34,228	-7.3%	48,000	47,210	-1.6%	61,587	59,885	-2.8%
EPS (Rs)	22.9	21.2	-7.3%	29.8	29.3	-1.6%	38.2	37.2	-2.8%
BV (Rs)	142.0	140.3	-1.2%	168.8	166.6	-1.3%	203.5	200.3	-1.6%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	9.8	19.0	21.0	24.0
Deposit Growth (%)	12.2	16.4	25.2	26.4
NIM (%)	6.7	6.6	6.6	6.5
GNPA (%)	4.9	5.1	4.5	3.8
Credit Cost (%)	4.0	2.0	1.4	1.2

Source: Emkay Research

Exhibit 13: Key ratios and trends

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Loans (Rs mn)	8,16,600	8,80,000	9,93,400	9,66,500	9,58,300	9,77,900	10,91,200	10,31,690	10,76,300
growth YoY (%)	6.6	9.7	14.1	20.3	17.4	11.1	9.8	6.7	12.3
Loans QoQ (%)	1.6	7.8	12.9	(2.7)	(0.8)	2.0	11.6	(5.5)	4.3
Loan Composition (%)									
Micro- Banking assets	66.2	65.4	62.8	60.1	56.3	54.0	52.1	49.7	50.2
Non - Micro banking assets	33.8	34.6	37.2	39.9	43.7	46.0	47.9	50.3	49.8
Liability Profile									
Deposits (Rs mn)	8,18,983	8,44,998	9,63,306	9,30,570	9,93,658	10,22,830	10,80,693	10,84,800	11,20,792
growth YoY	23.8	18.7	23.5	20.3	21.3	21.0	12.2	16.6	12.8
growth QoQ	5.9	3.2	14.0	(3.4)	6.8	2.9	5.7	0.4	3.3
CASA	44.6	45.6	41.6	43.2	40.8	36.4	39.3	36.0	38.5
CA	4.4	4.6	5.7	4.7	5.1	4.6	5.9	4.8	5.6
SA	40.3	41.0	35.9	38.5	35.7	31.7	33.3	31.2	32.9
Asset Quality (Rs mn)									
Gross NPA	87,636	94,416	63,800	69,675	68,539	69,648	52,986	69,604	78,738
GNPA (%)	10.82	10.81	6.46	7.25	7.19	7.15	4.87	6.76	7.32
NPA	22,658	24,131	15,642	17,491	16,782	17,113	12,283	21,407	23,652
NNPA (%)	3.04	3.01	1.66	1.92	1.86	1.86	1.17	2.18	2.32
PCR – Specific (%)	74.1	74.4	75.5	74.9	75.5	75.4	76.8	69.2	70.0
Capital Adequacy									
CAR (%)	20.4	20.0	20.1	19.4	19.4	19.1	19.8	19.8	19.2
Tier I (%)	19.4	19.0	18.9	18.3	18.4	18.1	18.7	18.8	18.2
ROA	(2.6)	2.8	6.0	2.5	0.6	0.8	2.2	1.9	1.9
ROE	(17.3)	22.2	46.5	19.7	4.5	6.2	17.0	14.4	14.0

Source: Company, Emkay Research

Bandhan Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	1,38,716	1,59,047	1,87,754	2,15,709	2,57,239
Interest Expense	51,571	66,451	86,660	98,405	1,16,795
Net interest income	87,145	92,596	1,01,094	1,17,304	1,40,445
NII growth (%)	15.2	6.3	9.2	16.0	19.7
Other income	28,225	24,686	24,579	30,082	34,960
Total Income	1,15,370	1,17,282	1,25,673	1,47,385	1,75,405
Operating expenses	35,236	46,368	56,916	65,762	75,258
PPOP	80,134	70,913	68,758	81,624	1,00,147
PPOP growth (%)	18.4	(11.5)	(3.0)	18.7	22.7
Core PPOP	77,813	70,173	64,316	74,960	92,817
Provisions & contingencies	78,848	41,984	22,999	18,508	20,087
PBT	1,286	28,930	45,759	63,116	80,060
Extraordinary items	0	0	0	0	0
Tax expense	28	6,983	11,531	15,905	20,175
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,258	21,946	34,228	47,210	59,885
PAT growth (%)	45.2	1,644.6	56.0	37.9	26.8
Adjusted PAT	1,258	21,946	34,228	47,210	59,885
Diluted EPS (Rs)	0.8	13.6	21.2	29.3	37.2
Diluted EPS growth (%)	(94.3)	1,646.3	56.0	37.9	26.8
DPS (Rs)	0.0	1.5	2.5	3.0	3.5
Dividend payout (%)	0.0	11.0	11.8	10.2	9.4
Effective tax rate (%)	2.2	24.1	25.2	25.2	25.2
Net interest margins (%)	7.2	6.7	6.5	6.4	6.3
Cost-income ratio (%)	30.5	39.5	45.3	44.6	42.9
Shares outstanding (mn)	1,610.8	1,610.8	1,610.8	1,610.8	1,610.8

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	63,800.0	52,986.2	64,673.0	68,601.0	72,497.6
Net NPLs	15,642.3	12,282.7	19,401.9	20,580.3	21,749.3
GNPA ratio (%)	6.5	4.9	5.1	4.5	3.8
NNPA ratio (%)	1.7	1.2	1.6	1.4	1.2
Provision coverage (%)	75.5	76.8	70.0	70.0	70.0
Gross slippages	94,302.7	96,626.9	58,433.8	39,280.5	38,966.2
Gross slippage ratio (%)	8.6	7.4	4.5	2.5	2.0
LLP ratio (%)	8.6	4.0	2.0	1.4	1.2
NNPA to networth (%)	7.5	6.0	8.2	7.3	6.4
Capital adequacy					
Total CAR (%)	20.1	19.7	19.3	19.2	18.7
Tier-1 (%)	18.9	18.7	18.4	18.4	18.1
CET-1 (%)	18.9	18.7	18.4	18.4	18.1
RWA-to-Total Assets (%)	65.3	66.5	67.0	67.0	67.0
Miscellaneous					
Total income growth (%)	14.8	10.1	15.6	15.8	18.9
Opex growth (%)	25.1	31.6	22.7	15.5	14.4
Core PPOP growth (%)	20.5	(9.8)	(8.3)	16.6	23.8
PPOP margin (%)	48.0	38.6	32.4	33.2	34.3
PAT/PPOP (%)	1.6	30.9	49.8	57.8	59.8
LLP-to-Core PPOP (%)	101.3	59.8	35.8	24.7	21.6
Yield on advances (%)	14.2	14.1	14.7	14.2	13.7
Cost of funds (%)	4.9	5.3	6.1	5.9	5.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	16,108	16,108	16,108	16,108	16,108
Reserves & surplus	1,57,704	1,79,733	2,09,934	2,52,490	3,06,558
Net worth	1,73,812	1,95,842	2,26,042	2,68,599	3,22,667
Deposits	9,63,306	10,80,693	12,58,264	15,75,005	19,90,755
Borrowings	1,99,212	2,47,108	2,60,049	2,48,979	2,38,655
Interest bearing liab.	11,62,518	13,27,801	15,18,313	18,23,984	22,29,410
Other liabilities & prov.	53,622	34,057	65,979	66,811	88,667
Total liabilities & equity	13,89,952	15,57,700	18,10,334	21,59,394	26,40,743
Net advances	9,39,749	10,47,568	12,14,301	14,76,062	18,39,114
Investments	2,90,787	3,23,659	3,64,462	4,23,256	5,04,040
Cash, other balances	93,214	82,497	98,690	1,09,439	1,22,618
Interest earning assets	13,23,750	14,53,724	16,77,453	20,08,756	24,65,772
Fixed assets	5,879	8,546	6,422	7,219	7,819
Other assets	60,323	95,430	1,26,459	1,43,419	1,67,153
Total assets	13,89,952	15,57,700	18,10,334	21,59,394	26,40,743
BVPS (Rs)	107.9	121.6	140.3	166.6	200.3
Adj. BVPS (INR)	100.6	115.9	131.3	157.1	190.2
Gross advances	9,87,907	10,88,271	12,59,572	15,24,082	18,89,862
Credit to deposit (%)	97.6	96.9	96.5	93.7	92.4
CASA ratio (%)	41.6	39.3	35.3	33.9	33.0
Cost of deposits (%)	5.0	5.3	6.5	6.2	6.0
Loans-to-Assets (%)	67.6	67.3	67.1	68.4	69.6
Net advances growth (%)	15.1	11.5	15.9	21.6	24.6
Deposit growth (%)	23.5	12.2	16.4	25.2	26.4
Book value growth (%)	(0.2)	12.7	15.4	18.7	20.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	304.9	17.5	11.2	8.1	6.4
P/B (x)	2.4	2.1	1.8	1.5	1.3
P/ABV (x)	2.4	2.1	1.8	1.5	1.3
P/PPOP (x)	4.8	5.4	5.6	4.7	3.8
Dividend yield (%)	0.0	0.6	1.0	1.3	1.5
DuPont-RoE split (%)					
NII/avg assets	6.9	6.3	6.0	5.9	5.9
Other income	2.2	1.7	1.5	1.5	1.5
Fee income	2.0	1.6	1.2	1.2	1.2
Opex	2.8	3.1	3.4	3.3	3.1
PPOP	6.3	4.8	4.1	4.1	4.2
Core PPOP	6.1	4.8	3.8	3.8	3.9
Provisions	6.2	2.8	1.4	0.9	0.8
Tax expense	0.0	0.5	0.7	0.8	0.8
RoA (%)	0.1	1.5	2.0	2.4	2.5
Leverage ratio (x)	7.3	8.0	8.0	8.0	8.1
RoE (%)	0.7	11.9	16.2	19.1	20.3
Quarterly data					
Rs mn, Y/E Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
NII	21,930	20,804	24,718	24,906	24,434
NIM (%)	7.0	6.5	7.3	7.3	7.2
PPOP	15,529	19,222	17,957	15,623	15,834
PAT	2,093	2,906	8,083	7,211	7,212
EPS (Rs)	1.30	1.80	5.02	4.48	4.48

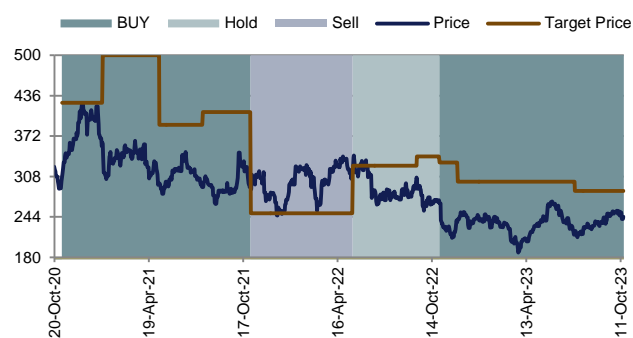
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
15-Jul-23	222	285	Buy	Anand Dama
01-Jul-23	242	300	Buy	Anand Dama
20-May-23	238	300	Buy	Anand Dama
09-Mar-23	227	300	Buy	Anand Dama
21-Jan-23	237	300	Buy	Anand Dama
02-Dec-22	240	300	Buy	Anand Dama
28-Oct-22	265	330	Buy	Anand Dama
15-Sep-22	305	340	Hold	Anand Dama
23-Jul-22	286	325	Hold	Anand Dama
15-May-22	317	325	Hold	Anand Dama
23-Jan-22	296	250	Sell	Anand Dama
31-Oct-21	291	250	Sell	Anand Dama
31-Jul-21	291	410	Buy	Anand Dama
16-Jul-21	309	390	Buy	Anand Dama
09-May-21	297	390	Buy	Anand Dama
13-Apr-21	332	500	Buy	Anand Dama
22-Jan-21	314	500	Buy	Anand Dama
20-Jan-21	360	500	Buy	Anand Dama
06-Jan-21	396	425	Buy	Anand Dama
03-Nov-20	308	425	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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