

Retail Equity Research

Bandhan Bank Limited

Banking

BSE CODE: 541153

NSE CODE: BANDHANBNK

Bloomberg CODE: BANDHAN:IN

SENSEX: 63,875

ACCUMULATE

12 Months Investment Period Rating as per Mid Cap
CMP Rs. 214 TARGET Rs. 246 RETURN 15%
(Closing: 31-10-23) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Deteriorating asset quality, cautious outlook

Bandhan Bank operates as a commercial bank, offering checking accounts, savings deposits and money market, mortgage, and term loan services, in addition to card facilities and internet banking services.

- In Q2FY24, net interest income (NII) came in at Rs 2,443cr. Net interest margin expanded 20bps to 7.2%.
- GNPA/NNPA ratios stood at 7.3% / 2.3% (vs. 6.8% and 2.2% in Q1FY24).
- We expect advances and deposits to grow at a better rate, driven by the festive season. Strategic expansion, digitalisation and a diversified loan portfolio auger well for the company's long-term performance. However, we remain cautious in the near term owing to its worsening asset quality and reduce our rating on the stock to ACCUMULATE, with a revised target price of Rs. 246, based on a 1.45x FY25E BVPS.

PAT more than triples YoY due to lower provisioning

In Q2FY24, interest income grew 19.0% YoY to Rs. 4,492cr, driven by robust growth in interest on advances (up 19.1% YoY). Interest expense rose 29.6% YoY to Rs. 2,049cr. As a result, NII came in at Rs. 2,443cr (up 11.4% YoY). NIM margin expanded 20bps YoY to 7.2%. Pre-provisioning profit was Rs. 1,583cr (up 2.0% YoY), impacted by higher operating expenses (up 25.4% YoY). However, profit after tax more than tripled YoY to Rs. 721cr, aided by lower provisioning (down 50.3% YoY), partly offset by higher taxes.

Asset quality deteriorates further

Total advances grew 12.3% YoY to Rs. 107,630cr (up 4.3% QoQ). Advances to the Emerging Entrepreneurs Business (EEB) segment remained flat YoY, while housing loan book reported muted growth of 3.7% YoY. The commercial banking segment, however, recorded 64.8% YoY growth. Deposits increased 12.8% YoY to Rs. 112,080cr (3.3% QoQ). The CASA ratio expanded 250bps QoQ to 38.5%. Gross non-performing assets (GNPA) came in at Rs. 7,874cr (up 13.1% QoQ), impacted by elevated slippages at Rs.1,320cr. GNPA and NNPA ratios were 7.3% and 2.3% (vs. 6.8% and 2.2% in Q1FY24), respectively. The provision coverage ratio stood at 70.0%. The capital adequacy ratio was 19.2% and the Tier-1 was 18.2%, well above the required level.

Key concall highlights

- The bank added 1mn customers (reaching 31.7mn) and 79 branches (totaling 1,621) in Q2FY24.
- Collection efficiency (incl. arrears) improved to 110.0% during the quarter, as against 107.0% in Q1FY24.
- Monthly active users on the digital banking platform increased 57.0% YoY.

Outlook and valuation

The management had initially guided advances to grow 20.0% and deposits to increase at an even higher rate than advances in FY23. However, advances and deposits grew way below expectations, with hardly any growth in the core EEB segment in Q2FY24. Asset quality deteriorated further, owing to higher slippages from EEB at Rs. 1,000cr. Going forward, we expect advances and deposits to grow at a better rate, driven by the festive season. Asset quality is likely to improve, aided by better recoveries and moderation in slippages. The company expects NIM to be in the 7.0-7.5% range, with higher yields compensating for an increase in cost of deposits. Continued investments in people, infrastructure and technology auger well for the company's performance in the long term. However, due to its subpar performance in Q2FY24, we remain cautious in the near term and hence, downgrade our rating on the stock to accumulate, with a revised target price of Rs 246, based on a 1.45x FY25E BVPS.

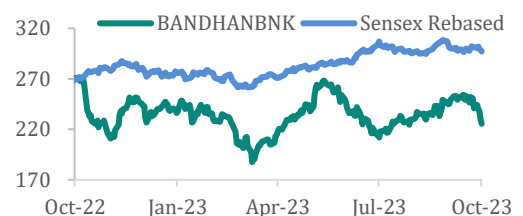
Company Data

Market Cap (cr)	Rs. 34530
Outstanding Shares (cr)	161.1
Free Float	46.0%
Dividend Yield	6.0%
52 week high	Rs. 275
52 week low	Rs. 182
6m average volume (lacs)	5.3
Beta	0.8
Face value	Rs. 10

Shareholding %	Q4FY23	Q1FY24	Q2FY24
Promoters	40	40	40
FII's	31.9	33.5	32.8
MFs/Insti	13.3	12.5	17.5
Public	13.9	13.2	8.8
Others	0.9	0.8	0.9
Total	100	100	100
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	6.5%	3.4%	-16.6%
Absolute Sensex	-3.2%	9.7%	10.5%
Relative Return*	9.7%	-6.3%	-27.0%

*Over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Net Interest Income	9,260	10,724	12,604
Growth (%)	6.3	15.8	17.5
NIM (%)	7.1	7.3	7.4
Pre-Provision Profit	7,091	7,654	9,195
Net Profit	2,195	3,843	4,901
Growth (%)	1644.6	75.1	27.5
Adj.EPS	13.6	23.9	30.4
Growth (%)	1644.6	75.1	27.5
BVPS	121.6	142.8	169.9
P/E	14.4	9.4	7.4
P/B	1.6	1.6	1.3
RoE (%)	11.9	18.0	19.5
RoA (%)	1.5	2.3	2.5

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY24	Q2FY23	YoY Growth %	Q1FY24	QoQ Growth %	H1FY24	H1FY23	YoY Growth %
Interest Income	4,492	3,773	19.0	4,523	(0.7)	9,015	7,829	15.1
Interest Expense	2,049	1,580	29.6	2,032	0.8	4,081	3,121	30.7
Net Interest Income (NII)	2,443	2,193	11.4	2,491	(1.9)	4,934	4,707	4.8
Non-Interest Income	540	476	13.4	385	40.3	925	806	14.8
Total Net Income	2,984	2,669	11.8	2,876	3.8	5,859	5,514	6.3
Total Income	5,032	4,250	18.4	4,908	2.5	9,940	8,635	15.1
Operating Expenses	1,400	1,117	25.4	1,313	6.6	2,714	2,140	26.8
Total Expenditure	3,449	2,697	27.9	3,346	3.1	6,795	5,261	29.1
Pre-Provision Profit	1,583	1,553	2.0	1,562	1.4	3,146	3,374	(6.8)
Provisions	636	1,280	(50.3)	602	5.7	1,238	1,922	(35.6)
Profit Before Tax	947	273	246.7	960	(1.4)	1,907	1,451	31.4
Tax	226	64	253.5	239	(5.5)	465	356	30.8
Minority Interests	-	-	-	-	-	-	-	-
Net Profit	721	209	244.6	721	0.0	1,442	1,096	31.6
Adj.	-	-	-	-	-	-	-	-
Adj. PAT	721	209	244.6	721	0.0	1,442	1,096	31.6
Adj. EPS (Rs.)	4.5	1.3	244.1	4.5	(0.1)	8.9	6.8	31.5

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	10,763	12,400	10,724	12,604	(0.4)	1.6
Net Interest Margin (%)	7.2	7.1	7.3	7.4	10bps	30bps
Pre-Provision Profit	7,915	8,806	7,654	9,195	(3.3)	4.4
Net Profit	3,889	4,496	3,843	4,901	(1.2)	9.0
EPS (Rs)	24.1	27.9	23.9	30.4	(1.2)	9.0

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	12,524	13,872	15,905	18,736	21,649
Interest Exp.	4961	5157	6645	8012	9045
Net Int. Income	7,563	8,714	9,260	10,724	12,604
% Change	19.6	15.2	6.3	15.8	17.5
Non-Int. Income	2,022	2,822	2,469	2,666	2,933
Net Income	9,586	11,537	11,728	13,390	15,537
Total Income	14,546	16,694	18,373	21,402	24,582
Operating Exp.	2,817	3,524	4,637	5,736	6,342
Total Exp.	7,778	8,681	11,282	13,748	15,387
Pre-Prov. Profit	6,769	8,013	7,091	7,654	9,195
Provisions	3,820	7,885	4,198	2,519	2,645
PBT	2,949	129	2,893	5,135	6,550
Tax	743	3	698	1,292	1,649
Tax Rate (%)	25.2	2.2	24.1	25.2	25.2
Minority Interests	-	-	-	-	-
Net Profit	2,205	126	2,195	3,843	4,901
% Change	(27.1)	(94.3)	1644.6	75.1	27.5
Adj.	-	-	-	-	-
Adj. Net Profit	2,205	126	2,195	3,843	4,901
No. of Shares (cr)	161.0	161.1	161.1	161.1	161.1
Adj. EPS (Rs.)	13.7	0.8	13.6	23.9	30.4
% Change	(27.1)	(94.3)	1644.6	75.1	27.5
DPS (Rs.)	1.0	-	1.5	2.6	3.3

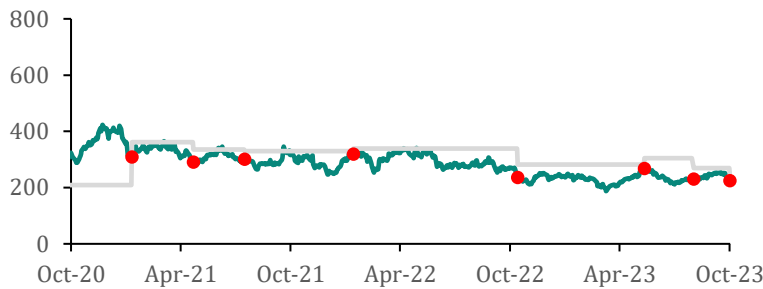
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	3,335	4,943	7,327	10,843	15,181
Investments	28,048	33,457	33,289	36,914	41,294
Advances	81,613	93,975	104,757	120,994	142,773
Fixed Assets	487	588	855	1,242	1,806
Other Assets	1,533	6,032	9,543	10,974	12,621
Total Assets	115,016	138,995	155,770	180,968	213,674
Capital	1,611	1,611	1,611	1,611	1,611
Reserves & Surplus	15,798	15,770	17,973	21,393	25,755
Deposits	77,972	96,331	108,069	126,441	149,200
Borrowings	16,960	19,921	24,711	26,935	29,359
Other Liabilities	2,675	5,362	3,406	4,588	7,749
Total Liabilities	115,016	138,995	155,770	180,968	213,674
BVPS (Rs.)	108.1	107.9	121.6	142.8	169.9
Adj. BVPS (Rs.)	90.4	98.2	114.0	135.9	163.9
% Change	(1.7)	8.7	16.1	19.2	20.6

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Valuation					
P/E (x)	24.7	393.6	14.4	9.4	7.4
P/BV (x)	3.1	2.8	1.6	1.6	1.3
Div. Yield (%)	0.3	-	0.8	1.2	1.5
Profitability & Return (%)					
Yield on Advances	12.9	12.0	12.1	12.6	12.6
Cost of Deposits	5.9	4.9	5.3	5.6	5.5
Spread	7.0	7.1	6.8	7.0	7.1
NIM	8.0	7.6	7.1	7.3	7.4
ROE	13.5	0.7	11.9	18.0	19.5
ROA	2.1	0.1	1.5	2.3	2.5
Capital Adequacy (%)					
CAR	23.5	20.1	19.8	19.9	19.9
Tier I	22.5	18.9	18.7	18.9	19.0
Tier II	1.0	1.2	1.1	1.0	0.9
Asset Quality (%)					
GNPA	6.8	6.5	4.9	6.8	6.2
NNPA	3.5	1.7	1.2	2.0	1.8
Operating Ratios (%)					
Credit/Deposit	104.7	97.6	96.9	95.7	95.7
Cost/Income	29.4	30.5	39.5	42.8	40.8
CASA	43.4	41.6	39.3	38.5	38.5

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
29-Jan-21	BUY	362
11-May-21	BUY	335
4-Aug-21	HOLD	330
1-Feb-22	HOLD	339
1-Nov-22	BUY	282
31-May-23	BUY	305
21-Aug-23	BUY	269
31-Oct-23	ACCUMULATE	246

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note; **Reduce:** Reduce your exposure to the stock due to limited upside; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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