

Bandhan Bank

Refer to important disclosures at the end of this report

Strong earnings beat; growth, asset quality prospects set to improve gradually

- Bandhan reported a strong PAT beat in Q4 at Rs19bn (est: Rs5.4bn). For FY22, it returned to profitability on the back of higher other income and negligible provisions as asset quality improved (GNPA ratio down 435bps to 6.5%). The bank expects growth/asset quality to gradually normalize in FY23 (mainly 2H), primarily led by MFI.
- Growth accelerated in Q4 to 15%, mainly led by relatively secured commercial banking and housing, while MFI growth was measured. However, growth prospects for the MFI industry are looking up, and Bandhan should be a key beneficiary. The bank expects overall growth to normalize at 20-25% in FY23, with the share of the non-MFI portfolio outgrowing and thus gradually diversifying away from the group MFI business.
- The total MFI stress pool moderated further to Rs119bn (19% of MFI loans/12% of overall loans) due to a combination of slippages/recovery and higher w-offs. The bank expects the pace of normal recovery to improve, along with the Assam relief scheme (Tranche 2/3) and CGFMU recovery (50% in FY23). Bandhan carries ~59% provisions on the stress pool and these provisions could be partly reversed with better recovery, thereby moderating LLP.
- Factoring in a better growth trajectory and lower LLP, we raise our FY23E/FY24E earnings by 16-17% and expect RoE to return to 20-23% by FY24-25E. We upgrade the stock to Hold (from Sell) with a TP of Rs325 based on 2.2x FY24E ABV (vs. earlier Rs250 on 2x Dec'23E ABV), factoring in better RoE prospects partly offset by higher CoE.

MFI growth prospects improving, while bank remains determinant to accelerate non-MFI growth: Bandhan reported accelerated disbursements (Rs153bn vs. Rs 105bn in Q3), mainly driven by Commercial Banking (Rs40bn) and Housing (Rs43bn). However, growth prospects for the MFI industry are looking up and Bandhan should be a key beneficiary. It expects overall growth to normalize at 20-25% in FY23, with the non-MFI portfolio to outgrow and thus gradually diversify away from the group MFI business. This may have some bearing on the margins, but it would gradually reduce the risk of asset quality shocks.

Sharp run-down in GNPA ratio; higher specific PCR and recovery to contain incremental LLP: Gross slippages moderated to Rs14bn/7% of loans, mainly from the MFI book. This, coupled with higher recoveries and w-offs, led to a sharp reduction in the GNPA ratio by 435bps qoq to 6.5%. CE for the MFI book in WB stood at 97% (96% in Q3) and Assam at 93% (91% in Q3), and it should gradually improve. The restructured pool has come down to Rs57bn/6% of loans (vs. Rs 66/7.5% in Q3), but nearly 41% of the borrowers are still non-paying (partly due to moratorium) and the incremental focus will be on normalizing recovery from these borrowers as they come out of the moratorium. The overall MFI stress pool moderated further to Rs119bn (19% of MFI loans/12% of overall loans). The bank carries ~59% provisions on this stress pool, and these provisions could be partly reversed with better recovery, thereby moderating LLP.

Outlook and valuations: Factoring in a better growth trajectory and lower LLP, we raise our FY23E/FY24E earnings by 16-17% and expect RoE to return to 20-23% by FY24-25E. We upgrade the stock to Hold (from Sell) with a TP of Rs325 based on 2.2x FY24E ABV (vs. earlier Rs250 on 2x Dec'23E ABV), factoring in better RoE prospects partly offset by higher CoE. Key risks to our estimates/call: slower-than-expected MFI/non-MFI book growth, delayed NPA recovery in WB/Assam and any natural calamity leading to fresh stress.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	95,856	1,15,368	1,27,630	1,47,635	1,77,416
Net profit	22,055	1,258	29,609	44,569	62,528
EPS (Rs)	13.7	0.8	18.4	27.7	38.8
ABV (Rs)	94.8	100.6	120.2	146.2	181.4
RoA (%)	2.1	0.1	2.0	2.5	2.8
RoE (%)	13.5	0.7	15.8	20.2	23.2
PE (x)	23.0	403.4	17.1	11.4	8.1
P/ABV	3.3	3.1	2.6	2.2	1.7

Source: Company, Emkay Research

CMP	Target Price
Rs 317 as of (May 15, 2022)	Rs 325 (▲) 12 months
Rating	Upside
HOLD (▲)	2.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	30.0
Target Period (Months)	12
Previous Reco	SELL

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	18.4	27.7
Consensus	25.6	32.6
Mean Consensus TP (12M)	Rs 355	

Stock Details

Bloomberg Code	BANDHAN IN
Face Value (Rs)	10
Shares outstanding (mn)	1,611
52 Week H/L	354 / 230
M Cap (Rs bn/USD bn)	511 / 6.60
Daily Avg Volume (nos.)	11,101,290
Daily Avg Turnover (US\$ mn)	44.1

Shareholding Pattern Mar '22

Promoters	40.0%
FIIIs	34.3%
DIIIs	4.6%
Public and Others	21.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	-	2	10
Rel. to Nifty	8	10	17	3

Relative price chart



Source: Bloomberg

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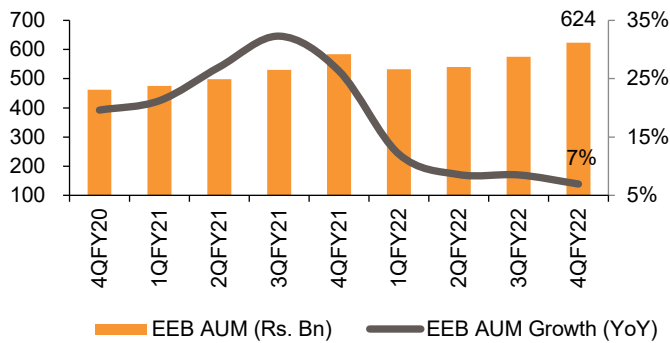
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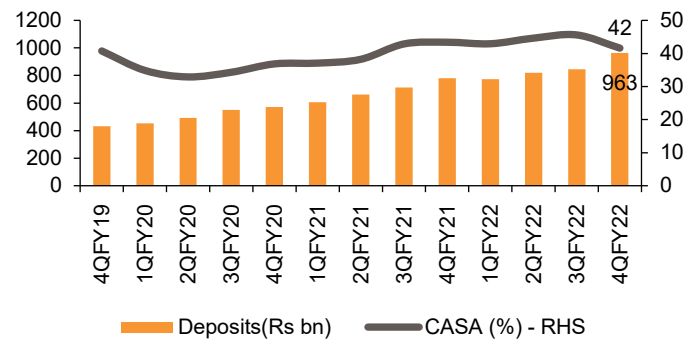
Story in charts

Exhibit 1: MFI growth was measured with focus on asset quality



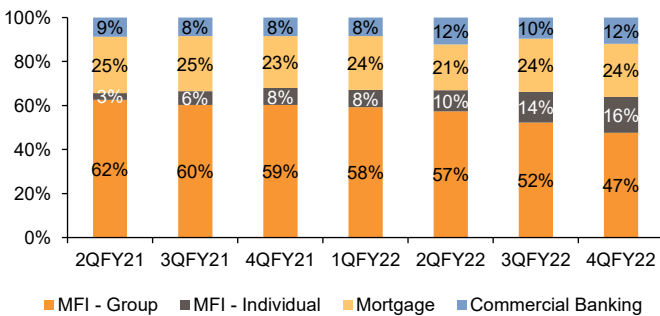
Source: Company, Emkay Research

Exhibit 2: Deposits growth was strong, but CASA declined to 42%



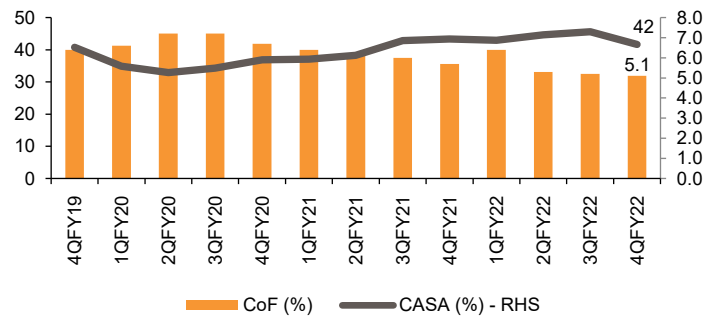
Source: Company, Emkay Research

Exhibit 3: MFI group loans continue to trend down, as bank looks to gradually diversify away from group MFI business



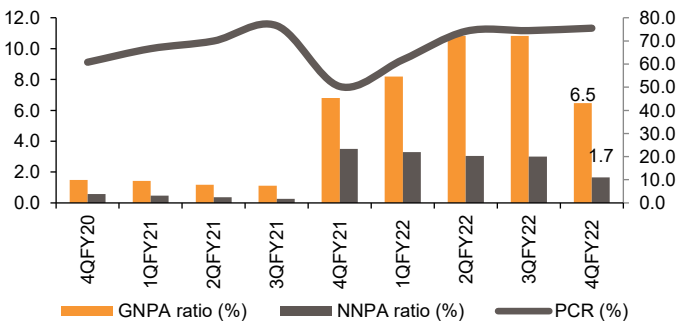
Source: Company, Emkay Research

Exhibit 4: CoF has trended down to 5.1% leading to improved margins



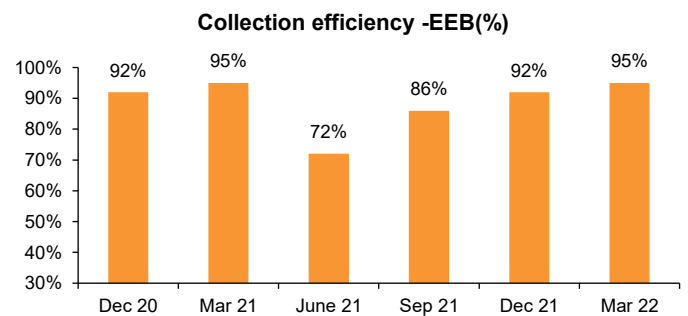
Source: Company, Emkay Research

Exhibit 5: Moderation in slippages coupled with higher recoveries/upgrades led to sharp decline in GNPA ratio



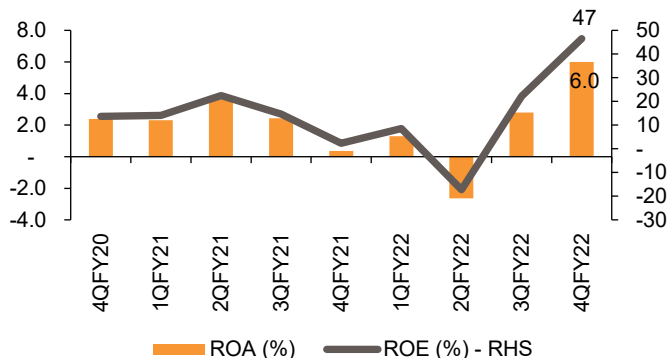
Source: Company, Emkay Research

Exhibit 6: Overall collection efficiency improved, but remained below pre-Covid levels



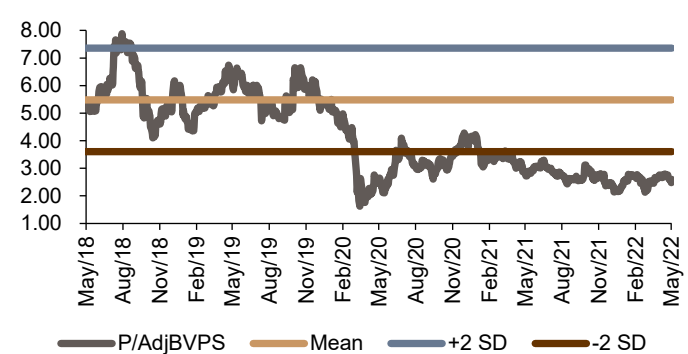
Source: Company, Emkay Research

Exhibit 7: Negligible provisions lead to strong profitability in Q4



Source: Emkay Research

Exhibit 8: The stock currently trades at 2.6x – one-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actual vs. Estimates (4QFY22)

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	35,042	31,538	29,667	11%	18%	Higher other income led to a beat
PPOP	25,214	21,764	19,893	16%	27%	Moderation in other opex resulted in higher PPOP
PAT	19,023	5,421	8,950	251%	113%	Negligible provisions led to strong profitability

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

Rs (mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	30,006	34,100	31,809	34,087	38,716	29	14	1,38,711	1,67,616	21
Interest Exp	12,437	12,959	12,455	12,840	13,317	7	4	51,571	66,053	28
Net Interest Income	17,570	21,140	19,354	21,247	25,398	45	20	87,140	1,01,563	17
Global NIMs (reported)	6.80	8.50	7.60	7.40	8.70	190bps	130bps	7.03	7.06	3bps
Non-interest Income	7,004	5,334	4,916	7,123	9,644	38	35	28,228	26,067	-8
Operating Expenses	8,146	7,763	8,778	8,868	9,829	21	11	35,234	41,783	19
Pre Provisioning Profit	16,428	18,711	15,492	19,501	25,214	53	29	80,134	85,847	7
Provision & Contingencies	15,077	13,749	55,779	8,057	47	-100	-99	78,848	46,263	-41
PBT	1,351	4,962	-40,287	11,444	25,167	1,763	120	1,286	39,584	2,978
Income Tax Expense (Gain)	321	1,231	-10,201	2,855	6,143	1,811	115	28	9,975	35,159
Net Profit/(Loss)	1,030	3,730	-30,086	8,590	19,023	1,747	121	1,258	29,609	2,254
Gross NPA (%)	6.80	8.18	10.82	10.81	6.46	-34bps	-436bps	6.46	3.40	-306bps
Net NPA (%)	3.51	3.29	3.04	3.01	1.66	-185bps	-134bps	1.66	0.87	-79bps
Deposits (Rs in bn)	780	773	819	845	963	24	14	963	1,190	24
Net Advances (Rs in bn)	816	748	745	803	940	15	17	940	1,134	21

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E
	Earlier	Revised	% change	Earlier	Revised	% change	Introduced
Net income	1,31,639	1,27,630	-3.0%	1,55,324	1,47,635	-5.0%	1,77,416
PPOP	89,398	85,847	-4.0%	1,02,761	97,939	-4.7%	1,18,136
PAT	25,270	29,609	17.2%	38,457	44,569	15.9%	62,528
EPS (Rs)	15.7	18.4	17.2%	23.9	27.7	15.9%	38.8
BV (Rs)	115.4	124.8	8.2%	136.9	149.7	9.4%	184.7

Source: Emkay Research

Exhibit 12: Key assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	14.1	22.0	23.0	25.0
Deposit Growth %	23.5	23.5	26.3	27.6
NIM %	7.0	7.1	7.0	7.1
GNPA %	6.5	3.4	2.1	1.6
Credit Cost %	8.5	4.2	2.7	2.0

Source: Emkay Research

Exhibit 13: Key ratios and trends

	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
Loans (Rs mn)	7,18,460	7,43,310	7,66,146	8,02,550	8,70,400	8,03,569	8,16,600	8,80,000	9,93,400
growth YoY %	60.5	17.7	19.4	22.6	21.1	8.1	6.6	9.7	14.1
Loans QoQ %	9.8	3.5	3.1	4.8	8.5	(7.7)	1.6	7.8	12.9
Composition %									
Micro- Banking assets	64.3	63.9	65.0	66.1	67.0	66.2	66.2	65.4	62.8
Non - Micro banking assets	35.7	36.1	35.0	33.9	33.0	33.8	33.8	34.6	37.2
Liability Profile									
Deposits (Rs mn)	5,70,815	6,06,100	6,61,277	7,11,880	7,79,722	7,73,336	8,18,983	8,44,998	9,63,306
growth YoY %	32.0	34.1	34.4	29.6	36.6	27.6	23.8	18.7	23.5
growth QoQ %	4.0	6.2	9.1	7.7	9.5	(0.8)	5.9	3.2	14.0
CASA %	36.8	37.1	38.2	42.9	43.4	42.9	44.6	45.6	41.6
CA %	5.8	4.9	5.0	4.9	5.9	4.5	4.4	4.6	5.7
SA %	31.1	32.1	33.3	38.0	37.5	38.4	40.3	41.0	35.9
Asset Quality (Rs mn)									
Gross NPA	9,928	10,067	8,740	8,592	57,578	64,404	87,636	94,416	63,800
GNPA %	1.48	1.43	1.18	1.11	6.80	8.18	10.82	10.81	6.46
NPA	3,894	3,358	2,625	2,013	28,610	24,579	22,658	24,131	15,642
NNPA %	0.58	0.48	0.36	0.26	3.51	3.29	3.04	3.01	1.66
PCR % - Specific	60.8	66.6	70.0	76.6	50.3	61.8	74.1	74.4	75.5
Capital Adequacy									
CAR %	27.4	26.5	25.7	26.2	23.5	24.8	20.4	20.0	20.1
Tier I %	25.2	23.2	22.2	21.4	22.5	23.8	19.4	19.0	18.9
ROA	2.4	2.3	3.6	2.4	0.4	1.3	(2.6)	2.8	6.0
ROE	13.7	14.1	22.5	14.6	2.4	8.5	(17.3)	22.2	46.5

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	75,634	87,140	1,01,563	1,20,904	1,49,266
Other income	20,223	28,228	26,067	26,731	28,150
Fee income	8,397	8,880	9,590	10,549	12,132
Net income	95,856	1,15,368	1,27,630	1,47,635	1,77,416
Operating expenses	28,169	35,234	41,783	49,695	59,280
Pre provision profit	67,687	80,134	85,847	97,939	1,18,136
PPP excl treasury	64,600	75,812	82,389	95,173	1,15,508
Provisions	38,201	78,848	46,263	38,355	34,542
Profit before tax	29,487	1,286	39,584	59,584	83,594
Tax	7,432	28	9,975	15,015	21,066
Tax rate	25	2	25	25	25
Profit after tax	22,055	1,258	29,609	44,569	62,528

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	16,106	16,108	16,108	16,108	16,108
Reserves	1,57,976	1,57,704	1,84,944	2,25,056	2,81,332
Net worth	1,74,082	1,73,812	2,01,052	2,41,164	2,97,439
Deposits	7,79,722	9,63,306	11,89,883	15,02,779	19,17,287
Borrowings	1,68,004	1,97,612	1,78,686	1,61,986	1,47,073
Total liabilities	11,50,162	13,88,665	16,31,295	19,78,460	24,21,087
Cash and bank	33,354	49,426	59,311	71,173	85,408
Investments	2,51,554	2,90,787	3,31,308	3,87,839	4,51,655
Loans	8,16,129	9,39,749	11,33,801	14,08,387	17,67,551
Others	15,329	59,037	65,284	68,308	71,599
Total assets	11,50,162	13,88,665	16,31,295	19,78,460	24,21,087

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	7.6	7.2	7.1	7.0	7.1
Non-II/avg assets	2.0	2.2	1.7	1.5	1.3
Fee income/avg assets	0.8	0.7	0.6	0.6	0.6
Opex/avg assets	2.7	2.8	2.8	2.8	2.7
Provisions/avg assets	3.7	6.2	3.1	2.1	1.6
PBT/avg assets	2.9	0.1	2.6	3.3	3.8
Tax/avg assets	0.7	0.0	0.7	0.8	1.0
RoA	2.1	0.1	2.0	2.5	2.8
RoAE	13.5	0.7	15.8	20.2	23.2
GNPA (%)	6.8	6.5	3.4	2.1	1.6
NNPA (%)	3.5	1.7	0.9	0.5	0.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	13.7	0.8	18.4	27.7	38.8
BVPS	108.1	107.9	124.8	149.7	184.7
ABVPS	94.8	100.6	120.2	146.2	181.4
DPS	0.0	0.0	1.5	2.8	3.9

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	23.0	403.4	17.1	11.4	8.1
P/BV	2.9	2.9	2.5	2.1	1.7
P/ABV	3.3	3.1	2.6	2.2	1.7
P/PPOP	7.5	6.3	5.9	5.2	4.3
Dividend Yield (%)	0.0	0.0	0.5	0.9	1.2

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	19.6	15.2	16.6	19.0	23.5
PPOP	24.3	18.4	7.1	14.1	20.6
PAT	(27.1)	(94.3)	2,253.8	50.5	40.3
Loans	22.5	15.1	20.6	24.2	25.5

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
NII	17,570	21,140	19,354	21,247	25,398
NIM(%)	6.8	8.5	7.6	7.4	8.7
PPOP	16,428	18,711	15,492	19,501	25,214
PAT	1,030	3,730	(30,086)	8,590	19,023
EPS (Rs)	0.64	2.32	(18.68)	5.33	11.81

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	40.0	40.0	40.0	40.0	40.0
FIIIs	34.9	35.4	33.6	34.6	34.3
DIIIs	1.9	2.0	2.5	1.9	4.6
Public and Others	23.2	22.6	23.9	23.5	21.1

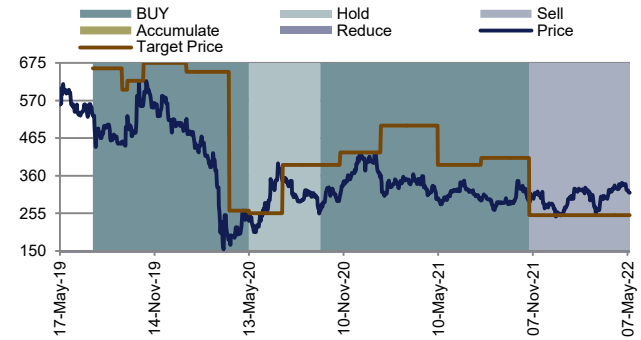
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
23-Jan-22	296	250	12m	Sell	Anand Dama
31-Oct-21	291	250	12m	Sell	Anand Dama
31-Jul-21	291	410	12m	Buy	Anand Dama
16-Jul-21	309	390	12m	Buy	Anand Dama
09-May-21	297	390	12m	Buy	Anand Dama
13-Apr-21	332	500	12m	Buy	Anand Dama
22-Jan-21	314	500	12m	Buy	Anand Dama
20-Jan-21	360	500	12m	Buy	Anand Dama
06-Jan-21	396	425	12m	Buy	Anand Dama
03-Nov-20	308	425	12m	Buy	Anand Dama
07-Oct-20	315	390	12m	Buy	Anand Dama
26-Sep-20	265	390	12m	Buy	Anand Dama
16-Jul-20	343	390	12m	Hold	Anand Dama
13-May-20	252	255	12m	Hold	Anand Dama
11-Apr-20	192	262	12m	Buy	Anand Dama
05-Apr-20	182	262	12m	Buy	Anand Dama
14-Jan-20	519	650	12m	Buy	Anand Dama
24-Oct-19	571	675	12m	Buy	Anand Dama
09-Oct-19	481	625	12m	Buy	Anand Dama
23-Sep-19	527	625	12m	Buy	Anand Dama
13-Sep-19	455	600	12m	Buy	Anand Dama
19-Jul-19	527	660	12m	Buy	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	19.51	19.51	0.0%	0	100.00	
Axis Bank	1.92	1.96	2%	4	10.03	0
AU Small Finance Bank	0.30	0.25	-17%	-5	1.28	0
Bandhan Bank	0.22	0.26	15%	3	1.32	0
Bank of Baroda	0.19	0.19	0%	0	0.99	0
Canara Bank	0.12	0.05	-54%	-6	0.28	0
City Union Bank	0.00	0.04	NA	4	0.19	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.18	0.22	21%	4	1.15	0
HDFC Bank	6.17	6.24	1%	6	31.97	0
ICICI Bank	5.23	5.36	3%	13	27.48	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.57	0.67	18%	10	3.43	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.50	2.22	-11%	-27	11.40	0
Punjab National Bank	0.09	0.00	-100%	-9	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.92	2.05	7%	13	10.49	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.04	0.00	-100%	-4	0.00	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base 1-Apr-19	12-May-21	12-Nov-21	11-Feb-22	12-Apr-22	Latest 12-May-22
EAP - BFSI-Banks	100.0	111.2	132.6	131.8	127.4	115.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	109.1	130.1	129.2	124.9	112.8

*Performance measurement base date 1st April 2019

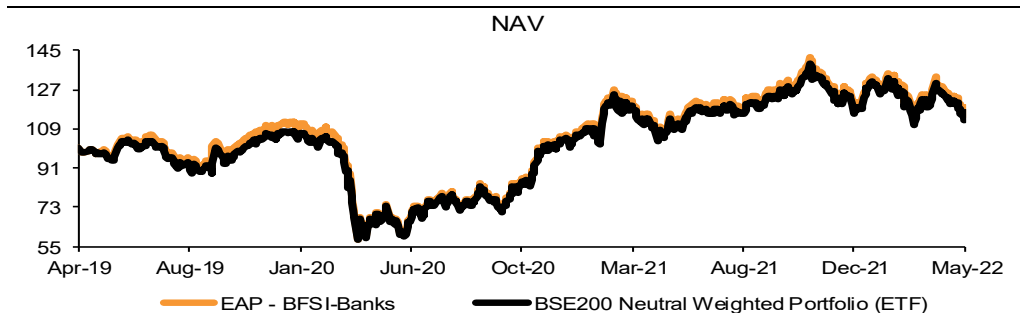
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-9.7%	-12.7%	-13.2%	3.5%
BSE200 Neutral Weighted Portfolio (ETF)	-9.6%	-12.7%	-13.3%	3.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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