

Weak quarter; Margins declined sequentially

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CMP: INR 285

Rating: Accumulate

Target Price: INR 338

Stock Info

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,611
Mkt Cap (INR Cr)	45,811
52w H/L (INR)	350/ 230
Avg Yearly Vol (in 000')	7908

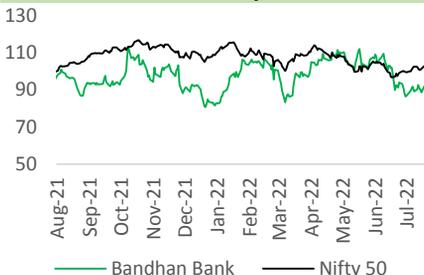
Shareholding Pattern %

(As on June, 2022)

Promoters	39.99
FII	35.64
DII	7.12
Public & Others	17.25

Stock Performance (%)	1m	3m	12m
Bandhan Bank	0.9	-14.0	-6.8
Nifty 50	8.1	-2.9	5.3

Bandhan Bank Vs Nifty 50



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Bandhan Bank has reported weak performance during Q1FY23 on asset quality, operating profit, NIM and loan growth front. Bank has reported profit of INR 887 cr (+138% YoY/-53% QoQ) was higher than our estimate of INR 866 cr. NII increased by 19% YoY/-1% QoQ to INR 2,514 cr as compared to our estimate of INR 2,459 cr. NII growth was impacted due to 3% QoQ decline in advances and 70bps QoQ decline in NIM. NIM reduction was mainly due to 40bps reduction in yields and 20bps increase in cost of funds. The bank expects NIM to remain steady at 8% in FY23. Operating profit of the bank decreased by 3% YoY/28% QoQ at INR 1,821 cr, was impacted due to 38% YoY/66% QoQ decline in other income at INR 330 cr. Other income was impacted by MTM loss of INR 79 cr and lower PSLC income. Asset quality of the bank deteriorated during the quarter as GNPA increased by 79bps QoQ at 7.3% due to decline in collection efficiency (primarily in Assam), restructured book came out of moratorium and lower recovery and upgrades.

Loan growth was impacted due to decline in EEB (Emerging Entrepreneurs Business) portfolio: Gross Advances for the quarter grew by 20% YoY and declined by 3% QoQ to INR 96,650 cr. Sequential decline in credit growth was mainly due to EEB portfolio (+9% YoY/-7% QoQ) was impacted due to change in RBI regulations, Assam floods and seasonality impact. Loans excluding EEB portfolio, grew healthy as mortgage segment increased by 27% YoY/4.5% QoQ and commercial banking grew by 81% YoY/3% QoQ. Share of EEB portfolio declined from 63% to 60% on QoQ basis. In line with management's target, Bandhan Bank continues to reduce the share of group EEB loans (~44% in Jun'22 vs. 47% in Mar'22). Bank wants to bring down the share of group EEB group loans to 26% by FY25E. Deposit increased by 20% YoY and declined by 3% QoQ to INR 93,060 cr. CASA ratio increased by 158 bps QoQ at 43.2%.

Asset quality deteriorated with drop in collection efficiency

Gross slippages of the bank declined by 18% QoQ to INR 1,125 cr, of which INR 908 cr was from EEB pool. Bank has reported lower recovery and upgrades of INR 540 cr (-78% QoQ) as Q1 is seasonally weak in terms of recovery. EEB portfolio GNPA increased from 7.8% to 9.2% sequentially. EEB pool's, 1-90 DPD portfolio increased sharply from 6.5% to 12.7% QoQ as restructured book coming out of moratorium. Overall, EEB stress pool increased from INR 119 bn to INR 121 bn QoQ. Collection efficiency (including NPA & restructured accounts) declined from 94% in Q4FY22 to 91% in Q1FY23 with Assam portfolio saw sharp reduction from 93% in Q4FY22 to 78% in Q1FY23 impacted by flood. West Bengal collection efficiency declined from 97% in Q4FY22 to 94% in Q1FY23. West Bengal EEB portfolio share stood at 40% and Assam share is at 9%.

Valuation & View: During Q1FY23, Bandhan Bank has reported deterioration in asset quality due to drop in collection efficiency on account of flood and restructured book coming out of moratorium. Going ahead, performance on EEB portfolio will be keenly watched on loan growth and asset quality side. Performance of the bank on non MFI side was good with strong growth. We reduce our earnings estimate by 21%/8% for FY23/24E to factor in lower other income and increase in provisions. We maintain our Accumulate rating on the stock with a revised TP of INR 338 (earlier INR 363), based on 2.4x FY24E ABV.

Q1FY23 result Snapshot

Particulars (Rs in Cr)	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
Interest Earned	4,055	3,410	18.9%	3,872	4.7%
Interest Expended	1,541	1,296	18.9%	1,332	15.7%
Net Interest Income	2,514	2,114	18.9%	2,540	-1.0%
Other Income	330	533	-38.2%	964	-65.8%
Total income	2,844	2,647	7.4%	3,504	-18.8%
Operating Expenses	1,023	776	31.8%	983	4.1%
<i>Cost-income-ratio</i>	36.0%	29.3%	666bps	28.0%	794bps
Operating Profits	1,821	1,871	-2.7%	2,521	-27.8%
Provisions & Contingencies	642	1,375	-53.3%	5	13516.7%
PBT	1,178	496	137.4%	2,517	-53.2%
Provisions for Tax	292	123	136.9%	614	-52.5%
<i>Effective Tax Rate (%)</i>	25%	25%	NA	24%	1.4%
PAT (reported)	887	373	137.6%	1,902	-53.4%
GNPA	6,968	6,440	8%	6,380	9%
NNPA	1,749	2,458	-29%	1,564	12%
GNPA	7.3%	8.2%	-93bps	6.5%	79bps
NNPA (%)	1.9%	3.3%	-137bps	1.7%	26bps
Advances (On-Book + Off Book)	96,650	80,360	20.3%	99,340	-2.7%
Deposits	93,060	77,340	20.3%	96,330	-3.4%
NIM (%)	8.00	8.13	-13bps	8.70	-70bps
Total CAR (%)	19.4%	26.6%	-718bps	20.1%	-70bps
Tier 1 (%)	18.3%	23.7%	-535bps	18.9%	-60bps
Tier 2 (%)	1.2%	2.9%	-173bps	1.2%	0bps

Update on Assam portfolio: Assam flood has impacted business growth and asset quality. The flood in Assam has led to sharp drop in collection efficiency with lower business growth. Bandhan Bank has 9% EEB portfolio share in Assam. Collection efficiency in Assam (including NPA & restructured accounts) declined from 93% in Q4FY22 to 78% in Q1FY23. Management has stated that collection efficiency in Assam is better in July than June and the stress is expected to come down by September end.

Conference Call Highlights:

- Management expects loan growth to be in the range of +20% in FY23E, with faster growth in housing and commercial banking segments.
- Growth in the EEB portfolio was impacted due to implementation of new MFI regulations in the first half and it was further impacted by flood in Assam.
- As per management's strategy, share of group MFI loans to reduce from 44% in Q1FY23 to 26% by FY25, with share of retail loans (including mortgage) rising in total loans.
- EEB overall collection efficiency (excluding NPA) declined from 97% to 94% QoQ. 91% of EEB portfolio (including restructured book) is paying full instalments (vs. 96% in Mar '22), while 6% made partial payments in Jun '22.
- Out of the total, INR 121 bn EEB stress portfolio, INR 21.4 bn is restructured accounts and these accounts will come out of the moratorium by Sep'22.
- Management has stated that collection efficiency in Assam is better in July than June and the stress is expected to come down by September end.
- Housing book has restructured loans worth INR 11.7 bn, of which 5% has slipped into NPA.
- Bank expects to receive claim under Assam refund scheme in Q2FY23. Government has announced INR 15 bn towards delinquent pool, within which the bank's share is expected to be 50-60%.
- Bank has made additional provision of INR 340 cr towards stress pool.
- Management stated that Bank had to borrow during Q1FY23 to invest in rural (RIDF) bonds to make up for PSL shortfall of the last year which has impacted NIM by 20-25 bps.

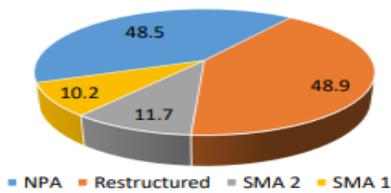
Exhibit 1: Microfinance portfolio stress pool coverage analysis

EEB stress pool coverage analysis



All amount in ₹ Bn.

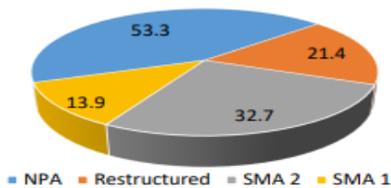
EEB Stress Pool - ₹ 119 Bn.



Mar'22

Coverage	Amount
Provision	69.7
Estimated recovery till 30 th Sep 2022	25
CGFMU recovery	25
Assam Relief Scheme*	Xx
Total	119.7

EEB Stress Pool - ₹ 121 Bn.



Jun'22

Coverage	Amount
Provision	76.0
Estimated recovery till 31 st Dec 2022	25
CGFMU recovery	25
Assam Relief Scheme*	Xx
Total	126.0

* Amount can't be ascertained today

Exhibit 2: DPD Movement

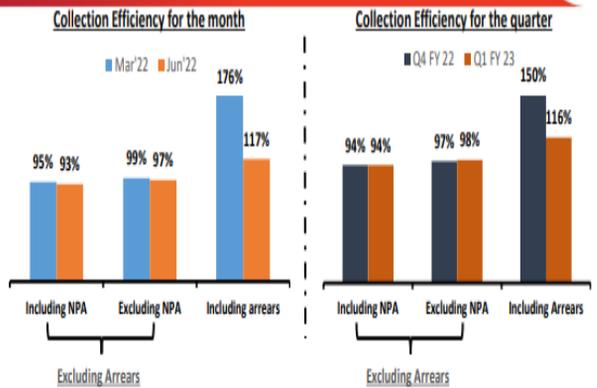
EEB DPD movement
(Including Restructuring portfolio)



Increase in DPD positions is largely due to restructured customers' demand and floods in Assam which is expected to normalize in coming quarters

Exhibit 3: Collection efficiency trend

EEB Collection Efficiency
(Excluding Restructuring portfolio)



States	For the month of Mar'22	For the month of Jun'22	For Q4 FY 22	For Q1 FY 23
West Bengal	99%	98%	97%	98%
Assam	98%	93%	93%	95%
Rest of India	99%	98%	97%	98%
Total	99%	97%	97%	98%

Category	For the month of Mar'22		For the month of Jun'22	
	Share of customers	Share of Receivables	Share of customers	Share of Receivables
Full Paying	93%	96%	90%	94%
Partial Paying	3%	3%	5%	5%
Non Paying	4%	1%	5%	1%
Total	100%	100%	100%	100%

Out of 2% drop in Collection efficiency, 1% is due to floods in Assam and 1% due to seasonality

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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