

Bandhan Bank

Refer to important disclosures at the end of this report

Lower LLP leads to earnings beat; stress pool swells due to Assam floods

- Bandhan reported a beat on PAT at Rs8.8bn (est.: Rs6.5bn), thanks to lower provisions, partly offset by lower treasury gains and PSLC fees due to the declassification of select agri loans as PSL. However, the overall GNPA ratio rose 79bps qoq to 7.3%, and SMA pool was up by 600bps to 12.7%, mainly due to moratorium exit in the RSA pool and Assam floods.
- Overall AUM was up 20% yoy/down 3% qoq, mainly dragged down by MFI. However, on the positive side, mortgage growth has seen an acceleration. As per management, MFI growth should re-accelerate as the impact of regulatory changes and the Assam floods recedes. Despite a rising CoF, the bank expects NIMs to be stable in FY23, but structurally they should trend down due to the rising share of secured loans (incl. mortgages).
- Overall EEB stress pool has inched slightly to Rs121bn (20% of MFI loans/12% of overall loans), but the bank expects a strong recovery in H2 (CGFMU recovery of Rs25bn and flow of funds from the government's Assam loan relief scheme) and a gradual normalization of Assam SMA pool by Dec'22.
- We trim our FY23-25 earnings estimates by 2-4%, mainly factoring in lower PSLC fees and high opex as the bank accelerates its investments in franchisee/people & tech. Retain Hold with an unchanged TP of Rs325 (2.2x Jun'24E ABV), given the bank's liability profile, capital buffers and expected improvement in RoEs, while remaining watchful of the stress movement in the Assam pool.

MFI portfolio decelerates, but mortgage growth accelerates: Bandhan reported sub-par credit growth due to slower disbursements (Rs54bn vs. Rs134bn), mainly in the MFI business. This was largely due to compliance with regulatory requirements in an otherwise seasonally weak quarter and some impact from the Assam floods. The bank expects MFI growth to improve with the heavy-lifting to be done in H2, by when the impact of Assam floods should also be moderated. On the other hand, mortgage growth has picked-up from the erstwhile Gruh franchise, armed with better pricing on the back of the bank's advantageous CoF. The bank remains determinant to grow the non-MFI book at a faster pace, while also growing the secured asset book. Although this could have some structural impact on margins in the long run, it could reduce asset-quality volatility in the MFI portfolio.

Asset quality takes a hit due to Assam floods and flow from restructured pool: Gross slippages remain elevated at Rs11bn/6% of loans, which were mainly from the MFI restructured pool. This, coupled with the seasonally slow recoveries/upgrades, led to a jump in the GNPA ratio by 79bps qoq to 7.2%. The MFI book's collection efficiency slipped to 94% in Q1 from 97% in Q4, mainly due to the Assam floods. The restructured pool has moderated to Rs58bn/6% of loans from Rs62bn/6.2% of loans due to the end of the moratorium; 43% of the borrowers are non-paying, and hence the incremental focus will be on normalizing the recoveries as the book comes out of the moratorium. The MFI stress pool inched up marginally to Rs121bn (20% of MFI loans/12% of overall loans), but the bank expects a robust recovery in H2 (CGFMU recovery of Rs25bn and flow of funds from the government's Assam loan relief scheme).

Outlook and valuations: Factoring in lower PSLC fees and high opex due to the accelerating investments in its franchisee/people & tech, we trim our FY23-25 earnings estimates by 2-4%. Retain Hold with an unchanged TP of Rs325, based on 2.2x Jun'24E ABV, given the bank's liability profile, capital buffers and expected improvement in RoEs, while remaining watchful of the stress movement in the Assam pool. Key risks: Prolonged asset-quality impact of Assam floods & delay in recovery from the Assam loan relief scheme.

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	1,15,379	1,17,909	1,40,303	1,72,463
Net profit	22,055	1,268	28,928	43,283	59,764
EPS (Rs)	13.7	0.8	18.0	26.9	37.1
ABV (Rs)	94.8	100.6	118.9	143.8	177.4
RoA (%)	2.1	0.1	1.9	2.4	2.7
RoE (%)	13.5	0.7	15.5	19.7	22.4
PE (x)	20.9	363.2	15.9	10.6	7.7
P/ABV	3.0	2.8	2.4	2.0	1.6

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Source: Company, Emkay Research

CMP	Target Price
Rs 286 as of (July 22, 2022)	Rs 325 (■) 12 months
Rating	Upside
HOLD (■)	13.6 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(2.3)/(2.9)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	18.0	26.9
Consensus	27.8	35.3
Mean Consensus TP (12M)	Rs 382	

Stock Details

Bloomberg Code	BANDHAN IN	
Face Value (Rs)	10	
Shares outstanding (mn)	1,611	
52 Week H/L	350 / 230	
M Cap (Rs bn/USD bn)	461 / 5.77	
Daily Avg Volume (nos.)	73,06,347	
Daily Avg Turnover (US\$ mn)	28.2	

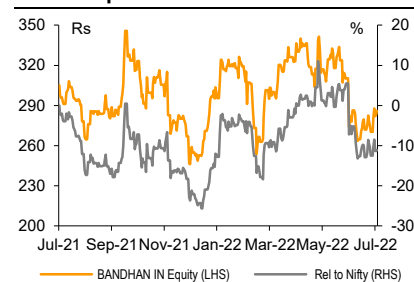
Shareholding Pattern Jun '22

Promoters	40.0%
FIIIs	35.6%
DIIIs	7.1%
Public and Others	17.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	2	(13)	(3)	(6)
Rel. to Nifty	(6)	(11)	2	(11)

Relative price chart



Source: Bloomberg

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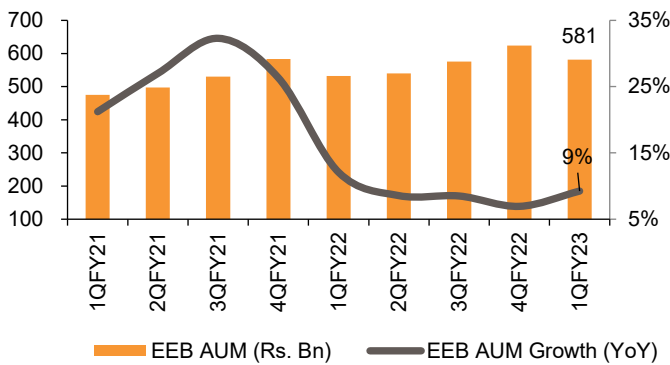
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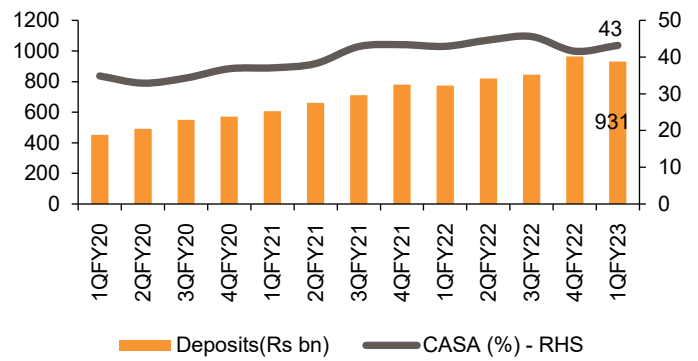
Story in Charts

Exhibit 1: Deceleration in MFI book led to qoq decline



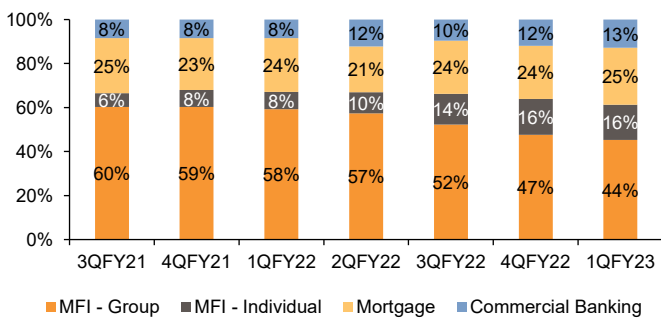
Source: Company, Emkay Research

Exhibit 2: CASA ratio remains healthy at 43%



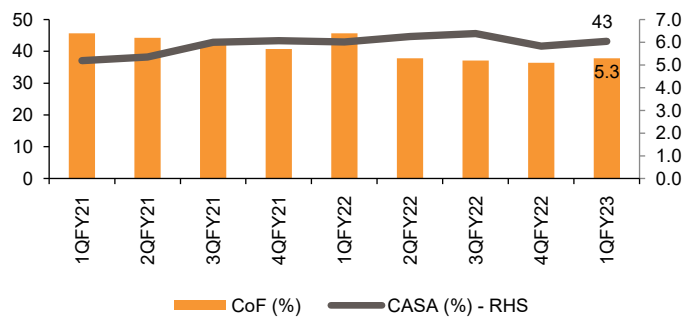
Source: Company, Emkay Research

Exhibit 3: The bank looks to gradually diversify away from group MFI business



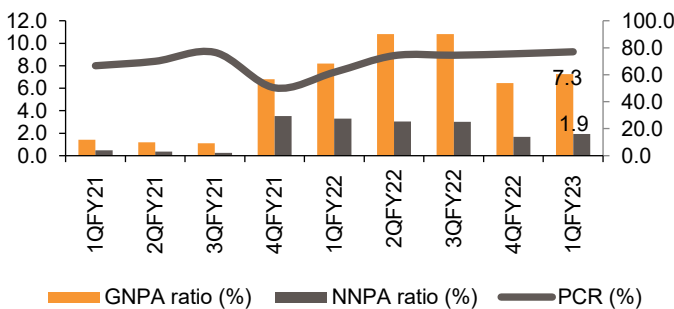
Source: Company, Emkay Research

Exhibit 4: CoF inched up a to 5.3%, leading to a moderation in margins



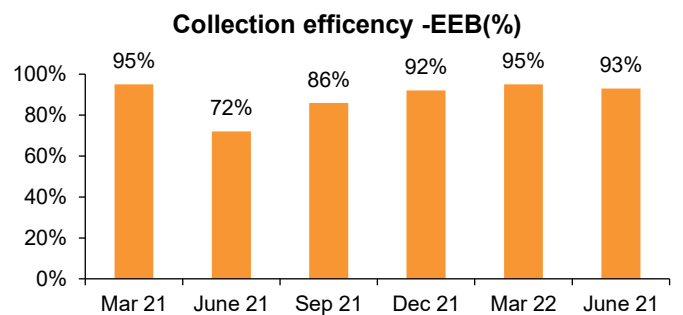
Source: Company, Emkay Research

Exhibit 5: Higher slippages coupled with slow recoveries led to increase in GNPA ratio by 79bps



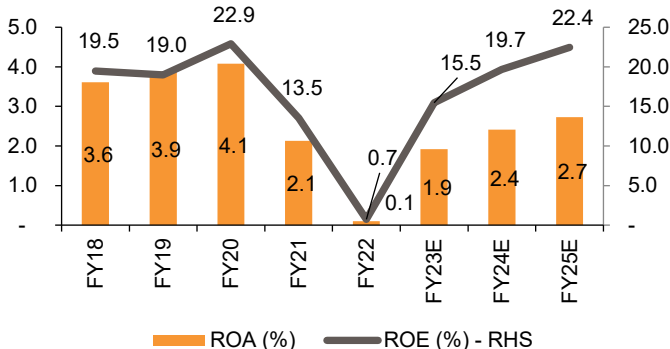
Source: Company, Emkay Research

Exhibit 6: Overall collection efficiency deteriorated due to Assam floods



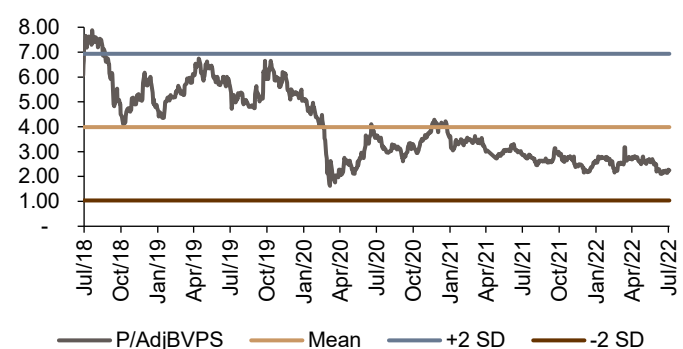
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to improve to by FY25E



Source: Emkay Research

Exhibit 8: The stock currently trades at 2.6x one-year forward ABV, largely factoring in recent impact of Assam floods



Source: Bloomberg, Emkay Research

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Exhibit 9: Actual vs. Estimates (Q1FY23)

Rs mn	Actual	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	28,441	29,754	31,831	-4%	-11%	Lower other income led to a miss
PPOP	18,206	20,161	22,238	-10%	-18%	Higher staff expenses resulted in a miss
PAT	8,865	6,509	10,532	36%	-16%	Lower-than-expected LLPs led to a beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	34,100	31,809	34,087	38,716	40,554	19	5	1,38,711	1,69,462	22
Interest Exp	12,959	12,455	12,840	13,317	15,409	19	16	51,571	68,847	33
Net Interest Income	21,141	19,354	21,247	25,398	25,144	19	-1	87,140	1,00,616	15
Global NIMs (reported)	8.50	7.60	7.40	8.70	8.00	-50bps	-70bps	7.03	7.01	-2bps
Non-interest Income	6,169	4,916	7,123	9,644	3,297	-47	-66	28,239	17,294	-39
Operating Expenses	7,739	8,778	8,868	9,829	10,235	32	4	35,234	43,006	22
Pre Provisioning Profit	19,571	15,492	19,501	25,214	18,206	-7	-28	80,144	74,903	-7
Provision & Contingencies	14,609	55,779	8,057	47	6,424	-56	13,517	78,848	36,229	-54
PBT	4,962	-40,287	11,444	25,167	11,782	137	-53	1,297	38,674	2,883
Income Tax Expense (Gain)	1,231	-10,201	2,855	6,143	2,917	137	-53	28	9,746	34,348
Net Profit/(Loss)	3,731	-30,086	8,590	19,023	8,865	138	121	1,268	28,928	2,181
Gross NPA (%)	8.18	10.82	10.81	6.46	7.25	-93bps	79bps	6.46	4.12	-234bps
Net NPA (%)	3.29	3.04	3.01	1.66	1.92	-137bps	26bps	1.66	1.06	-60bps
Deposits (Rs in bn)	773	819	845	963	931	20	-3	963	1,190	24
Net Advances (Rs in bn)	748	745	803	940	909	22	-3	940	1,118	19

Source: Company, Emkay Research

Exhibit 11: Revision in Estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	1,27,630	1,17,909	-7.6%	1,47,635	1,40,303	-5.0%	1,77,415	1,72,463	-2.8%
PPOP	85,847	74,903	-12.7%	97,939	89,614	-8.5%	1,18,135	1,12,000	-5.2%
PAT	29,608	28,928	-2.3%	44,569	43,283	-2.9%	62,528	59,764	-4.4%
EPS (Rs)	18.4	18.0	-2.3%	27.7	26.9	-2.9%	38.8	37.1	-4.4%
BV (Rs)	124.8	124.4	-0.3%	136.9	148.6	8.6%	184.7	182.0	-1.4%

Source: Emkay Research

Exhibit 12: Key assumptions

	FY22A	FY23E	FY24E	FY25E
Loan Growth %	14.1	21.0	23.0	24.5
Deposit Growth %	23.5	23.5	26.3	26.4
NIM %	7.0	7.0	7.0	6.9
GNPA %	6.5	4.1	2.9	2.2
Credit Cost %	8.6	3.4	2.5	2.0

Source: Emkay Research

Exhibit 13: Key ratios and trends

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Loans (Rs mn)	7,43,310	7,66,146	8,02,550	8,70,400	8,03,569	8,16,600	8,80,000	9,93,400	9,66,500
growth YoY %	17.7	19.4	22.6	21.1	8.1	6.6	9.7	14.1	20.3
Loans QoQ %	3.5	3.1	4.8	8.5	(7.7)	1.6	7.8	12.9	(2.7)
Composition %									
Micro- Banking assets	63.9	65.0	66.1	67.0	66.2	66.2	65.4	62.8	60.1
Non - Micro banking assets	36.1	35.0	33.9	33.0	33.8	33.8	34.6	37.2	39.9
Liability Profile									
Deposits (Rs mn)	6,06,100	6,61,277	7,11,880	7,79,722	7,73,336	8,18,983	8,44,998	9,63,306	9,30,570
growth YoY %	34.1	34.4	29.6	36.6	27.6	23.8	18.7	23.5	20.3
growth QoQ %	6.2	9.1	7.7	9.5	(0.8)	5.9	3.2	14.0	(3.4)
CASA %	37.1	38.2	42.9	43.4	42.9	44.6	45.6	41.6	43.2
CA %	4.9	5.0	4.9	5.9	4.5	4.4	4.6	5.7	4.7
SA %	32.1	33.3	38.0	37.5	38.4	40.3	41.0	35.9	38.5
Asset Quality (Rs mn)									
Gross NPA	10,067	8,740	8,592	57,578	64,404	87,636	94,416	63,800	69,675
GNPA %	1.43	1.18	1.11	6.80	8.18	10.82	10.81	6.46	7.25
NPA	3,358	2,625	2,013	28,610	24,579	22,658	24,131	15,642	17,491
NNPA %	0.48	0.36	0.26	3.51	3.29	3.04	3.01	1.66	1.92
PCR % - Specific	66.6	70.0	76.6	50.3	61.8	74.1	74.4	75.5	77.0
Capital Adequacy									
CAR %	26.5	25.7	26.2	23.5	24.8	20.4	20.0	20.1	19.4
Tier I %	23.2	22.2	21.4	22.5	23.8	19.4	19.0	18.9	18.3
ROA	2.3	3.6	2.4	0.4	1.3	(2.6)	2.8	6.0	2.5
ROE	14.1	22.5	14.6	2.4	8.5	(17.3)	22.2	46.5	19.7

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	1,00,616	1,19,357	1,45,823
Other income	20,223	28,239	17,294	20,946	26,640
Fee income	8,397	11,776	13,896	16,675	20,010
Net income	95,856	1,15,379	1,17,909	1,40,303	1,72,463
Operating expenses	28,169	35,234	43,006	50,689	60,463
Pre provision profit	67,687	80,144	74,903	89,614	1,12,000
PPP excl treasury	64,600	77,824	75,367	89,985	1,10,886
Provisions	38,201	78,848	36,229	31,749	32,102
Profit before tax	29,487	1,297	38,674	57,865	79,899
Tax	7,432	28	9,746	14,582	20,134
Tax rate	25	2	25	25	25
Profit after tax	22,055	1,268	28,928	43,283	59,764

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	16,106	16,108	16,110	16,110	16,110
Reserves	1,57,976	1,57,704	1,84,318	2,23,273	2,77,060
Net worth	1,74,082	1,73,812	2,00,428	2,39,383	2,93,170
Deposits	7,79,722	9,63,306	11,89,883	15,02,779	18,98,999
Borrowings	1,68,004	1,99,212	1,80,286	1,63,586	1,48,673
Total liabilities	11,50,162	13,88,665	16,22,599	19,66,721	24,11,433
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	4,62,648
Loans	8,16,129	9,39,749	11,18,254	13,88,316	17,37,434
Others	15,329	59,037	65,284	68,308	71,927
Total assets	11,50,162	13,88,665	16,22,599	19,66,721	24,11,433

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	7.6	7.2	7.1	7.0	6.9
Non-ll/avg assets	2.0	2.2	1.1	1.2	1.2
Fee income/avg assets	0.8	0.9	0.9	0.9	0.9
Opex/avg assets	2.7	2.8	2.9	2.8	2.8
Provisions/avg assets	3.7	6.2	2.4	1.8	1.5
PBT/avg assets	2.9	0.1	2.6	3.2	3.6
Tax/avg assets	0.7	0.0	0.6	0.8	0.9
RoA	2.1	0.1	1.9	2.4	2.7
RoAE	13.5	0.7	15.5	19.7	22.4
GNPA (%)	6.8	6.5	4.1	2.9	2.2
NNPA (%)	3.5	1.7	1.1	0.7	0.6

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	13.7	0.8	18.0	26.9	37.1
BVPS	108.1	107.9	124.4	148.6	182.0
ABVPS	94.8	100.6	118.9	143.8	177.4
DPS	0.0	0.0	1.4	2.7	3.7

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	20.9	363.2	15.9	10.6	7.7
P/BV	3.0	2.8	2.4	2.0	1.6
P/ABV	3.0	2.8	2.4	2.0	1.6
P/PPOP	6.8	5.8	6.2	5.1	4.1
Dividend Yield (%)	0.0	0.0	0.5	0.9	1.3

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	19.6	15.2	15.5	18.6	22.2
PPOP	24.3	18.4	(6.5)	19.6	25.0
PAT	(27.1)	(94.2)	2,181.0	49.6	38.1
Loans	22.5	15.1	19.0	24.2	25.1

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	21,141	19,354	21,247	25,398	25,144
NIM(%)	8.5	7.6	7.4	8.7	8.0
PPOP	19,571	15,492	19,501	25,214	18,206
PAT	3,731	(30,086)	8,590	19,023	8,865
EPS (Rs)	2.32	(18.68)	5.33	11.81	5.50

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	40.0	40.0	40.0	40.0	40.0
FIIIs	35.4	33.6	34.6	34.3	35.6
DIIIs	2.0	2.5	1.9	4.6	7.1
Public and Others	22.6	23.9	23.5	21.1	17.3

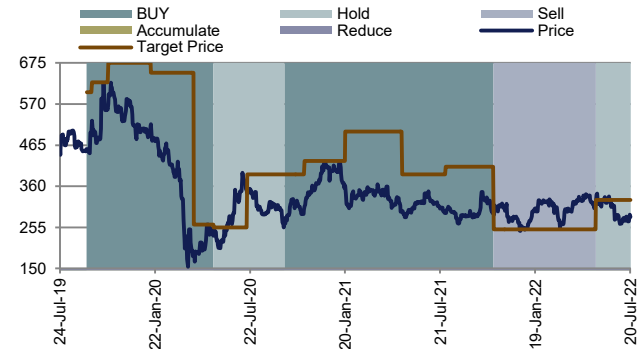
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-May-22	317	325	12m	Hold	Anand Dama
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

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	19.91	19.86	-0.2%	-5	100.00	
Axis Bank	1.98	1.97	0%	-1	9.90	0
AU Small Finance Bank	0.27	0.24	-9%	-3	1.22	0
Bandhan Bank	0.20	0.20	1%	0	0.99	0
Bank of Baroda	0.21	0.20	-7%	-1	1.00	0
Canara Bank	0.13	0.11	-12%	-2	0.56	0
City Union Bank	0.00	0.04	NA	4	0.20	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	0.22	0.20	-8%	-2	1.00	0
HDFC Bank	6.14	6.57	7%	43	33.00	0
ICICI Bank	5.58	5.52	-1%	-6	27.74	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.54	0.60	11%	6	3.03	0
Karur Vysya Bank	0.00	0.06	NA	6	0.32	0
Kotak Mahindra Bank	2.45	2.07	-16%	-38	10.40	0
Punjab National Bank	0.10	0.00	-100%	-10	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	2.00	2.07	3%	7	10.40	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	0.05	0.00	-100%	-5	0.00	0
Cash	0.00	0.05	NA	5	0.24	0

Source: Emkay Research

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

Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Jul-21	20-Jan-22	21-Apr-22	21-Jun-22	21-Jul-22
EAP - BFSI-Banks	100.0	117.6	130.3	125.7	114.4	124.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.1	127.7	123.2	112.2	121.8

*Performance measurement base date 1st April 2019

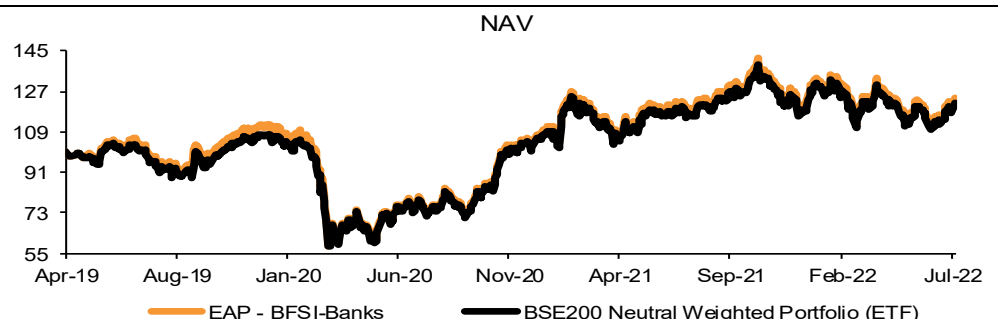
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	8.7%	-1.0%	-4.5%	5.8%
BSE200 Neutral Weighted Portfolio (ETF)	8.6%	-1.1%	-4.6%	5.9%

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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Emkay Rating Distribution

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

Completed Date: 23 Jul 2022 02:30:54 (SGT)

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