

# Bandhan Bank

Refer to important disclosures at the end of this report

## Transforming into a true universal bank, but asset quality remains a near-term irritant

- Focus on geographic as well as product diversification to de-risk the balance sheet:** Bandhan Bank has embarked on the journey to transform itself into a true universal bank, led by geographic diversification (incrementally in Uttar Pradesh, Bihar, Gujarat, Karnataka, Andhra, and Telangana, among others) as well as asset portfolio (non-MFI portfolio). The bank remains determined to grow its non-MFI book (including affordable housing, prime housing, micro/larger LAP, gold, cards, VF, PL, and commercial banking loan pool) at a faster pace and, thus, reduce the share of the otherwise volatile group MFI portfolio to 28% by FY25E from 40% currently. However, we believe this structural portfolio shift towards secured and low-yielding assets should have a bearing on margins in the long run but, at the same time, reduce asset-quality volatility.
- Retail/commercial banking build-up would lead to an elevated cost structure in the medium term:** The bank plans to invest heavily in people, technology, and infrastructure over the next 2-3 years to strengthen its retail liability franchise as well as asset portfolio. The bank has re-organised its business verticals and is now deepening management bandwidth, including hires from premier domestic/MNC banks, which would lead to higher staff costs. Retail, as well as commercial banking portfolio build-up, invariably would also come at a higher cost, including phygital footprint as well as sourcing payouts, including the new DSA channel for housing/business loans. Thus, the bank expects the cost-asset ratio to remain elevated at ~3% in the medium term.
- Stress recognition to continue in the near term leading to elevated LLP:** The bank has indicated to accelerate stress recognition from the MFI SMA portfolio, leading to higher NPAs and, thus, provisions (Rs24bn in 2H without factoring CGFMU recovery of Rs9.5bn). Factoring higher provisions (to be front-loaded in 3Q) in 2H, we have built-in ~3.5% LLP for FY23E. The bank believes pre-Covid repayment discipline will take some more time to come back, while the bank would also prefer to build some contingent buffers and, thus, guides for medium-term LLP at 1.8% vs. normal period LLP <1%.
- Retain Buy but cut earnings/TP, factoring accelerated stress flow:** We believe a structural shift in portfolio towards non-MFI loans would have some bearing on margins, more so amid rising CoF, partly offset by lower interest reversals once asset quality normalizes. Operational cost is also expected to remain elevated in the medium term as the bank transforms itself into a pan-India universal bank offering enhanced retail + commercial banking products. Factoring the elevated credit cost, we have cut our earnings estimates by 19%/6%/5% for FY23E/24E/25E, but we expect RoAs to gradually recover at 1.6-2.6% over FY23-25E from the low of 0.1% in FY22 vs. yesteryear highs of >3%. We retain Buy with a cut in TP to Rs300 (from Rs330), based on 1.9x Dec-24E ABV vs. earlier 2x Sep-24E ABV. Key risks: Prolonged asset-quality stress, delay in recovery from the Assam loan relief scheme, and higher management churn.

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	1,14,271	1,35,382	1,70,418
Net profit	22,055	1,268	23,362	40,656	56,943
EPS (Rs)	13.7	0.8	14.5	25.2	35.3
ABV (Rs)	94.8	100.6	115.8	137.3	168.3
RoA (%)	2.1	0.1	1.6	2.3	2.6
RoE (%)	13.5	0.7	12.7	19.0	22.1
PE (x)	17.2	299.1	16.2	9.3	6.7
P/ABV	2.5	2.3	2.0	1.7	1.4

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs236</b> as of (December 1, 2022)	<b>Rs 300 (▼)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>BUY (■)</b>	<b>27.4 %</b>

### Change in Estimates

EPS Chg FY23E/FY24E (%)	(23.2)/(9.8)
Target Price change (%)	(9)
Target Period (Months)	12
Previous Reco	BUY

### Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	14.5	25.2
Consensus	21.8	31.4
Mean Consensus TP (12M)	Rs 326	

### Stock Details

Bloomberg Code	BANDHAN IN
Face Value (Rs)	10
Shares outstanding (mn)	1,611
52 Week H/L	350 / 209
M Cap (Rs bn/USD bn)	379 / 4.67
Daily Avg Volume (nos.)	100,91,080
Daily Avg Turnover (US\$ mn)	31.5

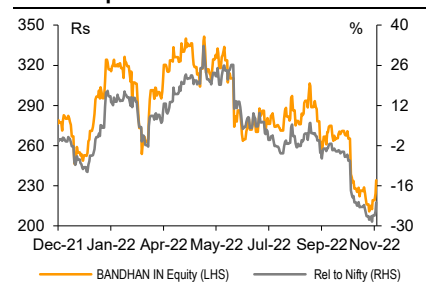
### Shareholding Pattern Sep '22

Promoters	40.0%
FIIIs	34.2%
DIIIs	12.5%
Public and Others	13.3%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	-	(15)	(29)	(15)
<b>Rel. to Nifty</b>	(4)	(21)	(38)	(22)

### Relative price chart



Source: Bloomberg

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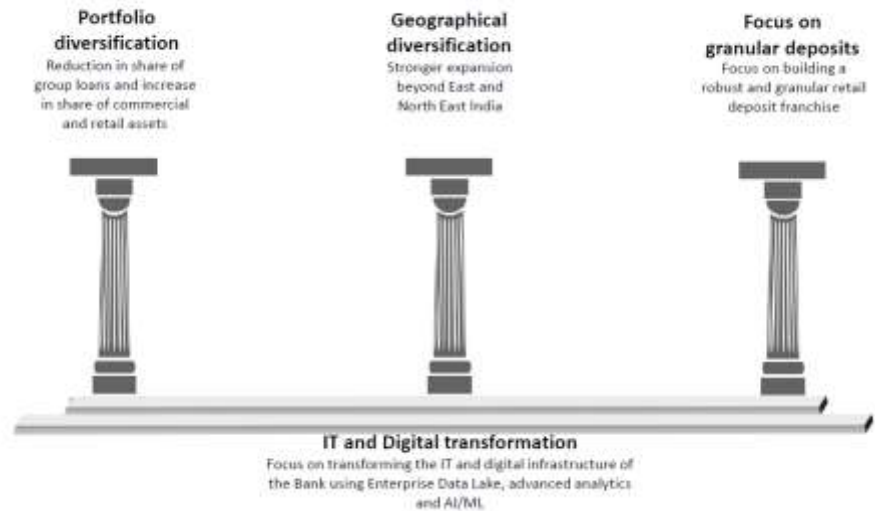
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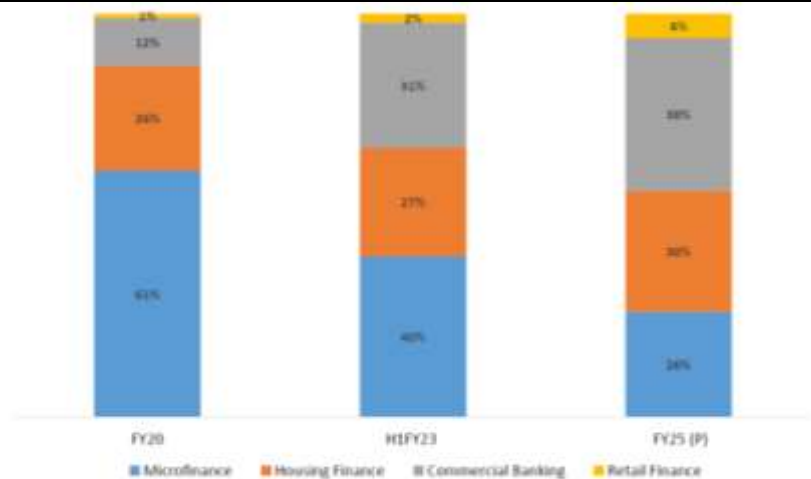
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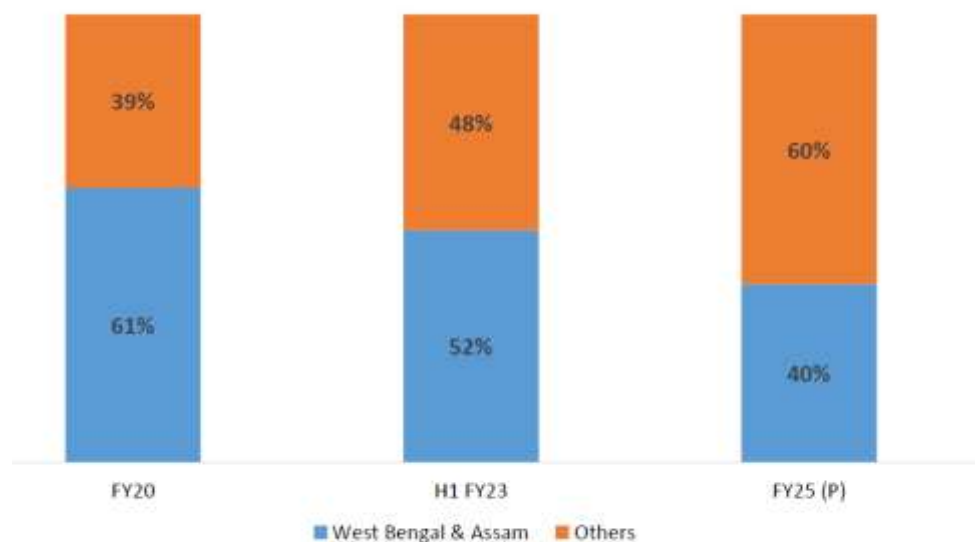
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**Exhibit 1: Strategic focus areas**

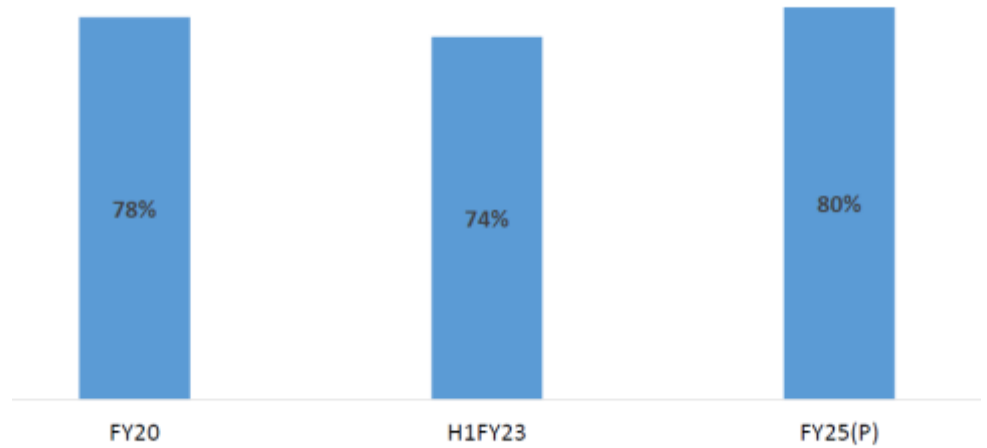
Source: Company, Emkay Research

**Exhibit 2: Diversification of asset portfolio away from group MFI loans**

Source: Company, Emkay Research

**Exhibit 3: Geographic diversification outside West Bengal and Assam**

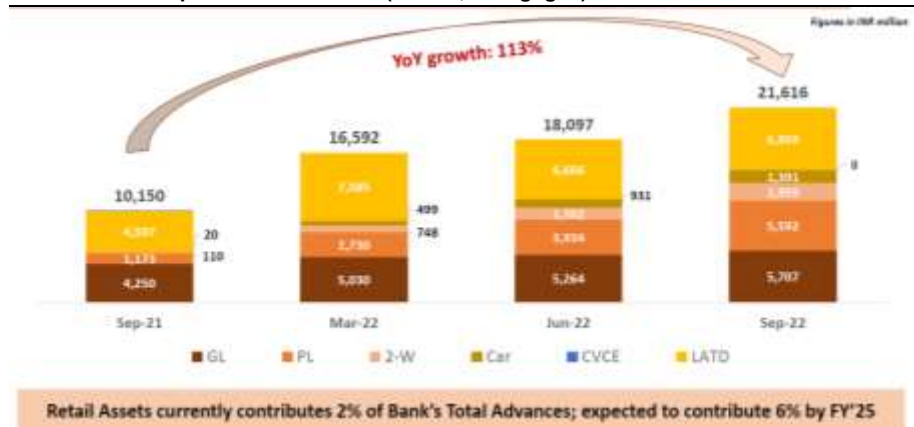
Source: Company, Emkay Research

**Exhibit 4: Increased share of retail deposits**

Source: Company, Emkay Research

**Exhibit 5: Retail (ex-MFI, mortgages) loan portfolio journey**

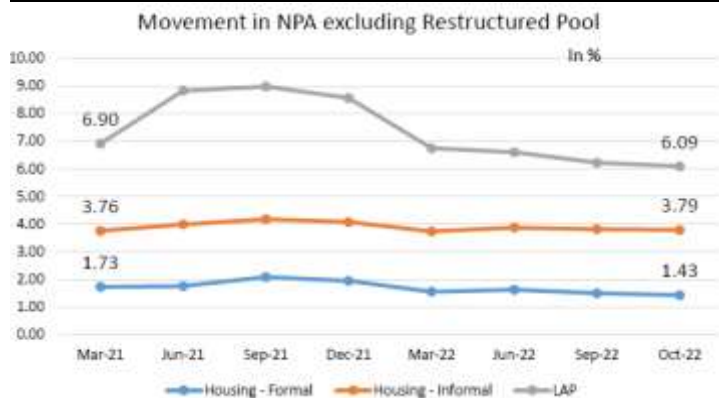
Source: Company, Emkay Research

**Exhibit 6: Retail portfolio movement (ex-MFI, mortgages)**

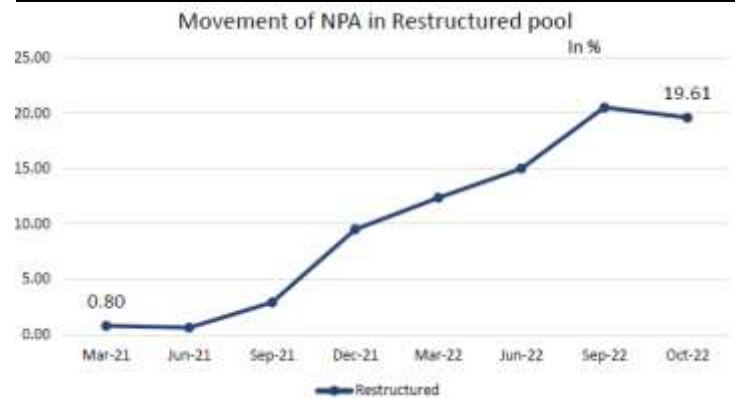
Source: Company, Emkay Research

**Exhibit 7: Retail team structure – Head retail assets, Mr. Shantanu Sengupta, hired from DBS**

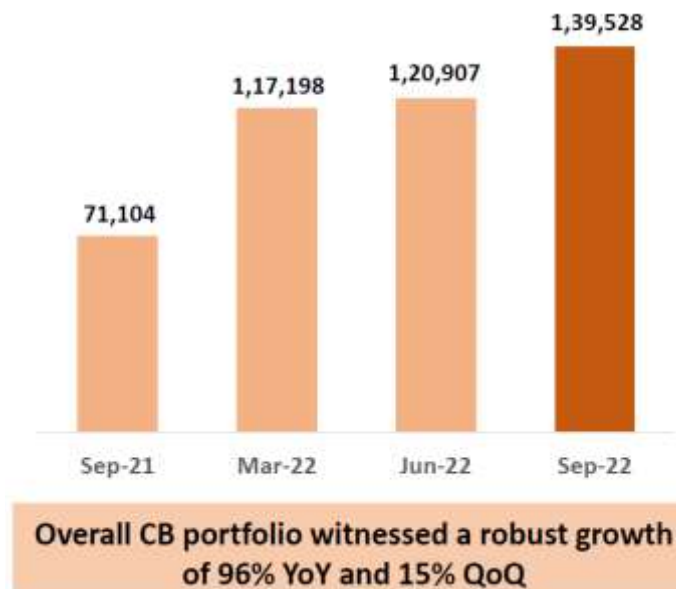
Source: Company, Emkay Research

**Exhibit 8: Housing NPA movement**

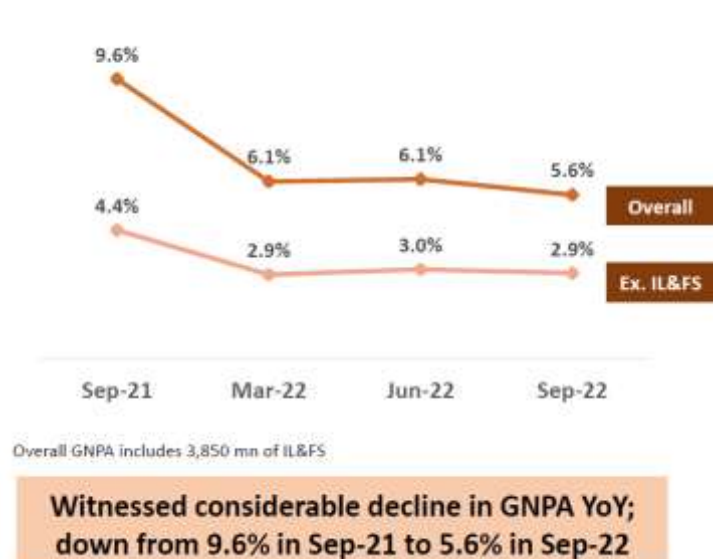
Source: Company, Emkay Research

**Exhibit 9: NPA movement in the restructured pool for housing loans**

Source: Company, Emkay Research

**Exhibit 10: Commercial banking portfolio movement**

Source: Company, Emkay Research

**Exhibit 11: Commercial banking NPA movement**

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Net interest income</b>	<b>75,634</b>	<b>87,140</b>	<b>95,844</b>	<b>1,13,190</b>	<b>1,42,470</b>
<b>Other income</b>	<b>20,223</b>	<b>28,239</b>	<b>18,427</b>	<b>22,193</b>	<b>27,949</b>
Fee income	8,397	11,776	13,896	16,675	20,010
<b>Net income</b>	<b>95,856</b>	<b>1,15,379</b>	<b>1,14,271</b>	<b>1,35,382</b>	<b>1,70,418</b>
Operating expenses	28,169	35,234	44,688	53,770	64,841
<b>Pre provision profit</b>	<b>67,687</b>	<b>80,144</b>	<b>69,583</b>	<b>81,613</b>	<b>1,05,577</b>
<b>PPP excl treasury</b>	<b>64,600</b>	<b>77,824</b>	<b>70,047</b>	<b>81,984</b>	<b>1,04,463</b>
Provisions	38,201	78,848	38,350	27,259	29,451
<b>Profit before tax</b>	<b>29,487</b>	<b>1,297</b>	<b>31,233</b>	<b>54,354</b>	<b>76,126</b>
Tax	7,432	28	7,871	13,697	19,184
Tax rate	25	2	25	25	25
<b>Profit after tax</b>	<b>22,055</b>	<b>1,268</b>	<b>23,362</b>	<b>40,656</b>	<b>56,943</b>

**Balance Sheet**

Y/E (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	1,79,197	2,15,788	2,67,036
<b>Net worth</b>	<b>1,74,082</b>	<b>1,73,812</b>	<b>1,95,307</b>	<b>2,31,898</b>	<b>2,83,146</b>
Deposits	7,79,722	9,63,306	11,87,025	14,98,762	18,93,446
Borrowings	1,68,004	1,99,212	1,80,286	1,63,586	1,48,673
<b>Total liabilities</b>	<b>11,50,162</b>	<b>13,88,665</b>	<b>16,19,313</b>	<b>19,77,323</b>	<b>24,34,376</b>
Cash and bank	33,354	49,426	59,311	71,173	85,408
Investments	2,51,554	2,90,787	3,32,366	3,86,932	4,61,426
Loans	8,16,129	9,39,749	10,96,878	13,85,438	17,42,489
Others	15,329	59,037	75,694	82,975	91,399
<b>Total assets</b>	<b>11,50,162</b>	<b>13,88,665</b>	<b>16,19,313</b>	<b>19,77,323</b>	<b>24,34,376</b>

**Key Ratios (%)**

Y/E	FY21	FY22	FY23E	FY24E	FY25E
NIM	7.6	7.2	6.8	6.7	6.8
Non-II/avg assets	2.0	2.2	1.2	1.2	1.3
Fee income/avg assets	0.8	0.9	0.9	0.9	0.9
Opex/avg assets	2.7	2.8	3.0	3.0	2.9
Provisions/avg assets	3.7	6.2	2.5	1.5	1.3
PBT/avg assets	2.9	0.1	2.1	3.0	3.5
Tax/avg assets	0.7	0.0	0.5	0.8	0.9
RoA	2.1	0.1	1.6	2.3	2.6
RoAE	13.5	0.7	12.7	19.0	22.1
GNPA (%)	6.8	6.5	6.7	5.0	3.9
NNPA (%)	3.5	1.7	1.1	1.0	0.9

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	13.7	0.8	14.5	25.2	35.3
BVPS	108.1	107.9	121.2	143.9	175.8
ABVPS	94.8	100.6	115.8	137.3	168.3
DPS	0.0	0.0	1.2	2.5	3.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	17.2	299.1	16.2	9.3	6.7
P/BV	2.5	2.3	2.0	1.7	1.4
P/ABV	2.5	2.3	2.0	1.7	1.4
P/PPOP	5.6	4.7	5.5	4.7	3.6
Dividend Yield (%)	0.0	0.0	0.5	1.1	1.5

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	19.6	15.2	10.0	18.1	25.9
PPOP	24.3	18.4	(13.2)	17.3	29.4
PAT	(27.1)	(94.2)	1,742.1	74.0	40.1
Loans	22.5	15.1	16.7	26.3	25.8

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
NII	19,354	21,247	25,398	25,144	21,930
NIM(%)	7.6	7.4	8.7	8.0	7.0
PPOP	15,492	19,501	25,214	18,206	15,529
PAT	(30,086)	8,590	19,023	8,865	2,093
EPS (Rs)	(18.68)	5.33	11.81	5.50	1.30

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	40.0	40.0	40.0	40.0	40.0
FII	33.6	34.6	34.3	35.6	34.2
DII	2.5	1.9	4.6	7.1	12.5
Public and Others	23.9	23.5	21.1	17.3	13.3

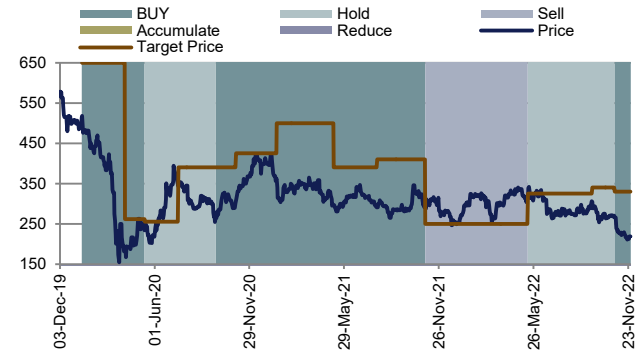
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
28-Oct-22	265	330	12m	Buy	Anand Dama
15-Sep-22	305	340	12m	Hold	Anand Dama
23-Jul-22	286	325	12m	Hold	Anand Dama
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

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)
<b>BFSI-Banks</b>	<b>21.50</b>	<b>21.50</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>	
Axis Bank	2.25	2.36	5%	10	10.96	-79
AU Small Finance Bank	0.27	0.24	-12%	-3	1.11	-4
Bandhan Bank	0.16	0.16	0%	0	0.76	-5
Bank of Baroda	0.28	0.28	0%	0	1.30	15
Canara Bank	0.19	0.19	0%	0	0.89	-21
City Union Bank	0.00	0.00	NA	0	0.00	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.05	NA	5	0.22	2
Federal Bank	0.24	0.24	1%	0	1.11	-5
HDFC Bank	6.38	6.46	1%	8	30.06	56
ICICI Bank	6.00	6.14	2%	14	28.55	-35
Indian Bank	0.00	0.06	NA	6	0.30	30
Indusind Bank	0.69	0.82	19%	13	3.80	-10
Karur Vysya Bank	0.00	0.06	NA	6	0.30	-18
Kotak Mahindra Bank	2.51	1.83	-27%	-68	8.52	-109
Punjab National Bank	0.14	0.14	0%	0	0.64	64
RBL Bank	0.00	0.00	NA	0	0.00	0
SBI Cards	0.21	0.26	25%	5	1.23	-836
State Bank of India	2.04	2.10	3%	6	9.76	17
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.09	0.09	-1%	0	0.40	12
Yes Bank	0.05	0.02	-54%	-3	0.10	-11
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>	<b>-21</b>

Source: Emkay Research

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

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	30-Nov-21	31-May-22	30-Aug-22	31-Oct-22	30-Nov-22
EAP - BFSI-Banks	100.0	122.9	122.0	135.5	141.3	148.2
BSE200 Neutral Weighted Portfolio (ETF)	100.0	120.7	119.6	132.9	138.2	145.1

\*Performance measurement base date 1<sup>st</sup> April 2019

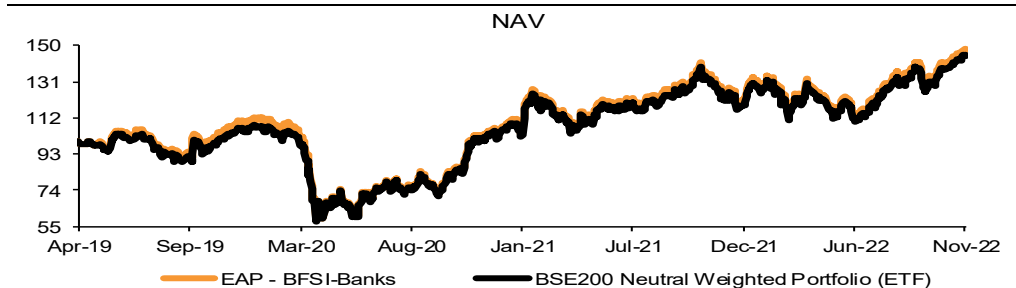
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	4.9%	9.3%	21.5%	20.5%
BSE200 Neutral Weighted Portfolio (ETF)	5.0%	9.2%	21.3%	20.3%

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%

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