

Bandhan Bank

Refer to important disclosures at the end of this report

Asset-quality stress persists, but pace to come-off

- Bandhan Bank once again reported a miss on PAT, at Rs2.9bn (vs our est of Rs5.8bn), mainly due to weaker margins and higher provisions, partly offset by recovery from sale of NPAs to ARC (Rs4.1bn) and the CGFMU recovery. Bank guides for better growth/NPA recovery hereon, which will lead to improvement in earnings.
- Gross slippages were higher at Rs33bn/16.3% of loans, as Bank continues to recognize stress from the MFI portfolio, incl. RSA. The MFI stress pool (SMA 1 & 2) now stands at Rs24.6bn/3% of overall loans/5% of MFI loans. Bank expects recovery from CGMFU and the Assam loan relief scheme should further reduce NPAs from the current 7.2% of loans.
- Credit growth was moderate at 11% YoY/2% QoQ in 3Q, as the MFI book continues to contract. However, the bank expects growth to improve in 4Q, which is a seasonally strong quarter for MFI disbursements. This, coupled with some softness in NPA moderation, should support margins, which slipped in 3Q to a low of 6.5%.
- We cut our FY23E earnings, factoring-in the miss in 3Q, but expect improvement in the RoA to 1.5%-2.6% and in RoE to 12%-22% over FY23-25E, respectively, owing to better growth/asset quality. We retain our BUY rating on the stock, with TP of Rs300 (based on 1.9x Dec-24E ABV), given the expected improvement in asset quality/earnings trajectory from 4Q and reasonable valuations.

- MFI book continues to drag overall credit growth/margins:** Bandhan Bank reported moderate credit growth at 11% YoY/2% QoQ, mainly due to decline in the MFI book. However, the bank continues to grow its non-MFI commercial, mortgage and other retail book. But rising CoF and higher interest reversal on NPAs led to a 50-bps contraction in NIM to 6.5%. Management guides for some recovery in NIM during 4Q, on the back of better growth and lower interest reversal, as the worst in terms of NPA recognition is largely behind. That said, we believe that the bank's strategy to diversify away from the high-margin, risky MFI business (plans to bring MFI group loans to 26% in FY25E from the current 37%) could lead to structural softness in margins in the long term.
- Asset quality takes a hit, as Bank accelerates stress recognition from MFI pool:** Gross slippages remained elevated at Rs33.5bn/16.3% of loans, mainly due to accelerated recognition from the MFI stress pool. As per Management, the MFI stress pool (SMA 1 & 2) now stands at a moderate Rs24.6bn/3% of overall loans/5% of MFI loans and should thus lead to contained stress-flow in future. Bank also expects recovery from CGMFU (Rs17bn) and the Assam loan relief scheme to further reduce NPAs that, coupled with a healthy PCR at 75%, should lead to moderate LLP. Mgmt also indicates that a hit, if any, from the recent ECL-based provisioning is unlikely to have any meaningful impact.
- Outlook and Valuations:** We cut our FY23E earnings, accounting for the miss in 3Q, but expect improvement in the RoA to 1.5%-2.6% and in RoE to 12%-22% over FY23-25E due to better growth/asset quality. We retain our BUY rating on the stock, with TP of Rs300 (based on 1.9x Dec-24E ABV), given the expected improvement in asset quality/earnings trajectory 4Q onwards and reasonable valuations. **Key Risks:** Macro-economic risk leading to recovery in growth/asset quality; senior-management attrition.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	95,856	1,15,379	1,15,307	1,37,435	1,70,311
Net profit	22,055	1,268	21,943	39,804	56,945
EPS (Rs)	13.7	0.8	13.6	24.7	35.3
ABV (Rs)	94.8	100.6	112.8	135.8	167.8
RoA (%)	2.1	0.1	1.5	2.2	2.6
RoE (%)	13.5	0.7	11.9	18.8	22.3
P/E (x)	17.6	306.8	17.7	9.8	6.8
P/ABV	2.5	2.4	2.1	1.7	1.4

Source: Company, Emkay Research

CMP	Target Price
Rs 242 as of (January 21, 2023)	Rs 300 (■) 12 months
Rating	Upside
BUY (■)	24.2 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(6)/(2)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	13.6	24.7
Consensus	17.6	29.0
Mean Consensus TP (12M)	Rs 316	

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)	389 / 4.80
Daily Avg Volume (nos.)	106,88,290
Daily Avg Turnover (USD mn)	31.3

Shareholding Pattern Dec '22

Promoters	40.0%
FII's	32.4%
DII's	12.5%
Public and Others	15.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(11)	(14)	(19)
Rel to Nifty	1	(13)	(22)	(21)

Relative price trend



Source: Bloomberg

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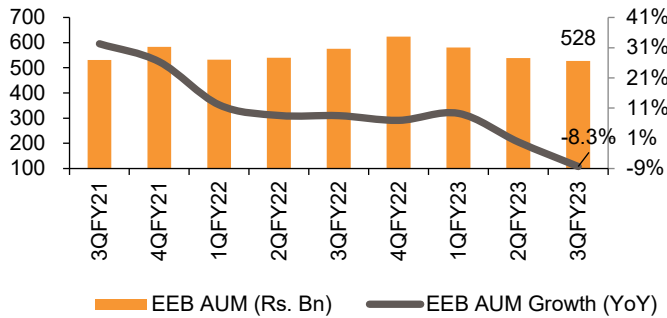
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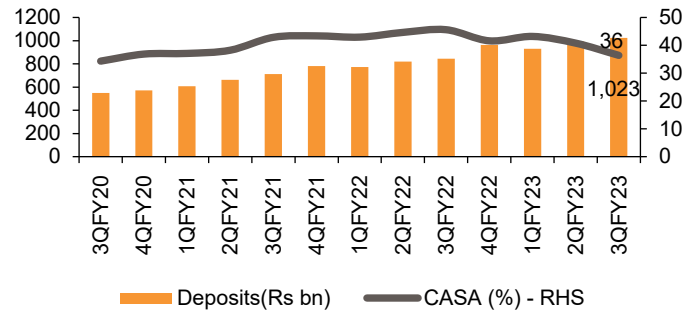
Story in Charts

Exhibit 1: MFI book continues to decelerate, as the bank carries on diversifying its book



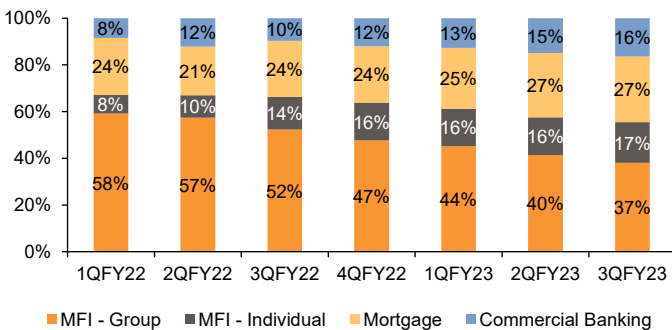
Source: Company, Emkay Research

Exhibit 2: Deposit growth was moderate; CASA ratio dipped due to SA cannibalization towards the higher-rate TD book



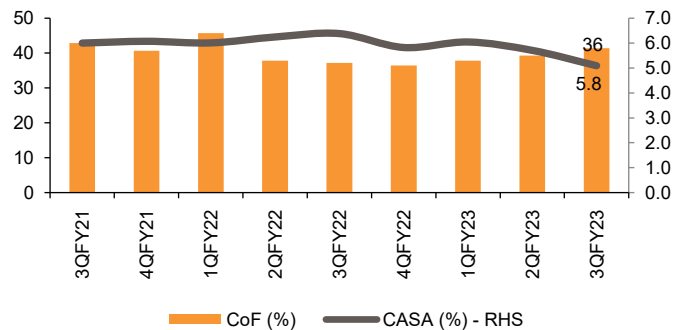
Source: Company, Emkay Research

Exhibit 3: As a strategy, the bank continues to diversify away from the group MFI business



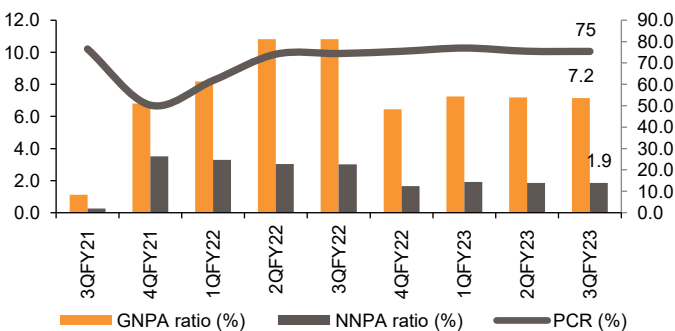
Source: Company, Emkay Research

Exhibit 4: CoF inched up, to 5.8%, leading to moderation in margins



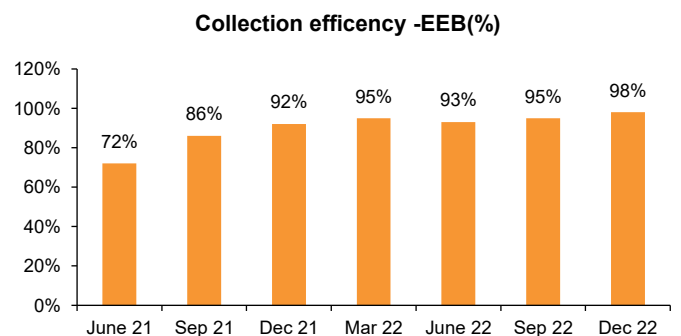
Source: Company, Emkay Research

Exhibit 5: Higher slippages offset by even higher write-offs led to a 3bps decline in GNPA ratio



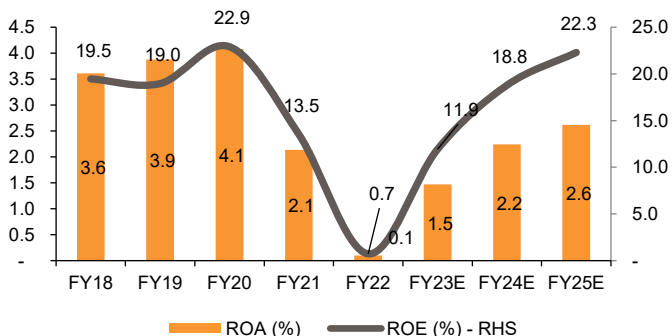
Source: Company, Emkay Research

Exhibit 6: Overall collection efficiency improves in Dec'22



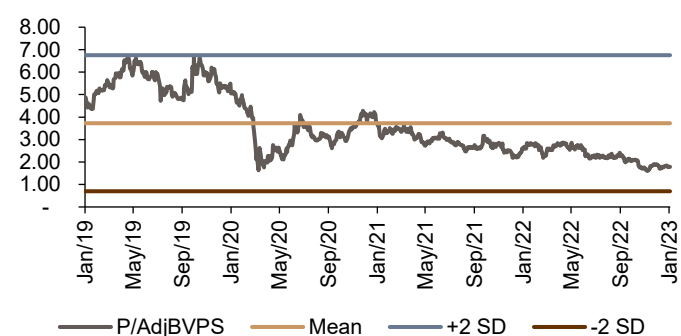
Source: Company, Emkay Research

Exhibit 7: We expect return ratios to improve by FY25E



Source: Company, Emkay Research

Exhibit 8: After the recent corrections, the stock currently trades at 1.8x one-year forward ABV



Source: Bloomberg, Emkay Research

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Exhibit 9: Actual vs Estimates (Q3FY23)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	31,137	32,420	29,093	-4%	7%	Lower margins, partly offset by higher income, led to a miss
PPOP	19,222	20,891	20,881	-8%	-8%	Lower Net income led to a miss
PAT	2,906	5,777	4,766	-50%	-39%	Higher LLP led to a miss

Source: Company, Emkay Research

Exhibit 10: Quarterly summary

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	34,087	38,716	40,554	37,735	38,076	12	1	1,38,711	1,58,767	14
Interest Exp	12,840	13,317	15,409	15,805	17,272	35	9	51,571	67,918	32
Net Interest Income	21,247	25,398	25,144	21,930	20,804	-2	-13	87,140	90,850	4
Global NIMs (reported)	7.40	8.70	8.00	7.00	6.50	-90bps	-50bps	7.03	6.40	-63bps
Non-interest Income	7,123	9,644	3,297	4,764	10,333	45	45	28,239	24,457	-13
Operating Expenses	8,868	9,829	10,235	11,165	11,916	34	9	35,234	45,524	29
Pre Provisioning Profit	19,501	25,214	18,206	15,529	19,222	-1	-15	80,144	69,783	-13
Provision & Contingencies	8,057	47	6,424	12,797	15,415	91	99	78,848	40,910	-48
PBT	11,444	25,167	11,782	2,732	3,807	-67	-77	1,297	28,873	2,127
Income Tax Expense (Gain)	2,855	6,143	2,917	640	901	-68	-78	28	6,929	24,394
Net Profit/(Loss)	8,590	19,023	8,865	2,093	2,906	-66	-76	1,268	21,943	1,630
Gross NPA (%)	10.81	6.46	7.25	7.19	7.16	-366bps	-3bps	6.46	5.76	-70bps
Net NPA (%)	3.01	1.66	1.92	1.86	1.86	-115bps	0bps	1.66	1.51	-16bps
Deposits (Rs bn)	845	963	931	994	1,023	21	7	963	1,157	20
Net Advances (Rs bn)	803	940	909	902	921	15	-1	940	1,095	17

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	1,15,254	1,15,307	0.0%	1,37,556	1,37,435	-0.1%	1,72,816	1,70,311	-1.4%
PPOP	70,566	69,783	-1.1%	83,786	83,163	-0.7%	1,07,975	1,05,175	-2.6%
PAT	23,362	21,943	-6.1%	40,656	39,804	-2.1%	56,943	56,945	0.0%
EPS (Rs)	14.5	13.6	-6.1%	25.2	24.7	-2.1%	35.3	35.3	0.0%
BV (Rs)	121.2	120.4	-0.7%	143.9	142.7	-0.9%	175.8	174.5	-0.7%

Source: Emkay Research

Exhibit 12: Key assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	14.1	20.0	23.5	24.5
Deposit Growth	23.5	20.1	26.4	26.7
NIM	7.0	6.4	6.6	6.7
GNPA	6.5	5.8	4.2	3.2
Credit Cost	8.6	3.8	2.3	1.8

Source: Emkay Research

Exhibit 13: Key ratios and trends

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Loans (Rs mn)	8,02,550	8,70,400	8,03,569	8,16,600	8,80,000	9,93,400	9,66,500	9,58,300	9,77,900
growth YoY (%)	22.6	21.1	8.1	6.6	9.7	14.1	20.3	17.4	11.1
Loans QoQ (%)	4.8	8.5	(7.7)	1.6	7.8	12.9	(2.7)	(0.8)	2.0
Composition (%)									
Micro- Banking assets	66.1	67.0	66.2	66.2	65.4	62.8	60.1	56.3	54.0
Non - Micro banking assets	33.9	33.0	33.8	33.8	34.6	37.2	39.9	43.7	46.0
Liability Profile									
Deposits (Rs mn)	7,11,880	7,79,722	7,73,336	8,18,983	8,44,998	9,63,306	9,30,570	9,93,658	10,22,830
Growth YoY (%)	29.6	36.6	27.6	23.8	18.7	23.5	20.3	21.3	21.0
Growth QoQ (%)	7.7	9.5	(0.8)	5.9	3.2	14.0	(3.4)	6.8	2.9
CASA (%)	42.9	43.4	42.9	44.6	45.6	41.6	43.2	40.8	36.4
CA (%)	4.9	5.9	4.5	4.4	4.6	5.7	4.7	5.1	4.6
SA (%)	38.0	37.5	38.4	40.3	41.0	35.9	38.5	35.7	31.7
Asset Quality (Rs mn)									
Gross NPA	8,592	57,578	64,404	87,636	94,416	63,800	69,675	68,539	69,648
GNPA (%)	1.11	6.80	8.18	10.82	10.81	6.46	7.25	7.19	7.16
NPA	2,013	28,610	24,579	22,658	24,131	15,642	17,491	16,782	17,113
NNPA (%)	0.26	3.51	3.29	3.04	3.01	1.66	1.92	1.86	1.86
PCR – Specific (%)	76.6	50.3	61.8	74.1	74.4	75.5	74.9	75.5	75.4
Capital Adequacy (%)									
CAR	26.2	23.5	24.8	20.4	20.0	20.1	19.4	19.4	19.1
Tier I	21.4	22.5	23.8	19.4	19.0	18.9	18.3	18.4	18.1
ROA	2.4	0.4	1.3	(2.6)	2.8	6.0	2.5	0.6	0.8
ROE	14.6	2.4	8.5	(17.3)	22.2	46.5	19.7	4.5	6.2

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	90,850	1,10,511	1,38,709
Other income	20,223	28,239	24,457	26,923	31,602
Fee income	8,397	11,776	13,661	16,393	19,671
Net income	95,856	1,15,379	1,15,307	1,37,435	1,70,311
Operating expenses	28,169	35,234	45,524	54,272	65,135
Pre provision profit	67,687	80,144	69,783	83,163	1,05,175
PPP excl treasury	64,600	77,824	63,981	78,521	1,00,069
Provisions	38,201	78,848	40,910	29,949	29,046
Profit before tax	29,487	1,297	28,873	53,214	76,130
Tax	7,432	28	6,929	13,410	19,185
Tax rate	25	2	24	25	25
Profit after tax	22,055	1,268	21,943	39,804	56,945

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	1,77,892	2,13,715	2,64,966
Net worth	1,74,082	1,73,812	1,94,002	2,29,825	2,81,076
Deposits	7,79,722	9,63,306	11,57,022	14,62,541	18,52,949
Borrowings	1,68,004	1,99,212	1,86,606	1,69,236	1,53,715
Total liabilities	11,50,162	13,88,665	16,03,027	19,51,805	23,98,361
Cash and bank	33,354	49,426	59,311	71,173	85,408
Investments	2,51,554	2,90,787	3,26,800	3,80,029	4,53,626
Loans	8,16,129	9,39,749	10,94,937	13,69,171	17,16,811
Others	15,329	59,037	75,527	82,768	91,165
Total assets	11,50,162	13,88,665	16,03,027	19,51,805	23,98,361

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	7.6	7.2	6.5	6.6	6.7
Non-II/avg assets	2.0	2.2	1.6	1.5	1.5
Fee income/avg assets	0.8	0.9	0.9	0.9	0.9
Opex/avg assets	2.7	2.8	3.0	3.1	3.0
Provisions/avg assets	3.7	6.2	2.7	1.7	1.3
PBT/avg assets	2.9	0.1	1.9	3.0	3.5
Tax/avg assets	0.7	0.0	0.5	0.8	0.9
RoA	2.1	0.1	1.5	2.2	2.6
RoAE	13.5	0.7	11.9	18.8	22.3
GNPA (%)	6.8	6.5	5.8	4.2	3.2
NNPA (%)	3.5	1.7	1.5	1.1	0.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	13.7	0.8	13.6	24.7	35.3
BVPS	108.1	107.9	120.4	142.7	174.5
ABVPS	94.8	100.6	112.8	135.8	167.8
DPS	0.0	0.0	1.1	2.5	3.5

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	17.3	301.0	17.4	9.6	6.7
P/BV	2.2	2.2	2.0	1.7	1.4
P/ABV	2.5	2.4	2.1	1.7	1.4
P/PPOP	5.6	4.8	5.5	4.6	3.6
Dividend Yield (%)	0.0	0.0	0.5	1.0	1.5

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	19.6	15.2	4.3	21.6	25.5
PPOP	24.3	18.4	(12.9)	19.2	26.5
PAT	(27.1)	(94.2)	1,630.2	81.4	43.1
Loans	22.5	15.1	16.5	25.0	25.4

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
NII	21,247	25,398	25,144	21,930	20,804
NIM (%)	7.4	8.7	8.0	7.0	6.5
PPOP	19,501	25,214	18,206	15,529	19,222
PAT	8,590	19,023	8,865	2,093	2,906
EPS (Rs)	5.33	11.81	5.50	1.30	1.80

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	40.0	40.0	40.0	40.0	40.0
FIIIs	34.6	34.3	35.6	34.2	32.4
DIIIs	1.9	4.6	7.1	12.5	12.5
Public and Others	23.5	21.1	17.3	13.3	15.2

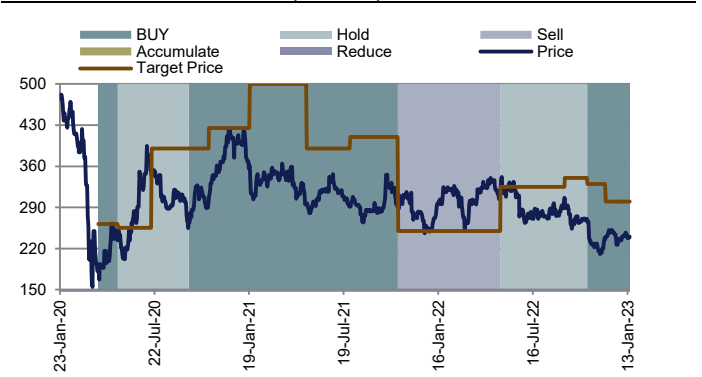
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
02-Dec-22	240	300	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

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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