

## Volatile performance remains overhang...

**About the stock:** Bandhan Bank was incorporated in 2015 as the RBI granted a universal banking license. The bank has a strong presence in eastern and north-eastern India with MFI loans being its forte while acquisition of Gruh Finance boosted the home loan book.

- Total 54% of loans are from emerging enterprise business (EEB)
- The bank has 1250 branches in 35 states, UTs & customer base of 2.7 crore

**Q3FY23 Results:** Overall weak performance.

- NII down 2.1% YoY & 5.1% QoQ, NIMs contracted 50 bps QoQ to 6.5%
- Provision up 21% QoQ to ₹ 1541 crore; PAT down 66% YoY at ₹ 290 crore
- Loan grew 11.1% YoY led by growth in non-MFI book

**What should investors do?** Balance sheet restructuring is in progress and the performance continues to be volatile due to higher stress in EEB segment. **Expected stability at lower return ratios to keep stock performance muted.**

- Hence, we maintain our **HOLD** rating on the stock

**Target Price and Valuation:** Rolling to FY25E, we value Bandhan Bank at ~1.9x FY25E ABV and revise our target price from ₹ 300 to ₹ 265. Steady state performance will be key for a re-rating.

**Key triggers for future price performance:**

- Healthy loan growth guidance (~22% + YoY) with higher growth traction in non-MFI book to aid margins and earnings growth
- The management indicated pressure on deposits to ease, going ahead, and focus will be on retail deposits
- Recovery from Assam relief scheme to aid topline and keep credit cost steady

**Alternate Stock Idea:** Besides Bandhan, in our coverage we also like HDFC Bank.

- HDFC Bank is a leading private sector bank with consistent growth, operational performance and has maintained superior return ratios
- BUY with a target price of ₹ 1920



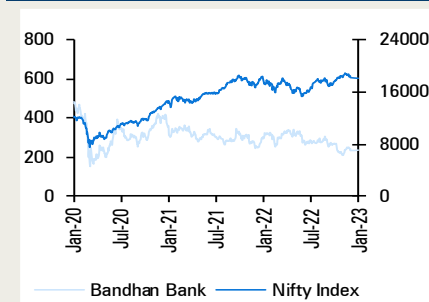
### Particulars

Particulars	Amount
Market Capitalisation	₹ 38184 crore
Networth	₹ 18776 crore
52 week H/L (₹)	349 / 209
Face Value (₹)	10.0

### Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	40.0	40.0	40.0	40.0	40.0
FII	34.6	34.3	35.6	34.2	32.4
DII	1.9	4.6	7.1	12.5	12.5
Others	23.5	21.1	17.2	13.3	15.2

### Price Chart



### Risk to our call

- EEB stress pool declined to ₹ 7600 crore.
- **Key Risk:** (i) Delayed recoveries may impact overall performance; (ii) Better than expected business growth

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Narmolia  
vishal.narmolia@icicisecurities.com

Pravin Mule  
pravin.mule@icicisecurities.com

## Key Financial Summary

	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
NII	6324	3292	8714	25%	9054	9751	11816	11%
PPP	5447	2584	8050	29%	7032	7037	8605	2%
PAT	3024	-2066	163	-56%	2075	2560	3249	171%
ABV (₹)	91.9	63.8	97.7		108.1	118.6	133.3	
P/E	14.6	-20.7	339.4		20.6	16.7	13.1	
P/ABV	2.9	4.2	2.7		2.5	2.2	2.0	
RoE (%)	22.1	-14.6	0.8		11.3	12.6	14.3	
RoA (%)	3.9	-2.0	0.1		1.4	1.5	1.6	

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results: Higher expected provisions dent overall performance

- Bandhan Bank reported a weak set of numbers. The management had earlier indicated that slippages will remain elevated in the near term and thereby provisions
- NII declined 2.1% YoY, 5.1% QoQ to ₹ 2080 crore as NIMs were compressed by 50 bps QoQ (130 bps YoY) to 6.5%. The meaningful decline in NIMs can be attributed to interest reversals during the quarter. Yields were up 60 bps QoQ to 12.6%
- Other income more than doubled on a QoQ basis (up 45% YoY) at ₹ 1033 crore, mainly due to ₹ 414 crore recovery from sale of stressed portfolio. Excluding the recovery, other income declined ~13% YoY
- C/I ratio jumped from 31.3% to 38.3% due to continued investment in franchise. Sequentially provisions increased 20.5% to ₹ 1541 crore. Thus, net profit for the bank de-grew 66.2% YoY to ₹ 290.6 crore
- Asset quality was largely steady with GNPA ratio at 7.15% and NNPA ratio at 1.86%. The bank has received ₹ 915 crore under CGFMU and ₹ 800 crore from sale of stressed pool. Collection efficiency for West Bengal and Assam improved from 95% to 96% and 88% to 90%, respectively (QoQ)
- Business growth slowed down on a yearly basis as loans (gross) were up 11.1% YoY to ₹ 97787 crore with sequential growth of ~2%. EEB segment de-grew ~8% YoY while non-MFI segments witnessed strong growth, which is in line with restructuring of balance sheet as articulated earlier by the management
- Deposits were up 21.0% YoY, 2.9% QoQ to ₹ 102283 crore wherein CASA was down 3% YoY resulting in contraction in CASA ratio at 36.4% vs. 40.8% in Q2FY23 and 45.6% in Q3FY22

Bandhan Bank - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	2.1	2.1	2.5
Social	24.0	26.8	26.8
Governance	83.6	78.6	76.1
<b>Overall ESG Score</b>	<b>36.6</b>	<b>35.9</b>	<b>35.2</b>

Source: Bloomberg; ICICI Direct Research \* score ranges from 0-100 with a high score indicating higher ESG disclosure

### Q3FY23 Earnings Conference call highlights

- Target to grow housing book by 25% YoY. The management is hopeful of growth to pick up in Q4FY23. Expect EEB book share to decline to ~26% on FY25E vs. 37% as of Q3FY23. NIMs to inch up to 7.75% in next two quarters. Advances growth to be ~22% plus (MFI 17-18% YoY growth)
- Expect lower interest reversal, going ahead. Repricing benefit to come in the next quarter
- Other income breakup - ₹ 414 crore from ARC sale, ₹ 212 crore processing fees, ₹ 140 crore from bad debt recovery (vs. ₹ 70-80 crore run rate per quarter), distribution fees ₹ 90 crore
- Business segments like CV lending, LAP, government business are expected to see good traction in coming quarters
- In line with industry trend, SA deposits moderated due to higher spends led by festive season and few customers (above ₹ 2 crore) moved from SA to term deposits due to higher interest rates. SA customers above ₹ 2 crore are ~10% of total deposits in Q3FY23
- The bank received ₹ 917 crore as part of CGFMU recovery from the government and expects another ~ ₹ 1700 crore to come as a recovery in H1FY24. During Q3FY23, the bank sold written off loans of ₹ 8897 crore at a value of ₹ 801 crore out of which ₹ 387 crore was issued to the bank as SRs, balance ₹ 414 crore reflected in P&L
- Majority of the slippages during the quarter was from already declared stressed pool. Total ₹ 622 crore recoveries and upgrades during the quarter. Fresh slippages declined by ₹ 700 crore QoQ (EEB: ₹ 2846 crore). Slippages are expected to come down materially

- Gross slippages in MFI segment were ₹ 2846 crore ₹ 376 crore recovery and upgrade (from NPA accounts)
- Total gross slippages during the quarter were ₹ 3265 crore gross, recoveries were ₹ 622 crore, net addition was ₹ 2644 crore while total write offs were ₹ 2533 crore
- Stagnation in housing segment was mainly due to higher interest. However, with continued healthy demand and rates stabilising, disbursements are likely to pick-up (run rate to be ~₹ 2000 crore per quarter). Majority of the housing book is in the affordable segment. ATS – at ₹ 14-17 lakh vs. ~11 lakh two years back
- Total ~70% book is at fixed rate and balance is at variable rate
- Weighted average tenure of group loan is one year and individual loan tenure is one and half year

## Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP		M Cap	EPS (₹)				P/E (x)				P/ABV (x)			RoE (%)					
	(₹)	TP(₹)		Rating	(₹ Bn)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
Axis Bank (AXIBAN)	930	1,000	Buy	2,862	21.5	42.4	66.1	72.9	43.2	21.9	14.1	12.8	3.0	2.7	2.3	2.1	7.1	12.0	16.3	16.2
HDFC Bank (HDFBAN)	1,660	1,920	Buy	9,261	56.4	66.7	78.7	93.7	29.4	24.9	21.1	17.7	3.9	3.4	3.0	2.5	16.7	16.9	17.5	17.7
IndusInd Bank (INDBA)	1,202	1,450	Buy	932	36.7	59.5	93.1	111.0	32.8	20.2	12.9	10.8	2.2	2.0	1.8	1.6	7.3	10.1	14.2	14.9
Kotak Bank (KOTMAH)	1,763	2,250	Buy	3,501	35.1	43.0	48.5	55.3	50.2	41.0	36.3	31.9	5.7	4.9	4.3	3.8	12.4	12.6	12.4	12.5
Bandhan (BANBAN)	241	265	Hold	381	-12.8	0.8	12.9	15.9	-18.8	308.6	18.7	15.2	3.8	2.5	2.2	2.0	-14.6	0.8	11.3	12.6
IDFC First (IDFBAN)	59	70	Buy	370	0.8	0.2	3.4	4.3	74.4	253.4	17.7	13.7	2.1	1.9	1.6	1.5	2.7	0.8	9.5	11.1

Source: Company, ICICI Direct Research

**Exhibit 2: Variance Analysis**

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
NII	2,080	2,282	2,125	-2.1	2,193	-5.1	Owing to slower business growth and NIMs contraction
NIM (%)	6.5	7.2	7.8	-130 bps	7.0	-50 bps	Impacted on account of interest reversal
Other Income	1,033	855	712	45.1	476	116.9	Aided by income on recovery from sale of stressed account
Net Total Income	3,114	3,137	2,837	9.8	2,669	16.6	
Staff cost	687	701	519	32.3	666	3.1	
Other Operating Expenses	505	454	368	37.3	450	12.1	Continued investment in franchise kept CI higher
PPP	1,922.2	1,981.6	1,950.1	-1.4	1,552.9	23.8	
Provision	1,541.5	1,582.2	805.7	91.3	1,279.7	20.5	Credit cost increased to 6.4% vs 5.3% of advances
PBT	380.7	399.4	1,144.4	-66.7	273.2	39.3	
Tax Outgo	90.1	99.0	285.5	-68.4	64.0	40.9	
PAT	290.6	300.3	859.0	-66.2	209.3	38.8	PAT impacted by weak topline & higher provisions
<b>Key Metrics</b>							
GNPA	6,965	7,962	9,442	-26.2	6,854	1.6	Asset quality steady in % terms
NNPA	1,711	2,246	2,413	-29.1	1,678	2.0	
Advances (Gross)	97,787	1,02,077	87,998	11.1	95,830	2.0	YoY healthy growth driven by non-MFI segment
Deposits	1,02,283	1,03,090	84,500	21.0	99,366	2.9	

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	% Change	Old	New	% Change	Introduced
Net Interest Income	10,311	9,054	-12.2	12,162.3	9,751	-19.8	11,816
Pre Provision Profit	8,097	7,032	-13.2	9,448.6	7,037	-25.5	8,605
NIM (%)	7.4	6.8	-66 bps	7.4	6.5	-93 bps	6.8
PAT	3,307	2,075	-37.3	4,764.9	2,560	-46.3	3,249
ABV (₹)	115.4	108.1	-6.3	143.0	118.6	-17.1	133.3

Source: Company, ICICI Direct Research

**Exhibit 4: Assumption**

	Current			Earlier	
	FY23E	FY24E	FY25E	FY23E	FY24E
Credit growth (%)	8.7	16.5	19.6	19.1	21.1
Deposit Growth (%)	18.8	21.1	20.5	18.8	18.4
CASA ratio (%)	42.0	42.6	43.3	42.0	42.7
NIM Calculated (%)	6.8	6.5	6.8	7.4	7.4
Cost to income ratio (%)	38.8	42.1	40.0	35.6	35.2
GNPA (₹ crore)	6,923.9	7,736.5	8,629.7	6,923.9	7,127.1
NNPA (₹ crore)	1,788.0	2,238.2	2,704.1	1,845.7	1,739.3
Slippage ratio (%)	2,647.2	2,031.6	2,232.9	2,647.2	2,031.6
Credit cost (%)	4.0	3.0	3.0	3.3	2.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Interest Earned	13871.1	16122.1	18148.4	21959.2
Interest Expended	5157.1	7067.9	8397.8	10143.5
Net Interest Income	8,714.0	9,054.2	9,750.6	11,815.7
growth (%)	164.7	3.9	7.7	21.2
Non Interest Income	2822.8	2444.2	2412.1	2537.1
Operating Income	11536.8	11498.5	12162.7	14352.8
Staff cost	2134.9	2723.0	3009.4	3191.0
Other Operating expense	1351.6	1743.9	2116.4	2557.2
Operating profit	8050.3	7031.6	7036.9	8604.6
Provisions	7884.8	4264.5	3624.1	4272.7
Exceptional items	0.0	0.0	0.1	0.1
PBT	165.5	2767.1	3412.9	4331.9
Taxes	2.8	691.8	853.2	1082.9
Net Profit	162.7	2075.3	2559.7	3249.0
EPS (₹)	0.8	12.9	15.9	20.2

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Valuation				
No. of Equity Shares (Crore)	161.1	161.1	161.1	161.1
EPS (₹)	0.8	12.9	15.9	20.2
BV (₹)	107.9	119.2	132.5	150.1
ABV (₹)	97.7	108.1	118.6	133.3
P/E	339.4	20.6	16.7	13.1
P/BV	2.5	2.2	2.0	1.8
P/ABV	2.7	2.5	2.2	2.0
Yields & Margins (%)				
Net Interest Margins	7.2	6.8	6.5	6.8
Yields on Loans	12.9	13.2	13.2	13.5
Cost of funds	5.0	5.1	5.4	5.5
Quality and Efficiency (%)				
Cost to income ratio	30.5	38.8	42.1	40.0
GNPA	6.5	6.8	6.5	6.1
NNPA	1.7	1.7	1.9	1.9
ROE	0.8	11.3	12.6	14.3
ROA	0.1	1.4	1.5	1.6

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Capital	1611	1611	1611	1611
Reserves and Surplus	15770	17588	19729	22559
Networth	17381	19199	21339	24170
Deposits	96331	114472	138676	167071
Borrowings	19921	18925	17979	17080
Other Liabilities & Provisions	5234	6542	8177	9895
Total	138867	159138	186172	218215
Applications of Funds				
Fixed Assets	588	705	847	1016
Investments	29079	31987	35185	38704
Advances	93975	102187	119088	142377
Other Assets	15225	24258	31052	36118
Total	138867	159138	186172	218215

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total assets				
	25.4	14.6	17.0	17.2
Advances				
	15.1	8.7	16.5	19.6
Deposit				
	23.5	18.8	21.1	20.5
Total Income				
	113.6	-0.3	5.8	18.0
Net interest income				
	164.7	3.9	7.7	21.2
Operating expenses				
	-8.2	-8.0	-10.6	-7.3
Operating profit				
	211.6	-12.7	0.1	22.3
Net profit				
	-107.9	1175.4	23.3	26.9
Net worth				
	32.3	10.5	11.2	13.3
EPS				
	(106.1)	1,549.9	23.3	26.9

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

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