

# Retail Equity Research

## Bandhan Bank Limited

Banking

BSE CODE: 541153

NSE CODE: BANDHANBNK

Bloomberg CODE: BANDHAN:IN

SENSEX: 65,216

**BUY**

12 Months Investment Period Rating as per Large Cap  
CMP Rs. 230 TARGET Rs. 269 RETURN 17% ↑  
(Closing: 21-08-23)

KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

### Sluggish earnings, however outlook intact

Bandhan Bank operates as a commercial bank, offering checking accounts, savings deposits, and money market, mortgage, and term loan services, in addition to card facilities and Internet banking services.

- Net interest income (NII) remained flat sequentially, at Rs 2,491cr in Q1FY24 (+0.8% QoQ and -0.9% YoY), impacted by higher interest expenses and slippages.
- Gross non-performing assets (GNPA)/net non-performing assets (NNPA) ratios stood at 6.76%/2.18%.
- We expect advances and deposits to grow in the near term, led by retail assets and commercial banking. The management is confident of maintaining net interest margin (NIM) at 7-7.5% in FY24, while improving the current account savings account (CASA) ratio and credit cost. With its aim to diversify its asset portfolio and continuous investments in People, IT and expansion will help to achieve long term growth. Hence, we reiterate our BUY rating on the stock, with a reduced target price of Rs. 269, based on a 1.6x FY25E book value per share (BVPS).

### Stable NIM, supported by higher interest income growth

In Q1FY24, NII increased a marginal 0.8% QoQ (-0.9% YoY) to Rs. 2,491cr on account of higher yield of funds (+130bps QoQ), partially offset by a rise in the cost of funds (+60bps QoQ). As a result, NIM was stable at 7.34%. Pre-provisioning profit fell 13% QoQ to Rs. 1,562cr, led by a decline in non-interest income and higher operating expenses owing to the addition of new branches. Consequently, profit after tax (PAT) fell 18.7% QoQ to Rs. 721cr.

### RBI circular on ECLGS advances impacts asset quality.

Total advances declined 5.5% QoQ to Rs. 103,170cr, primarily due to de-growth in loan disbursement in the Emerging Entrepreneurs Business (-9.7% QoQ) segment, on account of weather disruptions in some states, unwanted seasonal factors, and the repayment of Rs. 2,151cr by a single large account in Q1FY24. At the same time, loan disbursement in the housing finance and commercial banking segments sequentially grew 1.4% and 6.7%. The bank expects advances to grow over 20%, supported by 17% loan growth in microfinance institutions in FY24. GNPA/NNPA ratios weakened to 6.76%/2.18% (vs. 4.87%/1.17% in Q4FY23), mainly due to the classification of ECLGS-covered advances as non-performing, as per the RBI's circular released in April 2023. PCR stood at 69.2%, compared with 76.8% in Q4FY23. Due to seasonal impact, the CASA ratio deteriorated to 36.0% from 39.3%.

### Key concall highlights

- The company aims to grow advances ~20%, with deposits to increase at a higher rate than advances, a CASA ratio of 40%, and NIM of 7-7.5% in FY24.
- The bank added 0.7mn customers (reaching 30.7mn) and 131 branches (total of 1,542) in Q1FY24.

### Outlook and valuation

Bank's earnings performance was relatively muted in Q1FY24. However, the bank has made great strides towards diversifying its asset portfolio. The bank is also committed to improving the quality of its assets by lowering slippages and improving recoveries in the near term. A gradual improvement in rural areas, strategic expansion, and continuous investments in people, infrastructure and technology should support long-term growth. Hence, we reiterate our BUY rating, with a reduced target price of Rs 269, based on a 1.6x FY25E BVPS.

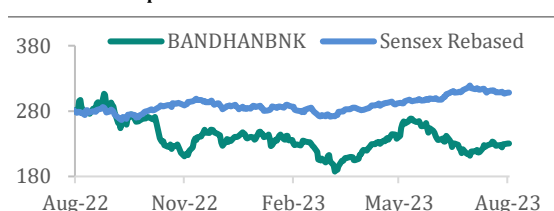
### Company Data

Market Cap (cr)	Rs. 37,138
Outstanding Shares (cr)	161.1
Free Float	46.0%
Dividend Yield	5.9%
52 week high	Rs. 315
52 week low	Rs. 182
6m average volume	537,468
Beta	1.0
Face value	Rs. 10

Shareholding %	Q3FY23	Q4FY23	Q1FY24
Promoters	40	40	40
FII's	32.4	31.9	33.5
MFs/Insti	12.5	13.3	12.5
Public	14.2	13.9	13.2
Others	0.9	0.9	0.8
Total	100	100	100
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-5.8%	-2.4%	-20.0%
Absolute Return	-3.2%	0.3%	-18.2%
Absolute Sensex	5.6%	7.5%	9.3%

\*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Net Interest Income	9,260	10,763	12,400
Growth (%)	6.3	16.2	15.2
NIM (%)	7.1	7.2	7.1
Pre-Provision Profit	7,091	7,915	8,806
Net Profit	2,195	3,889	4,496
Growth (%)	1644.6	77.2	15.6
Adj.EPS	13.6	24.1	27.9
Growth (%)	1644.6	77.2	15.6
BVPS	121.6	143.3	168.4
P/E	14.4	9.5	8.3
P/B	1.6	1.6	1.4
RoE (%)	11.9	18.2	17.9
RoA (%)	1.5	2.3	2.2

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Interest Income	4,523	4,055	11.5	4,268	6.0
Interest Expense	2,032	1,541	31.9	1,796	13.1
<b>Net Interest Income (NII)</b>	<b>2,491</b>	<b>2,514</b>	<b>(0.9)</b>	<b>2,472</b>	<b>0.8</b>
Non-Interest Income	385	330	16.8	629	(38.8)
<b>Total Net Income</b>	<b>2,876</b>	<b>2,844</b>	<b>1.1</b>	<b>3,101</b>	<b>(7.3)</b>
<b>Total Income</b>	<b>4,908</b>	<b>4,385</b>	<b>11.9</b>	<b>4,897</b>	<b>0.2</b>
Operating Expenses	1,313	1,024	28.3	1,305	0.6
<b>Total Expenditure</b>	<b>3,346</b>	<b>2,565</b>	<b>30.5</b>	<b>3,102</b>	<b>7.9</b>
<b>Pre-Provision Profit</b>	<b>1,562</b>	<b>1,821</b>	<b>(14.2)</b>	<b>1,796</b>	<b>(13.0)</b>
Provisions	602	642	(6.3)	735	(18.1)
<b>Profit Before Tax</b>	<b>960</b>	<b>1,178</b>	<b>(18.5)</b>	<b>1,061</b>	<b>(9.5)</b>
Tax	239	292	(18.0)	253	(5.3)
Minority Interests	-	-	-	-	-
<b>Net Profit</b>	<b>721</b>	<b>887</b>	<b>(18.7)</b>	<b>808</b>	<b>(10.8)</b>
Adj.	-	-	-	-	-
<b>Adj. PAT</b>	<b>721</b>	<b>887</b>	<b>(18.7)</b>	<b>808</b>	<b>(10.8)</b>
<b>Adj. EPS (Rs.)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net Interest Income (NII)	11,085	13,074	10,763	12,400	(2.9)	(5.2)
Net Interest Margin (%)	7.4	7.5	7.2	7.1	(2.4)	(4.1)
Pre-Provision Profit	8,321	9,656	7,915	8,806	(4.9)	(8.8)
Net Profit	4,351	5,315	3,889	4,496	(10.6)	(15.4)
EPS (Rs)	27.1	33.1	24.1	27.9	(10.9)	(15.7)

## PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Interest Income	12,524	13,872	15,905	18,914	22,267
Interest Exp.	4961	5157	6645	8151	9867
<b>Net Int. Income</b>	<b>7,563</b>	<b>8,714</b>	<b>9,260</b>	<b>10,763</b>	<b>12,400</b>
% Change	19.6	15.2	6.3	16.2	15.2
Non-Int. Income	2,022	2,822	2,469	2,666	2,933
<b>Net Income</b>	<b>9,586</b>	<b>11,537</b>	<b>11,728</b>	<b>13,429</b>	<b>15,332</b>
<b>Total Income</b>	<b>14,546</b>	<b>16,694</b>	<b>18,373</b>	<b>21,580</b>	<b>25,199</b>
Operating Exp.	2,817	3,524	4,637	5,514	6,527
<b>Total Exp.</b>	<b>7,778</b>	<b>8,681</b>	<b>11,282</b>	<b>13,665</b>	<b>16,394</b>
<b>Pre-Prov. Profit</b>	<b>6,769</b>	<b>8,013</b>	<b>7,091</b>	<b>7,915</b>	<b>8,806</b>
Provisions	3,820	7,885	4,198	2,729	2,811
PBT	2,949	129	2,893	5,186	5,995
Tax	743	3	698	1,296	1,499
Tax Rate (%)	25.2	2.2	24.1	25.0	25.0
Minority Interests	-	-	-	-	-
<b>Net Profit</b>	<b>2,205</b>	<b>126</b>	<b>2,195</b>	<b>3,889</b>	<b>4,496</b>
% Change	(27.1)	(94.3)	1644.6	77.2	15.6
Adj.	-	-	-	-	-
<b>Adj. Net Profit</b>	<b>2,205</b>	<b>126</b>	<b>2,195</b>	<b>3,889</b>	<b>4,496</b>
No. of Shares (cr)	161.0	161.1	161.1	161.1	161.1
<b>Adj. EPS (Rs.)</b>	<b>13.7</b>	<b>0.8</b>	<b>13.6</b>	<b>24.1</b>	<b>27.9</b>
% Change	(27.1)	(94.3)	1644.6	77.2	15.6
DPS (Rs.)	1.0	-	1.5	2.4	2.8

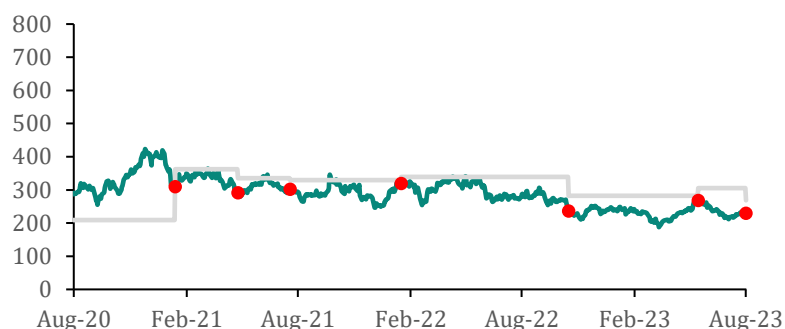
## BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash & Balances	3,335	4,943	7,327	10,861	16,099
Investments	28,048	33,457	33,289	37,265	41,717
Advances	81,613	93,975	104,757	124,137	145,861
Fixed Assets	487	588	855	1,242	1,806
Other Assets	1,533	6,032	9,543	10,497	11,547
<b>Total Assets</b>	<b>115,016</b>	<b>138,995</b>	<b>155,770</b>	<b>184,002</b>	<b>217,029</b>
Capital	1,611	1,611	1,611	1,611	1,611
Reserves & Surplus	15,798	15,770	17,973	21,474	25,520
Deposits	77,972	96,331	108,069	129,899	155,100
Borrowings	16,960	19,921	24,711	28,442	32,765
Other Liabilities	2,675	5,362	3,406	2,576	2,033
<b>Total Liabilities</b>	<b>115,016</b>	<b>138,995</b>	<b>155,770</b>	<b>184,002</b>	<b>217,029</b>
<b>BVPS (Rs.)</b>	<b>108.1</b>	<b>107.9</b>	<b>121.6</b>	<b>143.3</b>	<b>168.4</b>
Adj. BVPS (Rs.)	90.4	98.2	114.0	136.2	162.3
% Change	(1.7)	8.7	16.1	19.5	19.2

## RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Valuation</b>					
P/E (x)	24.7	393.6	14.4	9.5	8.3
P/BV (x)	3.1	2.8	1.6	1.6	1.4
Div. Yield (%)	0.3	-	0.8	1.0	1.2
<b>Profitability &amp; Return (%)</b>					
Yield on Advances	12.9	12.0	12.1	12.6	12.7
Cost of Deposits	5.9	4.9	5.3	5.6	5.7
Spread	7.0	7.1	6.8	7.0	7.0
NIM	8.0	7.6	7.1	7.2	7.1
ROE	13.5	0.7	11.9	18.2	17.9
ROA	2.1	0.1	1.5	2.3	2.2
<b>Capital Adequacy (%)</b>					
CAR	23.5	20.1	19.8	19.9	19.9
Tier I	22.5	18.9	18.7	18.9	19.0
Tier II	1.0	1.2	1.1	1.0	0.9
<b>Asset Quality (%)</b>					
GNPA	6.8	6.5	4.9	5.5	5.3
NNPA	3.5	1.7	1.2	1.5	1.3
<b>Operating Ratios (%)</b>					
Credit/Deposit	104.7	97.6	96.9	95.6	94.0
Cost/Income	29.4	30.5	39.5	41.1	42.6
CASA	43.4	41.6	39.3	41.2	43.1

## Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
7-Apr-20	BUY	209
29-Jan-21	BUY	362
11-May-21	BUY	335
4-Aug-21	HOLD	330
1-Feb-22	HOLD	339
1-Nov-22	BUY	282
31-May-23	BUY	305
21-Aug-23	BUY	269

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

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**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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