

Logs a better 2Q than peers, but rising MFI stress still concerning

BFSI - Banks ▶ Result Update ▶ **October 27, 2024**

TARGET PRICE (Rs): 175

Bandhan Bank reported a 6% PAT beat at Rs9.4bn and RoA of 2.1%, mainly led by higher other income and lower than expected provisions – better than some peers that posted sharp earning downgrades. The bank has logged a healthy AUM growth of 22% YoY/4% QoQ, supported by growth in its secured loan portfolio (~47% of loans). Deposits too grew swiftly, by 27% YoY/7% QoQ, leading to contraction in LDR by 282bps to 88%, which in turn led to a fall of 20bps in NIMs to 7.4%. Overall gross slippages remained elevated at Rs11bn/4.4% of loans, while absence of write-offs led to a 45bps QoQ uptick in GNPA to 4.7%. Management expects slippages to stay elevated in Q3, before cooling down in Q4. The bank shall soon apply for the ECLGS claim of Rs3.5bn, apart from balance CGFMU dues of Rs3.1bn. Further, ex-SBI DMD Partha Sengupta was appointed as the new MD & CEO wef 1-Nov-24 for three years, in line with the trend of PSB bankers joining troubled private banks. We retain **REDUCE** on Bandhan and TP of Rs175 (1x Sep-26E ABV) amid rising MFI stress.

Bandhan Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	21,946	22,296	36,312	43,427	55,469
AUM growth (%)	9.8	14.3	17.0	19.0	22.0
NII growth (%)	6.3	11.5	17.8	17.3	18.8
NIM (%)	6.7	6.7	6.8	6.7	6.5
PPOP growth (%)	(11.5)	(6.4)	22.7	10.9	23.2
Adj. EPS (Rs)	13.6	13.8	22.5	27.0	34.4
Adj. EPS growth (%)	1,644.5	1.6	62.9	19.6	27.7
Adj. BV (INR)	115.9	127.9	147.5	169.2	198.3
Adj. BVPS growth (%)	15.1	10.4	15.3	14.7	17.2
RoA (%)	1.5	1.3	1.9	1.9	2.0
RoE (%)	11.9	10.8	15.5	16.0	17.7
P/E (x)	12.3	12.1	7.5	6.2	4.9
P/ABV (x)	1.4	1.3	1.1	1.0	0.8

Source: Company, Emkay Research

Secured loans foster healthy credit growth, but soften margins

Bandhan Bank has reported a healthy AUM growth of 22% YoY/4% QoQ (net credit growth of 24% YoY/4% QoQ), mainly due to higher growth in the corporate and housing segment. The MFI book declined 4% QoQ due to lower disbursements, as the management remained cautious amid rising asset quality concerns. The secured portfolio share has now reached ~47% as of Q2 which the management plans to take it up to ~50% by Mar-25. The bank's deposits also saw swift growth, of 27% YoY/7% QoQ, leading to contraction in LDR by 282bps to 88%, which in turn led to a fall in NIM by 20bps to 7.4%. The bank has guided to 18% credit growth in FY25 and for NIM to settle in the 7-7.5% range due to rising share of secured loans.

Rising industry-wide MFI stress remains a concern

Gross slippages remain elevated at Rs11bn/4.4% of loans due to persistent stress in the MFI book which, coupled with absence of write-offs, led to a 45bps QoQ uptick in GNPA to 4.7%; collection efficiency declined slightly, from 98.5% in Jun-24 to 97.8% in Sep-24. 60% of the bank's customers are unique customers and Bandhan+4 borrowers constitute ~4.5% of the total borrowers – relatively lower than that for a few peers. Management expects slippages to remain elevated in Q3 as well, before cooling down in Q4. Credit costs in Q2 were largely in line with guidance of 1.5-2% for FY25. Of the total assessed CGFMU claim of Rs12.3bn, the bank has already received Rs9.2bn and will shortly apply for claiming balance Rs3.1bn. It shall also submit fresh claims for Rs3.5bn wrt its ECLGS portfolio.

We retain **REDUCE** with TP of Rs175

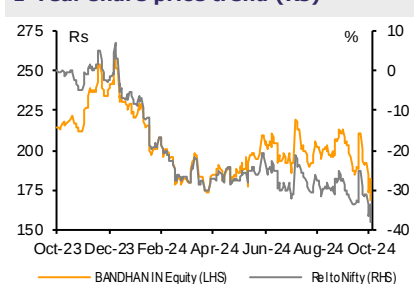
We fine-tune our earnings for FY25-27E, and expect the bank to clock 1.9-2% RoA – well below its historical trajectory, given rising share of secured portfolio leading to structural margin contraction and continued asset-quality issues. We retain **REDUCE** on Bandhan Bank with unchanged TP of Rs175 (1x Sep-26E ABV). Further, ex-SBI DMD Partha Sengupta was appointed as the new MD & CEO wef 1-Nov-24 for three years, in line with the trend of PSB bankers joining troubled private banks. Key risks: Better than expected growth driven by secured loans, and lower than expected delinquencies/LLP.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	4.0
CMP (25-Oct-24) (Rs)	168.2

Stock Data	Ticker
52-week High (Rs)	263
52-week Low (Rs)	167
Shares outstanding (mn)	1,611.0
Market-cap (Rs bn)	271
Market-cap (USD mn)	3,223
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	21
ADTV-3M (Rs mn)	4,144.0
ADTV-3M (USD mn)	49.3
Free float (%)	47.0
Nifty-50	24,181
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	40.0
FPIs/MFs (%)	26.7/16.3

Price Performance			
(%)	1M	3M	12M
Absolute	(17.8)	(9.5)	(22.9)
Rel. to Nifty	(11.6)	(8.6)	(39.1)

1-Year share price trend (Rs)



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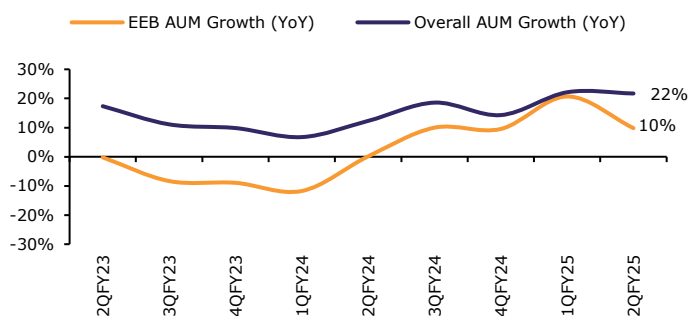
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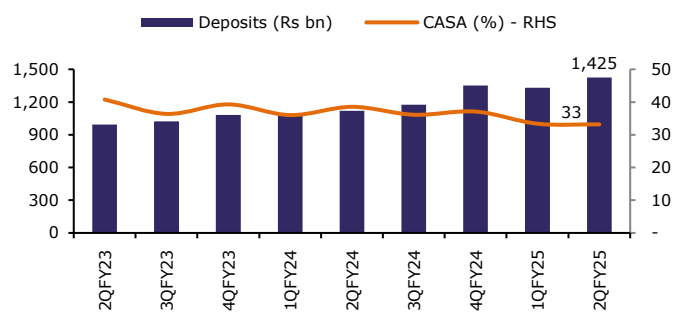
Story in Charts

Exhibit 1: Bandhan Bank clocked a healthy AUM growth in 2Q, but MFI (EEB) growth remains lackluster...



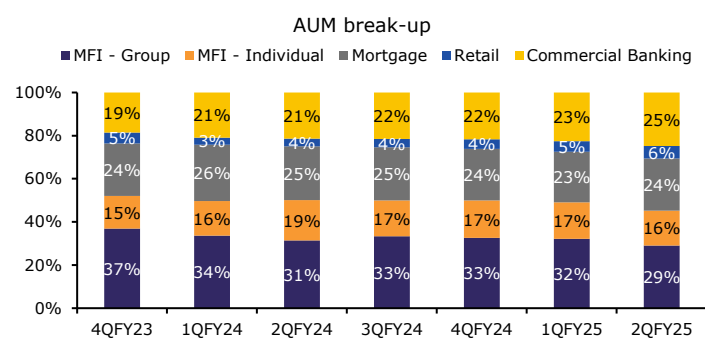
Source: Company, Emkay Research

Exhibit 2: ...as also the deposit growth



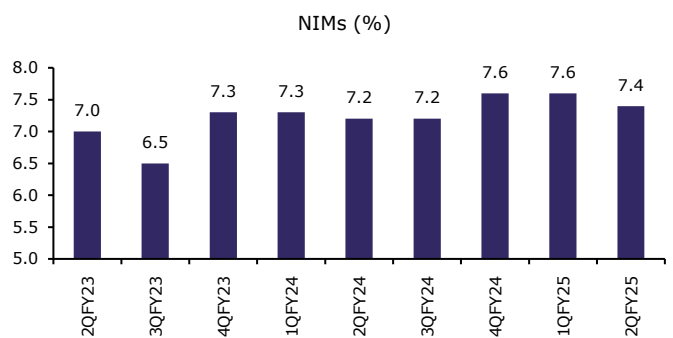
Source: Company, Emkay Research

Exhibit 3: Portfolio diversification continues, with share of MFI on a declining course



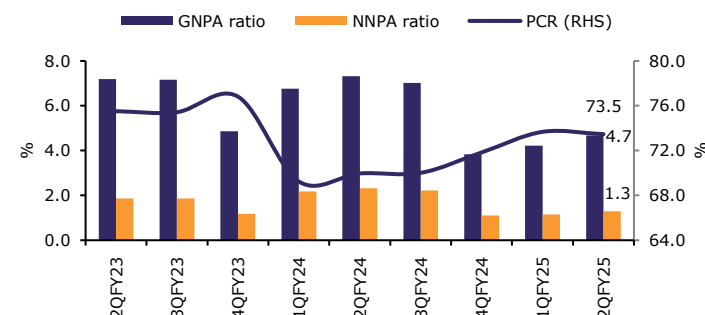
Source: Company, Emkay Research

Exhibit 4: Lower loan yields led to margin contraction



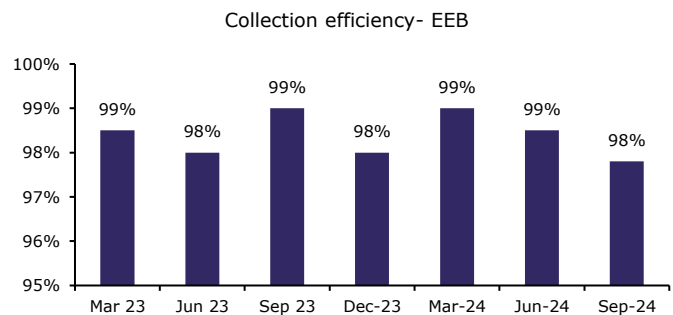
Source: Company, Emkay Research

Exhibit 5: GNPA ratio inched-up slightly, owing to stress in the MFI space



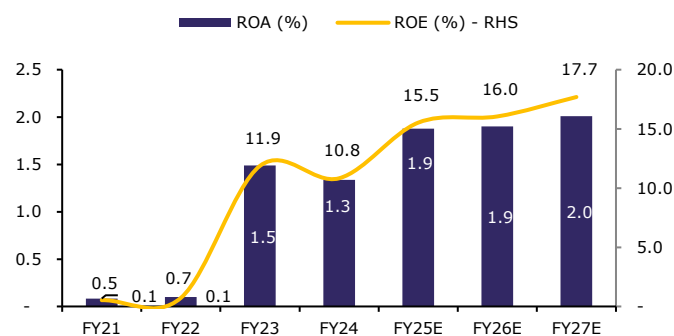
Source: Company, Emkay Research

Exhibit 6: Collection efficiency declined QoQ, raising concerns on asset quality in MFI



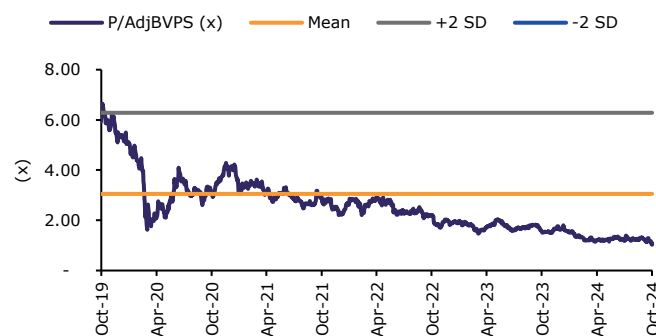
Source: Company, Emkay Research

Exhibit 7: RoA on recovery course, but unlikely to get closer to the historical highs, given the changing business model and near-term asset quality challenges



Source: Company, Emkay Research

Exhibit 8: The stock currently trades at 1x 1Y forward ABV



Source: Bloomberg, Emkay Research

Exhibit 9: Actuals vs. Estimates (Q2FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	35,430	35,486	34,541	0%	3%	Healthy credit growth and other income lead to in-line Net income
PPOP	18,551	18,877	19,267	-2%	-4%	Higher staff/operating expenses result in a slight miss
PAT	9,374	8,884	8,902	6%	5%	Lower than expected provisions lead to PAT beat

Source: Company, Emkay Research

Exhibit 10: Quarterly Summary

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24	FY25E	YoY (%)
Interest Earned	44,919	46,654	51,893	55,358	55,358	22	-1	188,696	228,699	21
Interest Exp	20,486	21,401	23,231	25,308	25,308	25	1	85,440	107,059	25
Net Interest Income	24,434	25,254	28,663	30,050	30,050	21	-2	103,256	121,640	18
Global NIMs (reported)	7.20	7.20	7.60	7.60	7.60	20bps	-20bps	6.67	6.76	8bps
Non-interest Income	5,403	5,452	6,941	5,275	5,275	10	13	21,647	28,664	32
Operating Expenses	14,002	14,152	17,219	15,917	15,917	21	6	58,508	68,820	18
Pre Provisioning Profit	15,834	16,553	18,385	19,409	19,409	17	-4	66,395	81,484	23
Provision & Contingencies	6,362	6,840	17,743	5,230	5,230	-5	16	36,966	33,579	-9
PBT	9,472	9,713	642	14,179	14,179	32	-12	29,429	47,905	63
Income Tax Expense (Gain)	2,261	2,386	95	3,544	3,544	38	-12	7,133	11,593	63
Net Profit/(Loss)	7,212	7,327	546	10,635	10,635	30	-12	22,296	36,312	63
Gross NPA (%)	7.32	7.02	3.84	4.23	4.23	-264bps	45bps	3.84	4.60	76bps
Net NPA (%)	2.32	2.21	1.11	1.15	1.15	-103bps	14bps	1.11	1.33	22bps
Deposits (Rs bn)	1,121	1,174	1,352	1,332	1,332	27	7	1,352	1,671	24
Net Advances (Rs bn)	1,020	1,102	1,211	1,216	1,216	24	4	1,211	1,408	16

Source: Company, Emkay Research

Exhibit 11: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	150,829	150,304	-0.3%	171,671	169,541	-1.2%	203,370	201,086	-1.1%
PPOP	83,310	81,484	-2.2%	94,880	90,363	-4.8%	116,617	111,371	-4.5%
PAT	36,361	36,312	-0.1%	47,521	43,427	-8.6%	58,442	55,469	-5.1%
EPS (Rs)	22.6	22.5	-0.1%	29.5	27.0	-8.6%	36.3	34.4	-5.1%
BV (Rs)	156.3	156.2	0.0%	182.3	179.7	-1.4%	214.0	209.6	-2.1%

Source: Company, Emkay Research

Exhibit 12: Key assumptions

(%)	FY24	FY25E	FY26E	FY27E
Loan Growth	14.3	17.0	19.0	22.0
Deposit Growth	25.1	23.6	21.7	23.8
NIM	6.7	6.8	6.7	6.5
GNPA	3.8	4.6	4.5	4.0
Credit Cost	3.2	2.4	2.1	2.0

Source: Emkay Research

Exhibit 13: Key ratios and trends

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs mn)	958,300	977,900	1,091,200	1,031,690	1,076,300	1,101,800	12,11,368	1,215,900	1,260,557
Growth YoY (%)	17.4	11.1	9.8	6.7	12.3	12.7	11.0	17.9	17.1
Loans QoQ (%)	(0.8)	2.0	11.6	(5.5)	4.3	2.4	9.9	0.4	3.7
Composition (%)									
Micro-Banking assets	56.3	54.0	52.1	49.7	50.2	50.0	49.9	49.1	45.3
Non -Micro banking assets	43.7	46.0	47.9	50.3	49.8	50.0	50.1	50.9	54.7
Liability Profile									
Deposits (Rs mn)	993,658	1,022,830	1,080,693	1,084,800	1,120,792	1,174,220	13,52,020	1,332,100	1,425,095
Growth YoY (%)	21.3	21.0	12.2	16.6	12.8	14.8	25.1	22.8	27.2
Growth QoQ (%)	6.8	2.9	5.7	0.4	3.3	4.8	15.1	(1.5)	7.0
CASA (%)	40.8	36.4	39.3	36.0	38.5	36.1	37.1	33.4	33.2
CA (%)	5.1	4.6	5.9	4.8	5.6	5.7	7.1	4.6	4.5
SA (%)	35.7	31.7	33.3	31.2	32.9	30.4	29.9	28.8	28.7
Asset Quality (Rs mn)									
Gross NPA	68,539	69,648	52,986	69,604	78,738	81,355	47,849	53,044	61,053
GNPA (%)	7.2	7.2	4.9	6.8	7.3	7.0	3.8	4.2	4.7
NPA	16,782	17,113	12,283	21,407	23,652	24,396	13,476	13,964	16,202
NNPA (%)	1.9	1.9	1.2	2.2	2.3	2.2	1.1	1.1	1.3
PCR – Specific (%)	75.5	75.4	76.8	69.2	70.0	70.0	71.8	73.7	73.5
Capital Adequacy									
CAR (%)	19.4	19.1	19.8	19.8	19.2	19.8	18.3	15.0	14.3
Tier I (%)	18.4	18.1	18.7	18.8	18.2	16.9	17.2	14.1	13.6
ROA (%)	0.6	0.8	2.2	1.9	1.9	1.9	0.1	2.5	2.1
ROE (%)	4.5	6.2	17.0	14.4	14.0	14.0	1.0	18.8	16.0

Source: Company, Emkay Research

Bandhan Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	159,047	188,696	228,699	264,588	310,925
Interest Expense	66,451	85,440	107,059	121,852	141,315
Net interest income	92,596	103,256	121,640	142,735	169,610
NII growth (%)	6.3	11.5	17.8	17.3	18.8
Other income	24,686	21,647	28,664	26,806	31,476
Total Income	117,282	124,903	150,304	169,541	201,086
Operating expenses	46,368	58,508	68,820	79,178	89,715
PPOP	70,913	66,395	81,484	90,363	111,371
PPOP growth (%)	(11.5)	(6.4)	22.7	10.9	23.2
Core PPOP	70,173	65,040	79,977	88,705	109,548
Provisions & contingencies	41,984	36,966	33,579	33,070	38,192
PBT	28,930	29,429	47,905	57,292	73,179
Extraordinary items	0	0	0	0	0
Tax expense	6,983	7,134	11,593	13,865	17,709
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	21,946	22,296	36,312	43,427	55,469
PAT growth (%)	1,644.6	1.6	62.9	19.6	27.7
Adjusted PAT	21,946	22,296	36,312	43,427	55,469
Diluted EPS (Rs)	13.6	13.8	22.5	27.0	34.4
Diluted EPS growth (%)	1,646.3	1.6	62.9	19.6	27.7
DPS (Rs)	1.5	1.5	2.5	3.5	4.5
Dividend payout (%)	11.0	10.8	11.1	13.0	13.1
Effective tax rate (%)	24.1	24.2	24.2	24.2	24.2
Net interest margins (%)	6.7	6.7	6.8	6.7	6.5
Cost-income ratio (%)	39.5	46.8	45.8	46.7	44.6
Shares outstanding (mn)	1,610.8	1,610.9	1,611.0	1,611.0	1,611.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	52,986.2	47,848.8	67,005.8	77,691.8	83,775.7
Net NPLs	12,282.7	13,476.1	18,761.6	22,530.6	24,295.0
GNPA ratio (%)	4.9	3.8	4.6	4.5	4.0
NNPA ratio (%)	1.2	1.1	1.3	1.3	1.2
Provision coverage (%)	76.8	71.8	72.0	71.0	71.0
Gross slippages	96,626.9	56,816.8	47,892.5	53,430.0	60,839.0
Gross slippage ratio (%)	7.7	3.8	3.2	3.0	2.8
LLP ratio (%)	4.0	3.1	2.4	2.1	2.0
NNPA to networth (%)	6.0	6.0	7.1	7.4	6.8
Capital adequacy					
Total CAR (%)	19.7	18.3	18.3	17.7	16.8
Tier-1 (%)	18.7	17.2	17.4	16.9	16.1
CET-1 (%)	18.7	17.2	17.4	16.9	16.1
RWA-to-Total Assets (%)	66.5	67.9	67.0	67.0	67.0
Miscellaneous					
Total income growth (%)	10.1	14.5	22.4	13.2	17.5
Opex growth (%)	31.6	26.2	17.6	15.1	13.3
Core PPOP growth (%)	(9.8)	(7.3)	23.0	10.9	23.5
PPOP margin (%)	38.6	31.6	31.7	31.0	32.5
PAT/PPOP (%)	30.9	33.6	44.6	48.1	49.8
LLP-to-Core PPOP (%)	59.8	56.8	42.0	37.3	34.9
Yield on advances (%)	14.1	14.8	15.7	15.4	15.0
Cost of funds (%)	5.3	6.0	6.4	6.1	5.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	16,108	16,109	16,110	16,110	16,110
Reserves & surplus	179,733	199,988	235,751	273,361	321,581
Net worth	195,841	216,097	251,861	289,471	337,691
Deposits	1,080,693	1,352,019	1,671,209	2,033,899	2,517,263
Borrowings	247,108	163,716	134,963	122,853	130,386
Interest bearing liab.	1,327,801	1,515,735	1,806,172	2,156,753	2,647,649
Other liabilities & prov.	34,057	46,585	33,416	33,903	58,150
Total liabilities & equity	1,557,700	1,778,416	2,091,448	2,480,126	3,043,490
Net advances	1,047,568	1,211,368	1,407,987	1,672,410	2,048,157
Investments	323,659	292,875	368,531	438,882	563,797
Cash, other balances	82,497	161,705	189,648	230,773	278,003
Interest earning assets	1,453,724	1,665,948	1,966,165	2,342,065	2,889,957
Fixed assets	8,546	11,735	13,108	14,644	16,362
Other assets	95,430	100,733	112,175	123,417	137,171
Total assets	1,557,700	1,778,416	2,091,448	2,480,126	3,043,490
BVPS (Rs)	121.6	134.1	156.2	179.7	209.6
Adj. BVPS (INR)	115.9	127.9	147.5	169.2	198.3
Gross advances	1,088,271	1,211,368	1,456,231	1,727,572	2,107,637
Credit to deposit (%)	96.9	89.6	84.2	82.2	81.4
CASA ratio (%)	39.3	37.1	33.3	32.6	33.6
Cost of deposits (%)	5.3	6.0	6.3	6.2	5.9
Loans-to-Assets (%)	67.3	68.1	67.3	67.4	67.3
Net advances growth (%)	11.5	15.6	16.2	18.8	22.5
Deposit growth (%)	12.2	25.1	23.6	21.7	23.8
Book value growth (%)	12.7	10.3	16.5	15.0	16.7

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	12.3	12.1	7.5	6.2	4.9
P/B (x)	1.5	1.3	1.1	0.9	0.8
P/ABV (x)	1.4	1.3	1.1	1.0	0.8
P/PPOP (x)	3.8	4.1	3.3	3.0	2.4
Dividend yield (%)	0.9	0.9	1.5	2.1	2.7
DuPont-RoE split (%)					
NII/avg assets	6.3	6.2	6.3	6.2	6.1
Other income	1.7	1.3	1.5	1.2	1.1
Fee income	1.6	1.2	1.1	1.1	1.1
Opex	3.1	3.5	3.6	3.5	3.2
PPOP	4.8	4.0	4.2	4.0	4.0
Core PPOP	4.8	3.9	4.1	3.9	4.0
Provisions	2.8	2.2	1.7	1.4	1.4
Tax expense	0.5	0.4	0.6	0.6	0.6
RoA (%)	1.5	1.3	1.9	1.9	2.0
Leverage ratio (x)	8.0	8.1	8.3	8.4	8.8
RoE (%)	11.9	10.8	15.5	16.0	17.7
Quarterly data					
Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	24,434	25,254	28,663	30,050	29,483
NIM(%)	7.2	7.2	7.6	7.6	7.4
PPOP	15,834	16,553	18,385	19,409	18,551
PAT	7,212	7,327	546	10,635	9,374
EPS (Rs)	4.48	4.55	0.34	6.60	5.82

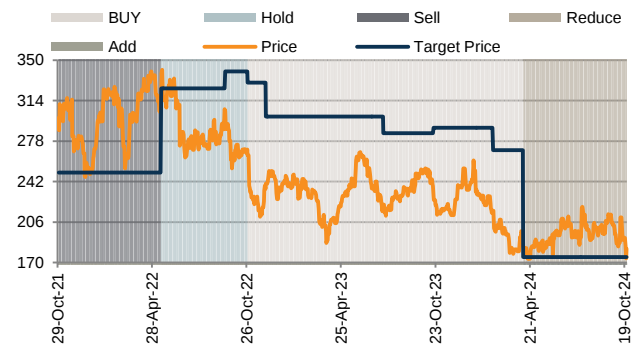
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
27-Jul-24	193	175	Reduce	Anand Dama
20-May-24	183	175	Reduce	Anand Dama
08-Apr-24	185	175	Reduce	Anand Dama
10-Feb-24	216	270	Buy	Anand Dama
04-Dec-23	234	290	Buy	Anand Dama
30-Nov-23	226	290	Buy	Anand Dama
19-Oct-23	229	290	Buy	Anand Dama
15-Jul-23	222	285	Buy	Anand Dama
01-Jul-23	242	300	Buy	Anand Dama
20-May-23	238	300	Buy	Anand Dama
09-Mar-23	227	300	Buy	Anand Dama
21-Jan-23	237	300	Buy	Anand Dama
02-Dec-22	240	300	Buy	Anand Dama
28-Oct-22	265	330	Buy	Anand Dama
15-Sep-22	305	340	Hold	Anand Dama
23-Jul-22	286	325	Hold	Anand Dama
15-May-22	317	325	Hold	Anand Dama
23-Jan-22	296	250	Sell	Anand Dama
31-Oct-21	291	250	Sell	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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