

Delinquencies volatile; recovery in 2HFY23 watchful

About the stock: Bandhan Bank was incorporated in 2015 as RBI granted a universal banking license. The bank has a strong presence in eastern and north-eastern India with MFI loans being its forte.

- Total 60% of loans are from emerging enterprise business (EEB)
- The bank has 1190 branches in 34 states, UTs & customer base of 2.7 crore

Q1FY23 Results: Mixed quarter as expected

- GNPA up 79 bps QoQ to 7.2%, Restructured book at ₹5800 crore
- NII up 18.9% YoY & down 1% QoQ, NIMs contract 70 bps QoQ to 8%
- Provision rise to ₹642 crore; PAT down 53% QoQ but up 137% YoY (low base)
- Loan growth at 14.1% YoY and 12.9% QoQ, while deposits up 23% YoY

What should investors do? Uncertainties over series of events including Covid and related stress formation & recent floods in Assam has impacted performance and thus led to underperformance in stock price. Though, operating metrics have improved, recoveries from restructured pool will trigger earning & price momentum.

- We retain our BUY rating on the stock

Target Price and Valuation: We value Bandhan Bank at ~2.2x FY24E ABV and revise our target price from ₹ 365 to ₹ 330, until clarity emerges on recoveries

Key triggers for future price performance:

- MFI regulation & Assam floods impact credit off-take; regaining traction in EEB disbursement to aid growth with a shift towards non-EEB book
- Assam floods & restructuring book coming out of moratorium impacted collection efficiency; existing provision, recovery from Assam relief scheme to keep credit cost steady and arrest volatility in earnings
- Steady margins, lower credit cost to offset higher opex and aid earnings.

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

- HDFC Bank is a leading private sector bank with consistent growth and operational performance over various cycles. The bank has maintained superior return ratios compared to its peers resulting in premium valuations
- BUY with a target price of ₹ 1650

Key Financial Summary

	FY19	FY20	FY21	FY22	3 year CAGR (FY19-FY22)	FY23E	FY24E	2 year CAGR (FY22-24E)
NII	4496	6324	3292	8714	25%	10366	12622	20%
PPP	3748	5447	2584	8050	29%	8667	10578	15%
PAT	1951	3024	-2066	163	-56%	3987	4886	448%
ABV (₹)	92.0	91.9	63.8	97.7		122.4	151.4	
P/E	17.5	15.8	-22.3	366.3		11.6	9.4	
P/ABV	3.1	3.1	4.5	2.9		2.3	1.9	
RoE (%)	19.0	22.1	-14.6	0.8		20.7	20.9	
RoA (%)	3.9	3.9	-2.0	0.1		2.7	2.8	



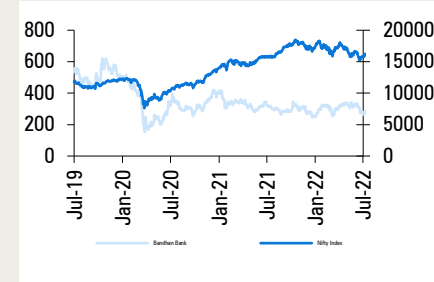
Particulars

Particulars	Values
Market Capitalisation	₹ 46108 crore
Networth	₹ 18270 crore
52 week H/L (₹)	340 / 229
Face Value (₹)	10.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	40.0	40.0	40.0	40.0
FII	33.6	34.6	34.3	35.6
DII	2.5	1.9	4.6	7.1
Others	23.9	23.5	21.1	17.2

Price Chart



Risk to our call

- GNPA up 79 bps QoQ to 6.46%, EEB stress pool at ₹12100 crore
- **Key Risk:** (i) Delay in recoveries from stressed accounts to taint earnings (ii) Slower business growth could impact overall performance

Recent Event & Key risks

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong operating show

- NII was up 18.9% YoY to ₹ 2514 crore, mainly driven by healthy yearly credit growth of 20.3%. Net interest margin (NIM) declined by 70 bps QoQ to 8% due to faster traction in non-EEB loans and ~20 bps drag by investment in RIDF. Other income was down 45% YoY to ₹330 crore, mainly due to fall in treasury as interest rate harden and muted sale of PSLC.
- Opex increased 4.1% QoQ & 32% YoY and as a result of faster than income growth C/I ratio jumped from 28% to 36% QoQ. Provisions jumped from mere ₹4.7 crore to ₹642 crore QoQ (₹335 crore additional provision) and as a result PAT was down 53.4% QoQ to ₹886.5 crore.
- GNPA and NNPA ratio increased by 79 bps and 26 bps QoQ to 7.25% and 1.92% respectively. Assam floods and restructured book coming out of moratorium led to spike in delinquency. Collection efficiency (including restructured book – ex NPA) was down from 99% to 94% wherein collection in Assam dropped significantly from 93% to 78% QoQ. EEB stress pool largely remained steady at ₹12100 crore (₹11900 crore in Q4FY22)
- Business growth showed healthy momentum on yearly basis as loans (gross) were up 20.3% YoY to ₹96650 crore, but sequentially loans were down 2.7%. EEB growth stood at 9.2% YoY while non-micro and home loans were up by 78% and 27.2% YoY respectively. Deposits were up 20.3% YoY and down 3.4% QoQ to ₹93057 crore, wherein CASA was up 21.1% YoY and CASA ratio stood at 43.2% versus 41.6% QoQ.

Q1FY23 Earnings Conference call highlights

- Declassification of loans under PSL impacted fees income and investment in RIDF impacted margins by 20-25 bps
- Total restructuring at ₹5800 crore versus ~₹6100 crore QoQ. Restructuring in Housing portfolio at ₹1170 crore with entire pool out of moratorium
- Total bank level provisions at ₹8900 crore
- Micro credit loans given after second wave have NPA less than 2%; seasoned customers have graduated to MSME loans with annual income of more than ₹ 3 lakhs
- Fresh slippages at ₹1125 crore vs ₹ 1365 crore QoQ, ₹900 crore slippage from EEB. Slippage from restructured book at ₹315 crore
- By September 2022, entire R/S book will come out of moratorium
- EEB R/s pool at ₹ 4661 crore (₹ 1502 crore from Assam, ₹ 2123 crore from West Bengal); coverage at ~75%.
- ~73% of NPA customers and 57% of restructured customers are paying
- The bank expects recovery of ₹2500 crore; scheduled to file first claim in CGFMU of ₹1200 crore in October 2022

Peer comparison

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Bn)	EPS (₹)				P/E (x)				P/ABV (x)				RoE (%)			
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Axis Bank (AXIBAN)	731	970	Buy	2166	21.5	42.4	39.7	55.9	34.0	17.2	18.4	13.1	2.4	2.1	1.9	1.8	7.1	12.0	10.1	13.5
Federal Bank (FEDBAN)	107	110	Hold	220	8.0	9.0	10.8	12.4	13.4	11.9	9.9	8.6	1.5	1.3	1.2	1.1	10.4	10.8	11.5	12.0
HDFC Bank (HDFBAN)	1,393	1,650	Buy	7,587	56.4	66.7	77.1	93.7	24.7	20.9	18.1	14.9	3.9	3.3	2.9	2.6	16.6	16.7	16.6	17.9
IndusInd Bank (INDBA)	943	1,150	Buy	734	36.7	59.5	90.2	107.3	25.7	15.8	10.5	8.8	1.7	1.6	1.5	1.3	7.3	10.1	14.0	15.0
CSB Bank (CSBBAN)	205	250	Buy	36	12.6	26.4	25.4	28.6	16.3	7.8	8.1	7.2	1.9	1.5	1.3	1.1	10.5	19.0	15.4	14.9
Bandhan (BANBAN)	286	330	Buy	454	-12.8	0.8	24.7	30.3	-22.3	366.3	11.6	9.4	4.5	2.9	2.3	1.9	-14.6	0.8	20.7	20.9

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
NII	2,514	2,569	2,114	18.9	2,540	-1.0	Driven by healthy yearly loan growth
NIM (%)	8.0	7.8	8.5	-50 bps	8.7	-70 bps	Yield declined due to change in asset mix
Other Income	330	780	600	-45.1	964	-65.8	Treasury income decline leads to lower other income
Net Total Income	2,844	3,349	2,714	4.8	3,504	-18.8	
Staff cost	635	600	500	27.0	570	11.3	
Other Operating Expenses	389	331	276	40.8	412	-5.7	C/I increased QoQ as income was under pressure
PPP	1,820.6	2,418.4	1,938.2	-6.1	2,521.4	-27.8	
Provision	642.4	1,446.5	1,442.0	-55.4	4.7	13,516.7	Credit cost at 2.7% of advances (annualised)
PBT	1,178.2	971.9	496.2	137.4	2,516.7	-53.2	
Tax Outgo	291.7	243.0	123.1	136.9	614.3	-52.5	
PAT	886.5	728.9	373.1	137.6	1,902.3	-53.4	PAT impacted by higher provisions
Key Metrics							
GNPA	6,968	6,365	6,440	8	6,380	9.2	GNPA rise due slippage from restructured book & Assam floods
NNPA	1,749	1,659	2,458	-29	1,564	11.8	
Advances (Gross)	96,650	96,432	80,360	20.3	99,340	-2.7	YoY healthy growth driven by Non-EEB segment
Deposits	93,057	95,477	77,336	20.3	96,331	-3.4	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	10,204	10,366	1.6	12,235.3	12,622	3.2
Pre Provision Profit	9,066	8,667	-4.4	10,738.8	10,578	-1.5
NIM (%)	7.3	7.5	15 bps	7.4	7.7	30 bps
PAT	3,173	3,987	25.7	3,589.5	4,886	36.1
ABV (₹)	117.8	122.4	3.9	140.1	151.4	8.1

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	19.1	22.5	22.1	22.2
Deposit Growth (%)	18.8	18.4	20.0	21.2
CASA ratio (%)	42.0	42.7	41.6	42.2
NIM Calculated (%)	7.5	7.7	7.3	7.4
Cost to income ratio (%)	32.4	30.6	30.2	29.1
GNPA (₹ crore)	6,218.0	6,421.2	6,218.0	6,421.2
NNPA (₹ crore)	1,397.6	1,194.4	1,222.8	800.7
Slippage ratio (%)	882.4	2,031.6	882.4	2,031.6
Credit cost (%)	3.0	3.0	4.5	4.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					
	₹ crore				
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Interest Earned	10885.5	12524.2	13871.1	17385.7	20969.7
Interest Expended	4561.6	9232.3	5157.1	7020.2	8347.5
Net Interest Income	6,323.9	3,291.9	8,714.0	10,365.5	12,622.2
growth (%)	40.7	-47.9	164.7	19.0	21.8
Non Interest Income	1549.2	2109.1	2822.8	2457.7	2617.2
Operating Income	7873.1	5401.0	11536.8	12823.2	15239.3
Staff cost	1367.0	1664.6	2134.9	2568.9	2735.8
Other Operating expense	1059.5	1152.5	1351.6	1587.1	1925.9
Operating profit	5446.5	2583.8	8050.3	8667.2	10577.6
Provisions	1393.2	3906.6	7884.8	3351.8	4063.5
Exceptional items	0.0	0.0	0.0	0.0	0.1
PBT	4053.4	-1322.8	165.5	5315.4	6514.1
Taxes	1029.7	743.2	2.8	1328.8	1628.5
Net Profit	3023.7	-2066.0	162.7	3986.5	4885.7
EPS (₹)	18.1	(12.8)	0.8	24.7	30.3

Source: Company, ICICI Direct Research

Exhibit 6: Key Ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Valuation					
No. of Equity Shares (Crore)	161.0	161.1	161.1	161.1	161.1
EPS (₹)	18.1	-12.8	0.8	24.7	30.3
BV (₹)	94.4	81.6	107.9	131.1	158.8
ABV (₹)	91.9	63.8	97.7	122.4	151.4
P/E	15.8	-22.3	366.3	11.6	9.4
P/BV	3.0	3.5	2.7	2.2	1.8
P/ABV	3.1	4.5	2.9	2.3	1.9
Yields & Margins (%)					
Net Interest Margins	8.7	3.2	7.2	7.5	7.7
Yields on Loans	17.0	14.1	12.9	13.8	13.9
Cost of funds	5.8	11.5	5.0	5.0	5.2
Quality and Efficiency (%)					
Cost to income ratio	32.2	52.2	30.5	32.4	30.6
GNPA	1.5	7.1	6.5	5.6	4.7
NNPA	0.6	3.5	1.7	1.2	0.9
ROE	22.1	-14.6	0.8	20.7	20.9
ROA	3.9	-2.0	0.1	2.7	2.8

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					
	₹ crore				
(₹ Crore)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Capital	1610	1611	1611	1611	1611
Reserves and Surplus	13585	11526	15770	19499	23966
Networth	15195	13137	17381	21110	25577
Deposits	57082	77972	96331	114472	135571
Borrowings	16379	16960	19921	18925	17979
Other Liabilities & Provisions	3062	2652	5234	6542	8177
Total	91718	110722	138867	161049	187304
Applications of Funds					
Fixed Assets	369	487	588	705	847
Investments	15352	25156	29079	31987	35185
Advances	66630	81613	93975	111935	137103
Other Assets	9367	3466	15225	16422	14169
Total	91718	110722	138867	161049	187304

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
Total assets					
Total assets	62.5	20.7	25.4	16.0	16.3
Advances	68.1	22.5	15.1	19.1	22.5
Deposit	32.0	36.6	23.5	18.8	18.4
Total Income	41.6	-31.4	113.6	11.1	18.8
Net interest income	40.7	-47.9	164.7	19.0	21.8
Operating expenses	2.1	-7.1	-8.2	-11.6	-12.1
Operating profit	45.3	-52.6	211.6	7.7	22.0
Net profit	54.9	-168.3	-107.9	2349.9	22.6
Net worth	35.7	-13.5	32.3	21.5	21.2
EPS	10.6	(170.9)	(106.1)	3,069.4	22.5

Source: Company, ICICI Direct Research

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Sell: < -15%



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