

## Weak performance; hopeful of better H2FY23...

**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.

- Total 56% of loans are from emerging enterprise business (EEB)
- The bank has 1190 branches in 36 states, UTs & customer base of 2.8 crore

**Q2FY23 Results:** Decline in margins & elevated slippages marred performance.

- GNPA, NNPA down 6 bps QoQ each to 7.2%, 1.9%, respectively; write-off was at ₹ 3540 crore
- NII up 13.3% YoY, down 12.8% QoQ, NIMs contracted 100 bps QoQ to 7%
- Provision up QoQ to ₹ 1279 crore; PAT down 76% QoQ at ₹ 209 crore.
- Loan grew 17.4% YoY with focus on non-MFI book; deposits up 21.3% YoY

**What should investors do?** Balance sheet restructuring is in progress. However, operationally volatile performance and uncertainty on stressed pool remains an overhang. Slippages from restructured book to keep earning volatile in the near term.

- Hence, we downgrade the stock from BUY to **HOLD** rating

**Target Price and Valuation:** We value Bandhan Bank at ~2.1x FY24E ABV and revise our TP from ₹ 330 to ₹ 300, until clarity emerges on a sustained performance.

### Key triggers for future price performance:

- EEB disbursement to regain traction in H2; non-MFI book to grow at faster pace in line with strategy to dilute product & geographical concentration
- R/s book out of moratorium; slippages & write-off to remain elevated. Recovery from Assam relief scheme to keep credit cost steady. The management has increased credit cost guidance from 2.5% to ~3%
- CI to remain elevated; steady margins to support operational performance

**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 ₹ 1750

### 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%	10311	12162	18%
PPP	3748	5447	2584	8050	29%	8097	9449	8%
PAT	1951	3024	-2066	163	-56%	3307	4765	441%
ABV (₹)	92.0	91.9	63.8	97.7		115.4	143.0	
P/E	16.2	14.6	-20.7	339.4		12.9	9.0	
P/ABV	2.9	2.9	4.2	2.7		2.3	1.9	
RoE (%)	19.0	22.1	-14.6	0.8		17.5	21.1	
RoA (%)	3.9	3.9	-2.0	0.1		2.2	2.7	

Source: Company, ICICI Direct Research



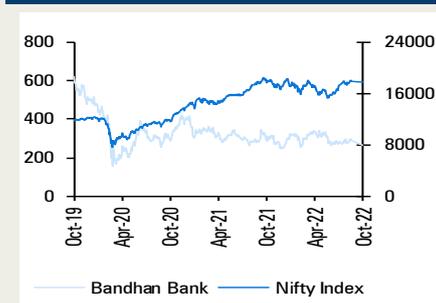
### Particulars

Particulars	Values
Market Capitalisation	₹ 42718 crore
Networth	₹ 18483 crore
52 week H/L (₹)	349 / 229
Face Value (₹)	10.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	40.0	40.0	40.0	40.0	40.0
FII	33.6	34.6	34.3	35.6	30.2
DII	2.5	1.9	4.6	7.1	12.5
Others	23.9	23.5	21.1	17.2	17.4

### Price Chart



### Risk to our call

- EEB stress pool declined to ₹ 9500 crore; write-offs remain substantial
- **Key Risk:** (i) Delayed recoveries may dent earnings traction; (ii) Better than expected business growth

### Research Analyst

Kajal Gandhi  
kajal.gandhi@icicisecurities.com

Vishal Namolia  
vishal.namolia@icicisecurities.com

Pravin Mule  
pravin.mule@icicisecurities.com

## Key takeaways of recent quarter & conference call highlights

### Q2FY23 Results: Weak operating show

- Bandhan Bank reported a weak set of numbers. NII was up 13.3% YoY and declined 12.8% QoQ to ₹ 2193 crore, mainly due to a fall in margins. NIMs declined 100 bps QoQ to 7.0% as yields declined and cost of funds rose by 20 bps. Other income was down 9.6% YoY but jumped 44.5% QoQ to ₹ 476 crore as other income was impacted in the previous quarter due to hardening of yields
- Opex increased 35.5% YoY, 15.8% QoQ. As a result, C/I ratio jumped from 36% to ~42% QoQ. Sequentially provisions doubled to ₹ 1279 crore. Thus, net profit for the bank was down 76.4% QoQ to ₹ 209.3 crore
- Asset quality improved as GNPA and NNPA ratio declined 6 bps each QoQ to 7.19% and 1.86%, respectively. Collection efficiency (including restructured book – ex NPA) was up from 94% to 95% wherein collection in Assam improved significantly from 78% to 88% QoQ. EEB stress pool (NPA + Restructured + SMA 1 & 2) has declined from ₹ 12100 crore to ₹ 9500 crore sequentially, primarily attributable to write-off
- Business growth showed healthy momentum on a yearly basis as loans (gross) were up 17.4% YoY to ₹ 95830 crore but sequentially loans were flat. EEB segment was flat YoY while non-MFI segments witnessed healthy growth, which is in line with restructuring of balance sheet as articulated earlier by the management. Deposits were up 21.3% YoY, 6.8% QoQ to ₹ 99366 crore wherein CASA was up 10.9% YoY and CASA ratio was at 40.8% vs. 43.2% in Q1FY23 and 44.6% YoY

### Q2FY23 Earnings Conference call highlights

- Credit and deposit growth guidance of 20-25% YoY with primary focus on retail segment. Continue to invest in tech, people and process
- Credit growth was led by festive season demand mainly in housing and MSME. Aim to grow housing book by 20% YoY
- Geographical diversification of EEB portfolio on track. West Bengal and Assam contribution is less than 50%, with West Bengal share at 38% and Assam share at 8% of EEB portfolio as on Q2FY23
- Slight dip in CASA ratio as there was a shift from SA to term deposits as rates have increased
- NIMs down 100 bps QoQ due to one-time interest reversal of ₹ 298 crore. Impact in NIMs was 82 bps. Margins to be ~8% (10-20 bps +/-)
- Majority of slippages came from restructured book. In the last two quarters the bank has not done any fresh restructuring. The management is confident that Q3 and Q4 will be good in terms of all-round performance, mainly in micro credit
- Overall gross slippages were ₹ 3954 crore of which EEB slippages were ₹ 3624 crore. Recoveries & upgradation were at ₹ 529 crore in Q2FY23 with write-offs at ₹ 3539 crore. Asset quality is expected to see significant improvement in H2FY23
- Assam collection efficiency to be better than rest of the geographies
- Credit cost for FY23 to be at 3% (+/- 0.15%)
- A ₹ 62 crore prepayment in housing book, which is technically classified as restructured and is expected to be reversed in the next two quarters
- RIDF – deposited ₹ 685 crore in Q2FY23; with total book at ₹ 6400 crore. Investment of further ₹ 700 crore needed as per regulation

## 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)	900	1,000	Buy	2,765	21.5	42.4	66.1	72.9	42	21.2	13.6	12.3	2.9	2.6	2.2	2.1	7.1	12.0	16.3	16.2
Federal Bank (FEDBAN)	132	155	Buy	279	8.0	9.0	12.0	14.6	17	14.7	11.0	9.1	1.8	1.6	1.5	1.3	10.4	10.8	12.8	13.9
HDFC Bank (HDFBAN)	1,438	1,750	Buy	8,011	56.4	66.7	76.9	94.1	25	21.6	18.7	15.3	4.0	3.4	3.0	2.6	16.6	16.7	16.6	17.7
IndusInd Bank (INDBA)	1,142	1,350	Buy	885	36.7	59.5	91.3	107.0	31	19.2	12.5	10.7	2.1	1.9	1.7	1.5	7.3	10.1	13.9	14.4
CSB Bank (CSBBAN)	233	275	Buy	40	12.6	26.4	27.1	29.3	18.5	8.8	8.6	8.0	2.2	1.7	1.4	1.2	10.5	19.0	16.3	15.1
Bandhan (BANBAN)	265	300	Hold	427	-12.8	0.8	20.5	29.6	-20.7	339.4	12.9	9.0	4.2	2.7	2.3	1.9	-14.6	0.8	17.5	21.1

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
NII	2,193	2,593	1,935	13.3	2,514	-12.8	Aided by healthy yearly loan growth
NIM (%)	7.0	8.1	7.6	-60 bps	8.0	-100 bps	Impacted on account of interest reversal
Other Income	476	633	527	-9.6	330	44.5	QoQ jump as previous quarter was impacted by hardening of yields
Net Total Income	2,669	3,225	2,463	8.4	2,844	-6.1	
Staff cost	666	663	546	22.1	635	5.0	
Other Operating Expenses	450	410	332	35.5	389	15.8	Investment in tech, people and process kept CI higher
PPP	1,552.9	2,152.1	1,584.8	-2.0	1,820.6	-14.7	
Provision	1,279.7	1,045.3	5,613.5	-77.2	642.4	99.2	Credit cost at 5.3% of advances (annualised)
PBT	273.2	1,106.9	-4,028.7	-	1,178.2	-76.8	
Tax Outgo	64.0	274.5	-1,020.1	-	291.7	-78.1	
PAT	209.3	832.4	-3,008.6	-	886.5	-76.4	PAT impacted by weak topline
Key Metrics							
GNPA	6,854	7,839	8,764	-21.8	6,968	-1.6	GNPA and NNPA improved by 6 bps QoQ
NNPA	1,678	2,091	2,266	-25.9	1,749	-4.1	
Advances (Gross)	95,830	104,526	81,661	17.4	96,650	-0.8	YoY healthy growth driven by non-MFI segment
Deposits	99,366	101,482	81,898	21.3	93,057	6.8	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY23E			FY24E		
	Old	New	% Change	Old	New	% Change
Net Interest Income	10,366	10,311	-0.5	12,622.2	12,162	-3.6
Pre Provision Profit	8,667	8,097	-6.6	10,577.6	9,449	-10.7
NIM (%)	7.5	7.4	-4 bps	7.7	7.4	-24 bps
PAT	3,987	3,307	-17.0	4,885.7	4,765	-2.5
ABV (₹)	122.4	115.4	-5.7	151.4	143.0	-5.5

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

	Current		Earlier	
	FY23E	FY24E	FY23E	FY24E
Credit growth (%)	19.1	21.1	19.1	22.5
Deposit Growth (%)	18.8	18.4	18.8	18.4
CASA ratio (%)	42.0	42.7	42.0	42.7
NIM Calculated (%)	7.4	7.4	7.5	7.7
Cost to income ratio (%)	35.6	35.2	32.4	30.6
GNPA (₹ crore)	6,923.9	7,127.1	6,218.0	6,421.2
NNPA (₹ crore)	1,845.7	1,739.3	1,397.6	1,194.4
Slippage ratio (%)	2,647.2	2,031.6	882.4	2,031.6
Credit cost (%)	3.3	2.3	3.0	3.0

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	17435.6	20633.2
Interest Expended	4561.6	9232.3	5157.1	7124.6	8470.9
Net Interest Income	6,323.9	3,291.9	8,714.0	10,311.0	12,162.3
growth (%)	40.7	-47.9	164.7	18.3	18.0
Non Interest Income	1549.2	2109.1	2822.8	2252.6	2412.1
Operating Income	7873.1	5401.0	11536.8	12563.6	14574.4
Staff cost	1367.0	1664.6	2134.9	2723.0	3009.4
Other Operating expense	1059.5	1152.5	1351.6	1743.9	2116.4
Operating profit	5446.5	2583.8	8050.3	8096.7	9448.6
Provisions	1393.2	3906.6	7884.8	3687.0	3095.5
Exceptional items	0.0	0.0	0.0	0.0	0.1
PBT	4053.4	-1322.8	165.5	4409.7	6353.2
Taxes	1029.7	743.2	2.8	1102.4	1588.2
Net Profit	3023.7	-2066.0	162.7	3307.3	4764.9
EPS (₹)	18.1	(12.8)	0.8	20.5	29.6

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	20.5	29.6
BV (₹)	94.4	81.6	107.9	126.8	153.8
ABV (₹)	91.9	63.8	97.7	115.4	143.0
P/E	14.6	-20.7	339.4	12.9	9.0
P/BV	2.8	3.2	2.5	2.1	1.7
P/ABV	2.9	4.2	2.7	2.3	1.9
Yields & Margins (%)					
Net Interest Margins	8.7	3.2	7.2	7.4	7.4
Yields on Loans	17.0	14.1	12.9	13.5	13.4
Cost of funds	5.8	11.5	5.0	5.1	5.3
Quality and Efficiency (%)					
Cost to income ratio	32.2	52.2	30.5	35.6	35.2
GNPA	1.5	7.1	6.5	6.2	5.3
NNPA	0.6	3.5	1.7	1.6	1.3
ROE	22.1	-14.6	0.8	17.5	21.1
ROA	3.9	-2.0	0.1	2.2	2.7

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	18820	23166
Networth	15195	13137	17381	20431	24777
Deposits	57082	77972	96331	114472	135571
Borrowings	16379	16960	19921	18925	17979
Other Liabilities & Provisions	3062	2652	5234	6542	8177
Total	91718	110722	138867	160370	186504
Applications of Funds					
Fixed Assets	369	487	588	705	847
Investments	15352	25156	29079	31987	35185
Advances	66630	81613	93975	111935	135574
Other Assets	9367	3466	15225	15743	14899
Total	91718	110722	138867	160370	186504

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	15.5	16.3
Advances	68.1	22.5	15.1	19.1	21.1
Deposit	32.0	36.6	23.5	18.8	18.4
Total Income	41.6	-31.4	113.6	8.9	16.0
Net interest income	40.7	-47.9	164.7	18.3	18.0
Operating expenses	2.1	-7.1	-8.2	-8.0	-10.6
Operating profit	45.3	-52.6	211.6	0.6	16.7
Net profit	54.9	-168.3	-107.9	1932.5	44.1
Net worth	35.7	-13.5	32.3	17.5	21.3
EPS	10.6	(170.9)	(106.1)	2,529.4	44.1

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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)

## ANALYST CERTIFICATION

I/We, Kajal Gandhi, CA, Vishal Namolia, MBA and Pravin Mule, MBA, M.com, Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.