

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



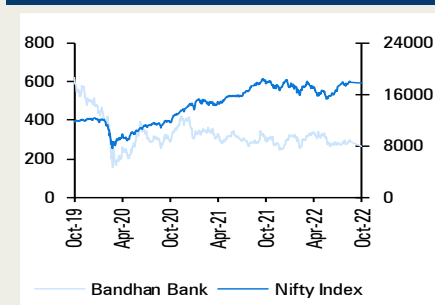
Particulars

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

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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

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