

CMP: ₹ 238

Target: ₹ 265 (11%)

Target Period: 12 months

May 21, 2023

HOLD

Revival in Q4; balance sheet restructuring underway...

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 while acquisition of Gruh Finance boosted the home loan book.

- Total ~52% of loans are from emerging enterprise business (EEB)
- The bank has 1411 branches in 34 states, UTs & customer base of 3 crore

Q4FY23 Results: Revival in earnings driven by lower provisions.

- NII down 2.7% YoY as NIMs contracted 140 bps QoQ to 7.3%
- Provision down 52% QoQ to ₹ 735 crore resulting in ~3x increase in PAT at ₹ 808 crore
- Loan growth was slower at ~10% YoY; strong traction in non-MFI book

What should investors do? Micro-finance industry is witnessing pick up in credit growth and revival in repayments, thus offering good opportunity. Continued focus on non-MFI book and retail products (like CV, LAP etc) with aim to preserve granularity of balance sheet while improving diversification. Near term performance could remain volatile; sustenance of RoA needed to drive valuation.

- Thus, we maintain our **HOLD** rating on the stock

Target Price and Valuation: We value Bandhan Bank at ~1.7x FY25E ABV and maintain our target price at ₹ 265.

Key triggers for future price performance:

- Growth guidance healthy at ~20% YoY for FY24E. Continued focus on non-MFI book to result in improved granularity and diversification of asset base
- Continued investment in branches, tech and business promotion activities to keep CI ratio elevated, though benefit to accrue gradually
- Moderation of stress in EEB book coupled with adequate provisioning buffer to keep credit cost largely steady and aid earnings and return ratios
- Expect partial recovery from CGFMU in Q1FY24. Further, anticipated inflows from Assam relief scheme remains triggers to be watched

Alternate Stock Idea: Apart from Bandhan, we also like CreditAccess Grameen.

- CAG is well positioned to capture the huge untapped opportunity in MFI space via deeper geographical penetration and increase in customer base.
- BUY with a target price of ₹ 1375



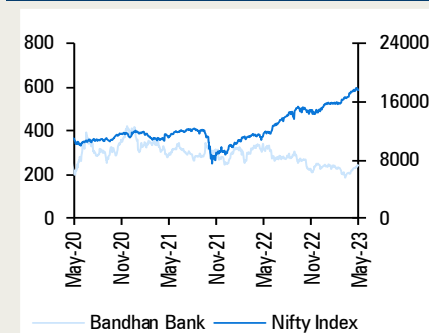
Particulars

| Particulars | Amount |
|-----------------------|---------------|
| Market Capitalisation | ₹ 38330 crore |
| Networth | ₹ 18776 crore |
| 52 week H/L (₹) | 335 / 182 |
| Face Value (₹) | 10.0 |

Shareholding pattern

| (in %) | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 |
|----------|--------|--------|--------|--------|--------|
| Promoter | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| FII | 34.3 | 35.6 | 34.2 | 32.4 | 31.9 |
| DII | 4.6 | 7.1 | 12.5 | 12.5 | 13.2 |
| Others | 21.1 | 17.2 | 13.3 | 15.2 | 14.8 |

Price Chart



Risk to our call

- EEB stress pool declined to ₹ 5500 crore from ₹ 7600 crore QoQ
- **Key Risk:** (i) Better than expected business growth; (ii) Delayed recovery to impact valuation

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Key Financial Summary

| | FY20 | FY21 | FY22 | FY23 | 3 year CAGR (FY20-FY23) | FY24E | FY25E | 2 year CAGR (FY23-25E) |
|---------|------|-------|-------|-------|-------------------------|-------|-------|------------------------|
| NII | 6324 | 3292 | 8714 | 9260 | 14% | 10307 | 12481 | 16% |
| PPP | 5447 | 2584 | 8013 | 7092 | 9% | 7618 | 9003 | 13% |
| PAT | 3024 | -2066 | 126 | 2195 | -10% | 3385 | 4335 | 41% |
| ABV (₹) | 91.9 | 63.8 | 97.7 | 114.0 | | 131.7 | 155.4 | |
| P/E | 13.2 | -18.6 | 304.0 | 17.5 | | 11.3 | 8.8 | |
| P/ABV | 2.6 | 3.7 | 2.4 | 2.1 | | 1.8 | 1.5 | |
| RoE (%) | 22.1 | -14.6 | 0.8 | 11.9 | | 16.1 | 17.7 | |
| RoA (%) | 3.9 | -2.0 | 0.1 | 1.5 | | 2.0 | 2.3 | |

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Lower other income dents operational performance

- NII declined 2.7% YoY (up 18.8% QoQ) at ₹ 2472 crore as NIMs fell 140 bps YoY. However, on a sequential basis NIMs increased 80 bps led by increase in lending rate and lower interest reversals during the quarter
- Other income declined 35% YoY, 39% QoQ to ₹ 629 crore. During Q3FY23, there was income on sale of technical write-off accounts of ₹ 414 crore, excluding the same, other income remained flat sequentially. Continued higher opex trajectory (owing to addition of 161 branches in Q4FY23 on the base 1250 as of December 2022) led to increased cost to income ratio at 42% in Q4FY23 vs. 28% in Q4FY22 (38.3% in Q3FY23)
- Provision during the quarter improved QoQ resulting in ~2.8x QoQ jump in PAT at ₹ 808 crore. However, on a YoY basis, PAT registered a decline of 58% mainly on account of weak topline and lower provision in Q4FY22
- Asset quality improved with GNPA ratio at 4.9% and NNPA ratio at 1.2% vs. 7.2% and 1.9% in Q3FY23. Collection efficiency for West Bengal and Assam improved from 98% to 98.9% and 96% to 97.2%, respectively (QoQ). Stressed pool has declined from ₹ 7600 crore in Q3FY23 to ₹ 5500 crore in Q4FY23
- Business growth remained weak as loans (gross) were up 9.8% YoY (below industry growth) to ₹ 109120 crore and sequential growth of ~12%. EEB segment de-grown by ~9% YoY
- Deposits were up 12.2% YoY, 5.7% QoQ to ₹ 108070 crore wherein CASA was up ~6% YoY resulting in contraction in CASA ratio at 39.3% vs. 36.4% in Q3FY23 and 41.6% in Q4FY23

Q4FY23 Earnings Conference call highlights

- Guidance – Credit growth to be 20% YoY led by retail segment & diversification, CASA ratio at 40%, NIM at 7-7.5%, credit cost at ~2%, RoA at 2.6-2.8% and RoE at 18-20%
- Secured book was at 42% and expected to be at 50% by FY26E
- Retail loans (which include personal loan, gold loan, 2-W loan and auto loan) grew 133% YoY and 110% QoQ. Commercial Banking (SME and NBFC Lending) grew 72% YoY and 29% QoQ. Housing finance book grew 13% YoY
- MFI customers contributed to < 4% of total deposits
- The bank continued to remain a dominant player in the east and is aiming for geographic diversification, deeper market penetration and localised hiring, going ahead
- The bank will be focusing on the new products like CV, LAP and government business operation
- Stress pool fell from ₹ 7600 crore to ₹ 5500 crore
- Average ticket size of EEB Disbursement was ₹ 50,000 for Group Loans and ₹ 1,20,000 for Individual Loans. Micro Credit Portfolio Geographical Break-up: West Bengal: 36%, UP: 10%, Bihar: 14% and Assam: 7%
- Overall slippages in the EEB Book were ₹ 730 crore and Non-EEB Slippages were ~ ₹ 388 crore. Slippages in Small Enterprise Loan (part of commercial banking) were ₹ 66 crore with recoveries of ₹ 18 crore resulting in net slippages of ₹ 48 crore. Gross slippages in SME were ₹ 68 crore with recoveries of ₹ 49 crore. Slippages in housing finance were ₹ 231 crore with recoveries at ₹ 191 crore
- The bank added 14 lakh customers in Q4FY23

| Bandhan Bank - ESG Disclosure Score* | | | |
|--------------------------------------|-------------|-------------|-------------|
| ESG Disclosure Score | | | |
| Score | FY20 | FY21 | FY22 |
| Environmental | 2.1 | 2.1 | 2.5 |
| Social | 24.0 | 26.8 | 26.8 |
| Governance | 83.6 | 78.6 | 76.1 |
| Overall ESG Score | 36.6 | 35.9 | 35.2 |

*Source: Bloomberg; ICICI Direct Research * score ranges from 0-100 with a high score indicating higher ESG disclosure*

Peer comparison

Exhibit 1: Peer Comparison

| Sector / Company | CMP | | | M Cap (₹ Bn) | EPS (₹) | | | | P/E (x) | | | P/ABV (x) | | | RoA (%) | | | RoE (%) | | | | | | |
|-------------------------------|-------|-------|--------|-----------------|---------|------|-------|-------|---------|------|-------|-----------|------|------|---------|-------|------|---------|-------|-------|------|------|-------|-------|
| | (₹) | TP(₹) | Rating | | FY22 | FY23 | FY24E | FY25E | FY22 | FY23 | FY24E | FY25E | FY22 | FY23 | FY24E | FY25E | FY22 | FY23 | FY24E | FY25E | FY22 | FY23 | FY24E | FY25E |
| Federal Bank (FEDBAN) | 126 | 160 | Buy | 267 | 9.0 | 14.2 | 15.3 | 17.6 | 14.0 | 8.8 | 8.2 | 7.2 | 1.5 | 1.3 | 1.2 | 1.0 | 0.9 | 1.3 | 1.2 | 1.2 | 10.8 | 14.9 | 14.2 | 14.6 |
| IndusInd Bank (INDBA) | 1,248 | 1,450 | Buy | 968 | 59.5 | 95.3 | 113.9 | 136.2 | 21.0 | 13.1 | 11.0 | 9.2 | 2.1 | 1.8 | 1.7 | 1.4 | 1.2 | 1.7 | 1.8 | 1.9 | 10.1 | 14.5 | 15.4 | 16.3 |
| Bandhan (BANBAN) | 238 | 265 | Hold | 383 | 0.8 | 13.6 | 21.0 | 26.9 | 304.0 | 17.5 | 11.3 | 8.8 | 2.4 | 2.1 | 1.8 | 1.5 | 0.1 | 1.5 | 2.0 | 2.3 | 0.8 | 11.9 | 16.1 | 17.7 |
| CreditAccess Grameen (CREDAG) | 1,221 | 1,375 | Buy | 194 | 22.7 | 52.0 | 71.8 | 85.9 | 53.9 | 23.5 | 17.0 | 14.2 | 4.6 | 3.8 | 3.1 | 2.5 | 2.2 | 4.2 | 4.6 | 4.5 | 9.0 | 17.8 | 20.1 | 19.7 |

Source: Company, ICICI Direct Research

Exhibit 2: Variance Analysis

| | Q4FY23 | Q4FY23E | Q4FY22 | YoY (%) | Q3FY23 | QoQ (%) | Comments |
|--------------------------|----------|----------|---------|----------|----------|---------|---|
| NII | 2,472 | 2,279 | 2,540 | -2.7 | 2,080 | 18.8 | Slower business growth impacted NII |
| NIM (%) | 7.3 | 7.2 | 8.7 | -140 bps | 6.5 | 80 bps | Aided by increase in yields and lower interest reversals |
| Other Income | 629 | 1,109 | 964 | -34.8 | 1,033 | -39.1 | Excluding income from technical written off a/cs, other income stood steady QoQ |
| Net Total Income | 3,101 | 3,389 | 3,504 | -11.5 | 3,114 | -0.4 | |
| Staff cost | 727 | 770 | 570 | 27.5 | 687 | 5.9 | |
| Other Operating Expenses | 578 | 503 | 412 | 40.1 | 505 | 14.5 | Continued investment in franchise kept CI higher |
| PPP | 1,795.7 | 2,115.3 | 2,521.4 | -28.8 | 1,922.2 | -6.6 | |
| Provision | 734.8 | 1,199.8 | 4.7 | 15,473.7 | 1,541.5 | -52.3 | Credit cost declined to 2.9% vs 6.4% of total advances |
| PBT | 1,060.9 | 915.5 | 2,516.7 | -57.8 | 380.7 | 178.7 | |
| Tax Outgo | 252.6 | 227.0 | 614.3 | -58.9 | 90.1 | 180.3 | |
| PAT | 808.3 | 688.4 | 1,902.3 | -57.5 | 290.6 | 178.2 | Revival in earnings on sequential basis |
| Key Metrics | | | | | | | |
| GNPA | 5,299 | 7,417 | 6,380 | -16.9 | 6,965 | -23.9 | GNPA improved to 4.9% vs 7.2% QoQ |
| NNPA | 1,228 | 1,854 | 1,564 | -21.5 | 1,711 | -28.2 | |
| Advances (Gross) | 1,09,120 | 1,09,075 | 99,340 | 9.8 | 97,787 | 11.6 | Credit growth continued to remain weak |
| Deposits | 1,08,070 | 1,08,083 | 96,331 | 12.2 | 1,02,283 | 5.7 | |

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

| (₹ Crore) | FY24E | | | FY25E | | |
|----------------------|-------|--------|----------|----------|--------|----------|
| | Old | New | % Change | Old | New | % Change |
| Net Interest Income | 9,751 | 10,307 | 5.7 | 11,815.7 | 12,481 | 5.6 |
| Pre Provision Profit | 7,037 | 7,618 | 8.3 | 8,604.6 | 9,003 | 4.6 |
| NIM (%) | 6.5 | 6.7 | 20 bps | 6.8 | 7.0 | 20 bps |
| PAT | 2,560 | 3,385 | 32.2 | 3,249.0 | 4,335 | 33.4 |
| ABV (₹) | 118.6 | 131.7 | 11.1 | 133.3 | 155.4 | 16.6 |

Source: Company, ICICI Direct Research

Exhibit 4: Assumption

| | Current | | Earlier | |
|--------------------------|---------|---------|---------|---------|
| | FY24E | FY25E | FY24E | FY25E |
| Credit growth (%) | 17.7 | 18.7 | 16.5 | 19.6 |
| Deposit Growth (%) | 17.5 | 19.9 | 21.1 | 20.5 |
| CASA ratio (%) | 39.8 | 41.5 | 42.6 | 43.3 |
| NIM Calculated (%) | 6.7 | 7.0 | 6.5 | 6.8 |
| Cost to income ratio (%) | 40.6 | 40.4 | 42.1 | 40.0 |
| GNPA (₹ crore) | 5,769.8 | 6,592.2 | 7,736.5 | 8,629.7 |
| NNPA (₹ crore) | 1,330.1 | 1,430.1 | 2,238.2 | 2,704.1 |
| Slippage ratio (%) | 1,879.2 | 2,055.9 | 2,031.6 | 2,232.9 |
| Credit cost (%) | 2.5 | 2.2 | 3.0 | 3.0 |

Source: Company, ICICI Direct Research

Financial summary

| Exhibit 5: Profit and loss statement | | | | |
|--------------------------------------|---------|---------|----------|----------|
| | ₹ crore | | | |
| (₹ Crore) | FY22 | FY23 | FY24E | FY25E |
| Interest Earned | 13871.1 | 15904.7 | 18781.6 | 22062.5 |
| Interest Expended | 5157.1 | 6645.1 | 8474.7 | 9581.4 |
| Net Interest Income | 8,714.0 | 9,259.6 | 10,306.9 | 12,481.2 |
| growth (%) | 164.7 | 6.3 | 11.3 | 21.1 |
| Non Interest Income | 2822.8 | 2469.3 | 2515.1 | 2612.9 |
| Operating Income | 11536.8 | 11728.9 | 12821.9 | 15094.1 |
| Staff cost | 2134.9 | 2715.1 | 3009.4 | 3191.0 |
| Other Operating expense | 1388.7 | 1921.7 | 2194.9 | 2900.6 |
| Operating profit | 8013.3 | 7092.1 | 7617.7 | 9002.5 |
| Provisions | 7884.8 | 4198.4 | 3104.5 | 3222.8 |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 |
| PBT | 128.5 | 2893.7 | 4513.2 | 5779.8 |
| Taxes | 2.8 | 698.3 | 1128.3 | 1444.9 |
| Net Profit | 125.7 | 2195.4 | 3384.9 | 4334.8 |
| EPS (₹) | 0.8 | 13.6 | 21.0 | 26.9 |

Source: Company, ICICI Direct Research

| Exhibit 6: Key Ratios | | | | |
|------------------------------|-------|-------|-------|-------|
| (Year-end March) | FY22 | FY23 | FY24E | FY25E |
| Valuation | | | | |
| No. of Equity Shares (Crore) | 161.1 | 161.1 | 161.1 | 161.1 |
| EPS (₹) | 0.8 | 13.6 | 21.0 | 26.9 |
| BV (₹) | 107.9 | 121.6 | 140.0 | 164.3 |
| ABV (₹) | 97.7 | 114.0 | 131.7 | 155.4 |
| P/E | 304.0 | 17.5 | 11.3 | 8.8 |
| P/BV | 2.2 | 2.0 | 1.7 | 1.4 |
| P/ABV | 2.4 | 2.1 | 1.8 | 1.5 |
| Yields & Margins (%) | | | | |
| Net Interest Margins | 7.2 | 8.2 | 6.7 | 7.0 |
| Yields on Loans | 12.9 | 12.4 | 13.5 | 13.3 |
| Cost of funds | 5.0 | 5.1 | 5.4 | 5.4 |
| Quality and Efficiency (%) | | | | |
| Cost to income ratio | 30.5 | 39.5 | 40.6 | 40.4 |
| GNPA | 6.5 | 4.9 | 4.7 | 4.5 |
| NNPA | 1.7 | 1.2 | 1.1 | 1.0 |
| ROE | 0.8 | 11.9 | 16.1 | 17.7 |
| ROA | 0.1 | 1.5 | 2.0 | 2.3 |

Source: Company, ICICI Direct Research

| Exhibit 7: Balance sheet | | | | |
|--------------------------------|---------|--------|--------|--------|
| | ₹ crore | | | |
| (₹ Crore) | FY22 | FY23 | FY24E | FY25E |
| Sources of Funds | | | | |
| Capital | 1611 | 1611 | 1611 | 1611 |
| Reserves and Surplus | 15770 | 17974 | 20940 | 24856 |
| Networth | 17381 | 19585 | 22551 | 26467 |
| Deposits | 96331 | 108069 | 126987 | 152237 |
| Borrowings | 19921 | 24711 | 23475 | 22302 |
| Other Liabilities & Provisions | 5362 | 3406 | 4257 | 5151 |
| Total | 138995 | 155771 | 177271 | 206157 |
| Applications of Funds | | | | |
| Fixed Assets | 588 | 855 | 1026 | 1231 |
| Investments | 29079 | 32366 | 35603 | 39163 |
| Advances | 93975 | 104757 | 123267 | 146327 |
| Other Assets | 15354 | 17793 | 17376 | 19436 |
| Total | 138995 | 155771 | 177271 | 206157 |

Source: Company, ICICI Direct Research

| Exhibit 8: Key ratios | | | | |
|-----------------------|---------|---------|-------|-------|
| (Year-end March) | FY22 | FY23 | FY24E | FY25E |
| Total assets | | | | |
| Total assets | 25.5 | 12.1 | 13.8 | 16.3 |
| Advances | 15.1 | 11.5 | 17.7 | 18.7 |
| Deposit | 23.5 | 12.2 | 17.5 | 19.9 |
| Total Income | 113.6 | 1.7 | 9.3 | 17.7 |
| Net interest income | 164.7 | 6.3 | 11.3 | 21.1 |
| Operating expenses | -7.3 | -4.4 | -9.1 | -1.8 |
| Operating profit | 210.1 | -11.5 | 7.4 | 18.2 |
| Net profit | -106.1 | 1646.9 | 54.2 | 28.1 |
| Net worth | 32.3 | 12.7 | 15.1 | 17.4 |
| EPS | (106.1) | 1,640.7 | 54.2 | 28.1 |

Source: Company, ICICI Direct Research

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