BANDHAN

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	286
12 month price target (INR)	370
Market cap (INR bn/USD bn)	461/5.8
Free float/Foreign ownership (%)	6,000.0/35.2

What's Changed

Target Price	–
Rating/Risk Rating	–

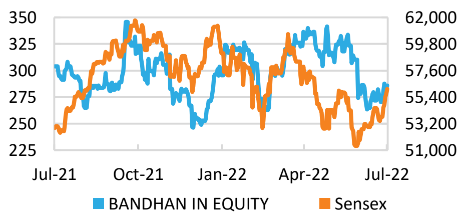
QUICK TAKE

	Above	In line	Below
Profit			•
Margins			•
Revenue Growth			•
Overall			•

FINANCIALS (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	96724	115368	134381	157886
PPoP	68553	80134	92087	106924
Adjusted profit	22055	1258	51673	60653
Diluted EPS (INR)	2.7	0.2	32.1	37.6
EPS growth (%)	(27.1)	(94.3)	20.4	17.4
RoAE (%)	13.5	1830.8	8.9	7.6
P/E (x)	13.5	0.7	26.3	24.6
P/ABV (x)	3.0	2.8	2.2	1.8
Dividend yield (%)	0.3	0	1.3	1.5

PRICE PERFORMANCE



Explore:

Financial model

Podcast

Corporate access

Video

Quarter marked by one-offs

The Q1FY23 earnings of Bandhan Bank (Bandhan) were impacted by a few one-offs, viz., Assam floods, higher MTM losses and RBI regulations. Asset quality stress was higher given Assam floods and greater flows from restructured book. That said, overall stress pool was well contained. Impressively, the bank continued to shore up coverage and now has INR89bn, ~10% of loans as provisions. Even on restructured book, coverage of 75% lends comfort.

Q1 is seasonally soft; this was accentuated by the aforementioned one-offs. Factoring in lower other income, we are trimming FY23E EPS by 3%. We are not building in a few anticipated recoveries, implying greater further upside. Retain 'BUY' with a TP of INR370 (unchanged).

Impacted by one-offs, underlying pressure points easing

Q1FY23 asset quality got particularly impacted by Assam floods and higher flows from restructured book. Slippages came in at INR11.25bn (>4% versus INR13.65bn QoQ) with INR3.15bn coming from restructured book. Excluding this, slippages have been well under control. Overall, EEB stress book rose marginally (to INR121bn versus INR119bn in FY22) given higher flow from restructured book – 70% of customers are in SMA1/2/NPA, but this is due to the part paying nature of customers. Impressively, the bank continued to shore up coverage and now has INR76bn in provisions against EEB (>13% of EEB loans & >60% of EEB stress pool) and INR89bn on overall bank (10% of loans & 65% of overall stress pool). The bank maintained 2–2.5% credit cost guidance. We have conservatively not built in recovery from CGFMU and Assam portfolio, which pose upside risks to our earnings.

Business impacted by operating changes post regulatory change

Bandhan saw 2.7% QoQ dip in loan book given 6.8% QoQ drop in MFI book due to: i) RBI regulations effective April; ii) Assam floods; and iii) a seasonally weak quarter. That said, demand was robust and management maintained the 20%-plus growth target for FY23E. The only caveat is the impact of inflation on underlying customer segment, which is most exposed to such risks.

Outlook and valuation: Recovery playing through; maintain 'BUY'

Structurally, Bandhan seems to be making the right moves with: i) its diversification strategy; and ii) creating a provisioning buffer. We believe tight execution would help it deliver sustained earnings. With early signs of recovery visible and post significant underperformance, we do see the risk-reward turning favourable. Retain **'BUY'**.

Financials

Year to March	Q1FY23	Q1FY22	% Change	Q4FY22	% Change
Net Revenue	25,144	21,141	18.9	25,398	(1.0)
Pre-provisioning Profits	18,206	18,711	(2.7)	25,214	(27.8)
Reported Profits	8,865	3,731	137.6	19,024	(53.4)
EPS	5.5	2.3	n.a.	11.8	(53.4)

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Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Net interest income	75,633	87,140	1,08,701	1,26,757
Non interest income	21,091	28,228	25,680	31,129
Fee and forex income	10,532	13,100	14,525	16,551
Misc. income	8,560	11,249	12,066	11,717
Investment profits	1,999	3,879	(910)	2,862
Net revenues	96,724	1,15,368	1,34,381	1,57,886
Operating expense	28,172	35,234	42,294	50,962
Employee exp	16,646	21,349	26,680	32,533
Other opex	11,525	13,886	15,613	18,429
Preprovision profit	68,553	80,134	92,087	1,06,924
Provisions	39,066	78,848	23,042	25,880
PBT	29,487	1,286	69,045	81,044
Taxes	7,432	28	17,372	20,391
PAT	22,055	1,258	51,673	60,653
Extraordinaries	0	0	0	0
Reported PAT	22,055	1,258	51,673	60,653
Diluted EPS (INR)	2.7	0.2	32.1	37.6
DPS (INR)	1.0	0	3.7	4.4

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Equity capital	16,110	16,110	16,110	16,110
Reserves	1,57,980	1,57,704	2,03,348	2,56,925
Net worth	1,74,090	1,73,814	2,19,458	2,73,035
Sub bonds/pref cap	0	0	0	0
Deposits	7,79,700	9,63,300	11,63,750	14,28,168
Borrowings	1,71,456	1,99,216	2,12,963	2,47,441
Other liabilities	24,619	52,336	56,664	62,229
Total	11,49,865	13,88,665	16,52,835	20,10,872
Assets				
Loans	8,16,130	9,39,749	11,29,501	13,73,465
Investments	2,51,550	2,90,787	3,27,475	4,00,553
Cash & equi	61,930	93,214	1,18,525	1,43,695
Fixed assets	4,870	5,879	6,377	6,875
Other assets	15,385	59,037	70,957	86,284
Total	11,49,865	13,88,665	16,52,835	20,10,872
BV/share (INR)	21.6	21.6	136.2	169.5
ABV/share (INR)	95.6	101.1	130.1	162.8
Capital adequacy (%)	23.5	20.1	19.5	19.2

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Yield on advances	15.5	14.9	15.5	15.3
Yield on investments	6.3	5.6	5.5	5.4
Yield on assets	12.3	11.3	12.5	12.3
Cost of funds	5.7	4.7	5.4	5.5
Cost of deposits	6.0	5.3	5.6	5.7
Net interest margins	7.4	7.1	7.5	7.3
Spread	6.6	6.6	7.0	6.7
Cost-income	29.1	30.5	31.5	32.3
Tax rate	25.2	2.2	25.2	25.2

Balance Sheet Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Credit growth	22.5	15.1	20.2	21.6
Deposit growth	36.6	23.5	20.8	22.7
EA growth	25.0	17.2	19.0	21.7
SLR ratio	24.0	23.5	23.0	23.0
C-D ratio	104.7	97.6	97.1	96.2
Low-cost deposits	43.4	41.6	42.8	43.8
Gross NPA ratio	6.8	6.5	4.2	3.6
Net NPA ratio	3.5	1.7	1.3	1.1
Provision coverage	50.3	75.5	71.0	70.0

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted PE (x)	104.5	1830.8	8.9	7.6
Price/BV (x)	13.2	13.3	2.1	1.7
Price/ABV (x)	3.0	2.8	2.2	1.8
Dividend yield (%)	0.3	0	1.3	1.5

Source: Company and Edelweiss estimates

ROA Decomposition (%)

Year to March	FY21A	FY22E	FY23E	FY24E
NII/Assets	7.4	7.1	7.5	7.3
Fees/Assets	1.0	1.1	1.0	0.9
Inv profits/Assets	0.2	0.3	(0.1)	0.2
Net revenues/assets	9.3	9.1	9.3	8.9
Opex/Assets	(2.8)	(2.9)	(2.9)	(2.9)
Provisions/Assets	(3.8)	(6.4)	(1.6)	(1.5)
Taxes/Assets	(0.7)	0	(1.2)	(1.2)
Total costs/Assets	(7.3)	(9.3)	(5.7)	(5.6)
RoA	2.2	0.1	3.6	3.5
Equity/Assets	16.0	14.2	13.6	14.1
RoAE	13.5	0.7	26.3	24.6

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	(85.4)	(94.3)	20.4	17.4
RoAE (%)	13.5	0.7	26.3	24.6
Net NPA ratio (%)	3.5	1.7	1.3	1.1
Payout ratio (%)	7.0	0	11.7	11.7

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q1FY23	Q1FY22	Growth (%)	Q4FY22	Growth (%)	FY22	FY23E	FY24E
Interest on advances	35,518	29,904	18.8	34,404	3.2	1,21,839	1,60,540	1,90,906
Interest on investments	4,422	3,414	29.5	4,031	9.7	14,783	16,784	19,334
Interest on other resources	316	248	27.8	187	69.1	1,405	2,603	3,215
Other interest income	296	534	(44.5)	94	216.4	684	691	698
Interest income	40,554	34,100	18.9	38,716	4.7	1,38,711	1,80,619	2,14,152
Interest expenses	15,409	12,959	18.9	13,317	15.7	51,571	71,918	87,395
Net interest income	25,144	21,141	18.9	25,398	(1.0)	87,140	1,08,701	1,26,757
Other income	3,297	5,334	(38.2)	9,644	(65.8)	28,228	25,680	31,129
Operating expenses	10,235	7,763	31.8	9,828	4.1	35,234	42,294	50,962
Staff expenses	6,346	4,998	27.0	5,491	15.6	21,349	26,680	32,533
Other opex	3,888	2,766	40.6	4,338	(10.4)	13,886	15,613	18,429
Pre prov Op profit (PPP)	18,206	18,711	(2.7)	25,214	(27.8)	80,134	92,087	1,06,924
Provisions	6,424	13,749	(53.3)	47	13,516.7	78,848	23,042	25,880
Profit before tax	11,782	4,962	137.4	25,167	(53.2)	1,286	69,045	81,044
Provision for tax	2,917	1,231	136.9	6,143	(52.5)	28	17,372	20,391
Profit after tax	8,865	3,731	137.6	19,024	(53.4)	1,258	51,673	60,653
EPS (INR)	5.5	2.3	n.a.	11.8	(53.4)	0.8	32.1	37.6
Ratios								
NII / GII	62.0	62.0		65.6		62.8	60.2	59.2
Cost - income	36.0	29.3		28.0		30.5	31.5	32.3
Provisions / PPOP	35.3	73.5		0.2		98.4	25.0	24.2
Tax rate	24.8	24.8		24.4		2.2	25.2	25.2
Balance sheet (INR bn)								
Advances	909	748	21.6	940	(3.3)	940	1,130	1,373
Deposits	931	773	20.3	963	(3.4)	963	1,164	1,428
CD Ratio (%)	97.7	96.7		97.6		97.6	97.1	96.2
Asset quality								
Gross NPA	69,600	64,404	8.1	63,800	9.1	63,800	48,981	51,310
Net NPA	18,365	24,579	(25.3)	15,642	17.4	15,642	14,205	15,393
Gross NPA (%)	7.3	8.2		6.5		6.5	4.2	3.6
Net NPA (%)	1.9	3.3		1.7		1.7	1.3	1.1
Provision coverage	73.6	61.8		75.5		75.5	71.0	70.0

Source: Company, Edelweiss Research

Q1FY23 conference call: Key highlights

Asset quality

- Slippages were INR11.25bn (INR13.65bn QoQ) of which EEB is INR9.08bn (vs INR11.88bn QoQ). Slippages were higher due to a) higher slippages from restructured book and b) impact of assam flood. The slippages from restructured book was INR3.15bn excluding which the slippages has nearly halved QoQ.

- The bank is more than covered in terms of the provisions – of the overall stress pool at INR121bn the bank has the provision of INR76bn. Have taken INR3.35bn extra provisions over and above the regulatory requirement which is reflected in rising coverage levels.

- The collection efficiency for Assam for June is 93% , which was impacted by floods and improvement has already started to play through. The management expects complete normalisation by September.

- Have provided for 80% of the restructured book and further to this 57% of the restructured book is paying. Thus bank is able to maintain credit cost guidance. The bank continues to maintain credit cost guidance of 2-2.5% for FY23.

- Restructured book O/S – INR46.61bn (incl. SMA/NPL vs INR48.9bn) – of this INR46.61bn – INR21.41bn is still under moratorium (expected to come out in Q2FY23) , and INR25.2bn pertains to customers which has moved buckets. In nutshell 70% of the customers are in SMA1/2/NPA but this is due to part paying nature of the customers, even as 57% are paying customers. Of this INR46.61bn WB is INR31.32bn and Assam is INR15.06bn. The bank has 75% coverage on INR46.61bn restructured book.

- Overall rec/upgrades – INR5.38bn , There wasn't any write-off done during the quarter. INR32.43bn write-offs in FY22 in EEB portfolio.

- Restructured book (for the bank) – INR58bn (INR61.5bn QoQ). Housing restructure book at INR11.70bn, and entire portfolio is out of the moratorium. Of the total 4% has slipped to NPLs, 10% is SMA 1/2.

- Overall provisions at bank level is INR89bn (including specific and non-specific).

- Increase in DPD positions is largely due to restructured customers' demand and floods in Assam which is expected to normalize in coming quarters. Excluding this impact the rise in each bucket is closer to 3-4bps at maximum.

- The overall expected CGFMU recovery is expected to be around INR25bn – the first demand is expected to be made in first week of October and demand will be in INR11-12bn (expected to be received in Q3FY23)

- Other income lower a) due to lower treasury gains (Q1FY22 has INR1.74bn gains – HTM to AFS movement, this financial year this has not happened) b) MTM provisions (INR860mn in Q1FY22 there was reversal of MTM, which is a loss of INR790mn) and c) lower PSLC (bank has not sold PSLC on the agri portfolio, as they are awaiting regulatory clarification which will see the rise in Q2FY22 - FY22 PSLC income is INR6.5bn).

- In the worst case scenario is RBI doesn't approve of the representation the PSLC income for FY23 could be INR1.5-2bn.

- Based on the RBI observation on audit of FY20, the bank has not classified agri allied portfolio as PSL in FY22 thus FY22 AR shows drop in PSL classification from 88% to 58%.
- Have taken any rate hike in September'21 and haven't taken any hike post that.
- Opex / Asset from 3 year basis (given portfolio mix change) should come down to 2.5-2.6%.

Business momentum

- The decline in loan book QoQ is driven by microfinance book largely driven by 3 aspects a) RBI regulations effective from April b) Assam floods and c) seasonally weak quarter. That said, the management has been very comfortable with the strong demand in this segment which is expected to drive growth hereon.
- Housing finance has seen a good growth - a trend bank expects to continue. Add to that other retail portfolio as also seen strong growth momentum.
- Diversification is the key agenda for the bank and thus the growth in Housing, other retail products and SME segment will continue
- Expect overall loan growth to be in 20% range. Expect FY23 NIMs to be broadly in similar 8% range – but on structure basis given product mix change the NIMs might be lower.
- Customer lost in a year are closer to 9% (of which 4% is due to customer who don't need further loans).
- Current outstanding RIDF is INR56.32bn , impact on NIMs due to RIDF is 20-25bps.

Company Description

Bandhan Bank started its journey as a not-for-profit entity in 2001, which became an NBFC in 2009 and then the first microfinance company to receive a banking licence from the RBI in August 2015. The company was established by Mr. Chandra Shekhar Ghosh to provide micro loans to women that are socially disadvantaged and economically exploited. It is a bank for all, but its focus remains on meeting financial needs of people that are overlooked by the formal banking system—economically disadvantaged sections of society—and acting as a vehicle-of-empowerment and creating better education, health care and self-employment opportunities.

In January 2019, Bandhan decided to merge with Gruh Finance. Gruh Finance is a housing finance company with a loan book of ~INR177bn (June 2019) engaged in retail home loans (95% are retail loans and 5% are developer loans). The synergies from this merger include geographical, loan book diversification, cross-sell opportunities, lower cost of funds for Gruh's liabilities, etc. The bank has a network of 1,107 branches, 4,090 banking units and 487 ATMs spread across 34 states/UTs.

Bandhan Financial Holdings (BFHL), promoter of the bank, holds a 40% stake in the bank. To give a historical perspective, after the bank's IPO in Mar-18, BFHL's shareholding reduced to ~82%. Furthermore, In October 2019, after the merger with GRUH, promoter shareholding in Bandhan Bank reduced to ~61%. However, with the bank required to bring down shareholding to 40%, Bandhan Bank's promoter sold its stake via a block trade in August 2020. Henceforth, Bandhan Bank needs to further reduce promoter share to 15% by August 2027.

Investment Theme

Even though Bandhan's long-term evolution of business model and ability to deliver cross-cyclical superior returns enthuse us, near-term red flags around industry (overleveraging, aggressive competition) and uncertainty around asset quality outcomes compel us to remain cautious. We maintain 'REDUCE/SU'.

Key Risks

Asset quality in Assam and West Bengal performs better : MFI loans cater to the unorganized sector, and this category of customers are very vulnerable to political, cultural changes, etc. A change in government policy or disruption/shocks in MFI segments could completely alter the credit discipline and cause non-performing loans to spike. Bandhan has had a successful run in West Bengal by being the first player in the market and their consequent deep understanding of that geography. In this context, if the asset quality holds up in Assam and West Bengal, the credit cost might turn out to be lower.

Better execution on accelerated diversification strategy: We believe management's road map to accelerated diversification, albeit seems credible, may suffer greater operational challenges (team set-up, investment-heavy businesses, and different underwriting challenges, among others) and thus execution/transition will be critical to watch out for. The better than expected execution on this would render stability to earnings and drive re-rating.

Additional Data

Management

MD & CEO	Chandra Shekhar Ghosh
Chairman	Anup Kumar Sinha
COO	Sunil Samdani
Director	Bhaskar Sen
Auditor	E&Y

Holdings – Top 10*

	% Holding		% Holding
HDFC	9.89	Societe General	1.19
Caladium Invst	7.79	Nomura	0.88
Blackrock	3.04	Touchstone Adv	0.54
LIC	2.11	Standard Life	0.43
Vanguard	1.78	Nippon Life	0.42

Latest public data

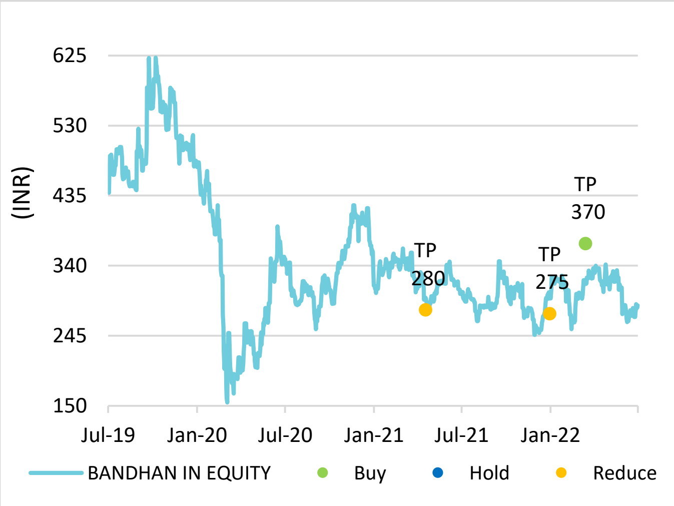
Recent Company Research

Date	Title	Price	Reco
13-May-22	Strong recovery trends, sustenance key; *Result Update*	317	Buy
05-Apr-22	Micro risk to macro possibilities; *Company Update*	319	Buy
21-Jan-22	Some respite; a long way to go; *Result Update*	297	Reduce

Recent Sector Research

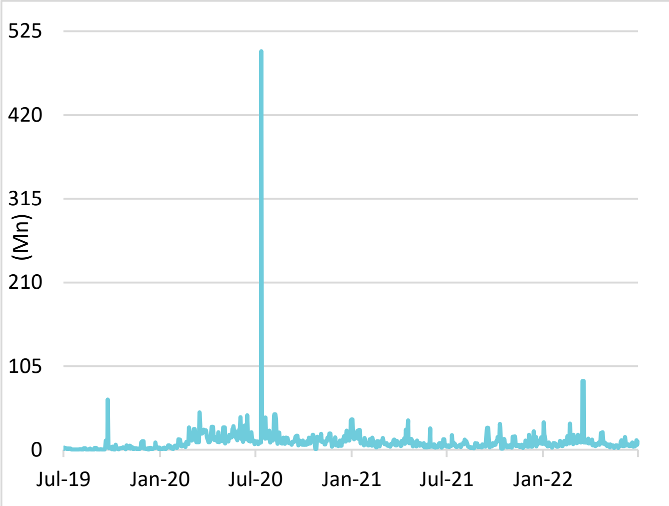
Date	Name of Co./Sector	Title
20-Sep-21	Banking	Reimagining credit; *Sector Update*
11-Feb-20	Union Bank (I)	Union Bank of India - Result Update Q3FY; *Result Update*
17-Jan-20	South Ind.Bank	South Indian Bank - Result Update Q3FY20; *Result Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	200	53	18	273
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	242	40	6	288

**2 stocks under review*

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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