

BANDHAN BANK

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	238
12 month price target (INR)	235
52 Week High/Low	275/182
Market cap (INR bn/USD bn)	384/4.6
Free float (%)	4,600.0
Avg. daily value traded (INR bn)	2,759.9

SHAREHOLDING PATTERN

	Sep-23	Jun-23	Mar-23
Promoter	39.98%	39.99%	39.99%
FII	32.77%	33.53%	31.93%
DII	17.46%	12.39%	13.23%
Pledge	0%	0%	0%

FINANCIALS

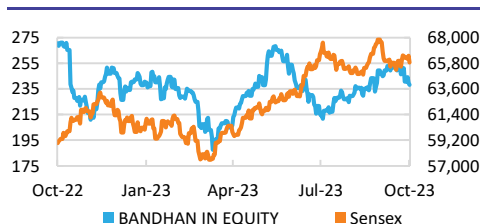
(INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	115370	117282	133002	161115
PPoP	80134	70913	76433	96060
Adjusted profit	1258	21946	36095	46007
Diluted EPS (INR)	0.2	13.6	22.4	28.6
EPS growth (%)	(94.3)	8621.9	64.5	27.5
RoAE (%)	0.7	11.9	17.1	18.8
P/E (x)	1,524.4	17.5	10.6	8.3
P/ABV (x)	2.2	2.0	1.7	1.5
Dividend yield (%)	0.4	0	1.4	1.8

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY24E	FY25E	FY24E	FY25E
Revenue	133002	161115	-6.3	-4.8
EBITDA	76433	96060	-9.5	-3.6
Adjusted profit	36095	46007	-13.8	-9.3
Diluted EPS (INR)	22.4	28.6	-13.8	-9.3

PRICE PERFORMANCE



Standard stress continues to stay high

In Q2FY24, Bandhan's NII missed consensus due to weaker than expected asset growth of 1% QoQ. Based on Bandhan's business update, we had assumed asset growth of ~4% QoQ. More disappointing than the NII miss was the fact that fresh addition to the EEB SMA (1-90 DPD) pool remained high at 3%, marginally higher QoQ.

While management explained that the SMA additions were in line with their guidance of 3-4%, the Street remains worried on incremental SMA, given lower incremental stress at other MFIs. With lingering concerns on EEB, we retain 'HOLD'. We cut EPS by 14%/5% for FY24E/25E. We leave our target multiple unchanged at 1.4x BV FY25E. On lower earnings, our new TP is INR235 from INR242 earlier.

Lingering concerns on asset quality in EEB

While management explained that the gross addition of INR15.5bn to the SMA pool in EEB in Q2FY24 was in line with their guidance of 3% of opening loans, the Street is not convinced as other lenders in this segment are seeing lower incremental stress. EEB slippage excluding ECLGS, rose QoQ to INR10bn in Q2FY24 from INR9.2bn. EEB NPLs rose 18% QoQ. The bank disclosed data, which showed that EEB loans pre-July 2021 had higher NPLs while those post-July 2021 had lower NPLs. Furthermore, loans with higher vintage have higher NPLs. However, some data points are discomfiting – data show that loans disbursed in Q3FY23 already have NPLs of 1.7% and those disbursed in Q2FY23 have NPLs of 2.5% - we believe these NPLs are high for loans with such a short vintage.

Miss on NII and credit cost

Loans grew 13% YoY/4% QoQ. EEB loans grew 5% QoQ, SME 7%, other retail 16% while housing remained flat QoQ. Deposits grew 13% YoY/3% QoQ. Asset growth of 1% QoQ/11% YoY was lower than loan/deposit growth as the bank used excess LCR. Calculated NIM fell 10bp QoQ to 7.2%. CoF rose 20bp QoQ due to increase in rate of savings deposits. NII declined 2% QoQ but grew 11% YoY. Opex/assets rose to 3.7% from 3.5% QoQ. Other income grew sharply by 40% QoQ driven by ARC recovery income. PPOP grew 2% YoY/1% QoQ. Credit cost rose QoQ from 2.4% to 2.5%. PAT remained flat QoQ missing consensus by 9%.

Guidance: Higher loan growth, higher NIM and lower credit cost

Loan growth is likely to accelerate. Credit cost shall fall to 2-2.2% by end FY24E from 2.5%. EEB slippage to remain at 3% of opening loans but with higher recoveries, net slippage will be lower. NIM shall improve in H2FY24 over H1FY24.

Financials

Year to March	Q2FY24	Q2FY23	% Change	Q1FY24	% Change
Net Revenue	24,434	21,930	11.4	24,906	-1.9
Pre-provisioning Profits	15,834	15,529	2.0	15,623	1.4
Reported Profits	7,212	2,093	244.6	7,211	0.0
EPS	4.47	1.30	243.8	4.48	-0.2

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Net interest income	87,145	92,596	1,07,521	1,33,184
Non interest income	28,225	24,686	25,481	27,931
Fee and forex income	13,555	10,500	11,760	13,524
Misc. income	11,900	15,245	13,721	14,407
Investment profits	2,771	(1,060)	0	0
Net revenues	1,15,370	1,17,282	1,33,002	1,61,115
Operating expense	35,236	46,368	56,569	65,055
Employee exp	21,349	27,151	32,581	39,097
Other opex	13,887	19,217	23,988	25,958
Preprovision profit	80,134	70,913	76,433	96,060
Provisions	78,848	41,984	24,000	28,925
PBT	1,286	28,930	52,433	67,135
Taxes	28	6,983	16,338	21,128
PAT	1,258	21,946	36,095	46,007
Extraordinaries	0	0	0	0
Reported PAT	1,258	21,946	36,095	46,007
Diluted EPS (INR)	0.2	13.6	22.4	28.6
DPS (INR)	1.0	0	3.4	4.3

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
Yield on advances	13.9	14.8	15.4	15.4
Yield on investments	5.6	6.1	6.1	6.1
Yield on assets	11.6	12.5	13.2	13.1
Net interest margins	7.4	7.0	7.1	7.5
Cost-income	30.5	39.5	42.5	40.4
Tax rate	2.2	24.1	31.2	31.5

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted PE (x)	1523.8	17.5	10.6	8.3
Price/BV (x)	2.2	2.0	1.7	1.5
Dividend yield (%)	0.4	0	1.4	1.8

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Equity capital	16,108	16,108	16,110	16,110
Reserves	1,57,704	1,79,733	2,10,475	2,47,349
Net worth	1,73,812	1,95,842	2,26,585	2,63,459
Deposits	9,63,306	10,80,693	12,75,218	15,04,757
Borrowings	1,99,212	2,47,108	2,76,761	3,09,973
Other liabilities	53,622	34,057	39,165	43,082
Total	13,89,952	15,57,700	18,17,729	21,21,271
Assets				
Loans	9,39,749	10,47,558	12,36,118	14,83,342
Investments	2,90,787	3,23,659	3,62,849	3,90,777
Cash & equi	93,214	82,497	98,751	1,08,627
Fixed assets	5,879	8,546	10,255	12,306
Other assets	60,323	95,440	1,09,756	1,26,219
Total	13,89,952	15,57,700	18,17,729	21,21,271
BV/share (INR)	21.6	121.6	140.6	163.5
Capital adequacy (%)	20.1	19.8	19.7	19.2

Balance Sheet Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
Credit growth	15.1	11.5	18.0	20.0
Deposit growth	23.5	12.2	18.0	18.0
Gross NPA ratio	6.8	4.8	5.8	5.0

ROA Decomposition (%)

Year to March	FY22A	FY23E	FY24E	FY25E
NII/Assets	6.9	6.3	6.4	6.8
Fees/Assets	1.1	0.7	0.7	0.7
Inv profits/Assets	0.2	(0.1)	0	0
Net revenues/assets	8.9	8.0	7.9	8.2
Opex/Assets	(2.8)	(3.1)	(3.4)	(3.3)
Provisions/Assets	(6.2)	(2.8)	(1.4)	(1.5)
Taxes/Assets	0	(0.5)	(1.0)	(1.1)
Total costs/Assets	(9.0)	(6.5)	(5.7)	(5.8)
RoA	0.1	1.5	2.1	2.3
Equity/Assets	13.7	12.5	12.5	12.4
RoAE	0.7	11.9	17.1	18.8

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	(94.3)	8621.9	64.5	27.5
RoAE (%)	0.7	11.9	17.1	18.8
Payout ratio (%)	128.0	0	15.0	15.0

Exhibit 1: Change in estimates

	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
	Old		New		% Change	
NII, INR M	1,15,040	1,39,710	1,07,521	1,33,184	-6.5%	-4.7%
PAT, INR M	41,865	50,714	36,095	46,007	-13.8%	-9.3%
EPS, INR	26.0	31.5	22.4	28.6	-13.8%	-9.3%
BVPS, INR	143.7	168.9	140.6	163.5	-2.1%	-3.2%
Target price, INR	242		235		-2.9%	

Source: Company, Nuvama Research

Exhibit 2: Recovery of EEB stress pool

INR bn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Total stress pool (A)	94.8	75.9	54.7	62.2	69.2
of which NPL	50.7	51.2	33.5	47.7	56.1
of which standard stress	44.1	24.7	21.2	14.5	13.1
Provisions	53.0	50.0	38.0	43.0	49.0
CGMFU recovery	25.0	17.0	17.0	16.0	16.0
ECLGS Guaranteed	-	-	-	5.0	4.0
Assam relief	-	-	-	-	-
Total provisions + recovery (B)	78.0	67.0	55.0	64.0	69.0
Net stress C = A - B	16.8	8.9	-0.3	-1.8	0.2

Source: Company, Nuvama Research

Exhibit 3: Movement in EEB NPLs

INR bn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Opening EEB NPL	53.3	50.5	51.3	33.4	47.5
Add: Slippage	36.2	28.5	7.3	15.0*	10.0
Less: Recovery	3.6	3.8	4.7	0.9	1.3
Less: Write off	35.4	24.0	20.5	0.0	0.0
Closing	50.5	51.3	33.4	47.5	56.2
Core Slippage ratio, % of lagged EEB loans	26.8%	19.8%	4.7%	6.3%	7.4%

Source: Company, Nuvama Research.

*Note: Includes ECLGS slippage of INR5.8bn which is excluded in core slippage ratio calculation

Exhibit 4: GNPL and PCR by segment for Q2FY24

%	GNPL	PCR
EEB	10.4%	85.0%
SME	4.7%	NA
Housing	4.1%	35.0%
Retail	1.8%	NA
Total	7.3%	70.0%

Source: Company, Nuvama Research

Exhibit 5: GNPLs by segment

INR bn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
EEB	50.5	51.3	33.4	47.5	56.2
SME	7.8	8.3	8.8	10.6	10.7
Housing	9.9	9.7	10.4	10.9	11.1
Retail	0.3	0.3	0.4	0.6	0.7
Total	68.5	69.6	53.0	69.6	78.7

Source: Company, Nuvama Research

Exhibit 6: Breakdown of EEB provisions ex-CGFMU recovery

Q2FY24	INR bn
Specific provisions	47.8
Standard provisions	1.23
Total provisions	49.0
NPL in EEB	56.2
SMA in EEB	22.7
SMA 1+2	13.0
PCR on NPL	85%
PCR on SMA 1+2	9%

Source: Company, Nuvama Research

Exhibit 7: Gross addition to SMA

	1-30 dpd		31-60 dpd		61-90 dpd		Gross addition to SMA	
	INR bn	% of EEB loans	INR bn	% of EEB loans	INR bn	% of EEB loans	INR bn	% of EEB loans
Q1FY23	27.3	4.7	14.0	2.4	32.6	5.6		
Q2FY23	25.9	4.8	14.0	2.6	30.7	5.7	39.4	6.8
Q3FY23	17.9	3.4	10.6	2.0	14.2	2.7	56.3	10.5
Q4FY23	10.8	1.9	7.4	1.3	13.6	2.4	18.2	3.5
Q1FY24	13.3	2.6	7.7	1.5	7.2	1.4	16.6	2.9
Q2FY24	9.7	1.8	5.9	1.1	7.0	1.3	15.5	3.0

Source: Company, Nuvama Research

Exhibit 8: EEB book - Vintage analysis

INR bn	Disbursement	NPA	NPA as a % of disbursement
Q1FY23	82.2	3.1	3.7%
Q2FY23	128.4	3.2	2.5%
Q3FY23	152.2	2.6	1.7%
Q4FY23	211.7	1.2	0.6%
Q1FY24	80.2	-	0.0%
Q2FY24	169.9	-	0.0%

Source: Company, Nuvama Research

Exhibit 9: Movement in total NPLs

INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Opening NPLs	69,675	68,538	69,638	52,938	69,600
Slippage	39,540	32,650	11,180	19,400	13,200
Recovery/upgrade	5,287	6,220	4,680	2,738	4,100
Write-offs	35,390	25,330	23,200	-	-
Closing NPLs	68,538	69,638	52,938	69,600	78,700
Slippage , %	18.0%	14.8%	4.5%	8.0%	5.5%

Source: Company, Nuvama Research

Exhibit 10: Movement of NIMs

%	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
NIM	7.0	6.5	7.3	7.3	7.2	20bps	-10bps
Cost of funds	5.5	5.8	5.8	6.4	6.5	100bps	10bps
Yield	12.0	12.0	12.7	13.3	13.3	130bps	0bps

Source: Company, Nuvama Research

Exhibit 11: Asset book mix

INR bn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Micro	539.2	527.6	568.2	513.0	539.9	0%	5%
Mortgages	258.0	267.3	265.8	269.5	267.5	4%	-1%
Retail	21.6	26.3	55.2	33.7	39.0	81%	16%
SME, NBFC - MFI & NBFC - Others	139.5	156.7	202.0	215.5	229.9	65%	7%
Total	958.3	977.9	1,091.2	1,031.7	1,076.3	12%	4%

Source: Company, Nuvama Research

Exhibit 12: Deposit mix

INR bn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Current account	50.5	47.4	64.2	52.0	62.9	25%	21%
Saving account	354.7	324.7	360.4	338.7	369.1	4%	9%
Term deposit - Retail	331.4	338.4	344.9	381.7	397.8	20%	4%
Term deposit - Others	257.1	312.3	311.2	312.4	291.0	13%	-7%
Total deposits	993.7	1022.8	1080.7	1084.8	1120.8	13%	3%

Source: Company, Nuvama Research

Exhibit 13: Summary of income statement

INR mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Interest on advances	32,646	32,603	36,984	39,057	38,882	19%	0%
Income on investments	4,555	4,864	5,021	5,158	5,311	17%	3%
Interest on other resources	138	141	98	236	138	0%	-41%
Others	395	468	579	778	588	49%	-24%
Interest Income	37,735	38,076	42,683	45,229	44,919	19%	-1%
Interest expended	15,805	17,272	17,965	20,323	20,486	30%	1%
Net Interest Income	21,930	20,804	24,718	24,906	24,434	11%	-2%
Non-interest income	4,764	10,333	6,291	3,851	5,403	13%	40%
Total Revenue	26,694	31,137	31,009	28,757	29,836	12%	4%
Employee expenses	6,663	6,867	7,274	8,117	8,623	29%	6%
Other Operating expenses	4,502	5,049	5,778	5,017	5,379	19%	7%
Total Operating expenses	11,165	11,916	13,053	13,134	14,002	25%	7%
Operating Profit	15,529	19,222	17,957	15,623	15,834	2%	1%
Provisions	12,797	15,415	7,348	6,021	6,362	-50%	6%
PBT	2,732	3,807	10,609	9,602	9,472	247%	-1%
Tax	640	901	2,526	2,392	2,261	254%	-5%
Net Profit	2,093	2,906	8,083	7,211	7,212	245%	0%

Source: Company, Nuvama Research

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 1,621 branches, 4,598 banking units and 438 ATMs spread across the country.

Investment Theme

Bandhan plans to diversify out of its core competency into highly competitive segments. With low visibility on long-term earnings and no upside triggers, we maintain HOLD. We leave our target multiple unchanged at 1.4x BV FY25E. On lower earnings, our new TP is INR235 from INR242 earlier.

Key Risks

- Asset quality risks in the microfinance portfolio
- High slippage

Additional Data

Management

MD & CEO	Chandra Shekhar Ghosh
Chairman	Anup Kumar Sinha
COO	Ratan Kumar Kesh
CFO	Sunil Samdani
Auditor	M M Nissim & Co LLP

Holdings – Top 10*

	% Holding		% Holding
Caladium Invst	7.78	BNP Paribus	1.27
HDFC Bank	4.31	Kotak Funds	1.16
LIC	3.69	Tata Large Cap	1.06
Aditya Birla Su	2.15	MFs Emerging Mk	1.02
Nippon Life	1.28		

*Latest public data

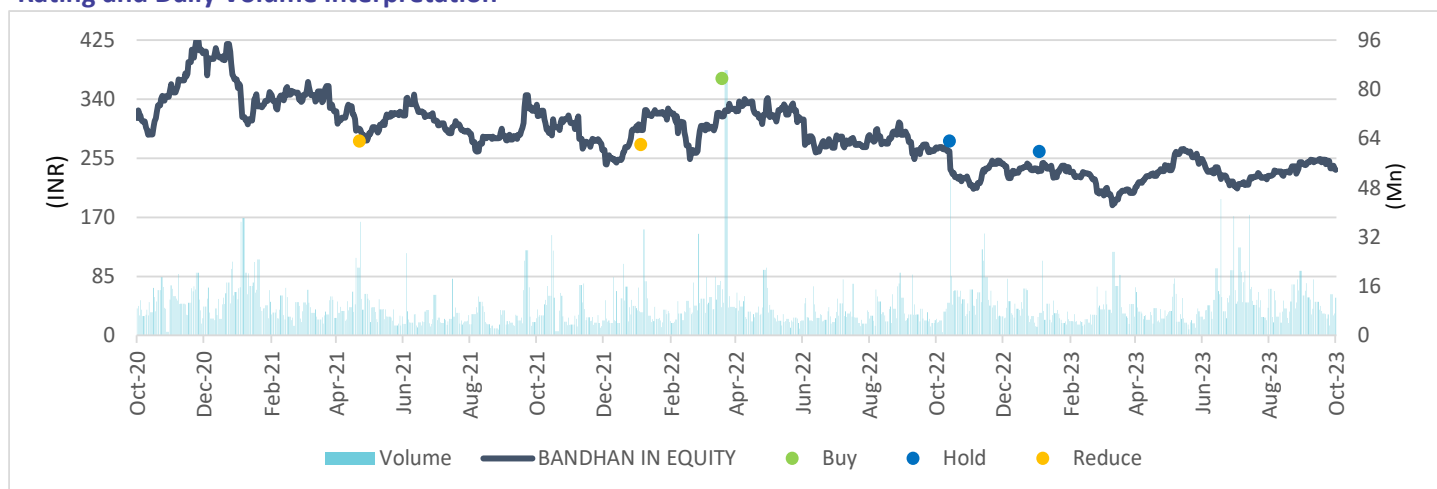
Recent Company Research

Date	Title	Price	Reco
14-Jul-23	Asset quality falls short of expectation; <i>Result Update</i>	222	Hold
19-May-23	Earnings rebound sharply; <i>Result Update</i>	238	Hold
20-Jan-23	Asset quality rebounds; <i>Result Update</i>	237	Hold

Recent Sector Research

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

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	60
Reduce	<-5%	17

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