

CMP: INR 238

Rating: ACCUMULATE

Target Price: INR 274

Stock Info

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	16.1
Mkt Cap (INR Bn)	383
52w H/L (INR)	275/ 182
Avg Yearly Vol (in 000')	9444

Shareholding Pattern %

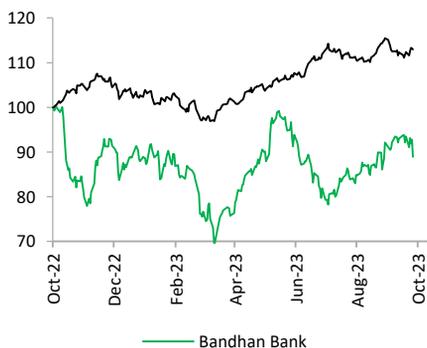
(As on September, 2023)

Promoters	39.99
Public & Others	60.01

Stock Performance (%)

	1m	6m	12m
Bandhan Bank	-3.1	12.03	-11.7
Nifty 50	-2.2	11.5	12.6

Bandhan Bank Vs Nifty 50



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Bandhan Bank has reported weak performance during Q2FY24 on most parameters. Bank has reported profit of INR 7.21 bn (244% YoY/flat QoQ). NII increased marginally on an annual basis (11.4% YoY/ down -1.9% QoQ) to INR 24.4 bn as compared to our estimate of INR 2,54 bn. NII growth was impacted due to lower growth of Microfinance book. NIMs were stable at 7.2% sequentially. The bank expects NIM to remain steady at around 7% in FY24. Operating profit of the bank increased only slightly by 2% YoY/1.4% QoQ at INR 1.58 bn. Asset quality of the bank deteriorated during the quarter as GNPA increased by 56bps QoQ at 7.32% due to higher slippages than anticipated.

Loan growth was impacted due to pale growth seen in EEB (Emerging Entrepreneurs Business) portfolio:

Total advances grew from INR 958 bn in Q2FY23 to INR 1,078 Bn in Q2FY24 (up 5.7% QoQ, up 12.6% YoY). This sluggish growth in advances is primarily because of two reasons: Firstly, Bandhan bank is growing its retail and commercial books at a faster rate while checking the growth of the EEB (Microfinance books). Hence, their AUM Portfolio mix is seeing the EEB mix shrinking against the secured books. During the last quarter, company had slippages of INR 13.2 bn, of which EEB contributed INR 10 bn. Now, with the EEB book shrinking in the overall Portfolio mix, and the percentage mix of the retail and the commercial book still not of comparable size, the bank's overall loan book growth looked stalled during the quarter.

Asset quality deteriorated:

GNPA/ NNPA for Q2FY24 came at 7.32%/2.32% (6.76%/2.18% in Q1FY24). The increase in NPAs was primarily because of **change in classification norms**. Earlier, **ECLGS guaranteed advances which defaulted** were not required to be classified as NPA, but after RBI IRAC circular dated 1st April 2023, **they have to be classified as NPA**, which in turn led to an increase in NPAs. Irrespective, their **provisions reduced by 50.3% YoY to INR 6.36 bn** (up 5.7% sequentially).

Increase in slippages and decline in recoveries:

Slippages increased to INR 13.6 Bn in Q1FY24 (up 21% QoQ, up 20% YoY). Out of total slippages, **INR 10 bn (INR 9 bn previous quarter) came from the EEB book**, which arised due to the seasonality in their key markets of West Bengal and Assam. Recovery made during the quarter came at INR 2.46bn (**which was also lower than the recovery of INR 2.8 bn in Q1FY24**). However, as is the nature of the EEB business, the recoveries are expected to increase substantially in the H2FY24 , specially in Q4FY24.

Increase in the Cost to Income Ratios along with softening of NIMs and rise in Credit Costs:

Bandhan Bank's NIMs softened further to 7.2% (down 10 bps from Q1FY24) while the Cost of Funds increased by 100 bps YoY to 6.5%. The addition of 80 new branches to gain more market opportunities in the retail customer segment, the Cost to Income ratio increased to 46.9% (510 bps YoY/ 126 bps QoQ). Additionally the Credit Cost bumped up on account of the slippages and low recoveries to 2.5% from 2.4% in Q1FY24.

Valuation & View: With the Bandhan Bank Management trying to achieve around 50% of the Portfolio mix made up with the secured books from earlier high yield generating EEB business, that too with healthy composition of mortgage loans in it, we don't see Profitability of the bank improving much in the next couple of years. However, with the bank increasing their branches and shifting to new core banking platform to target more retail loans in the mix, there arises some hope for the Profitability to increase after some time. Hence, we revise our estimates downwards along with change in ratings to Accumulate on the stock with a TP of INR 274, based on 1.4x FY26E ABV of Rs 196 per share.

Q2FY24 result Snapshot

Income Statement (INR Mn.)	Q2 FY24	Q1 FY24	Q2 FY23	Q-o-Q	Y-o-Y
Interest Income	44,919	45,229	37,735	-0.7%	19.0%
Interest Expense	20,486	20,323	15,805	0.8%	29.6%
Net Interest Income	24,434	24,906	21,930	-1.9%	11.4%
Non Interest Income	5,403	3,851	4,764	40.3%	13.4%
Total Income	29,836	28,757	26,694	3.8%	11.8%
Employee Costs	8,623	8,117	6,663	6.2%	29.4%
Other Operating Expenses	5,379	5,017	4,502	7.2%	19.5%
Operating Expenses	14,002	13,134	11,165	6.6%	25.4%
Pre-Provision Profit	15,834	15,623	15,529	1.4%	2.0%
Provisions	6,362	6,021	12,797	5.7%	-50.3%
Profit Before Tax	9,472	9,602	2,732	-1.4%	246.7%
Tax Expense	2,261	2,392	640	-5.5%	253.5%
Net Profit	7,212	7,211	2,093	0.0%	244.6%
Balance Sheet Analysis					
Deposits	11,20,792	10,80,693	9,93,700	3.7%	12.8%
CASA Deposits	4,32,000	3,90,700	4,05,200	10.6%	6.6%
CASA (%)	38.5%	36.2%	40.8%	239bps	-223bps
Advances	10,78,695	10,20,277	9,58,300	5.7%	12.6%
Total Assets	15,24,379	15,57,700	13,89,617	-2.1%	9.7%
Capital Adequacy Ratio (%)	19.2%	19.8%	19.4%	-54bps	-16bps
Spread Analysis					
NIM (%)	7.2%	7.30%	7.00%	-10bps	100bps
Asset Quality					
Gross NPA	83,247	78,738	68,539	5.73%	21.46%
Net NPA	25,006	23,652	16,782	5.73%	49.01%
GNPA (%)	7.32%	6.76%	7.19%	56bps	13bps
NNPA (%)	2.32%	2.18%	1.86%	14bps	46bps
Key Ratios					
Cost to Income Ratio (%)	46.9%	45.7%	41.8%	126bps	510bps
C/D Ratio (%)	96.2%	94.4%	96.4%	183bps	-19bps
RoA (%) (annualized)	1.92%	1.92%	0.60%	0bps	132bps

Source: Arian Research, Company Filings

Conference Call Highlights:

Management Guidance:

H2 has always been good for the bank considering the recoveries get higher in the H2, and the DPD also decreases. Hence, Management believes the H2FY24 will be better than H1FY24.

Key Highlights:

- The Bank has shifted to a new core banking system on an Oracle operated platform which is generally used by all major banks. The new system is far more agile and uses data for better customised experiences for customers.
- The QoQ advance growth depicts strong demand across all sectors in the markets.
- Growth in the retail as well as Commercial banking segment is seen the strongest.
- The Housing book is depicting strong 4% QoQ growth.
- Expect to have 50% of the Portfolio from the secured side by the end of FY24.
- Casa ratio increased in the quarter to 38.5% in the quarter.

- **Conference Call Highlights (continued):**
- Added 79 new/net branches, mostly in the northern region during the quarter. New branch addition will be 100-120 per year for the bank going ahead.
- 95% of all transactions are happening digitally.
- Management expects the slippages to come down and recoveries to increase in the H2FY24.
- During the quarter Rs 0.48 bn was recovered from the ARC pool. From hereon the Management expects the recoveries to increase from these pool.
- Out of INR 13.20 bn of slippages, EEB is INR 10 bn, and out of it is INR 0.55 bn from Manipur alone.
- SMA 2 was INR 7.02 bn, which is 0.9 bn.
- Fresh flows from the Standard Pool is INR 5 bn.
- In July and August, the loan book was de-growing, and growth came from the Sept month onwards. Hence, the Interest Income came down for the bank.
- The Bank has increased the Savings deposit rate from this quarter. There was a lot of movement of Savings to Term deposits, that's why the bank increased the Saving deposit rate as well.
- The benefit of the low cost CASA came only from the 2nd half of the quarter.
- The management affirms that they did not intended to reduce the EEB book mix of the total loan book, but was to increase the secured book faster which would itself result in the EEB mix reducing of the total.
- From the next quarter the bank is expecting growth to come back as is the seasonality of the business, especially EEB book.
- The recovery of Rs 16 bn will not impact the P&L, but come in a separate account in the liabilities, and eventually bring down the NPAs.
- As an organization, the Management says they have tightened the Credit Assessment for customers for eligibility for loans, which is unlike the industry, where Peers are more in favour of relaxing the Credit Assessment.

Key Financials

Income Statement

Particulars (INR Mn)	2021A	2022A	2023A	2024E	2025E	2026E
Interest Income	1,25,242	1,38,711	1,59,047	1,82,409	2,18,922	2,58,751
(-) Interest Expense	-49,609	-51,571	-66,451	-80,362	-99,290	-1,22,766
Total Net Interest Income	75,634	87,140	92,596	1,02,047	1,19,633	1,35,985
Other Income	21,091	28,228	24,686	29,542	32,698	32,060
Total Income	96,724	1,15,368	1,17,282	1,31,589	1,52,330	1,68,045
Total Operating Expenses	28,172	35,234	46,368	49,370	49,191	42,700
Operating Profit	68,553	80,134	70,913	82,219	1,03,139	1,25,345
Provisions	39,066	88,782	46,538	36,377	48,850	60,514
Profit before Tax	29,487	1,286	28,930	45,842	54,288	64,831
Provision for Taxes	7,432	28	6,983	11,552	13,681	16,337
PAT	22,055	1,258	21,946	34,290	40,608	48,494

Balance Sheet

Particulars (INR Mn)	2021A	2022A	2023A	2024E	2025E	2026E
Assets						
Cash and Balances with RBI	52,354	49,426	73,266	1,08,064	1,30,969	1,51,749
Money at call and short notice	9,576	43,788	9,231	9,231	9,231	9,231
Investments	2,51,554	2,90,787	3,23,659	3,37,701	4,09,277	4,74,217
Advances	8,16,129	9,39,749	10,47,568	13,50,802	16,37,106	19,91,711
Fixed Assets	4,867	5,879	8,546	9,204	9,966	10,806
Other Assets	15,451	60,323	95,430	1,14,516	1,37,419	1,64,903
Total Assets	11,49,931	13,89,952	15,57,700	19,29,518	23,33,968	28,02,617
Liabilities						
Capital	16,106	16,108	16,108	16,108	16,108	16,108
Reserves and Surplus	1,57,976	1,57,704	1,79,733	2,14,023	2,54,631	3,03,125
Deposits	7,79,722	9,63,306	10,80,693	13,50,802	16,37,106	18,96,868
Borrowing from other banks	1,69,604	1,99,212	2,47,108	3,20,951	3,92,537	5,45,636
Other liabilities and provisions	26,523	53,622	34,057	27,633	33,585	40,881
Total Liabilities	11,49,931	13,89,952	15,57,700	19,29,518	23,33,968	28,02,617

Source: Arianth Research, Company Filings

Ratios						
Particulars (INR in Mn)	2021A	2022A	2023A	2024E	2025E	2026E
Basic Ratio						
EPS	13.7	0.8	13.6	21.3	25.2	30.1
Book Value per share	108.1	107.9	121.6	142.9	168.1	198.2
Adjusted book value per share	106.3	106.9	120.2	141.0	166.0	195.5
Dividend per share	2.2	2.8	3.4	0.0	0.0	0.0
Asset Quality						
Gross NPAs	6.8%	6.4%	5.7%	4.5%	4.6%	4.7%
Net NPAs	3.5%	1.7%	2.2%	2.4%	2.2%	2.3%
PCR	48.5%	80.0%	65.0%	50.0%	55.0%	55.0%
Profitability Ratio						
RoAE	13.5%	0.7%	11.9%	16.1%	16.2%	16.4%
RoAA	2.1%	0.1%	1.5%	2.0%	1.9%	1.9%
NIMs (as calculated)	7.9%	7.4%	7.0%	6.6%	6.4%	6.0%
Valuation						
P/E (x)	17.2	302.2	17.3	11.1	9.4	7.8
P/BV (x)	2.2	2.2	1.9	1.7	1.4	1.2
P/ABV (x)	2.2	2.2	2.0	1.7	1.4	1.2

Analysis						
Particulars (INR Mn)	2021A	2022A	2023A	2024E	2025E	2026E
Spread Analysis						
Yield on advances	14.0%	13.7%	14.7%	12.9%	12.8%	12.5%
Yield on investments	5.8%	6.0%	6.0%	6.0%	6.0%	6.0%
Cost of deposits	4.6%	4.0%	4.1%	3.9%	3.9%	3.9%
Cost of funds	6.2%	5.2%	5.3%	5.3%	5.3%	5.4%
Spread	5.6%	6.3%	6.9%	5.8%	5.7%	5.4%
Growth (%)						
Advances growth	24.9%	15.1%	11.5%	28.9%	21.2%	21.7%
Deposit growth	36.6%	23.5%	12.2%	25.0%	21.2%	15.9%
Net Profit growth	-27.1%	-94.3%	1644.6%	56.2%	18.4%	19.4%
Liquidity						
Advances to deposit ratio	104.7%	97.6%	96.9%	100.0%	100.0%	105.0%
CASA	43.4%	44.0%	44.0%	35.2%	29.0%	25.1%
CET 1 Ratio	23.5%	17.9%	17.7%	16.7%	16.3%	16.1%
Efficiency						
Cost-to-income	29.1%	30.5%	39.5%	37.5%	32.3%	25.4%

Source: Arianth Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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