

BUY**TP: Rs 276 | ▲ 16%****BANDHAN BANK**

| Banking

| 12 December 2023

Thrust on secured business to aid asset health

- Expect 19% credit and deposit CAGR over FY23-FY25 on retail-led growth and targeted increase in secured book
- Geographical diversification and digital transformation likely to aid PPOP margin
- We model for 40% PAT CAGR over FY23-FY25 and assume coverage with BUY for a TP of Rs 276 (1.9x FY25E ABV)

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Secured retail/commercial loans to fuel growth: Bandhan Bank aims to have 50% of its loan book from the secured retail and commercial business by FY26 as against 44% now. This should support guided loan growth of 20% over FY23-FY26 and provide much-needed stability to asset quality. Further, the bank's initiatives toward product and geographical diversification are likely to reduce concentration risk and could improve asset health. Baking in competitive pressures, we model for a 19% CAGR in both credit and deposits through to FY25. CASA is estimated at 40% by FY25 (38.5% in Q2FY24).

NIM to improve but C/I to remain high: The bank is guiding for another 20-25bps rise in deposit cost during H2FY24, which may offset gains from higher yields, but has retained NIM guidance at 7-7.5% for FY24. It expects to derive cost efficiencies following the recent digital transition and a slower pace of branch opening, with guidance of a cost-to-asset ratio of 3.5% vs. 3.7% in Q2FY24. We model for a 16% NII CAGR through to FY25 with C/I ratio improving to 43% by FY25 from 47% in Q2.

Asset quality a key monitorable: Although Bandhan's asset quality has improved post Covid, its SMA-0,1 and 2 books still hover around the 3-4% mark. Management is guiding for a substantial pick-up in recoveries (CGFMU and ECLGS), but we believe this would require a structural change in approach towards asset quality and remains a key monitorable. We factor in slippages of 5.4%/4.5% for FY24/FY25 (vs. +10% in the last 3Y and ~6% in H2FY24), leading to GNPA of 6.8%/5.9% and NNPA of 2.0%/1.8% (vs. 7.3%/2.3% in Q2FY24). Credit cost is guided at 2% (+/-20bps) for FY24, but we conservatively factor in figures of 2.2% each for FY24/FY25.

BUY, TP Rs 276: Baking in gradual improvement in both operational costs and asset quality, we forecast a PAT CAGR of 40% for Bandhan over FY23-FY25, albeit on a lower base, with ROA/ROE rising to 2.2%/17.4% in FY25. Considering sustainable growth and margins coupled with gradual improvement in the asset base, we assume coverage with a BUY rating, valuing stock at 1.9x FY25E ABV using the Gordon growth model. The extension of MD & CEO Chandra Shekhar Gosh's tenure for three years, subject to RBI approval, would lend added comfort on growth, in our view.

Key changes

Target	Rating
▼	▲

Ticker/Price	BANDHAN IN/Rs 238
Market cap	US\$ 4.7bn
Free float	60%
3M ADV	US\$ 25.7mn
52wk high/low	Rs 272/Rs 182
Promoter/FPI/DII	40%/33%/17%

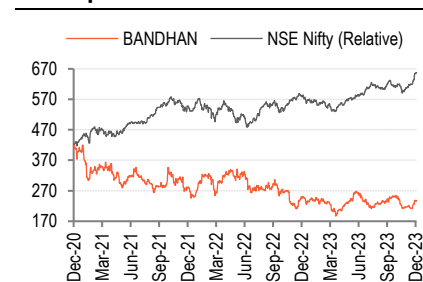
Source: NSE | Price as of 11 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	92,596	104,858	123,791
NII growth (%)	6.3	13.2	18.1
Adj. net profit (Rs mn)	21,946	36,090	42,962
EPS (Rs)	13.6	22.4	26.7
Consensus EPS (Rs)	13.6	21.7	26.8
P/E (x)	17.5	10.6	8.9
P/BV (x)	2.0	1.7	1.4
ROA (%)	1.5	2.1	2.2
ROE (%)	11.9	17.0	17.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Loan book trend

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Group Based	462,700	454,500	465,300	429,200	381,900	359,100	380,600	337,700	357,800	(6.3)	6.0
Growth YoY (%)	(1.0)	(4.9)	(10.0)	(8.5)	(17.5)	(21.0)	(18.2)	(21.3)	(6.3)	1,115bps	1,501bps
Growth QoQ (%)	(1.4)	(1.8)	2.4	(7.8)	(11.0)	(6.0)	6.0	(11.3)	6.0	1,697bps	1,722bps
Individual	77,700	121,100	158,700	152,100	157,300	168,500	187,600	175,300	182,100	15.8	3.9
Growth YoY (%)	154.8	130.2	138.6	141.8	102.4	39.1	18.2	15.3	15.8	(8,668bps)	51bps
Growth QoQ (%)	23.5	55.9	31.0	(4.2)	3.4	7.1	11.3	(6.6)	3.9	46bps	1,044bps
Emerging Entrepreneurs Business (EEB)	540,400	575,600	624,000	581,300	539,200	527,600	568,200	513,000	539,900	0.1	5.2
Growth YoY (%)	8.6	8.5	6.9	9.2	(0.2)	(8.3)	(8.9)	(11.7)	0.1	35bps	1,188bps
Growth QoQ (%)	1.6	6.5	8.4	(6.8)	(7.2)	(2.2)	7.7	(9.7)	5.2	1,249bps	1,496bps
Housing	194,900	209,400	235,600	246,200	258,000	267,300	265,800	269,500	267,500	3.7	(0.7)
Growth YoY (%)	(0.2)	6.1	16.6	27.2	32.4	27.7	12.8	9.5	3.7	(2,869bps)	(578bps)
Growth QoQ (%)	0.7	7.4	12.5	4.5	4.8	3.6	(0.6)	1.4	(0.7)	(553bps)	(213bps)
Retail	10,200	11,300	16,600	18,100	21,600	26,300	55,200	33,700	39,000	80.6	15.7
Growth YoY (%)	39.7	43.0	39.5	61.6	111.8	132.7	232.5	86.2	80.6	(3,121bps)	(563bps)
Growth QoQ (%)	(8.9)	10.8	46.9	9.0	19.3	21.8	109.9	(38.9)	15.7	(361bps)	5,468bps
Commercial Business	71,100	83,700	117,200	120,900	139,500	156,700	202,000	215,500	229,900	64.8	6.7
Growth YoY (%)	8.2	25.3	60.8	81.3	96.2	87.2	72.4	78.2	64.8	(3,140bps)	(1,344bps)
Growth QoQ (%)	6.6	17.7	40.0	3.2	15.4	12.3	28.9	6.7	6.7	(870bps)	0bps
Total AUM	816,600	880,001	993,401	966,501	958,302	977,902	1,091,204	1,031,700	1,076,301	12.3	4.3
Growth YoY (%)	6.6	9.6	14.1	20.3	17.4	11.1	9.8	6.7	12.3	(504bps)	557bps
Growth QoQ (%)	1.6	7.8	12.9	(2.7)	(0.8)	2.0	11.6	(5.5)	4.3	517bps	978bps

Source: Company, BOBCAPS Research

Fig 2 – Loan book distribution

Segment (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Emerging Entrepreneurs Business (EEB)	66.2	65.4	62.8	60.1	56.3	54.0	52.1	49.7	50.2	(610bps)	44bps
Housing	23.9	23.8	23.7	25.5	26.9	27.3	24.4	26.1	24.9	(207bps)	(127bps)
Retail	1.2	1.3	1.7	1.9	2.3	2.7	5.1	3.3	3.6	137bps	36bps
Commercial Business	8.7	9.5	11.8	12.5	14.6	16.0	18.5	20.9	21.4	680bps	47bps
Total AUM	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-	-

Source: Company, BOBCAPS Research

Fig 3 – Deposit trend

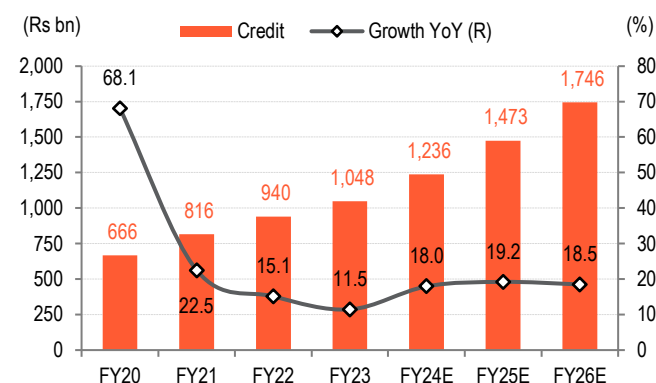
Segment (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
CA	35,700	39,100	54,600	43,700	50,500	47,400	64,200	52,000	62,900	24.6	21.0
Growth YoY (%)	8.8	12.0	19.5	25.2	41.5	21.2	17.6	19.0	24.6	(1,690bps)	556bps
Growth QoQ (%)	2.3	9.5	39.6	(20.0)	15.6	(6.1)	35.4	(19.0)	21.0	540bps	3996bps
SA	329,800	346,200	346,200	358,200	354,700	324,700	360,400	338,700	369,100	4.1	9.0
Growth YoY (%)	49.9	28.1	18.3	20.6	7.6	(6.2)	4.1	(5.4)	4.1	(349bps)	950bps
Growth QoQ (%)	11.0	5.0	0.0	3.5	(1.0)	(8.5)	11.0	(6.0)	9.0	995bps	1500bps
CASA Deposits	365,500	385,300	400,800	401,900	405,200	372,100	424,600	390,700	432,000	6.6	10.6
Growth YoY (%)	44.6	26.2	18.5	21.1	10.9	(3.4)	5.9	(2.8)	6.6	(425bps)	940bps
Growth QoQ (%)	10.1	5.4	4.0	0.3	0.8	(8.2)	14.1	(8.0)	10.6	975bps	1855bps
Term Deposits	453,483	459,700	562,506	528,670	588,458	650,730	656,093	694,100	688,792	17.1	(0.8)
Growth YoY (%)	11.0	13.0	27.4	19.8	29.8	41.6	16.6	31.3	17.1	(1,271bps)	(1,424bps)
Growth QoQ (%)	2.7	1.4	22.4	(6.0)	11.3	10.6	0.8	5.8	(0.8)	(1,207bps)	(656bps)
Total Deposits	818,983	845,000	963,306	930,570	993,658	1,022,830	1,080,693	1,084,800	1,120,792	12.8	3.3
Growth YoY (%)	23.8	18.7	23.5	20.3	21.3	21.0	12.2	16.6	12.8	(853bps)	(378bps)
Growth QoQ (%)	5.9	3.2	14.0	(3.4)	6.8	2.9	5.7	0.4	3.3	(346bps)	294bps

Source: Company, BOBCAPS Research

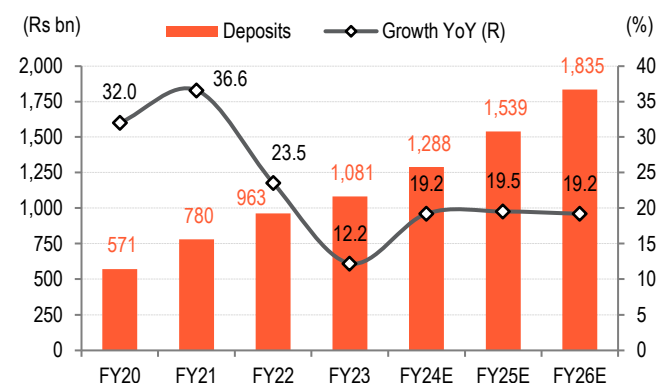
Fig 4 – Deposit distribution

Segment (%)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
CASA Deposits	44.6	45.6	41.6	43.2	40.8	36.4	39.3	36.0	38.5	(5.5)	7.0
Term Deposits	55.4	54.4	58.4	56.8	59.2	63.6	60.7	64.0	61.5	3.8	(4.0)
Total Deposits	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	0.0	0.0

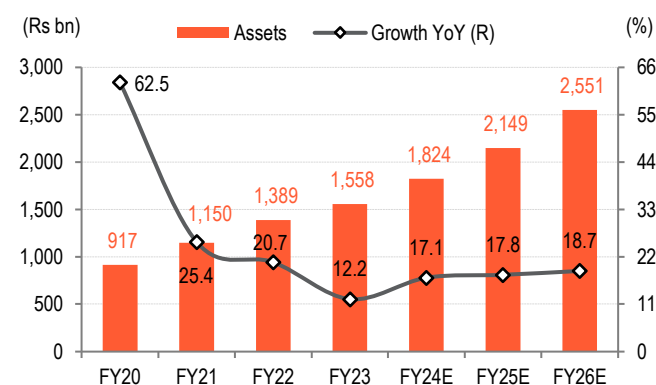
Source: Company, BOBCAPS Research

Fig 5 – Expect 19% credit CAGR for FY23-FY25E

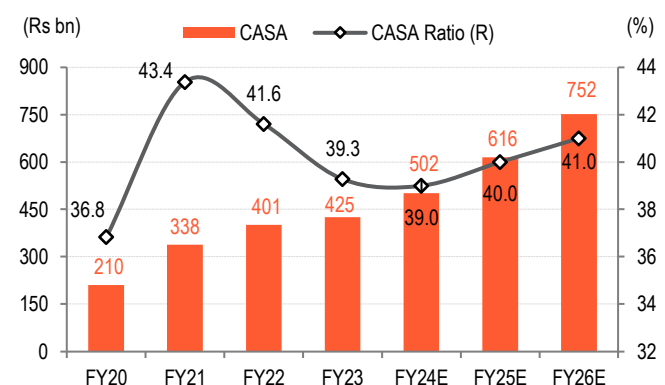
Source: Company, BOBCAPS Research

Fig 6 – Repricing to support deposit growth

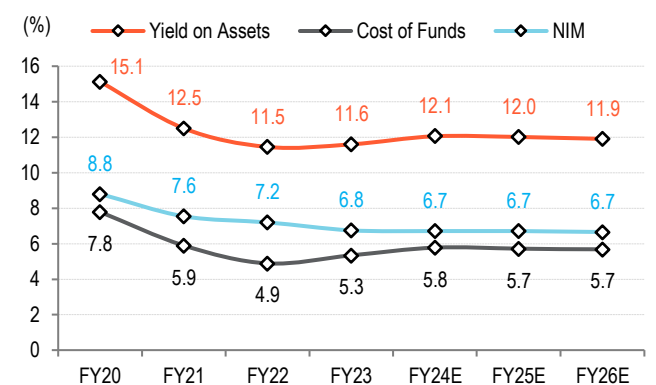
Source: Company, BOBCAPS Research

Fig 7 – Asset growth to stay healthy

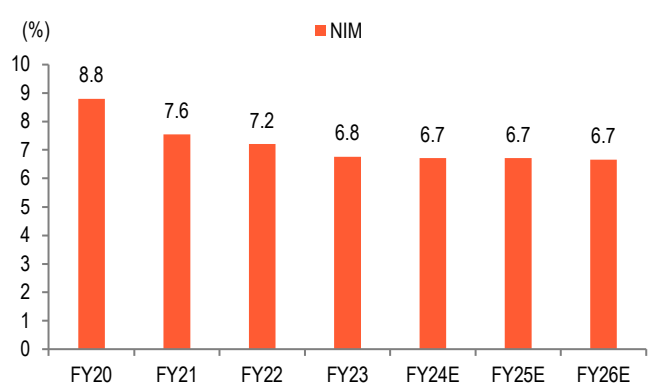
Source: Company, BOBCAPS Research

Fig 8 – Increased SA rate to support CASA mobilisation

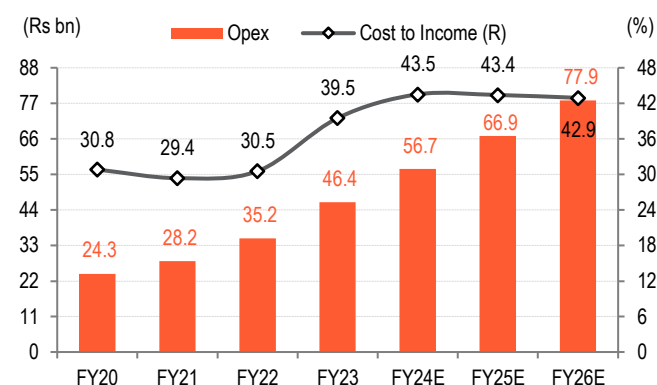
Source: Company, BOBCAPS Research

Fig 9 – Cost of funds rising

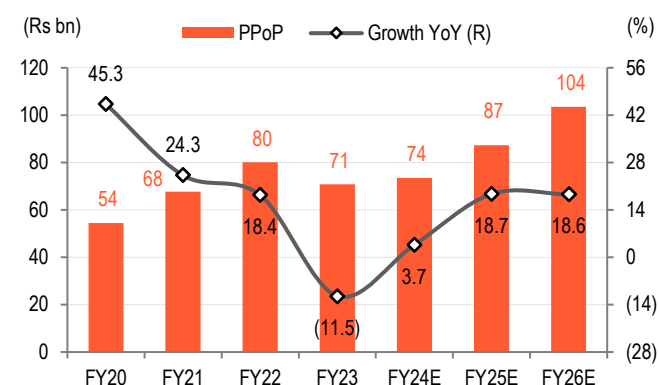
Source: Company, BOBCAPS Research

Fig 10 – NIM (calc.) to remain stable at current level

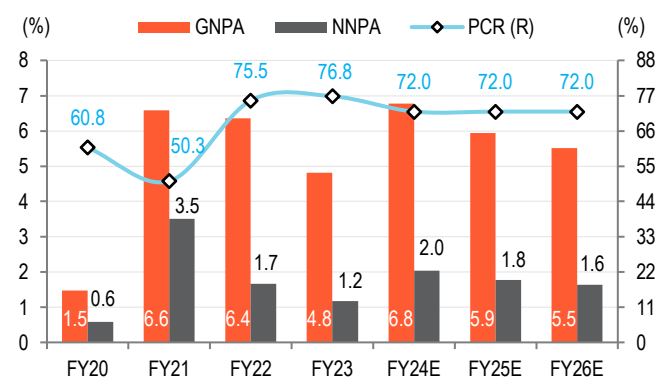
Source: Company, BOBCAPS Research

Fig 11 – Operating cost to moderate over FY23-FY25E

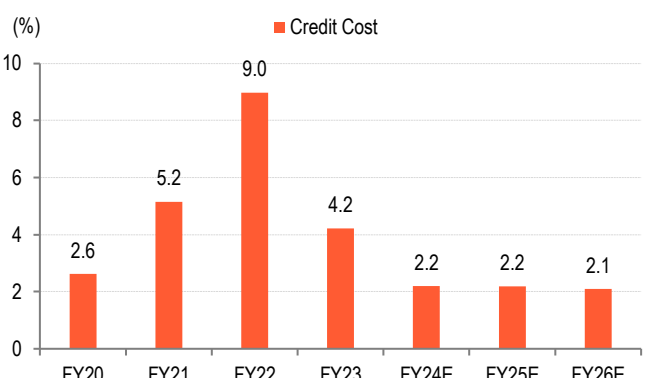
Source: Company, BOBCAPS Research

Fig 12 – PPOP growth to come off a low base

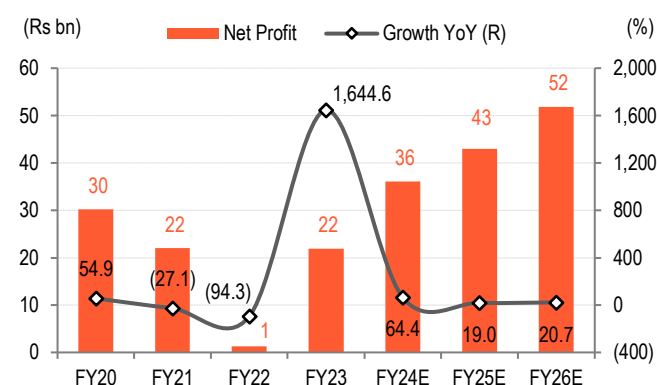
Source: Company, BOBCAPS Research

Fig 13 – Asset quality to improve on higher recoveries

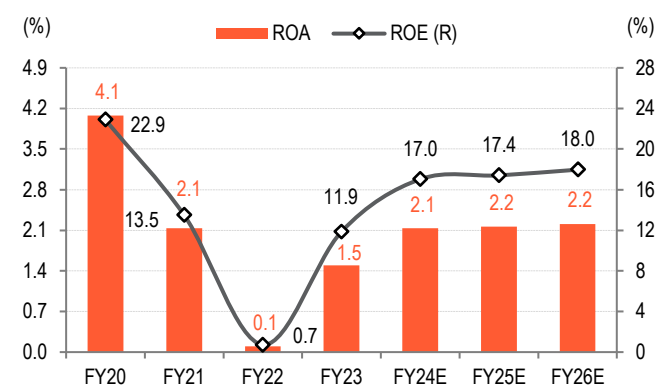
Source: Company, BOBCAPS Research

Fig 14 – Credit cost guided at 2% (+/-20bps) for FY24; we estimate 2.2%

Source: Company, BOBCAPS Research

Fig 15 – Expect a 37% PAT CAGR on low base

Source: Company, BOBCAPS Research

Fig 16 – Return ratios to improve over FY23-FY25E

Source: Company, BOBCAPS Research

Valuation methodology

Key forecasts

Bandhan, in recent earnings commentary, indicated that asset quality – mainly recoveries – will be a focus area along with geographical expansion. The bank is targeting credit growth above 20% for FY24 as it believes H2 is seasonally better than H1. Management also intends to continue ramping up secured assets in the mix, from 38% a year ago and 44% in Q2FY24 to 50% by FY26, but did not indicate any deceleration in the emerging entrepreneur's business (EEB).

Considering the competitive intensity in the retail and microfinance businesses along with the bank's leadership position, we factor in a 19% loan CAGR over FY23-FY25 (vs. guidance of 20%). On the liability side, we expect upward deposit repricing and the bank's decision to increase the savings account rate to aid a deposit CAGR of 19% over our forecast period. On the NII front, we pencil in a 16% CAGR while non-interest income is projected to post an 11% CAGR over FY23-FY25.

Management expects the cost of funds to rise 20-25bps over the next two quarters and is guiding for NIM (reported) of 7-7.5% in FY24 vs. 7.2% in Q2FY24. The cost to asset ratio is guided at 3.5% for the year as the bank expects operational costs to moderate on the back of (a) lower technology costs now that a bulk of IT transformation is complete, and (b) moderation in network addition to 100-120 branches per year. We factor in a C/I ratio of 43% for FY24/FY25 vs. the current 47%. PPOP is forecast to log an 11% CAGR over FY23-FY25.

Better collection efficiency has resulted in a reduction in the SMA-0,1 and 2 pool to Rs 22.6bn in Q2FY24 from Rs 28bn in Q1FY24, but increased slippages have prevented substantial improvement in asset quality. Management is confident of improved recovery and limited slippages, guiding for credit cost of 2% (+/- 20bps) for FY24. We conservatively factor in figures of 2.2% each for FY24/FY25 – the upper end of the industry average. Baking in continued slippages, we estimate GNPA of 6.8%/5.9% and NNPA of 2.0%/1.8%. PCR was at 72% as of H1FY24 which the bank believes is adequate.

Bandhan is well capitalised with CAR of 19.2% (tier-1 at 18.2%) as of Sep'23, and we estimate healthy levels of 19.1%/18.9% over FY24/FY25. We expect a PAT CAGR of 40% for the bank over FY23-FY25 on a lower base as higher credit costs dragged down profitability in the past two years. With improving profitability, we pencil in higher ROA of 2.1%/2.2% and ROE of 17%/17.4% over FY24/FY25.

BUY, TP Rs 276

Bandhan has seen substantial weakness in asset quality over the last 6-8 quarters, though we did note a slight moderation in fresh stress buildup during H1FY24. Continued improvement would be a key monitorable. We expect a healthy 19% CAGR in both credit and deposit growth over FY23-FY25. Clarity on management succession for the next three years (subject to RBI approval) would lend added comfort in terms of achieving targeted growth and profitability.

Bandhan is trading at 1.6x FY25E P/ABV. Using the Gordon Growth Model, we value the stock at 1.9x FY25E ABV for a TP of 276 and assume coverage with BUY considering sustainable growth and margins coupled with gradual improvement in the asset base.

Fig 17 – Key operational assumptions

Parameter (%)	FY23A	FY24E	FY25E	FY26E
Advances Growth	11.5	18.0	19.2	18.5
NII Growth	6.3	13.2	18.1	17.5
PPoP Growth	(11.5)	3.7	18.7	18.6
PAT Growth	1,644.6	64.4	19.0	20.7
NIM	6.8	6.7	6.7	6.7
GNPA	4.8	6.8	5.9	5.5
CAR	19.8	19.1	18.9	18.6

Source: Company, BOBCAPS Research

Fig 18 – Key valuation assumptions: Gordon growth model

Particulars (%)	
Cost of equity (%)	12.9
Blended ROE (%)	16.2
Initial high growth period (yrs)	10.0
Payout ratio of high-growth phase (%)	30.0
Long-term growth (%)	6.5
Long term dividend payout ratio (%)	60.0
Justified P/BV Multiple (x)	1.9
Implied BVPS (Rs)	149
Value per share (Rs)	276

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- inability of the bank to manage cost of funds, leading to margin compression, and
- inability to manage the credit cycle.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	41.8	1,117	1,155	BUY
Bandhan Bank	BANDHAN IN	4.7	238	276	BUY
DCB Bank	DCBB IN	0.5	128	144	BUY
Federal Bank	FB IN	4.0	154	180	BUY
HDFC Bank	HDFCB IN	151.5	1,651	1,929	BUY
ICICI Bank	ICICIB IN	86.4	1,017	1,090	BUY
Indusind Bank	IIB IN	14.4	1,522	1,755	BUY
Kotak Mahindra Bank	KMB IN	44.6	1,844	2,007	BUY
RBL Bank	RBK IN	2.0	277	258	HOLD
State Bank of India	SBIN IN	66.7	614	747	BUY

Source: BOBCAPS Research, NSE | Price as of 11 Dec 2023

Glossary

Glossary of Abbreviations			
AUCA	Advance Under Collection Account	LAP	Loans against Property
ARC	Asset Reconstruction Company	LCR	Liquidity Coverage Ratio
BRDS	Bills Rediscounting Scheme	MCLR	Marginal Cost of Funds-based Lending Rate
CAR	Capital Adequacy Ratio	MFI	Microfinance Institution
CASA	Current Account and Savings Account	MTM	Mark to Market
CD	Credit-Deposit Ratio	NII	Net Interest Income
CET1	Common Equity Tier 1	NIM	Net Interest Margin
CGFMU	Credit Guarantee Fund for Micro Units	NNPA	Net Non-Performing Assets
C/I	Cost-Income Ratio	PCR	Provision Coverage Ratio
CRB	Commercial and Rural Banking	PPOP	Pre-Provision Operating Profit
EBLR	External Benchmark-based Lending Rate	PSU	Public Sector Unit
ECL	Expected Credit Loss	RWA	Risk-weighted Assets
ECLGS	Emergency Credit Line Guarantee Scheme	SLR	Statutory Liquidity Ratio
GNPA	Gross Non-Performing Assets	SMA	Special Mention Account
IBPC	Interbank Participation Certificate	SME	Small and Medium-sized Enterprises

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	87,140	92,596	104,858	123,791	145,482
NII growth (%)	15.2	6.3	13.2	18.1	17.5
Non-interest income	28,228	24,686	25,365	30,395	35,955
Total income	115,368	117,282	130,223	154,186	181,437
Operating expenses	35,234	46,368	56,700	66,907	77,927
PPOP	80,134	70,913	73,523	87,279	103,510
PPOP growth (%)	18.4	(11.5)	3.7	18.7	18.6
Provisions	78,848	41,984	25,121	29,535	33,805
PBT	1,286	28,930	48,402	57,744	69,705
Tax	28	6,983	12,312	14,783	17,845
Reported net profit	1,258	21,946	36,090	42,962	51,861
Adjustments	0	0	0	0	0
Adjusted net profit	1,258	21,946	36,090	42,962	51,861

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity capital	16,108	16,108	16,108	16,108	16,108
Reserves & surplus	157,704	179,733	211,492	249,299	294,936
Net worth	173,812	195,842	227,601	265,407	311,045
Deposits	963,306	1,080,693	1,288,186	1,539,383	1,834,944
Borrowings	199,212	247,108	281,950	319,168	357,468
Other liab. & provisions	52,336	34,057	26,629	24,830	47,781
Total liab. & equities	1,388,665	1,557,700	1,824,367	2,148,787	2,551,238
Cash & bank balance	93,214	82,497	102,099	117,627	145,433
Investments	290,787	323,659	373,834	437,158	516,498
Advances	939,749	1,047,568	1,236,130	1,473,467	1,746,058
Fixed & Other assets	64,916	103,976	112,304	120,536	143,249
Total assets	1,388,665	1,557,700	1,824,367	2,148,787	2,551,238
Deposit growth (%)	23.5	12.2	19.2	19.5	19.2
Advances growth (%)	15.1	11.5	18.0	19.2	18.5

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
EPS	0.8	13.6	22.4	26.7	32.2
Dividend per share	0.0	1.5	2.7	3.2	3.9
Book value per share	107.9	121.6	141.3	164.8	193.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
P/E	304.7	17.5	10.6	8.9	7.4
P/BV	2.2	2.0	1.7	1.4	1.2
Dividend yield (%)	0.0	0.6	1.1	1.3	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Net interest income	6.9	6.3	6.2	6.2	6.2
Non-interest income	2.2	1.7	1.5	1.5	1.5
Operating expenses	2.8	3.1	3.4	3.4	3.3
Pre-provisioning profit	6.3	4.8	4.3	4.4	4.4
Provisions	6.2	2.8	1.5	1.5	1.4
PBT	0.1	2.0	2.9	2.9	3.0
Tax	0.0	0.5	0.7	0.7	0.8
ROA	0.1	1.5	2.1	2.2	2.2
Leverage (x)	7.3	8.0	8.0	8.1	8.2
ROE	0.7	11.9	17.0	17.4	18.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Net interest income	15.2	6.3	13.2	18.1	17.5
Pre-provisioning profit	18.4	(11.5)	3.7	18.7	18.6
EPS	(94.3)	1644.5	64.4	19.0	20.7
Profitability & Return ratios (%)					
Net interest margin	7.2	6.8	6.7	6.7	6.7
Fees / Avg. assets	0.2	0.2	0.2	0.2	0.2
Cost-Income	30.5	39.5	43.5	43.4	42.9
ROE	0.7	11.9	17.0	17.4	18.0
ROA	0.1	1.5	2.1	2.2	2.2
Asset quality (%)					
GNPA	6.4	4.8	6.8	5.9	5.5
NNPA	1.7	1.2	2.0	1.8	1.6
Slippage ratio	11.6	10.3	5.4	4.5	4.5
Credit cost	9.0	4.2	2.2	2.2	2.1
Provision coverage	75.5	76.8	72.0	72.0	72.0
Ratios (%)					
Credit-Deposit	97.6	96.9	96.0	95.7	95.2
Investment-Deposit	30.2	29.9	29.0	28.4	28.1
CAR	20.1	19.8	19.1	18.9	18.6
Tier-1	18.9	18.7	18.1	17.9	17.7

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

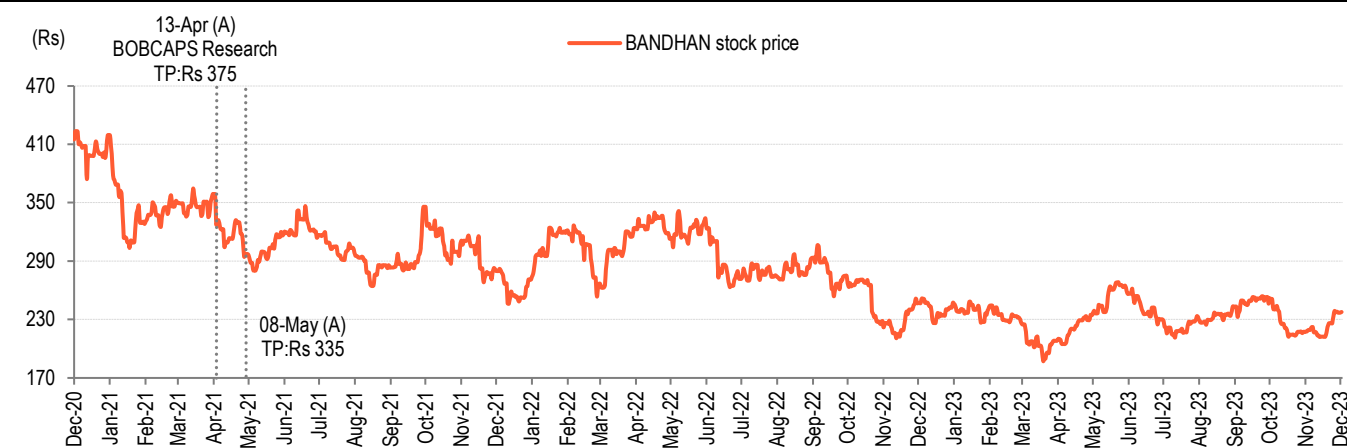
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BANDHAN BANK (BANDHAN IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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