

Bandhan Bank | BUY

Lower other income leads to earnings miss

Bandhan reported profits of INR 8.9bn, +138% YOY (vs JMFe of INR 12.8bn) due to lower other income which was an outcome of lower PSLC income and MTM impact during the quarter. GNPLs inched up by 79bps QoQ to 7.25% driven by lower collections in a seasonally weak quarter which was also impacted by RBI's new microloan norms and Assam floods (in Jun'22). Despite this, overall stress formation –SMA2+fresh slippages was restricted to ~2.4% of EEB loans. Overall stress pool in EEB segment (>30 days overdue + restructured + NPLs) stands at INR 121bn (21% of EEB loans, +170bps QoQ) against which Bandhan holds provisions of 63%. We conservatively build credit costs of 330bps for FY23 (vs management guidance of 2.5%) to factor delayed recoveries in restructured pool (esp. WB) and impact of Assam floods. Also, we have reduced our fee income estimates given impact of RBI's review of Bandhan's PSL eligible assets (PSL assets declined 24% YoY in FY22) and thus leading to Bandhan investing ~INR 33bn in RIDF bonds in FY22 (INR 56.3bn as of Jun22). However, while currently the NIM impact is ~20-25bps, we believe Bandhan has multiple levers to absorb this drag (differential pricing allowed as per RBI's new microloan norms). We are building 24% CAGR in loans over FY22-24E while have lowered growth in core other income to 17%; thus implying a 3-4% cut in our EPS estimates for FY23/FY24E and we now forecast avg. ROEs of 23.5% over FY23-24E. Our TP for Bandhan is INR 440. Maintain BUY.

- **Multiple issues mar collections in a seasonally weak quarter:** Slippages were elevated at INR 11.25bn (6.2% annualised of loans) with INR 9bn from EEB segment of which INR 3.15bn slippages were from restructured pool. Collections were impacted primarily in the restructured pool and also due to Assam floods (in Jun'22). Collection efficiency (ex restructured ex NPL) declined to 97% in Jun'22 vs 99% in Mar'22. Management indicated that CE in Assam should be back to normalised levels by Sep'22. Overall stress pool in EEB segment (>30 days overdue + restructured + NPLs) stands at INR 121bn (21% of EEB loans, +170bps QoQ) against which Bandhan holds provisions of 63%. We conservatively build credit costs of 330bps for FY23 (vs management guidance of 2.5%) to factor delayed recoveries in restructured pool (esp. WB) and impact of Assam floods. Repayments from stress pool and payouts from Govt. schemes will further reduce eventual losses.
- **Growth recovery to accelerate in 2HFY23:** Bandhan's AUM degrew by 2.7% QoQ on account of -6.8% QoQ growth in MFI book, though non-MFI growth was healthy at +4.3% QoQ. MFI book degrew on account of a) seasonality, b) new MFI regulations leading to lower disbursements and c) Assam floods. However, management expects growth to pick-up from 2HFY23 onwards and expects FY23E loan growth at +20% YoY. Bank's deposit franchise remains robust with growth of +20% YoY. CASA stood at 43.2% (+160bps QoQ) while retail deposits stood at 78%. PPOP degrew by 7% YoY on account of a) 70bps QoQ decline in NIMs to 8.0%, b) lower non-interest income due to lower PSLC income and MTM losses on invt. book and c) elevated opex (+32% YoY).
- **Valuation and view:** While Bandhan's current stress levels are high, adequate cushions exist (provision cover and high PPOP levels) to absorb the eventual losses and thus we forecast avg ROE of 23.5% over FY23-24E. Maintain BUY with a TP of INR 440 valuing it at 2.6x FY24E BVPS.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	440
Upside/(Downside)	53.8%
Previous Price Target	440
Change	0.0%

Key Data – BANDHAN IN

Current Market Price	INR286
Market cap (bn)	INR460.7/US\$5.8
Free Float	51%
Shares in issue (mn)	1,610.6
Diluted share (mn)	
3-mon avg daily val (mn)	INR2,250.3/US\$28.2
52-week range	350/230
Sensex/Nifty	56,072/16,719
INR/US\$	79.9

Price Performance

%	1M	6M	12M
Absolute	1.6	-3.2	-6.2
Relative*	-4.5	-0.1	-11.4

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
Net Profit	30,237	22,055	1,122	45,548	59,601
Net Profit (YoY) (%)	54.9%	-27.1%	-94.9%	3,960.5%	30.9%
Assets (YoY) (%)	62.5%	25.4%	20.7%	20.7%	20.5%
ROA (%)	3.6%	2.1%	0.1%	3.0%	3.2%
ROE (%)	21.4%	13.5%	0.6%	23.3%	24.2%
EPS	18.8	13.7	0.7	28.3	37.0
EPS (YoY) (%)	14.8%	-27.1%	-94.9%	3,960.5%	30.9%
PE (x)	15.2	20.9	410.7	10.1	7.7
BV	94	108	108	135	170
BV (YoY) (%)	0.5%	14.5%	-0.2%	25.3%	25.9%
P/BV (x)	3.03	2.65	2.65	2.12	1.68

Source: Company data, JM Financial. Note: Valuations as of 22/Jul/2022

Key Quarterly Trends

Exhibit 1. Bandhan Bank 1Q23: Quarterly Trends

Earnings Table (INR mn)	1Q'22	4Q'22	1Q'23	YoY (%)	QoQ (%)
NII	21,141	25,398	25,144	18.9%	-1.0%
Non-Interest income	6,169	9,644	3,297	-46.6%	-65.8%
Total Income	27,310	35,042	28,441	4.1%	-18.8%
Employee Cost	5,054	5,491	6,346	25.6%	15.6%
Other Operating Expenses	2,684	4,338	3,888	44.9%	-10.4%
Total Operating Expenses	7,739	9,829	10,235	32.3%	4.1%
Operating Profit	19,571	25,214	18,206	-7.0%	-27.8%
Total Provisions	14,609	47	6,424	-56.0%	13516.7%
PBT	4,962	25,167	11,782	137.4%	-53.2%
Tax	1,231	6,143	2,917	136.9%	-52.5%
Reported Profit	3,731	19,023	8,865	137.6%	-53.4%
Balance Sheet (INR bn)					
Deposits	773.4	963.3	930.6	20.3%	-3.4%
Advances	747.7	939.7	908.8	21.6%	-3.3%
Total Assets	1,104.0	1,388.7	1,412.4	27.9%	1.7%
Loan-Deposit ratio (%)	96.7%	97.6%	97.7%	1.0%	0.1%
Credit Quality					
Gross NPAs (INR mn)	64,404	63,800	69,675	8.2%	9.2%
Net NPAs (INR mn)	24,579	15,642	17,491	-28.8%	11.8%
Gross NPA (%)	8.18%	6.46%	7.25%	-0.93%	0.79%
Net NPA (%)	3.29%	1.66%	1.92%	-1.36%	0.26%
Loan Loss Provisions (%)	8.09%	0.02%	3.10%	-4.98%	3.08%
Coverage Ratio (%)	61.8%	75.5%	74.9%	13.1%	-0.6%
Capital Adequacy					
CAR (%)	24.80%	20.10%	19.44%	-5.36%	-0.66%
Du-pont Analysis					
NII / Assets (%)	7.50%	7.81%	7.18%	-0.32%	-0.63%
Non-Interest Inc. / Assets (%)	2.19%	2.97%	0.94%	-1.25%	-2.02%
Operating Cost / Assets (%)	2.75%	3.02%	2.92%	0.18%	-0.10%
Operating Profits / Assets (%)	6.95%	7.75%	5.20%	-1.75%	-2.55%
Provisions / Assets (%)	5.19%	0.01%	1.83%	-3.35%	1.82%
ROA (%)	1.32%	5.85%	2.53%	1.21%	-3.32%

Source: Company, JM Financial

Exhibit 2. Bandhan Bank 1Q23: AUM mix

Advances Break-up (INR bn)	1Q'22	4Q'22	1Q'23	YoY (%)	QoQ (%)
Micro - banking	532.1	624.0	581.3	9.2%	-6.8%
Non-micro banking	271.5	369.4	385.2	41.9%	4.3%
Total Gross Advances	803.6	993.4	966.5	20.3%	-2.7%
Mix (%)					
Micro - banking	66.2%	62.8%	60.1%	-6.1%	-2.7%
Non-micro banking	33.8%	37.2%	39.9%	6.1%	2.7%
Total Gross Advances	100%	100%	100%		

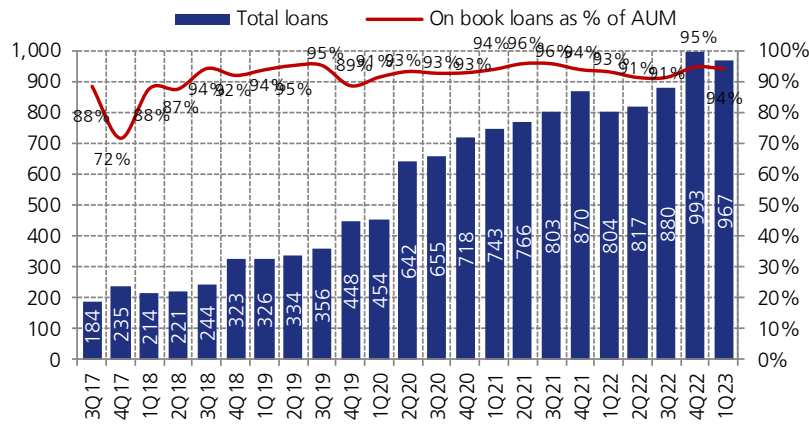
Source: Company, JM Financial

Exhibit 3. Bandhan Bank 1Q23: Deposit mix

Deposits Composition (INR bn)	1Q'22	4Q'22	1Q'23	YoY (%)	QoQ (%)
Current	35	55	44	25.2%	-20.0%
Saving	297	346	358	20.6%	3.5%
CASA	332	401	402	21.1%	0.3%
Time	441	563	529	19.8%	-6.0%
Total Deposits	773	963	931	20.3%	-3.4%
Mix (%)					
Current	4.5%	5.7%	4.7%	0.2%	-1.0%
Saving	38.4%	35.9%	38.5%	0.1%	2.6%
CASA	42.9%	41.6%	43.2%	0.3%	1.6%
Time	57.1%	58.4%	56.8%	-0.3%	-1.6%
Total Domestic Deposits	100%	100%	100%		

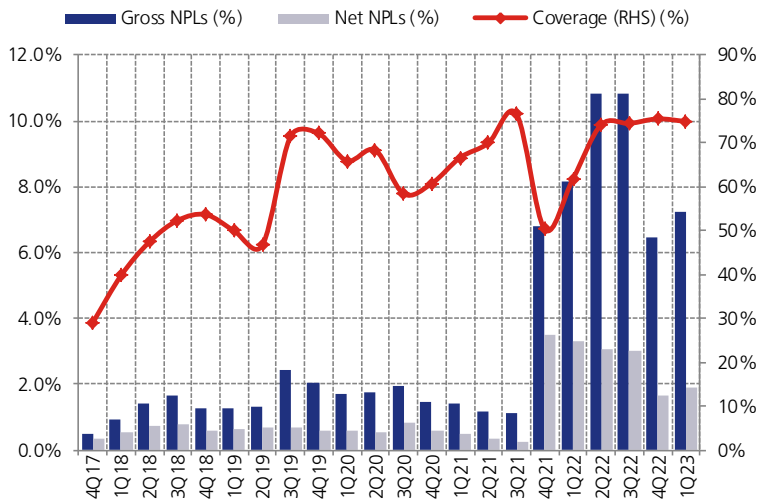
Source: Company, JM Financial

Exhibit 4. Bandhan Bank 1Q23: AUM and on-book loans



Source: JM Financial, Company; merged AUM from 2QFY20

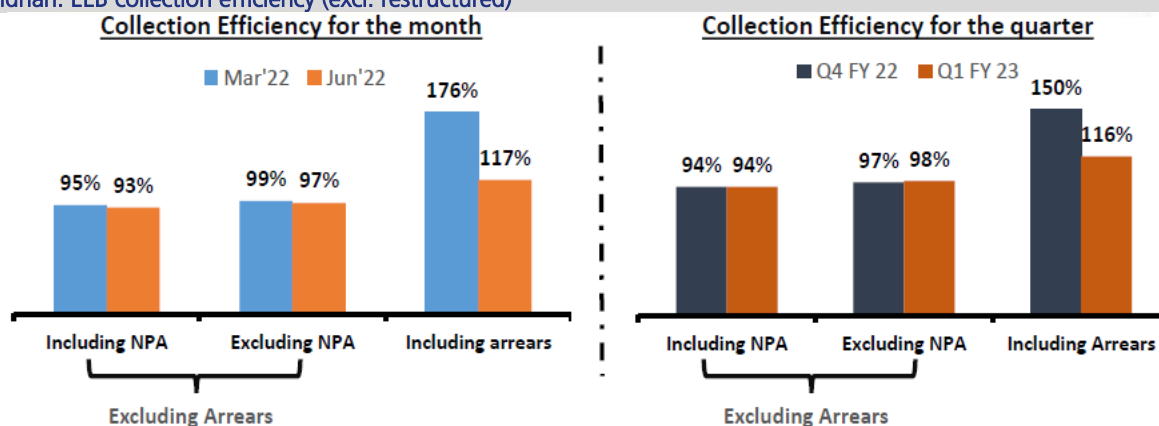
Exhibit 5. Bandhan Bank 1Q23: Asset Quality



Source: Company, JM Financial, merged numbers from 1Q20

Additional disclosures related to Asset Quality

Exhibit 6. Bandhan: EEB collection efficiency (excl. restructured)



Source: Company, JM Financial

Exhibit 7. Bandhan: EEB collection efficiency of key states (excl. restructured)

States	For the month of Mar'22	For the month of Jun'22	For Q4 FY 22	For Q1 FY 23
West Bengal	99%	98%	97%	98%
Assam	98%	93%	93%	95%
Rest of India	99%	98%	97%	98%
Total	99%	97%	97%	98%

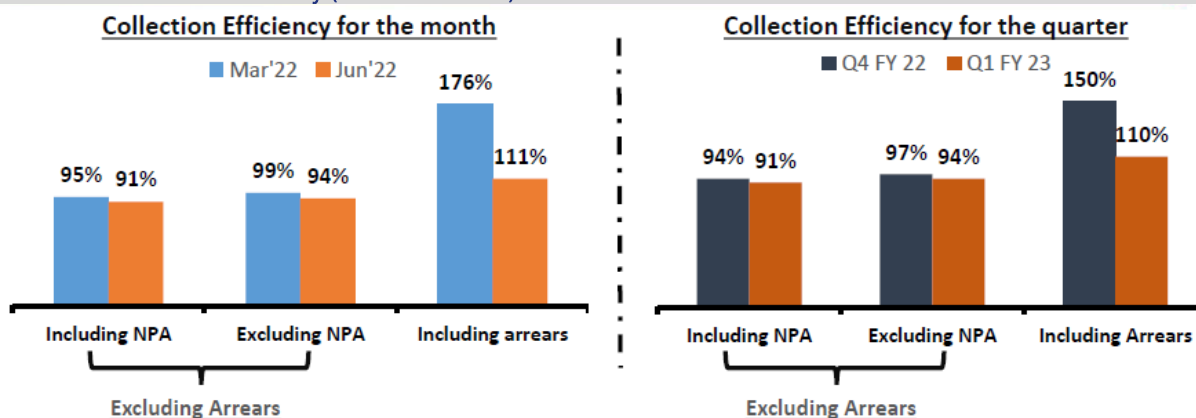
Source: Company, JM Financial

Exhibit 8. Bandhan: EEB customer paying profile (excl. restructured)

Category	For the month of Mar'22		For the month of Jun'22	
	Share of customers	Share of Receivables	Share of customers	Share of Receivables
Full Paying	93%	96%	90%	94%
Partial Paying	3%	3%	5%	5%
Non Paying	4%	1%	5%	1%
Total	100%	100%	100%	100%

Source: Company, JM Financial

Exhibit 9. Bandhan: EEB collection efficiency (incl. restructured)



Source: Company, JM Financial

Exhibit 10. Bandhan: EEB collection efficiency of key states (incl. restructured)

States	For the month of Mar'22	For the month of Jun'22	For Q4 FY 22	For Q1 FY 23
West Bengal	99%	95%	97%	94%
Assam	98%	77%	93%	78%
Rest of India	99%	96%	97%	96%
Total	99%	94%	97%	94%

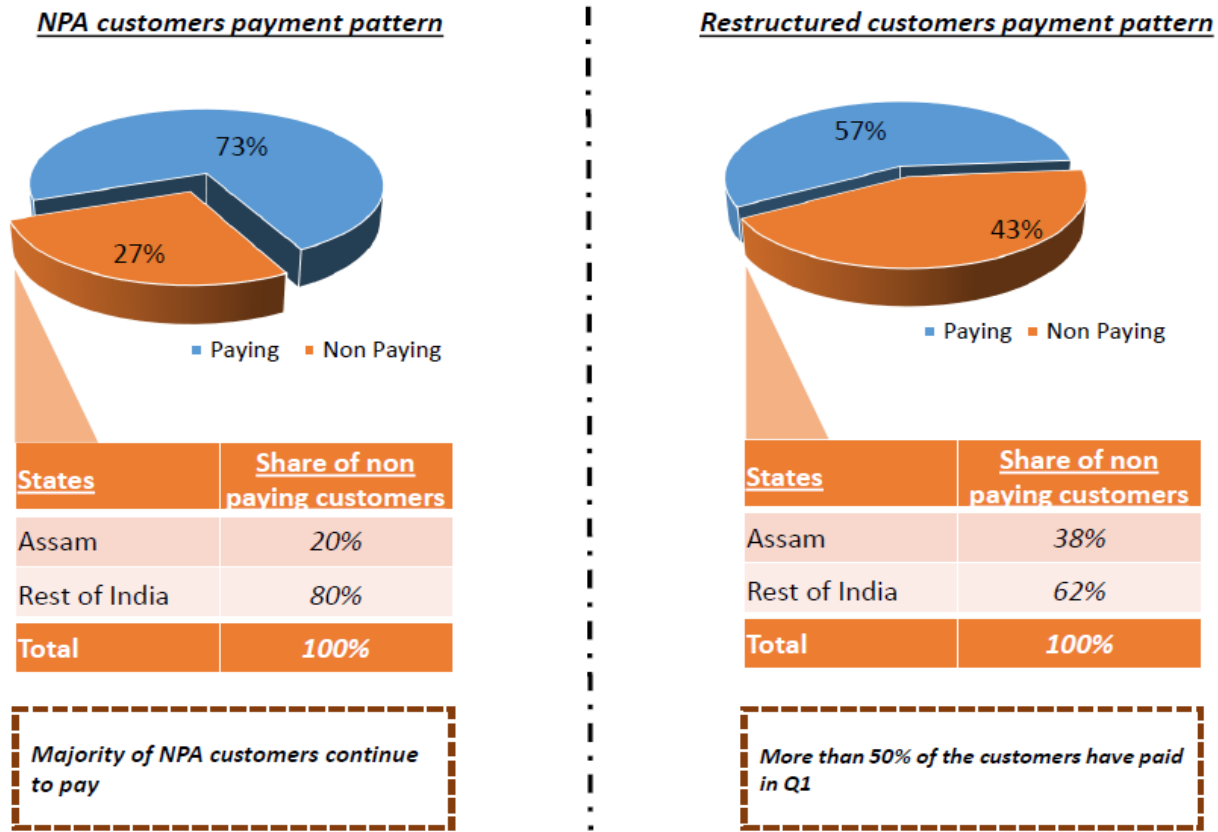
Source: Company, JM Financial

Exhibit 11. Bandhan: EEB customer paying profile (incl. restructured)

Category	For the month of Mar'22		For the month of Jun'22	
	Share of customers	Share of Receivables	Share of customers	Share of Receivables
Full Paying	93%	96%	87%	91%
Partial Paying	3%	3%	6%	6%
Non Paying	4%	1%	7%	3%
Total	100%	100%	100%	100%

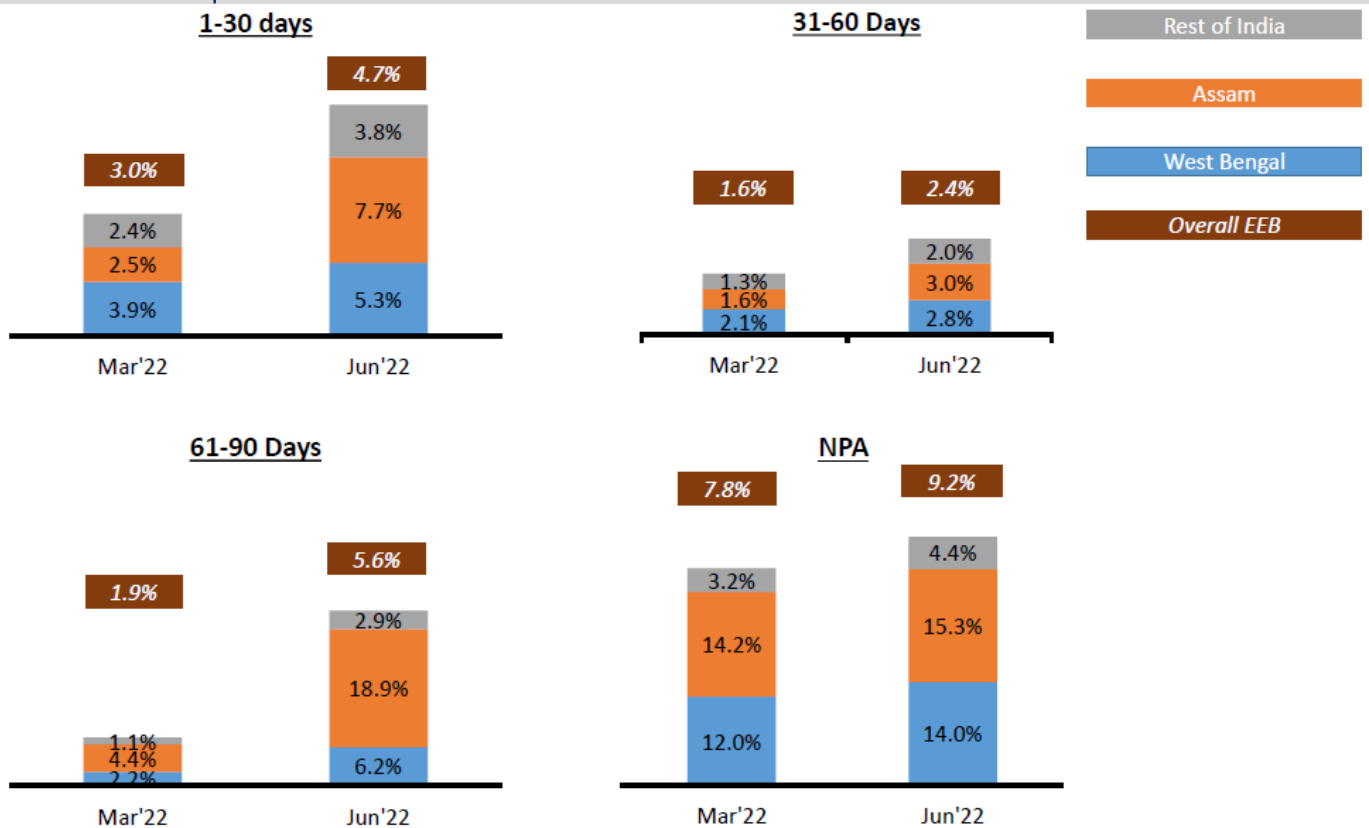
Source: Company, JM Financial

Exhibit 12. Bandhan: EEB NPL and restructured customers payment pattern



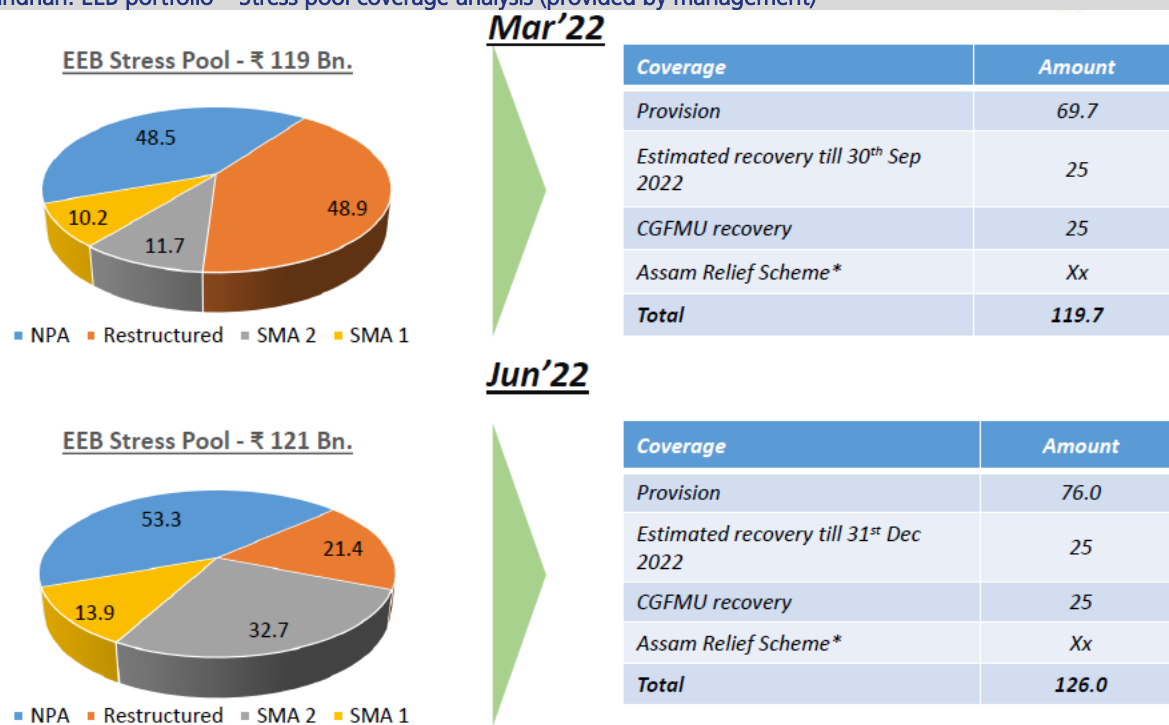
Source: Company, JM Financial

Exhibit 13. Bandhan: EEB portfolio – SMA Position



Source: Company, JM Financial

Exhibit 14. Bandhan: EEB portfolio – Stress pool coverage analysis (provided by management)



Source: Company, JM Financial; amount in INR bn; * amount can't be ascertained today

Financial Tables (Standalone)

Profit & Loss						(INR mn)
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E	
Net Interest Income	63,239	75,634	87,140	109,848	136,049	
Profit on Investments	1,138	2,230	2,775	500	750	
Exchange Income	7	5	6	7	8	
Fee & Other Income	14,347	17,988	25,447	28,880	34,975	
Non-Interest Income	15,492	20,223	28,228	29,387	35,733	
Total Income	78,731	95,856	115,368	139,235	171,782	
Operating Expenses	24,265	28,169	35,371	43,320	52,989	
Pre-provisioning Profits	54,466	67,687	79,998	95,915	118,793	
Loan-Loss Provisions	13,922	37,485	66,986	27,518	34,108	
Provisions on Investments	-92	0	0	0	0	
Others Provisions	102	715	11,862	7,500	5,000	
Total Provisions	13,932	38,201	78,848	35,018	39,108	
PBT	40,534	29,487	1,150	60,897	79,685	
Tax	10,297	7,432	28	15,349	20,084	
PAT (Pre-Extraordinaries)	30,237	22,055	1,122	45,548	59,601	
Extra ordinaries (Net of Tax)	0	0	0	0	0	
Reported Profits	30,237	22,055	1,122	45,548	59,601	
Dividend paid	0	1,611	0	1,611	3,222	
Retained Profits	30,237	20,444	1,122	43,938	56,379	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
Growth (YoY) (%)					
Deposits	32.0%	36.6%	23.5%	24.0%	23.0%
Advances	68.1%	22.5%	15.1%	24.7%	23.1%
Total Assets	62.5%	25.4%	20.7%	20.7%	20.5%
NII	40.7%	19.6%	15.2%	26.1%	23.9%
Non-interest Income	45.7%	30.5%	39.6%	4.1%	21.6%
Operating Expenses	34.0%	16.1%	25.6%	22.5%	22.3%
Operating Profits	45.3%	24.3%	18.2%	19.9%	23.9%
Core Operating profit	43.7%	22.7%	18.0%	23.6%	23.7%
Provisions	89.5%	174.2%	106.4%	-55.6%	11.7%
Reported PAT	54.9%	-27.1%	-94.9%	3,960.5%	30.9%
Yields / Margins (%)					
Interest Spread	6.43%	6.43%	6.42%	6.78%	6.77%
NIM	7.70%	7.44%	7.10%	7.47%	7.56%
Profitability (%)					
Non-IR to Income	19.7%	21.1%	24.5%	21.1%	20.8%
Cost to Income	30.8%	29.4%	30.7%	31.1%	30.8%
ROA	3.62%	2.13%	0.09%	2.97%	3.22%
ROE	21.4%	13.5%	0.6%	23.3%	24.2%
Assets Quality (%)					
Slippages	1.63%	10.40%	11.97%	3.50%	3.25%
Gross NPA	1.48%	6.81%	6.46%	4.25%	3.58%
Net NPAs	0.58%	3.51%	1.66%	1.10%	0.92%
Provision Coverage	60.8%	50.3%	75.5%	75.0%	75.0%
Specific LLP	0.99%	5.84%	5.88%	1.82%	1.87%
Net NPAs / Networth	2.6%	16.4%	9.0%	5.9%	4.8%
Capital Adequacy (%)					
Tier I	25.19%	22.48%	18.89%	20.16%	20.94%
CAR	27.43%	23.47%	20.10%	21.19%	21.79%

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E	
Equity Capital	16,102	16,106	16,108	16,108	16,108	
Reserves & Surplus	135,852	157,976	157,704	201,642	258,021	
Deposits	570,815	779,722	963,306	1,194,500	1,469,235	
Borrowings	163,792	169,604	199,212	209,173	219,632	
Other Liabilities	30,617	26,754	52,336	54,952	57,700	
Total Liabilities	917,178	1,150,162	1,388,665	1,676,374	2,020,694	
Investments	153,518	251,554	290,787	323,501	390,203	
Net Advances	666,299	816,129	939,749	1,171,829	1,441,940	
Cash & Equivalents	83,529	62,283	93,214	121,699	150,133	
Fixed Assets	3,688	4,867	5,879	6,088	6,732	
Other Assets	10,144	15,329	59,037	53,257	31,686	
Total Assets	917,178	1,150,162	1,388,665	1,676,374	2,020,694	

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
NII / Assets	7.58%	7.32%	6.86%	7.17%	7.36%
Other Income / Assets	1.86%	1.96%	2.22%	1.92%	1.93%
Total Income / Assets	9.43%	9.27%	9.09%	9.09%	9.29%
Cost / Assets	2.91%	2.73%	2.79%	2.83%	2.87%
PBP / Assets	6.52%	6.55%	6.30%	6.26%	6.43%
Provisions / Assets	1.67%	3.70%	6.21%	2.28%	2.12%
PBT / Assets	4.86%	2.85%	0.09%	3.97%	4.31%
Tax rate	25.4%	25.2%	2.5%	25.2%	25.2%
ROA	3.62%	2.13%	0.09%	2.97%	3.22%
RoRWAs	5.69%	3.29%	0.14%	4.61%	5.04%
Leverage	6.0	6.6	8.0	7.7	7.4
ROE	21.4%	13.5%	0.6%	23.3%	24.2%

Source: Company, JM Financial

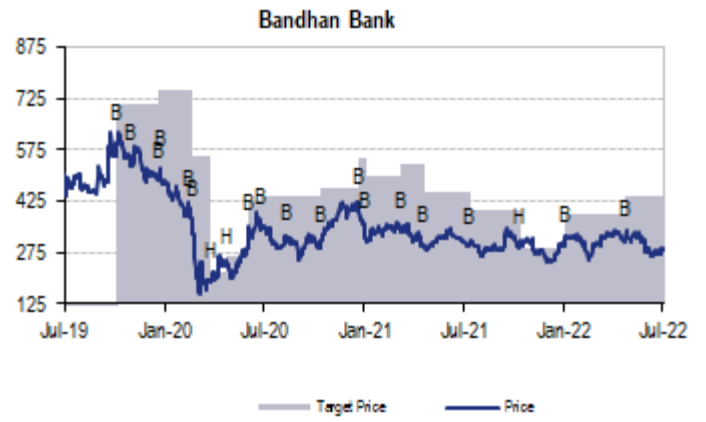
Valuations					
Y/E March	FY20A	FY21A	FY22A	FY23E	FY24E
Shares in Issue	1,610.2	1,610.6	1,610.8	1,610.8	1,610.8
EPS (INR)	18.8	13.7	0.7	28.3	37.0
EPS (YoY) (%)	14.8%	-27.1%	-94.9%	3,960.5%	30.9%
PER (x)	15.2	20.9	410.7	10.1	7.7
BV (INR)	94	108	108	135	170
BV (YoY) (%)	0.5%	14.5%	-0.2%	25.3%	25.9%
ABV (INR)	94	101	108	135	170
ABV (YoY) (%)	-0.3%	7.7%	6.8%	25.3%	25.9%
P/BV (x)	3.03	2.65	2.65	2.12	1.68
P/ABV (x)	3.05	2.83	2.65	2.12	1.68
DPS (INR)	0.0	1.0	0.0	1.0	2.0
Div. yield (%)	0.0%	0.3%	0.0%	0.3%	0.7%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
25-Oct-19	Buy	710	
19-Nov-19	Buy	710	0.0
9-Jan-20	Buy	750	5.6
14-Jan-20	Buy	750	0.0
4-Mar-20	Buy	750	0.0
11-Mar-20	Buy	555	-26.0
13-Apr-20	Hold	220	-60.4
12-May-20	Hold	265	20.5
24-Jun-20	Buy	420	58.5
15-Jul-20	Buy	440	4.8
1-Sep-20	Buy	440	0.0
2-Nov-20	Buy	465	5.7
11-Jan-21	Buy	550	18.3
21-Jan-21	Buy	500	-9.1
30-Mar-21	Buy	535	7.0
8-May-21	Buy	450	-15.9
31-Jul-21	Buy	400	-11.1
31-Oct-21	Hold	290	-27.5
23-Jan-22	Buy	385	32.8
15-May-22	Buy	440	14.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
 Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for large-cap stocks* and REITs and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for large-cap* stocks and REITs and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* Large-cap stocks refer to securities with market capitalisation in excess of INR200bn. REIT refers to Real Estate Investment Trusts.

Research Analyst(s) Certification

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