

Q1FY23 - Result Update 25<sup>th</sup> July 2022

# Bandhan Bank Ltd.

Weak quarter; Margins declined sequentially

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<u> ASIAMONEY</u>

**CMP: INR 285** 

**Rating: Accumulate** 

**Target Price: INR 338** 

Stock Info	
BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Cr)	1,611
Mkt Cap (INR Cr)	45,811
52w H/L (INR)	350/230
Avg Yearly Vol (in 000')	7908

Shareholding Pattern %					
(As on June, 2022)					
Promoters			39.99		
FII			35.64		
DII			7.12		
Public & Others			17.25		
Stock Performance (%)	1m	3m	12m		
Bandhan Bank	0.9	-14.0	-6.8		

8.1

-2.9

5.3



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Nifty 50

Bandhan Bank has reported weak performance during Q1FY23 on asset quality, operating profit, NIM and loan growth front. Bank has reported profit of INR 887 cr (+138% YoY/-53% QoQ) was higher than our estimate of INR 866 cr. NII increased by 19% YoY/-1% QoQ to INR 2,514 cr as compared to our estimate of INR 2,459 cr. NII growth was impacted due to 3% QoQ decline in advances and 70bps QoQ decline in NIM. NIM reduction was mainly due to 40bps reduction in yields and 20bps increase in cost of funds. The bank expects NIM to remain steady at 8% in FY23. Operating profit of the bank decreased by 3% YoY/28% QoQ at INR 1,821 cr, was impacted due to 38% YoY/66% QoQ decline in other income at INR 330 cr. Other income was impacted by MTM loss of INR 79 cr and lower PSLC income. Asset quality of the bank deteriorated during the quarter as GNPA increased by 79bps QoQ at 7.3% due to decline in collection efficiency (primarily in Assam), restructured book came out of moratorium and lower recovery and upgrades.

Loan growth was impacted due to decline in EEB (Emerging Entrepreneurs Business) portfolio: Gross Advances for the quarter grew by 20% YoY and declined by 3% QoQ to INR 96,650 cr. Sequential decline in credit growth was mainly due to EEB portfolio (+9% YoY/-7% QoQ) was impacted due to change in RBI regulations, Assam floods and seasonality impact. Loans excluding EEB portfolio, grew healthy as mortgage segment increased by 27% YoY/4.5% QoQ and commercial banking grew by 81% YoY/3% QoQ. Share of EEB portfolio declined from 63% to 60% on QoQ basis. In line with management's target, Bandhan Bank continues to reduce the share of group EEB loans (~44% in Jun'22 vs. 47% in Mar'22). Bank wants to bring down the share of group EEB group loans to 26% by FY25E. Deposit increased by 20% YoY and declined by 3% QoQ to INR 93,060 cr. CASA ratio increased by 158 bps QoQ at 43.2%.

## Asset quality deteriorated with drop in collection efficiency

Gross slippages of the bank declined by 18% QoQ to INR 1,125 cr, of which INR 908 cr was from EEB pool. Bank has reported lower recovery and upgrades of INR 540 cr (-78% QoQ) as Q1 is seasonally weak in terms of recovery. EEB portfolio GNPA increased from 7.8% to 9.2% sequentially. EEB pool's, 1-90 DPD portfolio increased sharply from 6.5% to 12.7% QoQ as restructured book coming out of moratorium. Overall, EEB stress pool increased from INR 119 bn to INR 121 bn QoQ. Collection efficiency (including NPA & restructured accounts) declined from 94% in Q4FY22 to 91% in Q1FY23 with Assam portfolio saw sharp reduction from 93% in Q4FY22 to 78% in Q1FY23 impacted by flood. West Bengal collection efficiency declined from 97% in Q4FY22 to 94% in Q1FY23. West Bengal EEB portfolio share stood at 40% and Assam share is at 9%.

**Valuation & View:** During Q1FY23, Bandhan Bank has reported deterioration in asset quality due to drop in collection efficiency on account of flood and restructured book coming out of moratorium. Going ahead, performance on EEB portfolio will be keenly watched on loan growth and asset quality side. Performance of the bank on non MFI side was good with strong growth. We reduce our earnings estimate by 21%/8% for FY23/24E to factor in lower other income and increase in provisions. We maintain our Accumulate rating on the stock with a revised TP of INR 338 (earlier INR 363), based on 2.4x FY24E ABV.

#### Q1FY23 result Snapshot

Particulars (Rs in Cr)	Q1FY23	Q1FY22	YoY	Q4FY22	QoQ
Interest Earned	4,055	3,410	18.9%	3,872	4.7%
Interest Expended	1,541	1,296	18.9%	1,332	15.7%
Net Interest Income	2,514	2,114	18.9%	2,540	-1.0%
Other Income	330	533	-38.2%	964	-65.8%
Total income	2,844	2,647	7.4%	3,504	-18.8%
Operating Expenses	1,023	776	31.8%	983	4.1%
Cost-income-ratio	36.0%	29.3%	666bps	28.0%	794bps
Operating Profits	1,821	1,871	-2.7%	2,521	-27.8%
Provisions & Contingencies	642	1,375	-53.3%	5	13516.7%
PBT	1,178	496	137.4%	2,517	-53.2%
Provisions for Tax	292	123	136.9%	614	-52.5%
Effective Tax Rate (%)	25%	25%	NA	24%	1.4%
PAT (reported)	887	373	137.6%	1,902	-53.4%
GNPA	6,968	6,440	8%	6,380	9%
NNPA	1,749	2,458	-29%	1,564	12%
GNPA	7.3%	8.2%	-93bps	6.5%	79bps
NNPA (%)	1.9%	3.3%	-137bps	1.7%	26bps
Advances (On-Book + Off Book)	96,650	80,360	20.3%	99,340	-2.7%
Deposits	93,060	77,340	20.3%	96,330	-3.4%
NIM (%)	8.00	8.13	-13bps	8.70	-70bps
Total CAR (%)	19.4%	26.6%	-718bps	20.1%	-70bps
Tier 1 (%)	18.3%	23.7%	-535bps	18.9%	-60bps
Tier 2 (%)	1.2%	2.9%	-173bps	1.2%	0bps

**Update on Assam portfolio:** Assam flood has impacted business growth and asset quality. The flood in Assam has led to sharp drop in collection efficiency with lower business growth. Bandhan Bank has 9% EEB portfolio share in Assam. Collection efficiency in Assam (including NPA & restructured accounts) declined from 93% in Q4FY22 to 78% in Q1FY23. Management has stated that collection efficiency in Assam is better in July than June and the stress is expected to come down by September end.

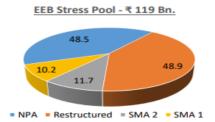
### Conference Call Highlights:

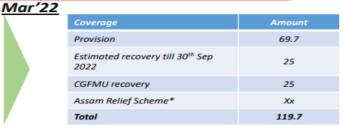
- Management expects loan growth to be in the range of +20% in FY23E, with faster growth in housing and commercial banking segments.
- Growth in the EEB portfolio was impacted due to implementation of new MFI regulations in the first half and it was further impacted by flood in Assam.
- As per management's strategy, share of group MFI loans to reduce from 44% in Q1FY23 to 26% by FY25, with share of retail loans (including mortgage) rising in total loans.
- EEB overall collection efficiency (excluding NPA) declined from 97% to 94% QoQ. 91% of EEB portfolio (including restructured book) is paying full instalments (vs. 96% in Mar '22), while 6% made partial payments in Jun '22.
- Out of the total, INR 121 bn EEB stress portfolio, INR 21.4 bn is restructured accounts and these accounts will come out of the moratorium by Sep'22.
- Management has stated that collection efficiency in Assam is better in July than June and the stress is expected to come down by September end.
- Housing book has restructured loans worth INR 11.7 bn, of which 5% has slipped into NPA.
- Bank expects to receive claim under Assam refund scheme in Q2FY23. Government has announced INR 15 bn towards delinquent pool, within which the bank's share is expected to be 50-60%.
- Bank has made additional provision of INR 340 cr towards stress pool.
- Management stated that Bank had to borrow during Q1FY23 to invest in rural (RIDF) bonds to make up for PSL shortfall of the last year which has impacted NIM by 20-25 bps.

## Exhibit 1: Microfinance portfolio stress pool coverage analysis

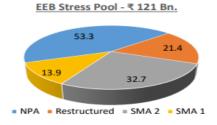
# EEB stress pool coverage analysis







## Jun'22

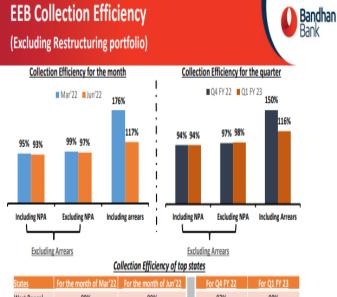


Coverage	Amount
Provision	76.0
Estimated recovery till 31st Dec 2022	25
CGFMU recovery	25
Assam Relief Scheme*	Xx
Total	126.0

\* Amount can't be ascertained today



# **Exhibit 3: Collection efficiency trend**



<u>States</u>	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%	
Customer Paying Profile					

Catanani	For the mon	th of Mar'22	For the month of Jun'22		
Category	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%	

Out of 2% drop in Collection efficiency, 1% is due to floods in Assam and 1% due to seasonality

which is expected to normalize in coming quarters

# **Key Financials**

ncome Statement					Balance Sheet	Ralance Sheet	Ralance Sheet	Ralance Sheet
articulars (Rs in Cr)	2021	2022	2023E	2024E	Particulars (Rs in Cr)			
iterest Income	12524	13871	17267	20152	Assets			
·) Interest Expense	-4961	-5157	-6959	-8462	Cash and Balances with RBI	Cash and Balances with RBI 5235	Cash and Balances with RBI 5235 4943	Cash and Balances with RBI 5235 4943 8772
					Money at call and short	Money at call and short	Money at call and short	Money at call and short
otal Net Interest Income	7563	8714	10308	11690	notice			
ther Income	2109	2823	2529	3198	Investments	Investments 25155	Investments 25155 29079	Investments 25155 29079 27411
otal Income	9672	11537	12837	14888	Advances	Advances 81613	Advances 81613 93975	Advances 81613 93975 109644
otal Operating Expenses	2817	3523	3573	3995	Fixed Assets	Fixed Assets 487	Fixed Assets 487 588	Fixed Assets 487 588 652
perating Profit	6855	8013	9263	10893	Other Assets	Other Assets 1545	Other Assets 1545 5904	Other Assets 1545 5904 7084
rovisions	3907	8878	4671	3946	Total Assets	Total Assets 114993	Total Assets 114993 138867	Total Assets 114993 138867 157942
ofit before Tax	2949	129	4593	6947				
ovision for Taxes	743	3	1157	1751	Liabilities			
AT	2205	126	3435	5197	Capital	·	·	·
					Reserves and Surplus	•	•	•
					Deposits	Deposits 77972	Deposits 77972 96331	Deposits 77972 96331 109644
					Borrowing from other	=		
					banks	banks 16960	banks 16960 19921	banks 16960 19921 25754
itios					Other liabilities and provisions			
articulars	2021	2022	2023E	2024E	Total Liabilities	·	•	·
sic Ratio	2021	2022	20231	20241	Total Liabilities	Total Liabilities 114555	Total Liabilities 114993 130007	Total Liabilities 114555 130007 157542
PS	13.7	0.8	21.3	32.3	Analysis	Analysis	Analysis	Analysis
sook Value per share	108.1	107.9	125.8	158.1	Particulars (Rs in Cr)			
djusted book value per nare	90.3	98.2	111.7	140.9	Spread Analysis	Spread Analysis	Spread Analysis	Spread Analysis
ividend per share	2.2	2.8	3.4	0.0	Yield on advances	Yield on advances 14.0%	Yield on advances 14.0% 13.7%	Yield on advances 14.0% 13.7% 14.7%
					Yield on investments	Yield on investments 5.8%	Yield on investments 5.8% 6.0%	Yield on investments 5.8% 6.0% 6.0%
sset Quality					Cost of deposits	Cost of deposits 4.6%	Cost of deposits 4.6% 4.0%	Cost of deposits 4.6% 4.0% 4.1%
ross NPAs	6.8%	6.4%	5.7%	4.5%	Cost of funds			
et NPAs	3.5%	1.7%	2.2%	2.2%	Spread	Spread 5.6%	Spread 5.6% 6.3%	Spread 5.6% 6.3% 6.8%
CR	48.5%	80.0%	65.0%	55.0%	Growth (%)	Growth (%)	Growth (%)	Growth (%)
					Advances growth	Advances growth 22.5%	Advances growth 22.5% 15.1%	Advances growth 22.5% 15.1% 16.7%
rofitability Ratio					Deposit growth	Deposit growth 36.6%	Deposit growth 36.6% 23.5%	Deposit growth 36.6% 23.5% 13.8%
oAE	13.5%	0.7%	18.2%	22.7%	Net Profit growth	Net Profit growth -27.1%	Net Profit growth -27.1% -94.3%	Net Profit growth -27.1% -94.3% 2630.9%
RoAA	2.1%	0.1%	2.3%	3.0%	Liquidity	Liquidity	Liquidity	Liquidity
IIMs (as calculated)	7.9%	7.4%	7.7%	7.5%	Advances to deposit ratio	Advances to deposit ratio 104.7%	Advances to deposit ratio 104.7% 97.6%	Advances to deposit ratio 104.7% 97.6% 100.0%
					CASA	CASA 43.4%	CASA 43.4% 44.0%	CASA 43.4% 44.0% 44.0%
/aluation					CET 1 Ratio	CET 1 Ratio 23.5%	CET 1 Ratio 23.5% 17.9%	CET 1 Ratio 23.5% 17.9% 18.7%
P/E (x)	20.8	364.9	13.4	8.8	Efficiency	Efficiency	Efficiency	Efficiency
P/BV (x)	2.6	2.6	2.3	1.8_	Cost-to-income	Cost-to-income 29.1%	Cost-to-income 29.1% 30.5%	Cost-to-income 29.1% 30.5% 27.8%
P/ABV (x)	3.2	2.9	2.6	2.0				

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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