

**Asset quality to improve in coming quarters !!!**

**CMP: INR 248**

**Rating: BUY**

**Target Price: INR 320**

**Stock Info**

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.HS
Sector	BFSI
Face Value (INR)	10
Equity Capital (INR mn)	189
Mkt Cap (INR mn)	399809
52w H/L (INR)	350 / 210
Avg Yearly Vol (in 000')	7,086

**Shareholding Pattern %**

(As on Sept, 2022)

Promoters	40.0
Public & Others	60.0

Stock Performance (%)	1m	3m	12m
Bandhan Bank	9.3	-8.6	-16.2
Nifty	1.8	3.1	2.9

**Bandhan Bank posted Q3FY23 numbers – PAT came in at INR 2.9 bn which was 66% down on yoy basis and up by 39% on qoq basis. Q3 performance was subdued largely because of higher slippages resulting into higher interest rate reversals impacting margins as well**

**Asset quality performance stable due to higher write-offs –** On sequential basis, Bandhan Bank reported stable asset quality profile largely due to higher write-offs with GNPA/NNPAs being same at 7.15%/1.86% in Q3 vs. 7.19%/1.86% in Q2. Gross slippages for the quarter were at INR 28.5 bn vs. INR 39.5 bn in Q2FY23, although numbers look down on qoq basis but still are at higher levels. More than 90% of the slippages during the quarter have come from the stressed pool assets. Recoveries & upgrades were at INR 5.2 bn and write-offs were higher at INR 25.3 bn which resulted in stable asset quality profile. During Q3FY23 analyst meet, management had indicated that GNPA will increase to INR 78 bn from INR 68 bn in Q2FY23; but it came in similar to Q2 at INR 69.6 bn. During the call, management has guided that slippages is likely to reduce considerably from Q4 quarter onwards. Collection efficiency (CE) for EEB for the month of Dec'22 (excluding NPAs) improved to 98% vs. 95% in Sep'22. CE for top states viz. West Bengal improved from 95% in Sep'22 to 98% in Dec'22 and for Assam 87% to 96% for the same period.

**Higher gross slippages impacted margins –** NII declined by 2% yoy and 5% qoq to INR 20.8 bn. Due to higher amount of slippages, interest rate reversals were also sizeably higher contracting margins. Margins were at 6.5% vs. 7% in Q2FY23 and 7.8% in Q3FY22. Going forward, management is expecting margins to improve from Q4 quarter onwards which will due to lower slippages and hence, lower interest rate reversals. Bank expects margins to improve to 7.75% levels over the next 2 years of time-frame. Moreover, the bank has increased the yields in EEB portfolio by 200 bps in Nov'22 and overall yield in this segment is at ~22% levels. This also will be one of the factors driving margins going forward.

**Valuations – Based on our back of envelope calculations, the bank is trading at 1.7x/1.4x FY24e/FY24e ABV on FY24 RoE/ROA of 21.3%/2.8% levels. As per management, improvement in asset quality profile is likely to margin positive and improve overall P&L performance. Given reasonable valuations and better future profitability outlook, the stock is a BUY at current levels**

**Exhibit 1: Financial Performance**

(Rs.cr)	FY21	FY22
NII (Rs)	7563	8714
NII growth (%)	19.6	15.2
Operating Profit (Rs)	6769	8013
PAT (Rs)	2206	126
PAT growth (%)	-27.1	-94.3
Margins (%)	7.6	7.2
ROE (%)	13.5	0.7
ROA (%)	2.1	0.1
ABV (Rs)	90	98
P/E (x)	17.5	303.5
P/ABV (x)	2.7	2.5

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

**Loan growth lower at 11% yoy** - Total advances growth was lower at 11.1% yoy and 2% qoq to INR 978 bn. Within this, EEB segment (Emerging Entrepreneurs Business) having 36.7% share declined by 2% qoq to INR 527.6 bn. Ex EEB loans, other loan segments including housing loans, commercial banking, other retail assets and small business and agri loans (SBAL) growth was strong at 48% yoy.

**Liability side, deposits growth was at 21% yoy** - Total deposits growth was at 21% yoy and 3% qoq to INR 1023 bn. Within this, share of CASA deposits fall to 36.4% from 40.8% in Q2FY23 and 45.6% in Q3FY22 levels. CASA declined primarily on account of movement in customer maintaining savings balance above Rs 2 cr to term deposit. While also, share of retail to total deposits fall to 69% from 74% qoq and 85% yoy levels. This can be a cause of worry going forward for sustainable credit growth.

**Exhibit 2: Q3FY23 - Quarterly Performance (Standalone)**

(in Cr)	Q3FY23	Q3FY22	yoy (%)	Q2FY22	qoq (%)	9MFY23	9MFY22	yoy (%)
<b>Interest earned</b>	<b>3807.3</b>	<b>3408.7</b>	<b>11.7</b>	<b>3773.4</b>	0.9	<b>11636.4</b>	<b>9999.6</b>	<b>16.4</b>
-Interest/discount on advances/bills	3260.0	2975.3	9.6	3264.6	-0.1	10076.7	8743.5	15.2
-Income on investments	486.4	394.4	23.3	455.5	6.8	1384.2	1075.3	28.7
-Interest on bal. with RBI	14.1	38.7	-63.5	13.8	2.1	59.6	121.8	-51.1
-Others	46.8	0.3	14087.9	39.5	18.7	115.9	59.1	96.0
<b>Interest expenses</b>	<b>1727.2</b>	<b>1284.0</b>	<b>34.5</b>	<b>1580.5</b>	9.3	<b>4848.6</b>	<b>3825.4</b>	<b>26.7</b>
<b>Net Interest Income (NII)</b>	<b>2080.1</b>	<b>2124.8</b>	<b>-2.1</b>	<b>2193.0</b>	-5.1	<b>6787.8</b>	<b>6174.3</b>	<b>9.9</b>
Other Income	1033.3	709.0	45.7	476.4	116.9	1839.4	1850.4	-0.6
<b>Total income</b>	<b>3113.4</b>	<b>2833.8</b>	<b>9.9</b>	<b>2669.4</b>	16.6	<b>8627.2</b>	<b>8024.7</b>	<b>7.5</b>
<b>Operating expenses</b>	<b>1191.6</b>	<b>883.6</b>	<b>34.8</b>	<b>1116.5</b>	6.7	<b>3331.6</b>	<b>2532.7</b>	<b>31.5</b>
-Employee cost	686.7	527.9	30.1	666.3	3.1	1987.7	1585.8	25.3
-Other operating expenses	504.9	355.7	41.9	450.2	12.1	1343.9	946.8	41.9
<b>Operating profit</b>	<b>1921.9</b>	<b>1950.2</b>	<b>-1.4</b>	<b>1552.9</b>	23.8	<b>5295.7</b>	<b>5492.0</b>	<b>-3.6</b>
Provision for contingencies	1541.5	805.7	91.3	1279.7	20.5	3463.6	7880.1	-56.0
<b>PBT</b>	<b>380.4</b>	<b>1144.4</b>	<b>-66.8</b>	<b>273.2</b>	39.2	<b>1832.1</b>	<b>-2388.1</b>	<b>-176.7</b>
Provision for taxes	90.1	285.5	-68.4	64.0	40.9	445.8	-611.5	-172.9
<b>Net profit</b>	<b>290.3</b>	<b>859.0</b>	<b>-66.2</b>	<b>209.3</b>	38.7	<b>1386.3</b>	<b>-1776.6</b>	<b>-178.0</b>
Equity	1610.8	1610.7	0.0	1610.8	0.0	1610.8	1610.7	0.0
EPS	1.80	5.33	-66.2	1.30	38.7	8.61	-11.03	-178.0
<b>Ratios (%)</b>								
Int. exp/Int earned (%)	45.4	37.7	-	41.9	-	41.7	38.3	-
Cost/Income ratio (%)	38.3	31.2	-	41.8	-	38.6	31.6	-
Gross NPAs (Rs)	6964.8	9441.6	-26.2	6853.9	1.6	6964.8	9441.6	-26.2
Net NPAs (Rs)	1711.3	2413.1	-29.1	1678.2	2.0	1711.3	2413.1	-29.1
Gross NPAs (%)	7.15	10.81	-	7.19	-	7.2	10.8	-
Net NPAs (%)	1.86	3.0	-	1.9	-	1.9	3.0	-
PCR (%)	75.4	74.4	-	75.5	-	75.4	74.4	-
ROA (%)	0.2	0.7	-	0.2	-	1.5	1.5	-
CAR (%)	19.1	20.0	-	19.4	-	19.1	20.0	-
<b>Balance Sheet (Rs.cr)</b>								
<b>Sources of Funds</b>								
Capital	1,611	1,611	0.0	1,611	0.0	1,611	1,611	0.0
Reserves and Surplus	17,165	13,866	23.8	16,872	1.7	17,165	13,866	23.8
Deposits	1,02,283	84,500	21.0	99,366	2.9	1,02,283	84,500	21.0
-CASA Deposits	234710	173800	35.0	246740	-4.9	234710	173800	35.0
Advances	92,091	80,279	14.7	90,203	2.1	92,091	80,279	14.7

Source: Arihant Research, Company Filings

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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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