

CMP: INR 216

Rating: ACCUMULATE

Target Price: INR 254

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)	348
52w H/L (INR)	272/ 182
Avg Yearly Vol (in 000')	9860

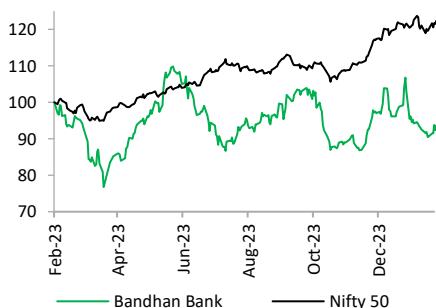
Shareholding Pattern %

(As on January, 2023)

Promoters	39.99
Public & Others	60.01

Stock Performance (%)	1m	6m	12m
Bandhan Bank	-6.94	-4.5	-8.61
Nifty 50	0.63	12.12	22.57

Bandhan Bank Vs Nifty 50



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Bandhan Bank has reported healthy performance during Q3FY24 on most parameters. Bank has reported profit of INR 7.33 bn (+152% YoY/+1.6% QoQ). NII growth was healthy by 21.4% YoY/ 3.4% QoQ to INR 25.2 bn as compared to INR 20.8 bn in Q3FY23. NII growth was healthy due to the healthy growth in advances along with improvement in margins. NIMs were stable at 7.2% sequentially but improved by 70 bps YoY. The bank expects NIM to remain steady at around 7% - 7.5%, going forward. Operating profit of the bank increased by 4.5% QoQ/ -13.9% YoY at INR 16.5 bn. Asset quality of the bank improved during the quarter as GNPA decreased by 30bps QoQ at 7.02.

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

Total advances grew from INR 1076.3 bn in Q2FY24 to INR 1,159.4 Bn in Q3FY24 (up 7.7% QoQ, up 18.6% YoY). Retail loans (ex-housing) were up 70% YoY while commercial banking segment was up 60% YoY. Growth in EEB segment (Emerging entrepreneurs' business) posted a growth of 10% YoY. EEB disbursement for the quarter stood at INR 174.80 bn v/s INR 152.20 bn YoY. Housing loan disbursement came in at INR 16.60 bn v/s INR 15.20 bn QoQ. The bank added 9 lakh customers during the quarter and total customer base as on December 2023 stood at 3.26 crore, which also helped in loan growth.

Asset quality improved during the quarter:

GNPA/ NNPA for Q3FY24 came at 7.02%/2.21% (7.3%/2.3% in Q2FY24) due to the sales to ARC. The bank sale to ARC (asset reconstruction company) stood at INR 7.20 bn, which was primarily from housing portfolio. Further, collection efficiency for the quarter was healthy at 98% for the quarter in which collection efficiency in EEB book stood at 99%. Collection efficiency in Assam and West Bengal region stood at 99%.

Increase in slippages, along with flattish recoveries QoQ:

Slippages during the quarter increased to INR 13.90 bn v/s INR 13.20 bn QoQ, while recoveries and upgrades stood at INR 4.10 bn. Slippages from EEB segment stood at INR 9.93 crore in Q3 FY24. 45% of slippages, during the quarter, came in on account of system migration followed by festive season.. Recovery and upgrades made during the quarter came at INR 4.10 bn (which remained flat QoQ). However, as is the nature of the EEB business, the recoveries are expected to increase substantially in Q4FY24.

Increase in the Cost to Income Ratios along with improvement of NIMs:

Bandhan Bank's NIMs improved 70 bps on YoY basis to 7.2% while on sequential basis it remained stable, with the Cost of Funds increasing by 80 bps YoY to 6.6%. The addition of 26 new branches to gain more market opportunities in the retail customer segment, the Cost to Income ratio increased to 46.1% (+782 bps YoY/ -84 bps QoQ). Additionally Credit cost for the quarter stood at 2.5% and was steady on sequential basis.

Valuation & View: The company has displayed moderate performance during the quarter, with improvement in asset quality and NII growth, among other parameters. The bank is expected to reach 50% of secured loans in its portfolio by FY26 from 44% currently. Margins are expected to be in the range of 7%-7.5% for Q4 FY24 with a fall in slippages. Hence, we maintain our ratings to Accumulate on the stock with a TP of INR 254, based on 1.3x FY26E ABV.

Q3FY24 result Snapshot

Income Statement (INR Mn.)	Q3 FY24	Q2 FY24	Q3 FY23	Q-o-Q	Y-o-Y
Interest Income	46,654	44,919	38,076	3.9%	22.5%
Interest Expense	21,401	20,486	17,272	4.5%	23.9%
Net Interest Income	25,254	24,434	20,804	3.4%	21.4%
Non Interest Income	5,452	5,403	10,333	0.9%	-47.2%
Total Income	30,705	29,836	31,137	2.9%	-1.4%
Employee Costs	8,987	8,623	6,867	4.2%	30.9%
Other Operating Expenses	5,165	5,379	5,049	-4.0%	2.3%
Operating Expenses	14,152	14,002	11,916	1.1%	18.8%
Pre-Provision Profit	16,553	15,834	19,222	4.5%	-13.9%
Provisions	6,840	6,362	15,415	7.5%	-55.6%
Profit Before Tax	9,713	9,472	3,807	2.5%	155.2%
Tax Expense	2,386	2,261	901	5.5%	164.8%
Net Profit	7,327	7,212	2,906	1.6%	152.2%
Balance Sheet Analysis					
Deposits	11,74,200	11,20,792	10,22,800	4.8%	14.8%
CASA Deposits	7,70,100	4,32,000	3,72,100	78.3%	107.0%
CASA (%)	65.6%	38.5%	36.4%	2704bps	2920bps
Advances	11,01,800	10,78,695	9,77,900	2.1%	12.7%
Capital Adequacy Ratio (%)	17.9%	19.2%	19.1%	-131bps	-120bps
Spread Analysis					
NIM (%)	7.20%	7.20%	6.50%	0bps	70bps
Asset Quality					
Gross NPA	81,355	78,738	69,648	3.32%	16.81%
Net NPA	24,396	23,652	17,113	3.14%	42.56%
GNPA (%)	7.02%	7.32%	7.15%	-30bps	-13bps
NNPA (%)	2.21%	2.32%	1.86%	-11bps	35bps
Key Ratios					
Cost to Income Ratio (%)	46.1%	46.9%	38.3%	-84bps	782bps
C/D Ratio (%)	93.8%	96.2%	95.6%	-241bps	-178bps
RoA (%) (annualized)	1.90%	1.92%	0.80%	-2bps	110bps

Source: Arianth Research, Company Filings

Conference Call Highlights:

Guidance

- The bank expects to reach 50% of **secured loans** in its portfolio by FY26 from 44% currently.
- **Margins** are expected to be in the range of 7%-7.5% for Q4 FY24.
- **Slippages** are expected to fall going ahead.
- **Opex-to-assets ratio** is expected to be in the range of 3.5% to 3.7%, going forward.

Highlights

- The **Net interest income** was up 21.4% YoY and 3.4% QoQ to INR 25.25 bn, which was driven by good loan book growth as well as improvement in margins.
- Net interest margin improved 70 bps on YoY basis to 7.2% while on sequential basis it remained stable.
- Non-interest income declined 47.2% YoY and was flattish QoQ. Fall in other income was on account of lower treasury income as well as last year had one-off income from sale to ARC.
- Company posted **advances growth** (including off-book) 18.6% YoY and 7.7% QoQ to INR 1.16 lakh crore.
- Growth in EEB segment (Emerging entrepreneurs' business) posted a growth of 10% YoY.
- EEB disbursement for the quarter stood at INR 174.80 bn v/s INR 152.20 bn YoY.
- **CASA ratio for the quarter** declined 30 bps YoY and 240 bps QoQ to 36.1%.
- In Q3 FY24, the asset quality for the bank improved as **GNPA and NNPA ratio** declined by 30 bps and 11 bps sequentially to 7.02% and 2.21%, respectively.
- Slippages during the quarter increased to INR 13.90 bn v/s INR 13.20 bn QoQ, while recoveries and upgrades stood at INR 4.10 bn.
- Slippages from EEB segment stood at INR 9.93 bn.
- Write-offs for the quarter were nil.
- The company has claims worth INR 22 bn under Credit Guarantee Fund of Micro Units.
- The bank opened 26 **branches** during the quarter.
- Mr Santosh Nair has joined from HDFC group in the bank as **head of consumer lending and mortgage** business.
- The bank expects **audit results** on CGFMU schemes in next few months.

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	196
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)	15.8	276.6	15.9	10.1	8.6	7.2
P/BV (x)	2.0	2.0	1.8	1.5	1.3	1.2
P/ABV (x)	2.0	2.0	1.8	1.5	1.3	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

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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