

Huge Technical write-off dragging full year Profitability, needs geographical Diversification

CMP: INR 181

Rating: BUY

Target Price: INR 228

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)	383
52w H/L (INR)	272/ 170
Avg Yearly Vol (in 000')	9,444

Shareholding Pattern %

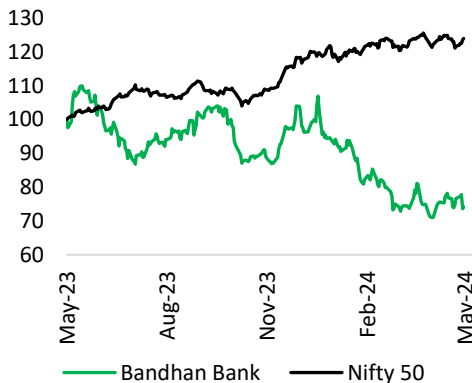
(As on March, 2024)

Promoters	39.98
Public & Others	60.02

Stock Performance (%)

	1m	6m	12m
Bandhan Bank	4.6	-15.3	-25.7
Nifty 50	2.1	14.1	23.9

Bandhan Bank Vs Nifty 50



Abhishek Jain

abhishek.jain@arihantcapital.com

Anmol Das

anmol.das@arihantcapital.com

Harshit Jain

harshit.jain@arihantcapital.com

Bandhan Bank has reported weak performance during Q4FY24 with increased Provisioning. Bank has reported profit of INR 546 mn (down 92.5% QoQ/down 93.2 YoY). NII increased to INR 28.6 bn (up 13.5% QoQ/ up 16% YoY) as compared to our estimate of INR 26.2 bn. NII growth was on account of increase in Yields for the bank as interest rates were passed on. NIMs increased to 7.6% going up by 40 bps QoQ/30 bps YoY. The bank expects NIMs to remain steady at above 7% in FY25. Operating Profit of the bank increased only slightly by 11.1% QoQ/2.4% YoY at INR 18.4 bn. Asset quality of the bank improved during the quarter as GNPA decreased by 318 bps QoQ at 3.84% due to higher slippages than anticipated. The Bank's stock prices have been underperforming for quite some time now with recent beating due to the stepping down of Chairman & MD Chandra Shekhar Ghosh. We believe the housing book will take much more than a year as housing loans don't grow that fast as other retail loans, and the bank hasn't been able to grow them while bringing down EEB books in the mix has been difficult (10% YoY growth) against MFI industry growth at 25-30% YoY.

Loan growth was faster as against in Emerging Entrepreneurs Business:

Total advances grew from INR 1,091 bn in Q4FY23 to INR 1,211 bn in Q4FY24 (up 9.9% QoQ, up 11% YoY). This sluggish growth in advances is primarily because of two reasons: Firstly, Bandhan bank is growing its retail and commercial books at a faster rate while checking the growth of the EEB (Microfinance books) which grew only by 10% YoY while industry growth rate are seen at above 25% in MFI business. Hence, their AUM Portfolio mix is seeing the EEB mix shrinking against the secured mortgage books.

Asset quality improvement at the cost of Technical Write-Off:

GNPA/ NNPA for Q4FY24 came at 3.84%/1.11% (down 318 bps QoQ & 110 bps QoQ). The decrease in NPAs was primarily because of the **Technical Write-offs taken by the bank**. In Q4FY24, the bank has taken a **Technical Write-Off of INR 38.5 bn, which is the highest Write-Off ever taken by the bank.**

Decrease in slippages and an increase in recoveries:

Slippages decreased to INR 10.2 bn in Q4FY24 (up 26.8% QoQ, up 10.6% YoY). Out of total slippages, the slippages in the EEB book came down from INR **9.93 bn in Q3FY24 to INR 6.32 bn**, which arised due to the seasonality in their key markets of West Bengal and Assam while Collection Efficiency stood at 99%. Recovery made during the quarter came at INR 5.2 bn (**which was better than the recovery of INR 4.1 bn in Q3FY24**). Hence, as is the nature of the EEB business, we believe the bank has been conservative in the EEB business, and slippages will remain in check in the future as well.

Increase in the Cost to Income Ratios along with improvement of NIMs and spike in Credit Costs:

Bandhan Bank's NIMs improved as the higher interest rates were passed on to 7.6% (up 40 bps QoQ/up 30 bps YoY). The Bank's Credit Cost spiked in Q4Fy24 with the Technical Write-Off taken to 5.8% while annual Credit Cost came down to 3.4% in FY24 against 4.3% in FY23. The addition of 53 new branches in Q4FY24 alone caused the Cost to Income ratio increase to 48.4% (up 227 bps QoQ/up 627 bps YoY).

Valuation & View: With the Bandhan Bank Management trying to achieve around 50% of the Portfolio mix made up with the secured books from earlier high yield generating EEB business which still makes up 49.9% of the Portfolio, we don't see Profitability of the bank improving much in the next couple of years. However, with the bank increasing their branches and Housing loans, Other Retail and Commercial loans growing at 11% YoY, 65% YoY and 34% YoY respectively, we can expect some stability in the longer run. Hence, we revise our estimates downwards with Buy ratings as the stock has been hammered more on events than on performance with a TP of INR 228, based on 1.0x FY27E ABV.

Q4FY24 Result Snapshot

Income Statement (INR Mn.)	Q4FY24	Q3FY24	Q4FY23	Q-o-Q	Y-o-Y
Interest Income	51,893	46,654	42,683	11.2%	21.6%
Interest Expense	23,231	21,401	17,965	8.6%	29.3%
Net Interest Income	28,663	25,254	24,718	13.5%	16.0%
Non Interest Income	6,941	5,452	6,291	27.3%	10.3%
Total Income	35,604	30,705	31,009	16.0%	14.8%
Employee Costs	9,702	8,987	7,274	8.0%	33.4%
Other Operating Expenses	7,517	5,165	5,778	45.5%	30.1%
Operating Expenses	17,219	14,152	13,053	21.7%	31.9%
Pre-Provision Profit	18,385	16,553	17,957	11.1%	2.4%
Provisions	17,743	6,840	7,348	159.4%	141.5%
Profit Before Tax	642	9,713	10,609	-93.4%	-94.0%
Tax Expense	95	2,386	2,526	-96.0%	-96.2%
Net Profit	546	7,327	8,083	-92.5%	-93.2%
Balance Sheet Analysis					
Deposits	13,52,020	11,74,200	10,80,700	15.1%	25.1%
CASA Deposits	5,01,500	4,24,100	4,24,600	18.3%	18.1%
CASA (%)	37.1%	36.1%	39.3%	97bps	-220bps
Advances	12,11,368	11,01,800	10,91,200	9.9%	11.0%
Total Assets	17,78,417	15,69,174	15,60,371	13.3%	14.0%
Capital Adequacy Ratio (%)	18.3%	0.0%	19.8%	1828bps	-152bps
Spread Analysis					
NIM (%)	7.60%	7.20%	7.30%	40bps	30bps
Asset Quality					
Gross NPA	47,849	81,355	52,986	-41.19%	-9.70%
Net NPA	13,476	24,396	12,283	-44.76%	9.72%
GNPA (%)	3.84%	7.02%	4.87%	-318bps	-103bps
NNPA (%)	1.11%	2.21%	1.17%	-110bps	-6bps
Key Ratios					
Cost to Income Ratio (%)	48.4%	46.1%	42.1%	227bps	627bps
C/D Ratio (%)	89.6%	93.8%	101.0%	-424bps	-1137bps
RoA (%) (annualized)	0.12%	1.92%	2.20%	-180bps	-208bps

Source: Arihant Research, Company Filings

Conference Call Highlights:

Management Commentary and Our take on the Technical Write-Off:

The Management attributes Covid led slippages from 2021 for the Technical Write-Offs taken during the quarter. We believe it was not just prudent Provisioning approach but more of a regulatory bound Write Off for over maturing bad accounts which had to be written-off after 3 years of slippage in line with recent RBI guidelines on increasing stress in the Small ticket loans.

Guidance:

The Management maintained their stance to focus on increasing the secured Housing book in the future while tapering down the EEB (MFI) business.

Other Key Highlights:

- The Bank has shifted to a new core banking system on an Oracle operated platform which is generally used by all major banks. The new system is far more agile and uses data for better customised experiences for customers.
- In Q4FY24, the Bank saw several new senior members joining the bank including the Chief Financial Officer.
- The Chairman & MD of the Bank Mr. Chandra Shekhar Ghosh wished good luck for the new members of the Bank as he announced his presence in the last Quarterly earnings call.
- The Bank has a new CFO Mr. Rajeev Mantri on board who joined the bank during Q4FY24.
- The Management says that before the Technical write-off, the bank's advances growth could have been at 18% YoY while another account of Short term Loans of INR 21.5 bn against Fixed Deposits if added, would have taken the growth to 20% YoY.
- The EEB (MFI) loans grew by a mere 10% for the bank while the Other Retail Loans grew by 65% YoY and the Commercial banking segment grew by 34% YoY. Housing Finance book has grown at 11% YoY for the bank.
- The EEB book comprises of 50% of the loan book mix, while the Housing is at 24%, Commercial Banking at 22% and Other Retail Loans at 4%.
- In terms of the geographical split, the top 5 states for the Advances are West Bengal, Maharashtra, Bihar, Gujarat and MP, contributing about 60% of the Gross Advances, and within this West Bengal alone contributed to about 24% of the advances.
- The Deposits stood at INR 1,352 bn as against INR 1,081 bn in the previous financial year, which represents a growth of 25% and deposits grew by 15% QoQ.
- The Bank's CASA plus Retail Term Deposit constitute 69% of their total deposits. The CASA deposits within this, at the end of the year, stood at INR 501.5 bn and constituted 37.1% of their total deposits against 36.1% in the previous quarter.
- The Management has been trying to reduce their dependence on the West Bengal state with the deposits from West Bengal making up 40% of total deposits against 43% last year.
- The EEB business deposits made up 4% of total deposits with the Collection Efficiency at 99% during Q4FY24.
- In the EEB business, the SMA 0 book, i.e., 0-30 days DPD, has come down from INR 8.05 bn in Q3FY24 representing 1.4% of the book to INR 3.8 bn representing 0.6% of the book.
- Similarly, the bank has reduced the EEB SMA 1 and SMA 2 book from INR 5.7 bn & INR 5.33 bn respectively in Q3FY24 to INR 4 bn & INR 4.8 bn in Q4FY24 respectively.
- The Bank's Gross slippages also reduced in Q4FY24 from INR 13.94 bn in Q3FY24 to INR 10.17 bn in Q4FY24. Slippages in the EEB book also reduced from INR 9.93 bn to INR 6.32 bn in Q4FY24.
- The Management attributed the Technical Write-Off taken in the quarter to EEB loans which had soured since Covid during 2021, and based on the Collections done over these years, have taken Prudent Provisioning for the same with one time write-off.
- The Bank has completed the Core banking system during the year, and the capital Work in Progress has capitalized during the year, increasing the Depreciation by INR 500 mn for the bank.
- The management said that the RoA and the RoE stood at 0.1% and 1% respectively for Q4FY24 while had they were to gross up the impact of the write-offs, on a normalized basis, the RoA for the quarter would have been at 2.2% and the RoE at 17%.
- The Bank added 53 branches during the quarter with total customers served at 35 million.

Key Financials

Income Statement

Particulars (INR Mn)	2022A	2023A	2024A	2025E	2026E	2027E
Interest Income	1,38,711	1,59,047	1,88,696	2,18,222	2,59,532	3,15,416
(-) Interest Expense	-51,571	-66,451	-85,440	-89,941	-1,19,992	-1,46,066
Total Net Interest Income	87,140	92,596	1,03,256	1,28,281	1,39,540	1,69,350
Other Income	28,228	24,686	21,647	32,698	32,179	38,998
Total Income	1,15,368	1,17,282	1,24,903	1,60,978	1,71,719	2,08,348
Total Operating Expenses	35,234	46,368	58,508	51,984	43,634	51,423
Operating Profit	80,134	70,913	66,395	1,08,994	1,28,085	1,56,925
Provisions	88,782	46,538	36,966	48,850	60,514	75,010
Profit before Tax	1,286	28,930	29,429	60,144	67,572	81,916
Provision for Taxes	28	6,983	7,133	15,156	17,028	20,643
PAT	1,258	21,946	22,296	44,988	50,544	61,273

Balance Sheet

Particulars (INR Mn)	2022A	2023A	2024A	2025E	2026E	2027E
Assets						
Cash and Balances with RBI	49,426	73,266	1,53,927	1,30,969	1,59,337	1,94,141
Money at call and short notice	43,788	9,231	7,778	7,778	7,778	7,778
Investments	2,90,787	3,23,659	2,92,876	4,09,277	4,97,928	6,06,692
Advances	9,39,749	10,47,568	12,11,368	16,37,106	19,91,711	24,26,767
Fixed Assets	5,879	8,546	11,734	12,539	13,398	14,439
Other Assets	60,323	95,430	1,00,733	1,20,880	1,45,056	1,74,067
Total Assets	13,89,952	15,57,700	17,78,417	23,18,549	28,15,208	34,23,885
Liabilities						
Capital	16,108	16,108	16,110	16,110	16,110	16,110
Reserves and Surplus	1,57,704	1,79,733	1,99,987	2,44,974	2,95,518	3,56,791
Deposits	9,63,306	10,80,693	13,52,020	16,37,106	19,91,711	24,26,767
Borrowing from other banks	1,99,212	2,47,108	1,63,715	3,86,774	4,70,988	5,74,382
Other liabilities and provisions	53,622	34,057	46,585	33,585	40,881	49,836
Total Liabilities	13,89,952	15,57,700	17,78,417	23,18,549	28,15,208	34,23,885

Source: Arianth Research, Company Filings

Ratios						
Particulars (INR in Mn)	2022A	2023A	2024A	2025E	2026E	2027E
Basic Ratio						
EPS	0.8	13.6	13.8	27.9	31.4	38.0
Book Value per share	107.9	121.6	134.2	162.1	193.5	231.5
Adjusted book value per share	106.9	120.2	132.3	160.0	190.8	228.2
Dividend per share	2.8	3.4	1.5	3.4	3.4	3.4
Asset Quality						
Gross NPAs	6.4%	5.7%	4.5%	4.6%	4.7%	4.7%
Net NPAs	1.7%	2.2%	2.4%	2.2%	2.3%	2.3%
PCR	80.0%	65.0%	50.0%	55.0%	55.0%	55.0%
Profitability Ratio						
RoAE	0.7%	11.9%	10.8%	18.9%	17.7%	17.9%
RoAA	0.1%	1.5%	1.3%	2.2%	2.0%	2.0%
NIMs (as calculated)	7.4%	7.0%	7.1%	7.2%	6.1%	6.1%
Valuation						
P/E (x)	302.2	17.3	17.0	8.4	7.5	6.2
P/BV (x)	2.2	1.9	1.8	1.5	1.2	1.2
P/ABV (x)	2.2	2.0	1.8	1.5	1.2	1.2

Analysis						
Particulars (INR Mn)	2022A	2023A	2024A	2025E	2026E	2027E
Spread Analysis						
Yield on advances	13.7%	14.7%	12.9%	12.8%	12.5%	12.5%
Yield on investments	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Cost of deposits	4.0%	4.1%	3.9%	3.9%	3.9%	3.9%
Cost of funds	5.2%	5.3%	4.9%	5.0%	5.3%	5.3%
Spread	6.3%	6.9%	6.1%	6.0%	5.5%	5.4%
Growth (%)						
Advances growth	15.1%	11.5%	15.6%	35.1%	21.7%	21.8%
Deposit growth	23.5%	12.2%	25.1%	21.1%	21.7%	21.8%
Net Profit growth	-94.3%	1644.6%	1.6%	101.8%	12.3%	21.2%
Liquidity						
Advances to deposit ratio	97.6%	96.9%	89.6%	100.0%	100.0%	100.0%
CASA	44.0%	44.0%	35.2%	29.0%	23.9%	19.6%
CET 1 Ratio	17.9%	17.7%	17.1%	15.9%	15.7%	2.3%
Efficiency						
Cost-to-income	30.5%	39.5%	46.8%	32.3%	25.4%	24.7%

Source: Arian Research, Company Filings

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880