Equity Research

December 2, 2022

BSE Sensex: 63284

ICICI Securities Limited is the author and distributor of this report

Company update

Banking

Target price: Rs365

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	40.0	40.0	40.0
Institutional investors	38.9	42.8	42.6
MFs and others	4.2	6.7	7.5
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	4.3
FIIs	34.7	36.1	30.8
Others	21.1	17.2	17.4

Source: CMIE

ESG disclosure score

Year	2020	2021	Chg
ESG score	**36.6**	**NA**	**NA**
Environment	2.1	NA	NA
Social	24.0	NA	NA
Governance	83.6	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

ICICI Securities

Bandhan Bank

BUY

Maintained

Portfolio & geographical diversification are core strategic priorities; credit cost elevated in Q3

Rs236

The senior management team of Bandhan Bank (Bandhan) during its analyst day yesterday (1st Dec'22) articulated its strategy on portfolio diversification, geographical expansion and future growth along with delinquency and provisioning assessment for H2FY23. Most importantly, it has set expectations of another Rs15bn in credit cost for H2FY23 and normalisation thereafter. Overall, the bank is looking at 20-25% asset growth, steady-state credit cost of 180bps, 'opex to assets' at ~3% and RoAs in the 2.8-3.2% range.

Key takeaways include:

- **Stress pool (31-90dpd + restructured accounts + NPA) is expectd to rise from Rs95bn in Q2FY23 to Rs102bn in Q3FY23 and moderate to Rs97bn in Q4FY23.**
- **Provisioning is expected to inch up to Rs74bn in Q3FY23 and Rs77bn in Q4FY23 – from Rs53bn in Q2FY23. This excludes the benefit of Rs9.3bn from CGFMU recovery anticipated in Q3FY23. This suggests net incremental provisioning requirement of Rs12bn in Q3FY23 (~500ps annualised credit cost) and Rs3bn in Q4FY23 (~125bps annualised credit cost).**
- **Bank's strategic priorities include portfolio diversification, geographical diversification and focus on granular deposits.**
- **Proportion of EEB group loans is already down to 40% as of Q2FY23 (vs 59% in FY21 and 61% in FY20) and the bank targets to bring it further down to 26% by FY25. Bank is looking to increase the secured loans mix in overall portfolio to 46% by FY25 – from 38% in H1FY23 and 35% in FY20.**
- **Housing finance share will inch up from 26% in FY20 and 27% in H1FY23 to 30% by FY25. In the mortgage segment, the bank will expand its presence from higher end of the affordable housing segment to prime housing as well, through dedicated channels for sourcing prime mortgages. It will relaunch construction finance in identified markets and expand the range of LAP products. It will also expand its footprint in under-penetrated geographies.**
- **Bank targets to scale up its retail assets from 2.2% in H1FY23 to 6% by FY25. It will aggressively ramp-up its gold loan portfolio and has recently launched CV/CE and used car financing.**
- **Bank is engaging with customers via digital marketing, offline channels and alliances. Granular retail deposit growth will be led by footprint expansion, customer acquisition ramp-up, 'phygital' delivery model, ecosystem partnerships and insight-driven operating models (IDOM) leading through data/analytics.**

Incremental growth drivers would be: individual lending, mortgages, retail assets and commercial banking. Franchise, post absorbing the interim EEB stress pool, has potential to deliver >20% RoE. Maintain BUY with an unchanged target price of Rs365, assigning 2.25x FY24E book. Key risks: i) higher than anticipated stress and credit cost; ii) pressure on fee income.

Market Cap	Rs379bn/US$4.7bn
Reuters/Bloomberg	BANH.BO / BANDHAN IN
Shares Outstanding (mn)	1,610.8
52-week Range (Rs)	342/211
Free Float (%)	60.0
FII (%)	30.8
Daily Volume (US$'000)	27,907
Absolute Return 3m (%)	(15.5)
Absolute Return 12m (%)	(14.7)
Sensex Return 3m (%)	7.9
Sensex Return 12m (%)	11.1

Year to Mar	FY21	FY22	FY23E	FY24E
NII (Rs bn)	76	87	104	121
Net Profit (Rs bn)	22	1	39	53
EPS (Rs)	13.7	0.8	24.2	32.6
% Change YoY	-27.1	-94.3	NM	34.5
P/E (x)	17.2	NM	9.7	7.2
P/BV (x)	2.2	2.2	1.8	1.5
P/ABV (x)	2.5	2.3	1.9	1.5
GNPA (%)	6.8	6.2	6.1	5.1
RoA (%)	2.1	0.1	2.6	3.1
RoE (%)	13.5	0.7	20.3	22.3

I. EEB business – gradually getting out of woods

- Stress pool (31-90dpd + restructured accounts + NPA) is expected to rise from Rs95bn in Q2FY23 to Rs102bn in Q3FY23 and moderate to Rs97bn by Q4FY23.
- Provisioning is expected to inch up to Rs74bn in Q3FY23 and Rs77bn in Q4FY23 from Rs53bn in Q2FY23. This is excluding the benefit of Rs9.3bn from CGFMU recovery anticipated in Q3FY23. This suggests net incremental provisioning requirement of Rs12bn in Q3FY23 (~500ps annualised credit cost) and Rs3bn in Q4FY23 (~125bps annualised credit cost).
- Collection efficiency excluding NPA portfolio has increased to 96% in Oct'22 vs 95% in Sep'22 and 94% in Jun'22.
- SBAL concentration in portfolio has inched up to 29% in Sep'22 vs 11% in Mar'21. Bank is looking to increase SBAL share to 38% by FY23-end and 47% by FY25-end.
- There is continuous focus on diversifying outside the core geographies of West Bengal and Assam with majority of the new distribution planned outside these two states.

Stress pool to inch up further; call for another Rs15bn provisioning in H2FY23

- With forward flow from 31-90 dpd bucket, the bank estimates its GNPA to rise from Rs51bn in Q2FY23 to Rs78bn in Q3FY23 and further go up to Rs80bn in Q4FY23. As a result, 31-90 dpd bucket is estimated to come down from Rs44bn in Q2FY23 to Rs24bn in Q3FY23 and further to Rs17bn in Q4FY23.
- Overall, stress pool (31-90dpd + restructured accounts + NPA) is expected to rise from Rs95bn in Q2FY23 to Rs102bn in Q3FY23 and moderate to Rs97bn by Q4FY23
- As per the management commentary, overall provision is expected to inch up to Rs74bn in Q3FY23 and Rs77bn for Q4FY23 from Rs53bn in Q2FY23. This is excluding the benefit of Rs9.3bn from CGFMU recovery anticipated in Q3FY23. This suggests net incremental provisioning requirement of Rs12bn in Q3FY23 (~500ps annualised credit cost) and Rs3bn in Q4FY23 (~125bps annualised credit cost).

Table 1: How EEB asset quality is estimated to behave in H2FY23

Rs bn	Actual			Projection	
	Mar'22	**Jun'22**	**Sep'22**	**Dec'22**	**Mar'23**
31 to 90 DPD (A)	22	47	44	24	17
Restructured a/c (B)	49	21	-	-	-
NPA (C)	49	53	51	78**	80**
Total Stress portfolio (A + B + C)	**119**	**121**	**95**	**102**	**97**
Total Provisions	70	76	53	74*	77*
NPA Provision	39	42	42	63*	66*
PCR on NPA	80%	80%	82%	80%	82%
Provision GAP (Total Stress portfolio Total Provision)	50	45	42	28	20

Source: Company data, I-Sec research
*Net of CGFMU recovery provision will be lower by Rs9.3bn
**pre write-offs

Table 2: Most of the customers are paying full of partial EMI

Oct'22	Payment Profile	Payment % Age
	% Receivable	% AUM
Not Paid	1%	2%
UpTo 25%	2%	2%
>25% To 50%	1%	1%
>50% To 75%	2%	2%
>75% To <100%	2%	2%
Full Paid	93%	91%

Source: Company data, I-Sec research

Table 3: Banks trend in group loans and SBAL over the past six months

	Group loans			SBAL		
	Mar'22	Jun'22	Sep'22	Mar'22	Jun'22	Sep'22
AUM (Rs bn)	465	429	382	159	152	157
Borrowers (mn)	11	11	11.1	1.6	1.7	1.9
Avg. AUM (Rs '000) per borrower	42	39	35	99	89	83
GNPA (Rs bn)	44	49	45	4	5	6
NNPA (Rs bn)	9.2	10	7.6	0.7	0.9	1.5
GNPA	10%	11%	12%	3%	3%	4%
NNPA	2.1%	2.6%	2.2%	0.5%	0.6%	1.0%
Yield	17%	18%	17%	17%	19%	18%
Sourcing yields	19.5%	20.0%	20.0%	19.5%	20.0%	20.0%

Source: Company data, I-Sec research

- It has filed its first CGFMU claim for exposure of Rs13.9bn and is expecting recoveries of Rs9.3bn in Q3FY23. Under this scheme, initial 3% loss has to be borne by the lending entity and of the remaining, 75% is paid by the government. While Bandhan was earlier factoring in Rs10bn, it has already recovered Rs0.95bn from this pool in FY23 YTD and now expects incremental recoveries of ~Rs9.15bn. For the consequent claim under CGFMU, it was earlier looking at an exposure of Rs15bn. However, with slippages being higher than Rs2bn, now the overall claim amount is expected at ~Rs17bn.
- Furthermore, with respect to Assam relief package, Assam government has started reimbursements for 0-dpd customers. It is now expected to initiate the process for delinquent customers as well and the bank expects recovery of Rs500-700mn in Q3FY23 through this relief. Bank is continuously strengthening its processes (credit appraisal, business operations etc.) for improving asset quality
- ~99% of customers' indebtedness is captured in credit bureau. New bureau rules states that every customer has to disclose their household income details along with their exposure to bureau, which will help in better income assessment for banks
- Collection efficiency excluding NPA portfolio has improved a tad to 96% in Oct'22 vs. 95% in Sep'22 and 94% in Jun'22.
- The proportion of customers (excluding NPA) that have not paid any dues at all until Sep'22 has come down from 5% in Sep'22 to 2% in Oct'22.

Migration towards small business and agri loans from group lending

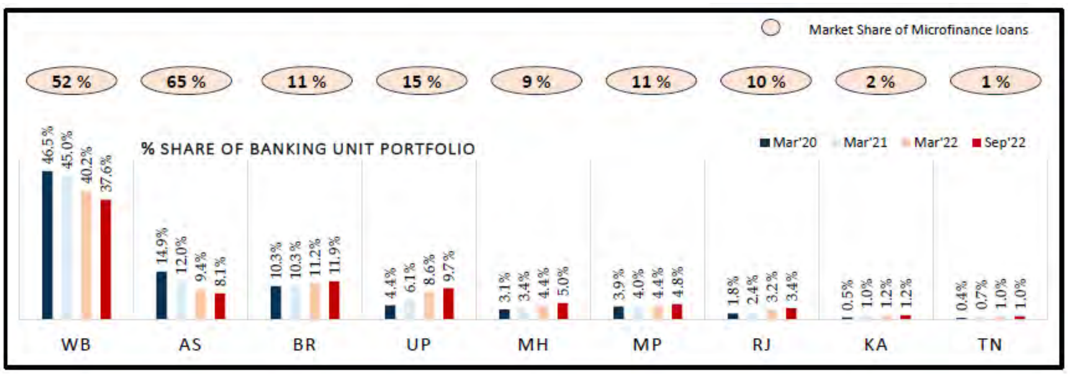
- Small business and agri loans (SBAL) were introduced for graduating vintage group loan customers with better track record to individual loans.
- SBAL concentration in portfolio has inched up to 29% in Sep'22 vs. 11% in Mar'21. Bank is looking to increase SBAL share to 38% by FY23-end and 47% by FY25-end.

- It is focusing on SBAL for loans to existing as well as NTB customers. The objective is to consolidate the debt, be a sole lender and offer rate advantage to customers as well.

Diversifying the EEB portfolio outside of West Bengal and Assam

- There is continuous focus to diversify outside the core geographies of West Bengal and Assam with majority of the new distribution planned outside these states.
- As of now, bank has market share (microfinance) of 52% in West Bengal, 65% in Assam, 11% in Bihar, 15% in Uttar Pradesh, 9% in Maharashtra, 11% in Madhya Pradesh, 10% in Rajasthan, 2% in Karnataka and 1% in Tamil Nadu.
- The share of West Bengal in overall portfolio is down to 37.6% in Sep'22 (vs 46.5% in Mar'20) and share of Assam has been consciously lowered to 8.1% in Sep'22 (vs14.9% in Mar'20). There was focus to expand its presence and improve market share in Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan and Maharashtra. Also, Gujrat, Andhra Pradesh and Telangana have been identified as focused states for opening new Banking Units (Bus).
- Bank has proposed to open 182 BUs to open all outside the above 2 states (114 in Gujarat, 30 in AP, 29 in Odisha, 8 in Jharkhand and 1 in Dadra and Nagar Haveli)

Chart 1: Focus is to diversify outside core geographies



Source: Company data, I-Sec research.

Table 4: SBAL loans to scale up to 47% of EEB loans by FY25

	FY23	FY24	FY25
Group	62%	56%	53%
SBAL	38%	44%	47%
EEB	**100%**	**100%**	**100%**

Source: Company data, I-Sec research

Miscellaneous

- Bank's microfinance lending rate is ~300bps lower than industry with incremental lending yields at 19.95%.
- Overall, microfinance industry has grown to Rs2.9trn, up 24% YoY

II. Strategy – Diversifying portfolio across segments, geographies and focusing on granular deposits

- Bank's strategic priorities include portfolio diversification, geographical diversification and focus on granular deposits.
- Bank is looking to increase secured mix in overall portfolio to 46% by FY25 from 38% in H1FY23 and 35% in FY20.
- Proportion of EEB group loans is already down to 40% as of Q2FY23 (*vs* 59% in FY21 and 61% in FY20) and the bank targets to bring it further down to 26% by FY25. Housing finance share to inch up from 26% in FY20 and 27% in H1FY23 to 30% by FY25.
- Bank's target is to bring Wet Bengal and Assam share in overall portfolio to 40% by FY25 from 61% in FY20 and 52% in H1FY23.
- Overall, the bank is looking at steady-state credit cost of 180bps and steady-state RoA in the range of 2.8-3.2%.
- Bank is transforming its IT and digital infrastructure using Enterprise Data Lake, advanced analytics and AI/ML

Diversification of portfolio is a key theme for the bank

- Bandhan became the first microfinance company to get Universal Banking License in 2015. Over the past 7 years, it has gained a lot of experience and learnings from challenges including demonetization, GST implementation, IL&FS liquidity crisis, covid pandemic, etc.
- Portfolio diversification across geographies and incrementally more in favour of secured lending will help bank avoid any kind of concentration risks going forward.
- It is looking to reduce share of group lending and increase the share of commercial and retail assets in the overall portfolio. It is looking to increase secured mix in portfolio to 46% by FY25 (*vs* 38% in H1FY23 and 35% in FY20).
- Proportion of EEB group loans is already down to 40% as of Q2FY23 (*vs* 59% in FY21 and 61% in FY20) and the bank targets to bring it further down to 26% by FY25. Housing finance share to inch up from 26% in FY20, 27% in H1FY23 to 30% by FY25. It aims to achieve commercial banking share in the overall book at 38% (from 31% in Q2FY23), share of housing at 30% (from 30% in Q2FY23) and share of retail assets at 6% (from 2% in Q2FY23).
- Microfinance will continue to grow in absolute terms, but its share in overall portfolio would reduce on a gradual basis.
- Bank's target is to bring Wet Bengal and Assam share in overall portfolio to 40% by FY25 (*vs* 61% in FY20 and 52% in H1FY23).
- Bank's journey would be more towards even distribution of asset portfolio.
- Overall, bank is half way through the journey that was articulated in FY20.
- Looking at steady state RoA in the range of 2.8-3.2%.
- Share of retail deposits in total deposits is expected to inch up to 80% by FY25 from 74% in H1FY23.

Bank is transforming its IT and digital infrastructure via the following initiatives

- Complete change of end-state-architecture, implementing the state of art technology and use better application products.
- Make investments in end to end digitisation of information and automation of processes
- Adopt advanced analytics to provide superior customer experience
- Provide hyper-personalised banking experience across the customer lifecycle
- Onboard requisite talent to strengthen overall technology backbone

Table 5: How loan mix (%) is expected to change until FY25

	FY20	H1FY23	*Chg (bps)*	FY25 (Proj.)	*Chg (bps)*
Microfinance	61	40	*(2,100)*	26	*(1,400)*
Housing finance	26	27	*100*	30	*300*
Commercial banking	12	31	*1900*	38	*700*
Retail finance	1	2	*100*	6	*400*

Source: Company data, I-Sec research.

III. Housing finance – the next growth engine

- Bank has witnessed 43% growth in housing loan disbursements in FY22, which supported 11% portfolio growth to Rs240bn. This is spread across 0.3mn customers and largely focused on affordable housing with average ticket-size of Rs1.8mn and average yield of 10.8%. Management has guided for housing portfolio growth of ~25% each year in FY23, FY24 and FY25.
- It will expand its presence from the higher end of affordable housing segment to prime housing as well with dedicated channels for sourcing prime mortgages. It will relaunch construction finance in identified markets and expand the range of LAP products.
- Bank is expanding its presence in under-penetrated geographies - Uttar Pradesh, West Bengal, Odisha, NCR and South India where there is housing shortage.
- Currently, 77-80% of its home loans are sourced through outsourced channels (connectors, DSAs, etc.) and 20% is through the bank's own network.
- Transmission of rates in a rising rate scenario is expected to be faster given 98% of loans are floating in nature and, of this, two-thirds are linked to repo rate.
- Prepayment rate is close to 10%, of which BT-out to other peers is 4.0-4.5%.

Business overview

- Mr. Shantanu Sengupta has joined Bandhan Bank two months back as Head – Retail Banking. He has more than 25 years of experience and prior to this, he has led consumer bank for DBS.
- Housing finance business has seen consistent and robust growth over the past seven years.
- Bank has witnessed 43% growth in housing loan disbursements in FY22, which supported 11% portfolio growth to Rs240bn. This is spread across 0.3mn customers and largely focused on affordable housing with average ticket of Rs1.8mn and average yield of 10.8%. The management has guided for housing portfolio growth of ~25% in FY23 and thereafter till FY25.
- Prepayment rate is close to 10%, of which BT-out to other peers is 4.0-4.5%
- 85% of customers are first-time home owners
- Currently, 77-80% of its home loans are sourced through outsourced channels (connectors, DSAs, etc.) and 20% is through banks own network. Going ahead, with acceleration in roll-out of affordable and prime housing from banks' branches, share of bank's internal sourcing will inch up to 40% in the medium term.
- The transmission of rates in rising rate scenario is expected to be faster given 98% of loans are floating in nature and of this, two-thirds are linked to repo rate.
- 30% of incremental disbursements are flowing from new branches post-merger.
- LAP average ticket size is Rs0.9-1.0mn

Future pillars of growth

- Expand market reach
  - It is looking to expand in under penetrated geographies - Uttar Pradesh, West Bengal, Odisha, NCR and South India where there is housing shortage
  - It will leverage branch network through hub and spoke model.
  - It currently has presence in 350 branch locations and plans to expand to >600 by end-FY23.
- Enhanced value proposition
  - It will define target clients and enhance value propositions addressing their needs
  - It will expand its presence from higher end of affordable segment to prime housing as well with dedicated channels for sourcing prime mortgages.
  - It will relaunch construction finance in identified markets and expand the range of LAP products.
- Evolve platforms
  - Bank is investing in platforms for simplified loan on-boarding
  - It will leverage data and credit analytics to identify good credit, build out score card based pricing models (risk-relationship), and support collection initiatives (improved EWS)
  - Looking at digital push to offer ease of delivery and quick solutions, collaborating with tech vendors for sourcing and delivery and enhance data mining and analytics.
- Engage partnerships
  - From 2015 onwards, PMAY has driven the business in the affordable housing segment.
  - It will look to work with the partner ecosystem like digital aggregators, marketplace, NBFCs, builders for quality sourcing and enhanced offerings.

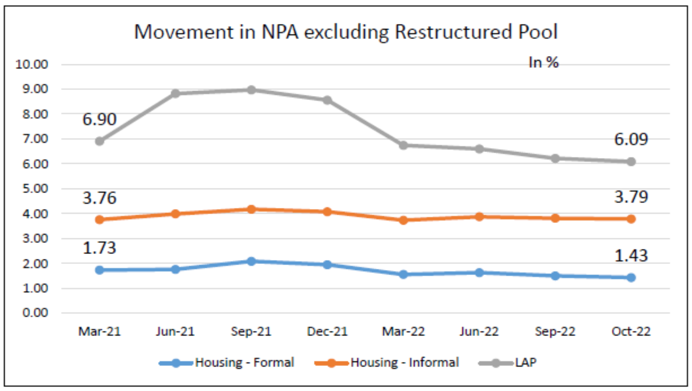
Asset quality

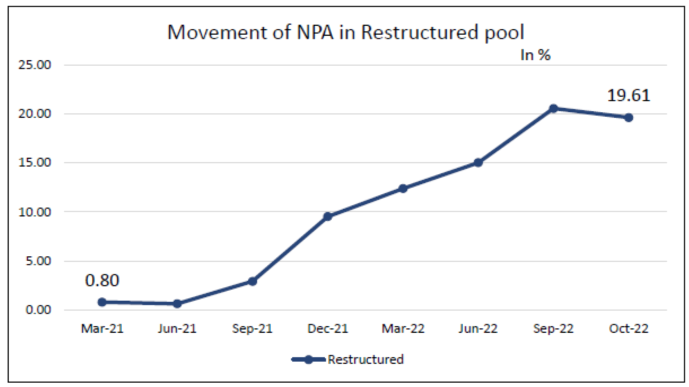
- On asset quality, GNPAs in LAP segment were relatively higher upwards of 6% due to business impact during covid. NPAs for informal housing have been around 3.9% and formal housing NPAs were contained at 1.43%.
- Ex-restructured book, credit quality has remained stable across all loan products
- Quality of assets and customer intentions give comfort that LGD in restructured book will be below 2%.

Risk management and monitoring

- Bank has taken various measures to ensure risk management during origination and monitor loans thereby such as:
  - Multiple checks at origination - CIR check, Hunter, Dedupe, identity check
  - Multi point check of PD, Ref Check, Employment Check, Document check
  - Policy and process review at regular intervals
  - EWS alerts on multiple data points / transactions
  - Ongoing analysis of bureau data to understand repayment behavior and trends

Chart 2: Housing finance portfolio behavior has been steady





Source: Company data, I-Sec research.

IV. Commercial banking – includes institutional, SME and SEL loans

- Commercial banking portfolio has almost doubled YoY to Rs140bn and GNPAs in the past few quarters have moderated leading to 5.6% GNPA in Sep’22.
- SEL is one of the highest-yield generating products of the bank as of Sep’22 wherein portfolio yield stood at ~18%.
- Institutional lending strategy is largely focused on acquisition, strategy, concentration risk and PSL.
- SME product offering is to provide secured credit facilities of above Rs2.5mn for financing business activities to SMEs and mid-sized corporates.

Institutional lending

- Acquisition - 100% of sourcing is through dedicated RMs
- Credit Rating - 92% of the exposure as on Sep’22 had credit rating of A & above
- Concentration risk - maximum cumulative exposure to an Institution is set at 10% of total outstanding and 89% of the portfolio is from regions other than East
- PSL - 46% of the total exposure was PSL qualified as on Sep’22

Small and medium enterprises (SME)

- SME has been picking pace with 28% QoQ and 83% YoY growth in fund-based portfolio
- SME product offering is to provide secured credit facilities of above Rs2.5mn for financing business activities to SME and mid-sized corporates
- It is focusing on good clients with sustainable cash flows

Small enterprises loan (SEL)

- SEL portfolio witnessed a growth of 71% YoY and 5% QoQ
- It is one of the highest yield generating product in the Bank as on Sep’22 portfolio yield stood at 17.99%
- 100% of loans are sourced through dedicated team of Relationship Officers via Branch Network, Market Survey’s, Campaigns and Cold Calling

Risk management: Assessment and monitoring via the following measures:

- Automated EWS alerts, based on more than 50 alerts / signals
- Control reports of all the loans sanctioned are placed to one step higher sanctioning authority
- Multivariate Dashboards & MIS to ascertain portfolio quality and market risk
- Analysis of Bureau data to understand customer repayment behavior across FIIs
- Use of Analytical tools (Tableau, Machine Learning, Python, etc.)
- Periodic review of Credit Underwriting Policy & existing controls

Table 6: Commercial lending portfolio growing at a much rapid pace

Rs mn	Q2FY22	Q4FY22	Q1FY23	Q2FY23	QoQ %	YoY %
Institutional lending	26,900	49,988	52,434	62,048	18%	131%
SEL	27,804	44,678	45,048	47,520	5%	71%
SME	16,400	22,532	23,425	29,960	28%	83%
Overall Commercial banking	**71,104**	**1,17,198**	**1,20,907**	**1,39,528**	**15%**	**96%**

% of total	Q2FY22	Q4FY22	Q1FY23	Q2FY23
Institutional lending	38%	43%	43%	44%
SME	39%	38%	37%	34%
SEL	23%	19%	19%	21%
Overall Commercial banking	**100%**	**100%**	**100%**	**100%**

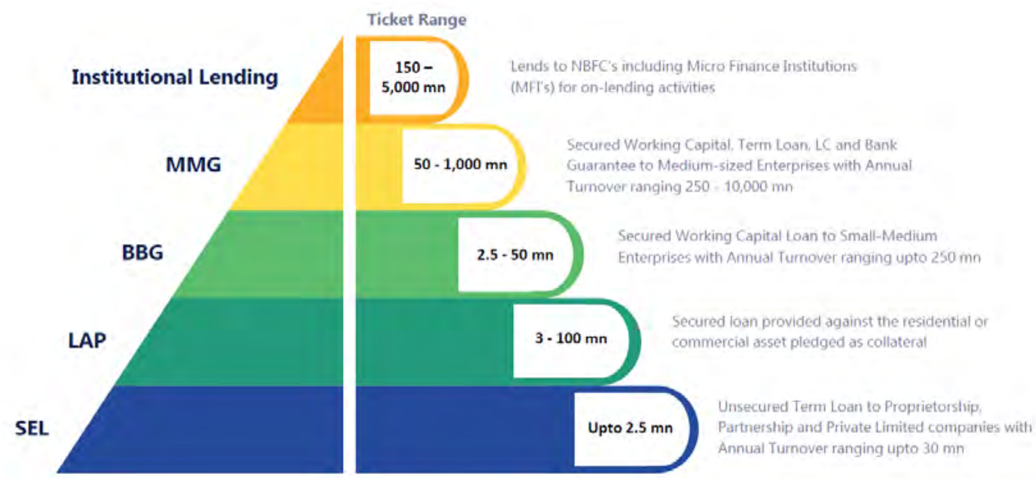
Source: Company data, I-Sec research

Table 7: Commercial lending asset quality has improved

	Q2FY22	Q4FY22	Q1FY23	Q2FY23
Overall GNPA	9.6%	6.1%	6.1%	5.6%
Overall GNPA (ex. IL&FS)	4.4%	2.9%	3.0%	2.9%

Source: Company data, I-Sec research

Chart 3: Product offering as per the ticket size



Source: Company data, I-Sec research.

V. Retail assets – targeting to reach 6% of loanbook by FY25

- Gold loan business was introduced in Jan'17, personal loans in Sep'20, two-wheeler loans in Apr'21, new car loans in Aug'21, CV/CE loans in Oct'22 and used car loans in Nov'22.
- Retail advances grew 130% YoY to Rs21.6bn and constitutes 2.2% of the bank's advances. It is looking to increase the share of retail loans in overall portfolio to 6% by FY25.
- Collection strategy is a blend of physical and digital processes.

Retail assets overview

- Gold loan business was introduced in Jan'17, personal loans in Sep'20, two-wheeler loans in Apr'21, new car loans in Aug'21, CV/CE loans in Oct'22 and used car loans in Nov'22.
- Retail advances grew 130% YoY to Rs21.6bn and constitute 2.2% of banks advances. It is looking to increase share of retail loans to 6% by FY25.
- Mr. Hirak Joshi has joined Bandhan Bank six months back as Head of Retail Assets. He has more than 25 years of experience with ICICI Bank, HDFC Bank, Standard Chartered Bank.

Sourcing strategy for various products

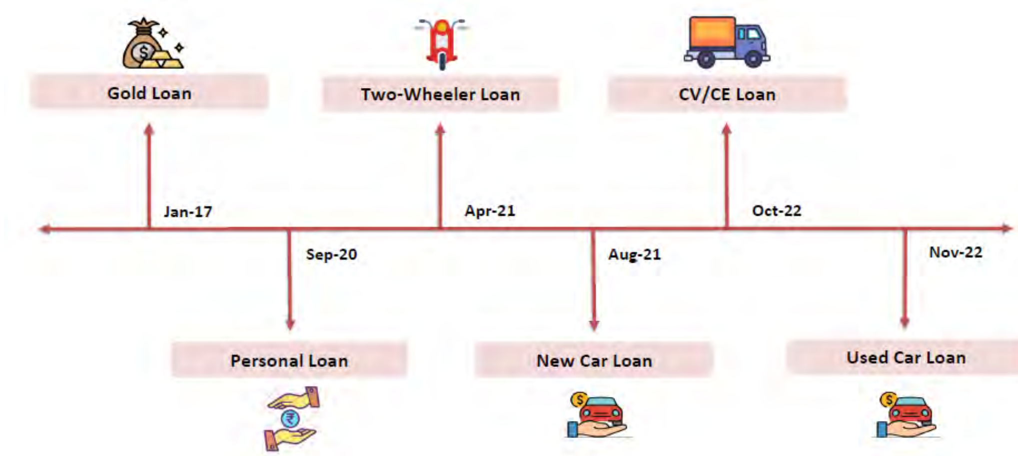
- Bank is currently operating through 430 branches for gold loans and it is looking to expand it to 576 branches by FY23 and more than 1,500 branches by FY25E. It will also enter into alliances with fintechs and evaluate co-lending opportunities.
- On personal loan, bank is looking to deepen penetration across 1,190 branches and tap existing affluent customer base of ~6mn.
- Two wheelers portfolio is growing rapidly in tier-2/tier-3 markets. It has tied-up with Suzuki and also will tie-up soon with Honda and Hero.
- Car loan sourcing strategy will be through location expansion and opening of spoke locations in tier 2 and tier 3 cities.
- CV/CE target customer base includes FTU, SVO, Retail, Strategic, Captive and non-Individuals, it is associating with larger OEMs / Extensive Dealer & DSA network and lastly relationship based sourcing

Risk assessment and controls

- Risk identification - EWS are in place and analysis of bureau data to understand customer repayment/leveraging across FIIs
- Risk assessment - Dedicated team to analyze the various risk Internal Credit Rating benchmark for high ticket cases
- Risk control - Proactive Portfolio and Monitoring and capping the exposure to Sensitive Sectors
- Risk monitoring - Regulatory / legal compliance and identification of trigger conditions

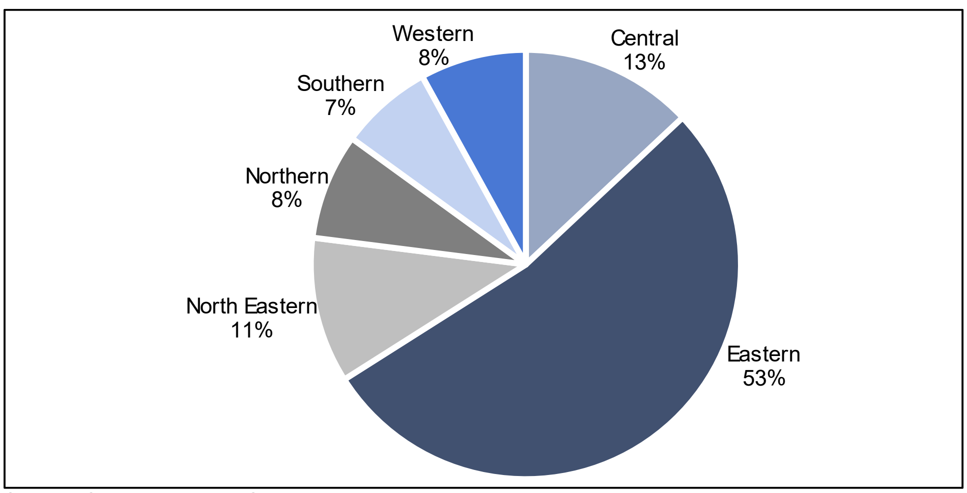
- Collection strategy is blend of physical and digital. Besides in-house collection team to drive pre-NPA collections, it also uses external agents and collects digitally with the help of fintechs.
- It is also optimising collection cost through automated process and fintech partnerships.

Chart 4: Retail assets journey so far…



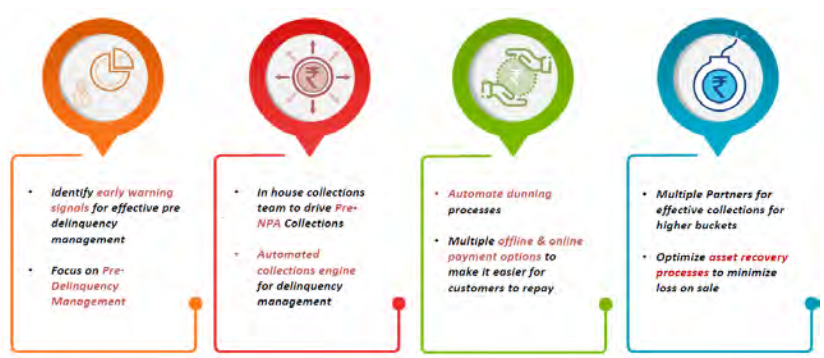
Source: Company data, I-Sec research.

Chart 5: Existing distribution of 1,190 branches



Source: Company data, I-Sec research.

Chart 6: Collection strategy is to GO PHYGITAL



Source: Company data, I-Sec research.

VI. Deposits picking pace; trend likely to sustain

- Bank is engaging with customers via 3 channels: digital marketing, offline channels, and alliances
- It is building out its technology stack and leading through an insight-driven operating model.
- Pillars of growth include expanding footprints, ramping up acquisitions, ‘phygital’ model, customer needs, ecosystem partnerships and insight-driven operating models (IDOM) leading through data/analytics
- Bank has taken various initiatives such as redefining the engagement model, investing in technology, etc. to penetrate further and gain deposit market share.
- It is also engaging with its existing customer base through revamped value propositions to build deposit balances.
- Term deposits in conjunction with proposed wealth proposition will be a key driver to value build-up.

Customer engagement strategy

- Bank is engaging with customers via 3 channels: digital marketing, offline channels and alliances
- Bank has taken various initiatives like re-defining the engagement model, investing in technology etc. to penetrate further and gain deposits market share.
- Digital marketing could be paid/owned/earned, Offline channels include Branches and tele-calling, while alliances include aggregators, partnerships and fintechs.
- There has been a trend in deposits wherein household savings were shifted from deposits to other classes like mutual funds, SIPs etc.
- Acquisition channels continue to on-board quality customers
- Digital on-boarding to ramp up numbers significantly and lower cost
- Bank is also working on existing customer base engagement through revamped value propositions to build balances

Pillars of growth

- Expand footprints: Bank will leverage the existing and the expanded footprint to build deposits
- Ramping-up acquisitions: Bank is looking to increase productivity of sales teams and build specialised teams for business accounts, affluent customers and government to shore up quality of acquisition
- ‘Phygital’: Building a digital overlay on expanded physical network, Simplifying processes, paperless, enhanced controls and building greater trust to address digitally mature persons
- Customer needs: This is at the centre of its value proposition wherein it is moving from features to benefits
- Ecosystem partnerships: It will look to expand value added benefits through partner ecosystem.

- Insight-driven operating models (IDOM) leading through data/analytics

CASA

- Current account saw consistent growth, but value proposition is being redefined to gain acceleration
- Bank is improving CA acquisition via digitization and cross-sell
- For SA acquisition, digital on boarding has been facilitated to ramp up numbers significantly and lower costs
- It is also engaging with existing customer base through revamped value propositions to build balances
- Average CASA acquisition per month has rose from 83k in FY22 to 87.4k in H1FY23

Term deposits

- Term deposits continue to be the key component for deposit growth and the principal acquisition hook
- Bank has continued focus on individual customer segment to build a stable franchise
- Its share of Retail TD in the Total TD book has increased to 42% in Q2FY23 from 37% in Q4FY22 making the RTD book more stable
- Term deposits in conjunction with proposed wealth proposition will be a key driver to value build up.

Table 8: Focus is to scale up granular retail deposits

Rs bn	Q2FY17	Q2FY18	Q2FY19	Q2FY20	Q2FY21	Q2FY22	Q2FY23
CA deposits	3.6	12.7	21.1	33.6	32.8	35.7	50.4
YoY % change		*257%*	*66%*	*59%*	*-2%*	*9%*	*41%*
SA deposits	26.3	58.8	100.7	135.3	220.0	329.8	354.7
YoY % change		*124%*	*71%*	*34%*	*63%*	*50%*	*8%*
CASA deposits	29.9	71.5	121.8	168.9	252.8	365.5	405.1
YoY % change		*139%*	*70%*	*39%*	*50%*	*45%*	*11%*
Term deposits	148.9	181.9	207.8	314.1	408.5	453.5	588.6
YoY % change		*22%*	*14%*	*51%*	*30%*	*11%*	*30%*
Total deposits	**178.8**	**253.4**	**329.6**	**483.0**	**661.3**	**819.0**	**993.7**
YoY % change		***42%***	***30%***	***47%***	***37%***	***24%***	***21%***

% of total	Q2FY17	Q2FY18	Q2FY19	Q2FY20	Q2FY21	Q2FY22	Q2FY23
CA deposits	2%	5%	6%	7%	5%	4%	5%
SA deposits	15%	23%	31%	28%	33%	40%	36%
CASA deposits	17%	28%	37%	35%	38%	45%	41%
Term deposits	83%	72%	63%	65%	62%	55%	59%
Total deposits	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company data, I-Sec research.

Financial summary

Table 9: Profit and loss statement

(Rs mn, year ending Mar 31)

Rs mn	FY17	FY18	FY18 Merged	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Interest Income	24,035	30,322	36,900	51,671	63,239	75,634	87,140	1,04,251	1,20,856
% Growth	158	26	NM	70	22.4	19.6	15.2	19.6	15.9
Fee income	3,204	4,045	4,490	6,464	7,842	4,956	5,452	11,331	13,560
Add: Other income	910	3,017	3,083	4,710	7,650	15,985	22,232	10,223	11,196
Total Net Income	**28,149**	**37,384**	**44,474**	**62,845**	**78,731**	**96,575**	**1,14,824**	**1,25,805**	**1,45,612**
% Growth	160	33	NM	68	25	23	19	10	16
Less: Operating Expenses	(10,220)	(13,083)	(14,176)	(19,380)	(24,265)	(28,172)	(35,234)	(44,107)	(52,046)
Pre-provision operating profit	**17,929**	**24,301**	**30,298**	**43,465**	**54,466**	**68,403**	**79,590**	**81,698**	**93,566**
NPA Provisions	**(478)**	**(2,261)**	**(2,586)**	**(6,519)**	**(5,031)**	**(990)**	**-**	**(30,584)**	**(24,178)**
Other provisions	(407)	(1,481)	(1,481)	(666)	(8,900)	(37,926)	(78,304)	(888)	(918)
PBT	**17,045**	**20,559**	**26,231**	**36,280**	**40,534**	**29,487**	**1,286**	**50,226**	**68,470**
Less: taxes	(5,925)	(7,103)	(8,747)	(12,294)	(10,297)	(7,432)	(28)	(11,185)	(15,954)
PAT	**11,119**	**13,456**	**17,483**	**23,987**	**30,237**	**22,055**	**1,258**	**39,041**	**52,516**
% Growth	304	21	NM	37	26	(27)	(94)	3,004	35

Source: Company data, I-Sec research

Table 10: Balance sheet

(Rs mn, year ending Mar 31)

	FY17	FY18	FY18 Merged	FY19	FY20	FY21	FY22	FY23E	FY24E
Capital	10,951	11,928	16,101	16,101	16,102	16,106	16,108	16,108	16,108
Reserve & Surplus	33,513	81,891	97,444	1,14,831	1,35,852	1,57,976	1,57,704	1,94,437	2,44,996
Deposits	2,32,287	3,38,690	3,38,690	4,32,316	5,70,815	7,79,722	9,63,306	11,55,967	13,64,041
Borrowings	10,289	2,850	1,43,096	1,70,833	1,62,192	1,69,604	1,99,212	1,52,636	1,49,952
Other liabilities	15,320	7,741	9,794	16,996	32,217	26,523	52,336	62,441	72,555
Total liabilities	**3,02,361**	**4,43,101**	**6,05,125**	**7,51,077**	**9,17,178**	**11,49,931**	**13,88,665**	**15,81,588**	**18,47,652**
Cash & Bank Balances	73,650	55,106	55,874	69,407	83,529	61,929	93,214	79,212	89,461
Investment	55,165	83,719	85,299	1,01,858	1,53,518	2,51,554	2,90,787	3,19,866	3,58,250
Advances	1,68,391	2,97,130	4,51,646	5,69,317	6,66,299	8,16,129	9,39,749	11,27,699	13,30,685
Fixed Assets	2,518	2,381	2,535	3,463	3,688	4,867	5,879	5,119	5,633
Other Assets	2,637	4,764	9,770	7,032	10,144	15,451	59,037	49,693	63,623
Total Assets	**3,02,361**	**4,43,101**	**6,05,125**	**7,51,077**	**9,17,178**	**11,49,931**	**13,88,665**	**15,81,588**	**18,47,652**
% Growth	52	47	NM	24	22	25	21	14	17

Source: Company data, I-Sec research

Table 11: Du-Pont analysis

(%, year ending Mar 31)

	FY17	FY18	FY18 Merged	FY19	FY20	FY21	FY22	FY23E	FY24E
Interest income	15.6	12.9	NM	12.7	13.1	12.1	10.9	11.2	11.3
Interest expense	(6.0)	(4.7)	NM	(5.1)	(5.5)	(4.8)	(4.1)	(4.2)	(4.3)
NII	**9.6**	**8.1**	NM	**7.6**	**7.6**	**7.3**	**6.9**	**7.0**	**7.0**
Other income	0.4	0.8	NM	0.7	0.9	1.5	1.8	0.7	0.7
Fee income	1.3	1.1	NM	1.0	0.9	0.5	0.4	0.8	0.8
Total income	**11.2**	**10.0**	NM	**9.3**	**9.4**	**9.3**	**9.0**	**8.5**	**8.5**
Operating expenses	(4.1)	(3.5)	NM	(2.9)	(2.9)	(2.7)	(2.8)	(3.0)	(3.0)
Operating profit	**7.1**	**6.5**	NM	**6.4**	**6.5**	**6.6**	**6.3**	**5.5**	**5.5**
NPA provision	(0.2)	(0.6)	NM	(1.0)	(0.6)	(0.1)	-	(2.1)	(1.4)
Total provisions	**(0.4)**	**(1.0)**	NM	**(1.1)**	**(1.7)**	**(3.8)**	**(6.2)**	**(2.1)**	**(1.5)**
PBT	**6.8**	**5.5**	NM	**5.4**	**4.9**	**2.9**	**0.1**	**3.4**	**4.0**
Tax	(2.4)	(1.9)	NM	(1.8)	(1.2)	(0.7)	(0.0)	(0.8)	(0.9)
PAT	**4.4**	**3.6**	NM	**3.5**	**3.6**	**2.1**	**0.1**	**2.6**	**3.1**

Source: Company data, I-Sec research
NM: Not meaningful
Note: From FY19onwards numbers are on merged basis with GRUH Finance

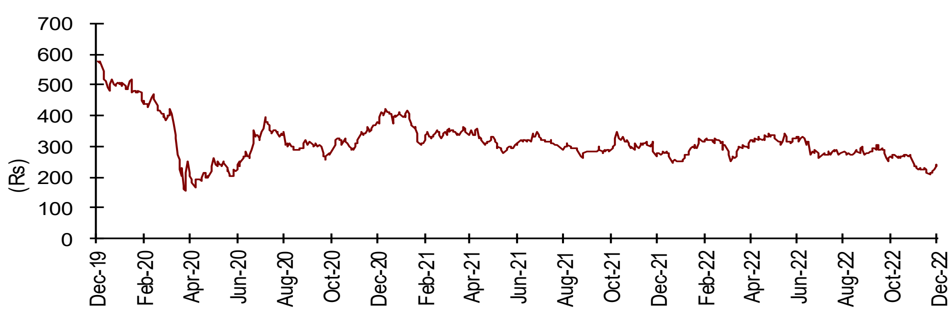
Table 12: Key ratios

(Year ending Mar 31)

	FY17	FY18	FY18 Merged	FY19	FY20	FY21	FY22	FY23E	FY24E
Per share data									
EPS – Diluted (Rs)	10.2	11.3	10.9	14.9	18.8	14	1	24	33
% Growth	304.1	11.1	NM	37.2	26.0	-27.1	-94.3	NM	34.5
DPS (Rs)	-	1.00	1.00	1.50	-	2.20	2.20	2.20	2.20
Book Value per share (BVPS) (Rs)	40.6	78.7	70.5	81.3	94.4	108.1	107.9	130.7	162.1
% Growth	33.3	93.7	NM	15.3	16.0	14.5	-0.2	21.1	24.0
Adjusted BVPS (Rs)	40.0	77.2	69.8	80.1	92.6	94.8	100.6	122.1	154.1
% Growth	31.9	92.8	NM	14.8	15.5	2.4	6.2	21.4	26.2
Valuations									
Price / Earnings (x)	23.2	20.9	21.7	15.8	12.5	17.2	301.6	9.7	7.2
Price / Book (x)	5.8	3.0	3.3	2.9	2.5	2.2	2.2	1.8	1.5
Price / Adjusted BV (x)	5.9	3.1	3.4	2.9	2.5	2.5	2.3	1.9	1.5
Asset Quality									
Gross NPA (Rs mn)	863	3,731	4,432	9,337	9,928	57,578	63,808	76,385	72,855
Gross NPA (%)	0.5	1.2	1.0	1.6	1.5	6.8	6.2	6.1	5.1
Net NPA (Rs mn)	612	1,729	1,729	2,888	3,894	28,610	15,642	18,473	17,261
Net NPA (%)	0.4	0.6	0.4	0.5	0.6	3.5	1.6	1.6	1.2
NPA Coverage ratio (%)	29	53.7	61.0	69.1	60.8	50.3	75.5	75.8	76.3
Gross Slippages (%)	0.8	2.1	2.1	2.6	2.6	8.1	9.1	6.8	2.7
Credit Cost (%)	0.33	0.97	NM	1.39	2.2	5.1	8.5	2.9	2.0
Net NPL/Net worth	1.4	1.8	1.5	2.2	2.6	16.4	9.0	8.8	6.6
Business ratios (%)									
ROAA	4.4	3.6	NM	3.5	3.6	2.1	0.1	2.6	3.1
ROAE	28.6	19.5	NM	19.6	21.4	13.5	0.7	20.3	22.3
Credit Growth	35.4	76.5	NM	26.1	17.0	22.5	15.1	20.0	18.0
Deposits Growth	92.2	45.8	NM	27.6	32.0	36.6	23.5	20.0	18.0
CASA	29.4	34.3	NM	40.8	36.8	43.4	41.6	47.0	50.0
Credit / Deposit Ratio	72.5	87.7	NM	131.7	116.7	104.7	97.6	97.6	97.6
Cost-Income ratio	36.3	35.0	NM	30.8	30.8	29.2	30.7	35.1	35.7
Operating Cost / Avg. Assets	4.1	3.5	NM	2.9	2.9	2.7	2.8	3.0	3.0
Fee Income / Total Income	11.4	10.8	NM	10.3	10.0	5.1	4.7	9.0	9.3
Earnings ratios									
Yield on Advances	21.3	17.8	NM	14.9	15.4	14.7	13.9	14.2	13.8
Yield on Earning Assets	15.9	14.4	NM	12.9	13.2	12.3	11.3	11.7	11.8
Cost of Deposits	7.3	6.5	NM	5.4	6.1	6.0	5.8	5.8	5.7
Cost of Funds	7.6	6.6	NM	6.3	6.8	5.9	4.9	5.1	5.2
NIM	9.8	9.1	NM	7.8	7.7	7.4	7.1	7.3	7.3
Capital Adequacy (%)									
RWA (Rs mn)	1,74,927	3,12,662	4,00,628	4,97,013	6,02,976	7,73,733	9,72,066	11,38,744	13,30,310
Tier I	25.4	30.0	28.3	26.3	25.2	22.5	17.9	18.5	19.6
CAR	25.8	30.4	28.8	26.8	25.7	22.9	18.3	18.9	20.1

Source: Company data, I-Sec research
NM: Not meaningful
Note: From FY19onwards numbers are on merged basis with GRUH Finance

Price chart



Source: Bloomberg

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