

On the path to recovery; to diversify loan book further

Audit findings and RBI approval for a fresh CEO term remain near-term challenges

We hosted Mr. C S Ghosh – MD & CEO, Mr Rajeev Mantri – CFO, and Mr Vikash Mundhra – Head IR from Bandhan Bank to gain insights into the progress the bank is making and its long- term growth outlook. Following are the key takeaways:

Business growth to recover gradually; estimate 17-18% loan CAGR over FY24-26

Bandhan Bank has experienced volatility in growth and asset quality performance due to unfavorable geographical factors, persisting problems in the MFI business, and high concentration in troubled states. The bank has, therefore, reported modest AUM growth of 6.3% during FY24YTD with the SME and housing sectors driving growth, while the MFI sector lagged behind with a muted 2% YTD growth. With the fourth quarter being seasonally strong and stress level moderating steadily in the MFI business, we anticipate an acceleration in growth. We estimate a 15% YoY growth for FY24, followed by a sustained 17-18% CAGR over FY24-26.

The MFI loan mix to moderate to ~45%; geographical mix to improve too

The MFI loan mix has moderated to 50% of the portfolio from ~65% two years ago as the bank has been focused on pursuing growth in secured lending segments. Management aims to further diversify the loan book and has guided to reduce the mix of MFI loans to 45% over the next few years. The bank also intends to cross-sell and upsell products such as credit cards, although this is not likely to form a significant portion of the portfolio. Additionally, the bank plans to diversify geographically by strengthening its presence in new states such as Andhra Pradesh and Telangana, while also expanding its portfolio in Uttar Pradesh, Bihar, Madhya Pradesh, and Gujarat. We anticipate that this portfolio and geographical diversification strategy will lead to improved risk-adjusted margins and return on assets in the long term.

Margins to moderate in the medium term as loan diversification continues; funding costs remain elevated

Bandhan Bank's margins have moved in a narrow range during recent quarters; however, margins have moderated sharply over the past two years. The transition to a more secure loan book in the medium term is expected to exert further pressure on lending yields. However, Bandhan Bank has outstanding RIDF bonds of ~INR70b maturity, which is likely to support overall yields in the medium term. The diversification into non-microfinance segments, such as lower-yielding housing loans, is projected to structurally improve the quality of earnings and deliver superior risk-adjusted returns. Additionally, with 70% of the portfolio tied to fixed rates, the bank stands to benefit as the rate cycle turns. Moreover, moderation in the slippage run-rate also leads to a decline in interest reversals. We, thus, expect the bank to maintain broadly stable NIMs in the near term, with a slight moderation expected over FY24-26.

Bandhan bank



Mr. Chandra Shekhar Ghosh, MD & CEO

Mr. Ghosh has been one of India's foremost proponents of financial inclusion. He has more than three decades of experience in MFI and development banking. He founded Bandhan in 2001, and the entity transformed into a universal bank in 2015. Under Mr. Ghosh's leadership, the bank, with a pan-India presence, caters to ~32m customers and has more than 74,000 employees.

Liability franchise progressing well; Credit-to-Deposit (CD) ratio to improve further

Bandhan Bank is focused on scaling up its liability franchise and it has grown its deposit base at a healthy CAGR of ~20% over the past four years. The mix of retail deposits has also remained healthy at ~71%. Bandhan Bank's CD ratio has thus improved to ~94% currently from ~105% in FY21. We estimate this to further improve to 92% by FY26. The bank aims to launch new products targeting NRI, senior citizens, and women customers to sustain healthy deposit growth. As part of the liability-first strategy, the bank is also investing in its branches and expanding geographically. Alongside, the bank is also aiming to build its current account (CA) book by cross-selling to its existing SME users, as out of the total CASA mix of ~36% the CA mix is only 5.7%. We expect the liability franchise to report ~19% CAGR over FY24-26.

Asset quality to improve gradually; CGFMU recovery and the audit report remain the key monitorables

Bandhan Bank has witnessed high asset quality pressures over the past few years, with persistent stress in the MFI segment. The ongoing asset quality cleanup has thus led to a decline in the SMA book in the MFI segment to 3.3% currently from 11.1% two years ago. While the new book formed after the Covid disruption has been performing well, the bank expects residual stress to continue from the older book, albeit at a more moderate pace. During 3QFY24, the bank also experienced higher slippages due to system migration. However, this is considered a one-time occurrence, and we expect the asset quality to improve over the coming quarters.

- The bank anticipates completing the CGFMU recovery of INR12.96b in the next few months. However, we remain watchful of the ongoing audit and are not factoring in any recovery in our estimates.
- The bank has limited exposure in Punjab and thus does not appear perturbed by the incremental stress arising from this state. Management also suggested that delinquencies in rural areas are currently lower than urban regions, which bodes well for rural-dominated franchisees such as Bandhan Bank.
- We thus estimate the bank's GNPA/NNPA ratio to moderate to 4.3%/1.3% by FY26, while credit costs to sustain at an average of 1.8% over FY25-26E.

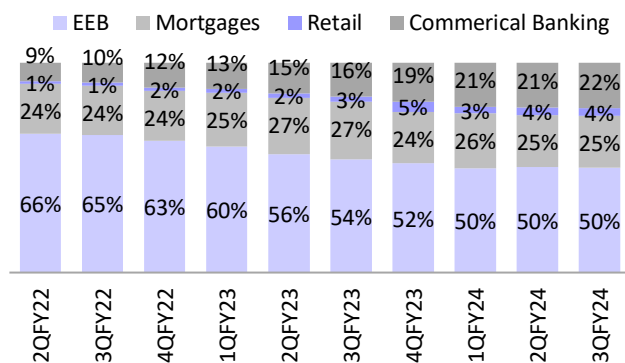
Valuation and view: FY26E RoE to recover to 17%; reiterate Neutral with a TP of INR220

We believe Bandhan Bank's strategy to diversify away from the MFI segment, focus on restoring asset quality, and pursue geographical diversification is heading in the right direction for long-term sustainability.

- We note that the stock has seen significant de-rating and it now trades at 1.1x FY26E ABV. The ongoing audit regarding the CGFMU claim has hit sentiments and remains a major overhang on the stock performance in near term. Further, the RBI's approval for a fresh CEO term is also a key monitorable.
- The bank has recently hired several key management personnel to drive its overall business performance. The management bandwidth has thus expanded with the onboarding of Mr Rajinder Kumar Babbar – ED & Chief Business Officer, Mr Ratan Kumar Kesh – ED and Chief Operating Officer, Mr Santosh Nair – Head Consumer Lending and Mortgages, and Mr Rajeev Mantri – CFO. The bank now has two Executive Directors on the Board vs. the regulatory requirement of having a minimum of one ED.
- We expect Bandhan Bank to deliver steady improvement in RoA/RoE to about 2%/17% by FY26, driven by loan growth recovery, moderation in credit costs, and largely stable margins. **We reiterate our Neutral rating on the stock with a TP of INR220 (based on 1.3x FY26E ABV).**

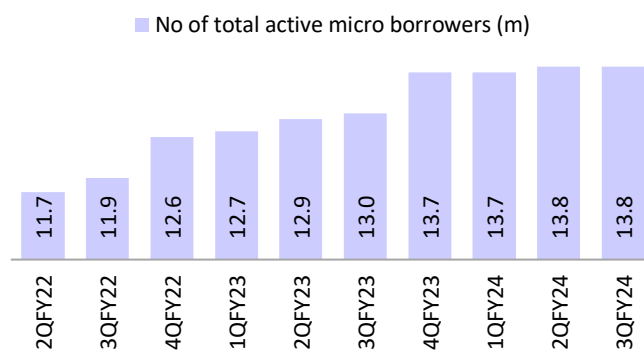
STORY IN CHARTS

Exhibit 1: Portfolio mix (%) diversifies away from MFI



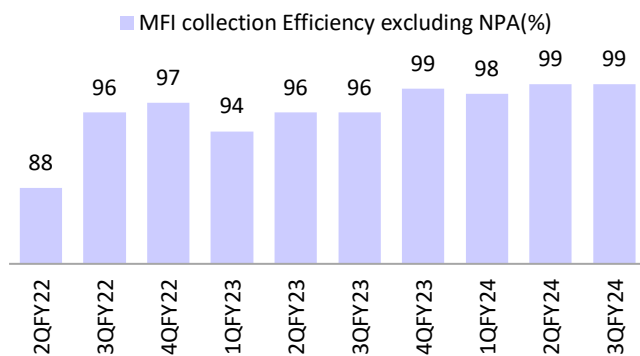
Source: MOFSL, Company

Exhibit 2: Active MFI borrower base grows at a steady pace



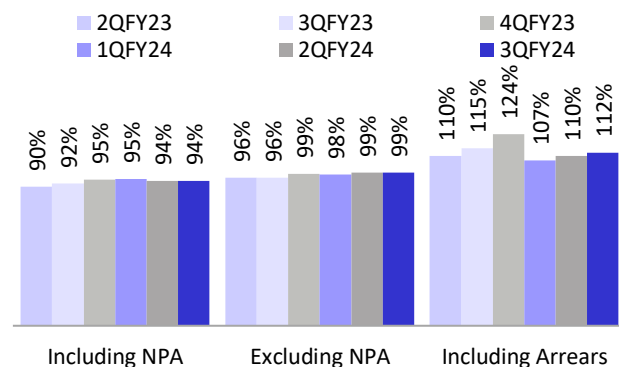
Source: MOFSL, Company

Exhibit 3: MFI collection efficiency (%), excluding NPA, increases to 99% in 3QFY24



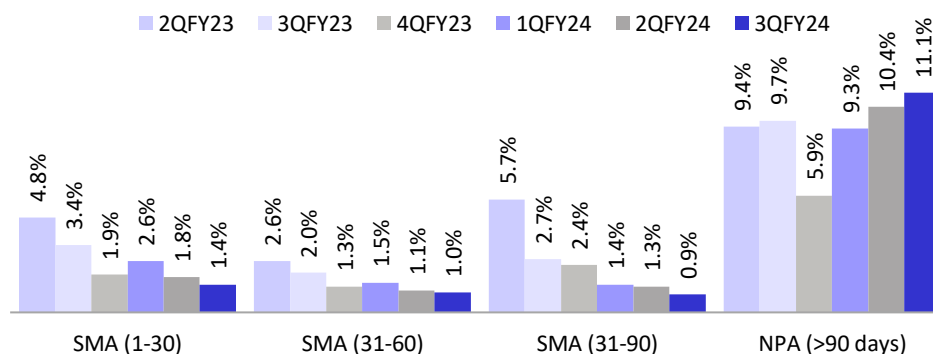
Source: MOFSL, Company

Exhibit 4: QoQ comparison in MFI collection efficiency



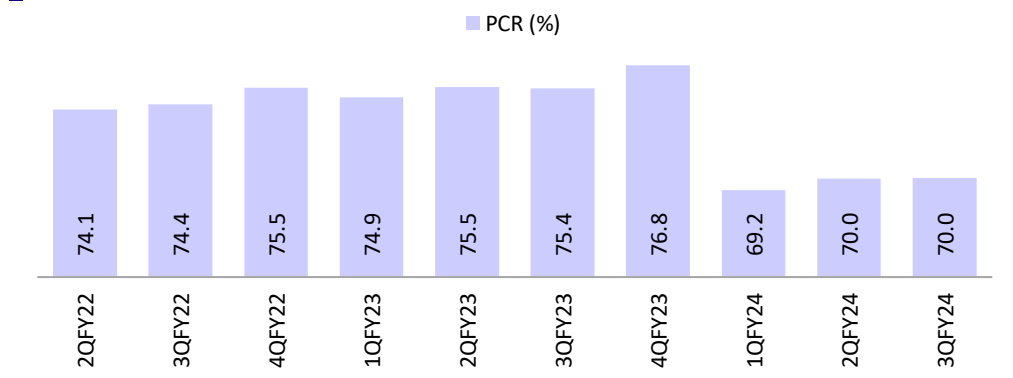
Source: MOFSL, Company

Exhibit 5: Asset quality trends across buckets in the MFI portfolio



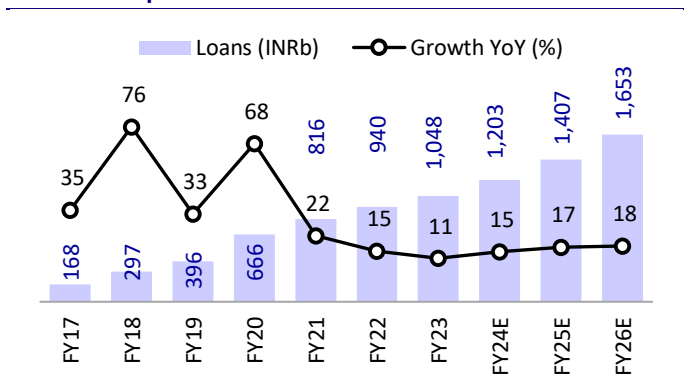
Source: MOFSL, Company

Exhibit 6: Provision coverage ratio sustains at ~70% in 3QFY24



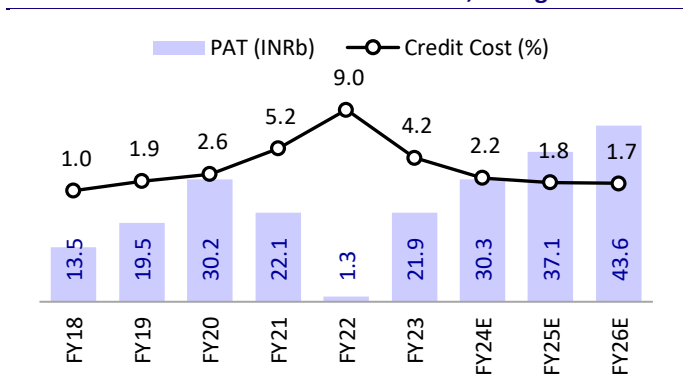
Source: MOFSL, Company

Exhibit 7: Expect 18% CAGR in loans over FY24-26



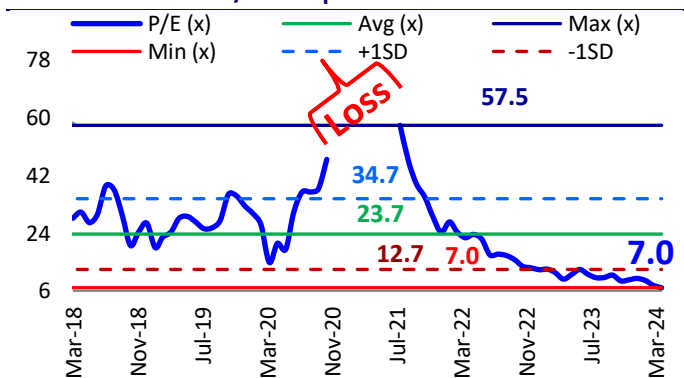
Source: MOFSL, Company

Exhibit 8: Credit cost to remain in control, aiding PAT



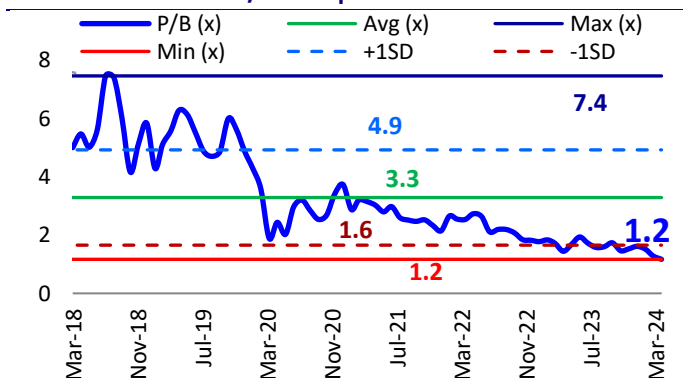
Source: MOFSL, Company

Exhibit 9: Trend in P/E multiple of the bank



Source: MOFSL, Company

Exhibit 10: Trend in P/B multiple of the bank



Source: MOFSL, Company

Financials and valuations

Income Statement

(INR M)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	66,441	1,08,855	1,25,242	1,38,711	1,59,047	1,99,508	2,27,686	2,62,176
Interest Expense	21,480	45,616	49,609	51,571	66,451	98,242	1,12,192	1,29,452
Net Interest Income	44,961	63,239	75,634	87,140	92,596	1,01,266	1,15,494	1,32,724
Growth (%)	48.3	40.7	19.6	15.2	6.3	9.4	14.0	14.9
Non Interest Income	10,630	15,492	20,223	28,228	24,686	21,476	25,342	30,411
Total Income	55,591	78,731	95,856	1,15,368	1,17,282	1,22,743	1,40,836	1,63,134
Growth (%)	48.7	41.6	21.8	20.4	1.7	4.7	14.7	15.8
Operating Expenses	18,110	24,265	28,169	35,234	46,368	56,665	67,336	78,392
Pre Provision Profits	37,482	54,466	67,687	80,134	70,913	66,077	73,500	84,742
Growth (%)	54.2	45.3	24.3	18.4	-11.5	-6.8	11.2	15.3
Core PPOp	37,104	53,332	65,468	77,364	71,973	67,349	75,026	86,573
Growth (%)	55.7	43.7	22.8	18.2	-7.0	-6.4	11.4	15.4
Provisions	7,351	13,932	38,201	78,848	41,984	25,833	24,423	27,057
PBT	30,131	40,534	29,487	1,286	28,930	40,244	49,077	57,685
Tax	10,616	10,297	7,432	28	6,983	9,981	12,024	14,133
Tax Rate (%)	35.2	25.4	25.2	2.2	24.1	24.8	24.5	24.5
PAT	19,515	30,237	22,055	1,258	21,946	30,264	37,053	43,552
Growth (%)	45.0	54.9	-27.1	-94.3	1,644.6	37.9	22.4	17.5

Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	11,931	16,102	16,106	16,108	16,108	16,108	16,108	16,108
Reserves & Surplus	1,00,087	1,35,852	1,57,976	1,57,704	1,79,733	2,00,521	2,26,204	2,58,386
Net Worth	1,12,017	1,51,955	1,74,082	1,73,812	1,95,842	2,16,630	2,42,312	2,74,494
Deposits	4,32,316	5,70,815	7,79,722	9,63,306	10,80,693	12,62,250	15,04,601	17,96,494
Growth (%)	27.6	32.0	36.6	23.5	12.2	16.8	19.2	19.4
- CASA Dep	1,76,177	2,10,285	3,38,273	4,00,792	4,24,552	4,64,508	5,74,758	7,06,022
Growth (%)	51.6	19.4	60.9	18.5	5.9	9.4	23.7	22.8
Borrowings	5,214	1,63,792	1,69,604	1,99,212	2,47,108	1,87,802	2,15,973	2,48,368
Other Liabilities & Prov.	14,870	30,617	26,754	53,622	34,057	42,230	50,677	60,812
Total Liabilities	5,64,417	9,17,178	11,50,162	13,89,952	15,57,700	17,08,912	20,13,563	23,80,168
Current Assets	58,027	83,529	62,283	93,214	82,497	74,411	81,285	96,721
Investments	1,00,375	1,53,518	2,51,554	2,90,787	3,23,659	2,97,766	3,51,364	4,18,123
Growth (%)	19.9	52.9	63.9	15.6	11.3	-8.0	18.0	19.0
Loans	3,96,434	6,66,299	8,16,129	9,39,749	10,47,568	12,02,608	14,07,051	16,53,285
Growth (%)	33.4	68.1	22.5	15.1	11.5	14.8	17.0	17.5
Fixed Assets	3,312	3,688	4,868	5,879	8,546	10,255	11,691	13,328
Other Assets	6,270	10,144	15,329	60,323	95,430	1,23,871	1,62,172	1,98,712
Total Assets	5,64,417	9,17,178	11,50,162	13,89,952	15,57,700	17,08,912	20,13,563	23,80,168

Asset Quality	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA	8,196	9,928	57,578	63,800	52,986	77,050	69,915	74,095
NNPA	2,283	3,894	28,610	15,642	12,283	22,766	20,372	21,329
GNPA Ratio	2.0	1.5	6.8	6.5	4.9	6.1	4.8	4.3
NNPA Ratio	0.6	0.6	3.5	1.7	1.2	1.9	1.4	1.3
Slippage Ratio	2.2	2.0	9.3	10.7	9.7	5.2	4.0	3.7
Credit Cost	1.9	2.6	5.2	9.0	4.2	2.2	1.8	1.7
PCR (Excl Tech. write off)	72.1	60.8	50.3	75.5	76.8	70.5	70.9	71.2

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Spread Analysis (%)								
Avg. Yield- on Earning Assets	14.2	15.4	12.7	11.7	11.8	13.3	13.5	13.2
Avg. Yield on loans	16.5	17.9	14.7	13.9	13.9	15.7	15.6	15.3
Avg. Yield on Investments	6.7	6.6	5.9	5.5	6.2	6.8	6.9	6.8
Avg. Cost of Int. Bear. Liab.	6.0	8.3	6.2	5.1	5.6	7.4	7.5	7.3
Avg. Cost of Deposits	5.4	6.6	5.9	5.0	4.9	6.3	6.4	6.3
Interest Spread	8.2	7.2	6.5	6.6	6.2	5.9	6.0	5.9
Net Interest Margin	9.6	9.0	7.7	7.4	6.9	6.8	6.8	6.7
Capitalisation Ratios (%)								
CAR	29.2	27.4	23.5	20.1	19.8	19.2	17.4	15.9
CET-1	27.9	25.2	22.5	18.9	18.7			
Tier I	27.9	25.2	22.5	18.9	18.7	18.2	16.6	15.3
Tier II	1.3	2.2	1.0	1.2	1.1	0.9	0.8	0.6

Business and Efficiency Ratios (%)

Loans/Deposit Ratio	91.7	116.7	104.7	97.6	96.9	95.3	93.5	92.0
CASA Ratio	40.8	36.8	43.4	41.6	39.3	36.8	38.2	39.3
Cost/Assets	3.2	2.6	2.4	2.5	3.0	3.3	3.3	3.3
Cost/Total Income	32.6	30.8	29.4	30.5	39.5	46.2	47.8	48.1
Cost/Core income	32.8	31.3	30.1	31.3	39.2	45.7	47.3	47.5
Int. Expense/Int.Income	32.3	41.9	39.6	37.2	41.8	49.2	49.3	49.4
Fee Income/Total Income	18.4	18.2	18.8	22.1	22.0	18.5	19.1	19.8
Non Int. Inc./Total Income	19.1	19.7	21.1	24.5	21.0	17.5	18.0	18.6
Empl. Cost/Total Expense	55.7	56.3	59.1	60.6	58.6	58.5	58.0	57.8
Business per Employee (INR m)	25.6	31.1	32.3	31.6	30.5	33.2	35.4	38.9
Proift per Employee (INR m)	0.6	0.8	0.4	0.0	0.3	0.4	0.5	0.5
Investment/Deposit Ratio	23.2	26.9	32.3	30.2	29.9	23.6	23.4	23.3

Profitability Ratios and Valuation

RoE	19.0	22.9	13.5	0.7	11.9	14.7	16.1	16.9
RoA	3.9	4.1	2.1	0.1	1.5	1.9	2.0	2.0
RoRWA	5.6	6.2	3.3	0.2	2.3	2.8	2.9	2.7
Book Value (INR)	94	94	108	108	122	134	150	170
Growth (%)	19.4	0.5	14.5	-0.2	12.7	10.6	11.9	13.3
Price-BV (x)	2.0	2.0	1.7	1.7	1.5	1.4	1.2	1.1
Adjusted BV (INR)	93	93	96	101	116	125	142	161
Price-ABV (x)	2.0	2.0	2.0	1.9	1.6	1.5	1.3	1.2
EPS (INR)	16.4	21.6	13.7	0.8	13.6	18.8	23.0	27.0
Growth (%)	39.1	31.9	-36.5	-94.3	1,644.5	37.9	22.4	17.5
Price-Earnings (x)	11.5	8.7	13.7	240.2	13.8	10.0	8.2	6.9
Dividend Per Share (INR)	1.2	3.8	1.0	0.0	4.7	5.9	7.1	7.1
Dividend Yield (%)	0.6	2.0	0.5	0.0	2.5	3.1	3.8	3.8

E: MOFSL Estimates

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