

### Strong Show !!!

**Bandhan Bank's Q4FY23 PAT came in at Rs 80.8 bn, up 178% qoq led by improvement in advances, better margins and improved asset quality. Other key highlights for the quarter are –**

- The loan portfolio grew by 10% yoy and 12% qoq to INR 1091.2 bn. Within this, EEB (Emerging Entrepreneurs Business) showed de-growth of 9% (52% share) while the entire growth during the year has come from the non-MFI loans. Mortgages grew by 12.8% yoy (24.4% share), commercial banking by 72.6% yoy (18.5% share) and retail loans by 2.3x growth (5% share).
- Going forward, the bank expects to grow advances by 20% in FY24 which will be driven by retail assets. Also, there is focus on continued diversification of geographies and product segments.
- The company has been on-track to diversify its asset portfolio into areas other than microfinance. The company increased the share of its commercial banking assets from 27% in FY22 compared to 35% in FY23 and retail assets from 2% in FY22 to 5% in FY23. The company reduced the share of its microfinance assets (EEB loans) from 47% in FY22 to 35% in FY23.
- On the liability side, deposits showed 12% yoy and 6% qoq growth to INR 1081 bn which was largely driven by bulk TDs (42% yoy growth). Barring high-cost bulk deposits, deposit growth showed lower growth rate of 3.5% yoy in FY23. CASA grew by 6% yoy to INR 425 bn. Management expects CASA ratio to be at ~40% in FY24 vs. 39% currently
- For Q4FY23 quarter, margins improved by 80 bps qoq while it declined by 140 bps yoy to 7.3% levels led by elevated deposit cost and higher growth in low-yielding retail assets. For the full year FY23, margins fell by 100 bps to 7.2% levels. Bank expects the margins to remain at current levels of ~7-7.5% in FY24. In our view, repricing of high-cost bulk deposits at lower rates in FY24 should get compensated by change in the mix of the loan book more towards low-yielding retail assets. Hence, margins should be maintained at current levels of FY24.
- The key highlight for the quarter was sizeable improvement asset quality. GNPA/NNPA declined to 4.9%/1.2% in Q4FY23 vs. 7.2%/1.9% in Q3FY23. Credit cost for the full year FY23 had fallen to 4.3% vs. 9.3% last year FY22.
- Collection efficiency improved to 98.5% in FY23 compared to 96% in FY22. The credit cost of the company is expected to be ~2% in FY24

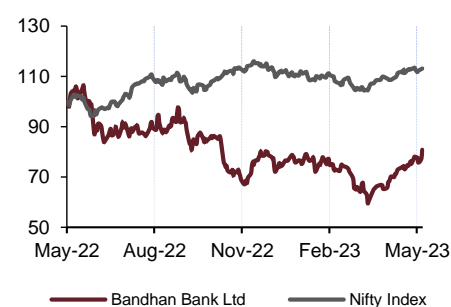
Rating	TP (Rs)	Up/Dn (%)
<b>BUY</b>	<b>320</b>	<b>26</b>

#### Market data

Current price	Rs	254
Market Cap (Rs.Bn)	(Rs Bn)	409
Market Cap (US\$ Mn)	(US\$ Mn)	4,936
Face Value	Rs	10
52 Weeks High/Low	Rs	336 / 182
Average Daily Volume	('000)	12,625
BSE Code		541153
Bloomberg		BANDHAN.IN

Source: Bloomberg

### One Year Performance



Source: Bloomberg

% Shareholding	Mar-23	Dec-22
Promoters	39.99	39.99
Public	60.01	60.01
<b>Total</b>	<b>100</b>	<b>100</b>

Source: Bloomberg

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- Operating expenses increased by 31.7% yoy and 9.5% qoq.
- Capital Adequacy Ratio stood at 19.8% as of March 2023.
- Bandhan Bank, which was majorly focused in serving West Bengal and Assam (East India) for its microfinance portfolio, improved its geographic diversity. East India now accounts for less than 50% of the bank's customer base for the bank.
- The company added 37 lakh customers in FY22-23, of which 14 lakh customers were added in Q4 FY23.
- ROA improved from 0.8% in Q3 FY23 to 2.2% in Q4 FY23 largely driven by lower credit cost. It expects ROA ~2.6-2.8% in FY24
- ROE improved from 6% in Q3 FY23 to 17% in Q4 FY23. Going forward, the bank expects ROE to remain in the range of ~18-20% in FY24.
- The company's strategy for FY23-24 is to continue to dominate West Bengal and the East India market, identify and enter into high-potential and premium pan-India markets, focus on increasing revenues from their newly offered products- commercial vehicle lending, loan against property and government business operations.

## Outlook and Valuations

It is trading at 1.4x FY25e ABV on ROE/ROA of 22%/>2.5%. We are positively biased on the stock. Given the fact that, largely NPLs are provided for, improved collection efficiency post COVID, increased demand and higher growth visibility in micro-finance loan book, makes us positively biased on the stock.

**We assign TP of INR 320, upside of 26% from the current levels.**

## Financials:

## Quarterly Financials

Particulars (in Rs Mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Interest earned</b>	<b>42,683</b>	<b>38,719</b>	<b>10.2</b>	<b>38,076</b>	<b>12.1</b>	<b>1,59,047</b>	<b>1,38,716</b>	<b>14.7</b>
-Interest/discount on advances/bills	36,984	34,404	7.5	32,603	13.4	1,37,752	1,21,839	13.1
-Income on investments	5,021	4,031	24.6	4,864	3.2	18,863	14,783	27.6
-Interest on bal. with RBI	98	187	-47.9	141	-31.0	694	1,405	-50.6
-Others	579	97	496.7	468	23.8	1,739	689	152.5
Interest expenses	17,965	13,317	34.9	17,272	4.0	66,451	51,571	28.9
<b>Net Interest Income (NII)</b>	<b>24,718</b>	<b>25,402</b>	<b>-2.7</b>	<b>20,804</b>	<b>18.8</b>	<b>92,596</b>	<b>87,145</b>	<b>6.3</b>
Other Income	6,291	9,721	-35.3	10,333	-39.1	24,686	28,225	-12.5
Total income	<b>31,009</b>	<b>35,123</b>	<b>-11.7</b>	<b>31,137</b>	<b>-0.4</b>	<b>1,17,282</b>	<b>1,15,370</b>	<b>1.7</b>
Operating expenses	<b>13,053</b>	<b>9,909</b>	<b>31.7</b>	<b>11,916</b>	<b>9.5</b>	<b>46,368</b>	<b>35,236</b>	<b>31.6</b>
-Employee cost	7,274	5,491	32.5	6,867	5.9	27,151	21,349	27.2
-Other operating expenses	5,778	4,418	30.8	5,049	14.5	19,217	13,887	38.4
<b>Operating profit</b>	<b>17,957</b>	<b>25,214</b>	<b>-28.8</b>	<b>19,222</b>	<b>-6.6</b>	<b>70,913</b>	<b>80,134</b>	<b>-11.5</b>
Provision for contingencies	7,348	47	15473.7	15,415	-52.3	41,984	78,848	-46.8
<b>PBT</b>	<b>10,609</b>	<b>25,167</b>	<b>-57.8</b>	<b>3,807</b>	<b>178.7</b>	<b>28,930</b>	<b>1,286</b>	<b>2149.2</b>
Provision for taxes	2,526	6,143	-58.9	901	180.3	6,983	28	24584.4
<b>Net profit</b>	<b>8,083</b>	<b>19,023</b>	<b>-57.5</b>	<b>2,906</b>	<b>178.2</b>	<b>21,946</b>	<b>1,258</b>	<b>1644.6</b>
Equity	16,108	16,108	0.0	16,108	0.0	16,108	16,108	0.0
EPS	5.0	11.8	-57.5	1.8	177.3	13.6	0.8	1644.6
<b>Ratios (%)</b>								
Int. exp/Int earned (%)	42.1	34.4	-	45.4	-	41.78	37.18	-
Cost/Income ratio (%)	42.1	28.2	-	38.3	-	39.54	30.54	-
Gross NPAs (Rs)	52,986	63,800	-16.9	63,800	-16.9	52,986	63,800	-16.9
Net NPAs (Rs)	12,283	15,642	-21.5	17,113	-28.2	12,283	15,642	-21.5
Gross NPAs (%)	4.9	6.5	-	7.2	-	4.9	6.5	-
Net NPAs (%)	1.2	1.7	-	1.9	-	1.2	1.7	-
PCR (%)	76.8	75.5	-	73.2	-	76.8	75.5	-
ROA (%)	0.6	1.5	-	0.2	-	1.6	0.1	-
CAR (%)	19.8	20.1	-	19.1	-	19.8	20.1	-

## Balance Sheet (Rs.mn)

Particulars (in Rs Mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Deposits	10,80,693	9,63,306	12.2	10,22,830	5.7	10,80,693	9,63,306	12.2
Advances	10,47,568	9,39,749	11.5	9,20,910	13.8	10,47,568	9,39,749	11.5

Source: Company, Dalal &amp; Broacha Research

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