

**BUY**

TP: Rs 270 | ▲ 35%

**BANDHAN BANK**

| Banking

| 12 February 2024

## Recovery on track

- **Healthy business growth drives 21% YoY rise in Q3 NII, though muted other income induces 14% fall in PPOP**
- **Reported NIM stable QoQ at 7.2% and guidance retained at 7-7.5%; sale to ARC lifts asset quality**
- **Retain BUY with slight change in TP to Rs 270 (vs. Rs 276), set at 1.6x FY26E ABV (vs. 1.9x on FY25E)**

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**Healthy recovery:** Bandhan Bank witnessed a healthy recovery in Q3FY24, wherein the loan book grew 20% YoY and deposits increased 15%, leading to NII growth of 21%. Despite a rise in deposit cost, the bank was able to maintain NIM (reported) at 7.2%, flat QoQ, aided by a rise in yield. The secured loan book stood at 44.4% of loans – on course to reaching the bank’s 50% target by FY26. Management is also targeting a cost-to-asset ratio of 3.5% vs. 3.6% guided for FY24, as most of the bank’s technological transformation is complete.

**NIM guidance maintained:** The bank expects cost pressure to continue for another 1-2 quarters but believes higher yields would help it maintain NIM at current levels (target NIM of 7-7.5% for FY24). Other income declined 47% YoY in Q3 in the absence of treasury gains. Factoring in higher costs and subdued other income, we lower our PPOP assumptions by 8%/5%/4% for FY24/FY25/FY26 while raising provision estimates, leading to a 13%/8%/7% cut in PAT.

**Asset quality a key monitorable:** Slippages stayed elevated at Rs 13.9bn vs. Rs 13.2bn in Q2 (~45% of Q3 slippages stemmed from system migration followed by the festive season). The bank sold Rs 7.2bn of housing loans to the ARC, lifting asset quality – GNPA/NNPA stood at 7%/2.2% in Q3 vs. 7.3%/2.3% in Q2. Management expects to see controlled slippages and improvement in the SMA book, along with recovery from the CGFMU and ECLGS portfolios. Credit cost guidance remains at 2% (+/-20bps) for FY24; we conservatively factor in 2.2% each for FY24/FY25/FY26.

**Maintain BUY:** Baking in gradual improvement in both operational costs and asset quality, along with stable margins, we forecast a PAT CAGR of 30% over FY23-FY26, albeit on a lower base, with ROA/ROE rising to 2.1%/17.3% in FY26. We roll valuations over to 1.6x FY26E ABV using the Gordon Growth Model (earlier 1.9x on FY25E), leading to a slightly revised TP of Rs 270 (earlier Rs 276). The recent stock price correction provides a further investment opportunity. Maintain BUY.

## Key changes

| Target | Rating |
|--------|--------|
| ▼      | ◀ ▶    |

|                  |                   |
|------------------|-------------------|
| Ticker/Price     | BANDHAN IN/Rs 201 |
| Market cap       | US\$ 3.9bn        |
| Free float       | 60%               |
| 3M ADV           | US\$ 36.3mn       |
| 52wk high/low    | Rs 272/Rs 182     |
| Promoter/FPI/DII | 40%/33%/17%       |

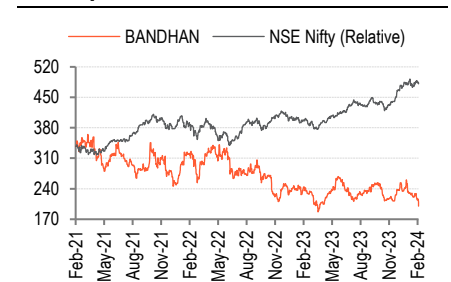
Source: NSE | Price as of 12 Feb 2024

## Key financials

| Y/E 31 Mar              | FY23A  | FY24E   | FY25E   |
|-------------------------|--------|---------|---------|
| Net interest income     | 92,596 | 102,759 | 124,946 |
| NII growth (%)          | 6.3    | 11.0    | 21.6    |
| Adj. net profit (Rs mn) | 21,946 | 31,205  | 39,546  |
| EPS (Rs)                | 13.6   | 19.4    | 24.5    |
| Consensus EPS (Rs)      | 13.6   | 19.6    | 24.8    |
| P/E (x)                 | 14.7   | 10.4    | 8.2     |
| P/BV (x)                | 1.7    | 1.4     | 1.3     |
| ROA (%)                 | 1.5    | 1.9     | 2.1     |
| ROE (%)                 | 11.9   | 14.9    | 16.4    |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly snapshot: Income statement**

| (Rs mn)   | Q3FY23        | Q4FY23        | Q1FY24        | Q2FY24        | Q3FY24        | YoY (%)       | QoQ (%)     |
|---|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| <b>Income Statement</b>                           |               |               |               |               |               |               |             |
| Interest Income                                   | 32,603        | 36,984        | 39,057        | 38,882        | 40,829        | 25.2          | 5.0         |
| Income on investments                             | 4,864         | 5,021         | 5,158         | 5,311         | 4,923         | 1.2           | (7.3)       |
| Int. on bal. with RBI & inter-bank funds & Others | 610           | 677           | 1,014         | 726           | 902           | 47.9          | 24.2        |
| <b>Interest income</b>                            | <b>38,076</b> | <b>42,683</b> | <b>45,229</b> | <b>44,919</b> | <b>46,654</b> | <b>22.5</b>   | <b>3.9</b>  |
| Interest expense                                  | 17,272        | 17,965        | 20,323        | 20,486        | 21,401        | 23.9          | 4.5         |
| <b>Net interest income</b>                        | <b>20,804</b> | <b>24,718</b> | <b>24,906</b> | <b>24,434</b> | <b>25,254</b> | <b>21.4</b>   | <b>3.4</b>  |
| Growth YoY (%)                                    | (2.1)         | (2.7)         | (0.9)         | 11.4          | 21.4          | 2,347bps      | 997bps      |
| <b>Non-interest income</b>                        | <b>10,333</b> | <b>6,291</b>  | <b>3,851</b>  | <b>5,403</b>  | <b>5,452</b>  | <b>(47.2)</b> | <b>0.9</b>  |
| Growth YoY (%)                                    | 45.7          | (34.8)        | 16.8          | 13.4          | (47.2)        | (9,298bps)    | (6,064bps)  |
| <b>Total income</b>                               | <b>31,137</b> | <b>31,009</b> | <b>28,757</b> | <b>29,836</b> | <b>30,705</b> | <b>(1.4)</b>  | <b>2.9</b>  |
| Growth YoY (%)                                    | 9.9           | (11.5)        | 1.1           | 11.8          | (1.4)         | (1,127bps)    | (1,316bps)  |
| Staff expenses                                    | 6,867         | 7,274         | 8,117         | 8,623         | 8,987         | 30.9          | 4.2         |
| Other operating expenses                          | 5,049         | 5,778         | 5,017         | 5,379         | 5,165         | 2.3           | (4.0)       |
| <b>Operating expenses</b>                         | <b>11,916</b> | <b>13,053</b> | <b>13,134</b> | <b>14,002</b> | <b>14,152</b> | <b>18.8</b>   | <b>1.1</b>  |
| <b>Pre-Provisioning Profit (PPoP)</b>             | <b>19,222</b> | <b>17,957</b> | <b>15,623</b> | <b>15,834</b> | <b>16,553</b> | <b>(13.9)</b> | <b>4.5</b>  |
| Growth YoY (%)                                    | (1.4)         | (28.8)        | (14.2)        | 2.0           | (13.9)        | (1,245bps)    | (1,585bps)  |
| Provisions  | 15,415        | 7,348         | 6,021         | 6,362         | 6,840         | (55.6)        | 7.5         |
| Growth YoY (%)                                    | 91.3          | 15473.7       | (6.3)         | (50.3)        | (55.6)        | 4,406bps      | (14,695bps) |
| Exceptional Item                                  |               |               |               |               |               |               |             |
| <b>PBT</b>  | <b>3,807</b>  | <b>10,609</b> | <b>9,602</b>  | <b>9,472</b>  | <b>9,713</b>  | <b>155.2</b>  | <b>2.5</b>  |
| Tax   | 901           | 2,526         | 2,392         | 2,261         | 2,386         | 164.8         | 5.5         |
| <b>PAT</b>  | <b>2,906</b>  | <b>8,083</b>  | <b>7,211</b>  | <b>7,212</b>  | <b>7,327</b>  | <b>152.2</b>  | <b>1.6</b>  |
| Growth YoY (%)                                    | (66.2)        | (57.5)        | (18.7)        | 244.6         | 152.2         | 21,834bps     | (9,244bps)  |
| <b>Per Share</b>                                  |               |               |               |               |               |               |             |
| FV (Rs)   | 10.0          | 10.0          | 10.0          | 10.0          | 10.0          | 0.0           | 0.0         |
| EPS (Rs)  | 1.8           | 5.0           | 4.5           | 4.5           | 4.6           | 151.4         | 1.8         |
| Book Value (Rs)                                   | 127           | 132           | 136           | 139           | 144           | 13.5          | 3.3         |

Source: Company, BOBCAPS Research

**Fig 2 – Quarterly snapshot: Key balance sheet & other metrics**

| (Rs mn)                     | Q3FY23    | Q4FY23    | Q1FY24    | Q2FY24    | Q3FY24    | YoY (%)   | QoQ (%)  |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|----------|
| Deposits                    | 1,022,830 | 1,080,693 | 1,084,800 | 1,120,792 | 1,174,200 | 14.8      | 4.8      |
| Growth YoY (%)              | 21.0      | 12.2      | 16.6      | 12.8      | 14.8      | (625bps)  | 200bps   |
| Advances                    | 920,910   | 1,047,568 | 981,970   | 1,020,277 | 1,101,800 | 19.6      | 8.0      |
| Growth YoY (%)              | 14.7      | 11.5      | 8.0       | 13.1      | 19.6      | 493bps    | 653bps   |
| Investment                  | 310,860   | 323,659   | 354,330   | 318,391   | 293,100   | (5.7)     | (7.9)    |
| Equity                      | 203,870   | 211,950   | 219,190   | 224,056   | 231,418   | 13.5      | 3.3      |
| Assets                      | 1,422,680 | 1,557,700 | 1,507,860 | 1,524,379 | 1,569,200 | 10.3      | 2.9      |
| Growth YoY (%)              | 17.3      | 12.1      | 6.8       | 9.7       | 10.3      | (704bps)  | 60bps    |
| <b>Yield (%)</b>            |           |           |           |           |           |           |          |
| Yield on Funds              | 11.65     | 12.32     | 12.62     | 12.66     | 12.91     | 126bps    | 25bps    |
| Cost of Funds               | 5.80      | 5.67      | 6.25      | 6.41      | 6.59      | 79bps     | 18bps    |
| Spread                      | 5.85      | 6.65      | 6.38      | 6.25      | 6.31      | 46bps     | 7bps     |
| Net Interest Margin (calc.) | 6.37      | 7.13      | 6.95      | 6.88      | 6.99      | 62bps     | 10bps    |
| <b>Ratios (%)</b>           |           |           |           |           |           |           |          |
| Other Income / Net Income   | 33.2      | 20.3      | 13.4      | 18.1      | 17.8      | (1543bps) | (35bps)  |
| Cost to Income ratio        | 38.3      | 42.1      | 45.7      | 46.9      | 46.1      | 782bps    | (84bps)  |
| CASA ratio                  | 36.4      | 39.3      | 36.0      | 38.5      | 36.1      | (26bps)   | (243bps) |
| C/D ratio                   | 90.0      | 96.9      | 90.5      | 91.0      | 93.8      | 380bps    | 280bps   |
| Investment to Assets        | 21.9      | 20.8      | 23.5      | 20.9      | 18.7      | (317bps)  | (221bps) |
| <b>Assets Quality</b>       |           |           |           |           |           |           |          |
| GNPA                        | 69,648    | 52,986    | 69,604    | 78,738    | 81,355    | 16.8      | 3.32     |
| NNPA                        | 17,113    | 12,283    | 21,407    | 23,652    | 24,396    | 42.6      | 3.1      |
| Provision                   | 52,535    | 40,704    | 48,197    | 55,086    | 56,960    | 8.4       | 3.4      |
| GNPA (%)                    | 7.15      | 4.87      | 6.76      | 7.32      | 7.02      | (13bps)   | (30bps)  |
| NNPA (%)                    | 1.86      | 1.17      | 2.18      | 2.32      | 2.21      | 35bps     | (11bps)  |
| PCR (%)                     | 75.4      | 76.8      | 69.2      | 70.0      | 70.0      | (542bps)  | 5bps     |
| <b>Others</b>               |           |           |           |           |           |           |          |
| Branches                    | 1,250     | 1,411     | 1,542     | 1,621     | 1,647     | 397       | 26       |
| ATMs                        | 412       | 438       | 438       | 438       | 438       | 26        | -        |
| Employees                   | 66,114    | 69,702    | 72,121    | 74,391    | 75,072    | 8,958     | 681      |

Source: Company, BOBCAPS Research

**Fig 3 – Loan book trend**

| (Rs mn)                                      | Q3FY23         | Q4FY23           | Q1FY24           | Q2FY24           | Q3FY24           | YoY (%)     | QoQ (%)    |
|--|----------------|------------------|------------------|------------------|------------------|-------------|------------|
| <b>Group Based</b>                           | 359,100        | 380,600          | 337,700          | 357,800          | 387,600          | 7.9         | 8.3        |
| Growth YoY (%)                               | (21.0)         | (18.2)           | (21.3)           | (6.3)            | 7.9              | 2893bps     | 1425bps    |
| Growth QoQ (%)                               | (6.0)          | 6.0              | (11.3)           | 6.0              | 8.3              | 1430bps     | 238bps     |
| <b>Individual</b>                            | 168,500        | 187,600          | 175,300          | 182,100          | 192,600          | 14.3        | 5.8        |
| Growth YoY (%)                               | 39.1           | 18.2             | 15.3             | 15.8             | 14.3             | (2484bps)   | (146bps)   |
| Growth QoQ (%)                               | 7.1            | 11.3             | (6.6)            | 3.9              | 5.8              | (135bps)    | 189bps     |
| <b>Emerging Entrepreneurs Business (EEB)</b> | 527,600        | 568,200          | 513,000          | 539,900          | 580,300          | 10.0        | 7.5        |
| Growth YoY (%)                               | (8.3)          | (8.9)            | (11.7)           | 0.1              | 10.0             | 1833bps     | 986bps     |
| Growth QoQ (%)                               | (2.2)          | 7.7              | (9.7)            | 5.2              | 7.5              | 963bps      | 224bps     |
| <b>Housing</b>                               | 267,300        | 265,800          | 269,500          | 267,500          | 284,400          | 6.4         | 6.3        |
| Growth YoY (%)                               | 27.7           | 12.8             | 9.5              | 3.7              | 6.4              | (2125bps)   | 272bps     |
| Growth QoQ (%)                               | 3.6            | (0.6)            | 1.4              | (0.7)            | 6.3              | 271bps      | 706bps     |
| <b>Retail</b>                                | 26,300         | 55,200           | 33,700           | 39,000           | 44,700           | 70.0        | 14.6       |
| Growth YoY (%)                               | 132.7          | 232.5            | 86.2             | 80.6             | 70.0             | (6278bps)   | (1059bps)  |
| Growth QoQ (%)                               | 21.8           | 109.9            | (38.9)           | 15.7             | 14.6             | (714bps)    | (111bps)   |
| <b>Commercial Business</b>                   | 156,700        | 202,000          | 215,500          | 229,900          | 250,000          | 59.5        | 8.7        |
| Growth YoY (%)                               | 87.2           | 72.4             | 78.2             | 64.8             | 59.5             | (2768bps)   | (526bps)   |
| Growth QoQ (%)                               | 12.3           | 28.9             | 6.7              | 6.7              | 8.7              | (359bps)    | 206bps     |
| <b>Total AUM</b>                             | <b>977,902</b> | <b>1,091,204</b> | <b>1,031,700</b> | <b>1,076,301</b> | <b>1,159,401</b> | <b>18.6</b> | <b>7.7</b> |
| Growth YoY (%)                               | 11.1           | 9.8              | 6.7              | 12.3             | 18.6             | 743bps      | 625bps     |
| Growth QoQ (%)                               | 2.0            | 11.6             | (5.5)            | 4.3              | 7.7              | 568bps      | 340bps     |

Source: Company, BOBCAPS Research

**Fig 4 – Loan book distribution**

| Segment (%)                           | Q3FY23       | Q4FY23       | Q1FY24       | Q2FY24       | Q3FY24       | YoY (%)  | QoQ (%)  |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|----------|----------|
| Emerging Entrepreneurs Business (EEB) | 54.0         | 52.1         | 49.7         | 50.2         | 50.1         | (390bps) | (11bps)  |
| Housing                               | 27.3         | 24.4         | 26.1         | 24.9         | 24.5         | (280bps) | (32bps)  |
| Retail                                | 2.7          | 5.1          | 3.3          | 3.6          | 3.9          | 117bps   | 23bps    |
| Commercial Business                   | 16.0         | 18.5         | 20.9         | 21.4         | 21.6         | 554bps   | 20bps    |
| <b>Total AUM</b>                      | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>-</b> | <b>-</b> |

Source: Company, BOBCAPS Research

**Fig 5 – Deposit trend**

| Segment (%)           | Q3FY23           | Q4FY23           | Q1FY24           | Q2FY24           | Q3FY24           | YoY (%)     | QoQ (%)    |
|-----------------------|------------------|------------------|------------------|------------------|------------------|-------------|------------|
| <b>CA</b>             | <b>47,400</b>    | <b>64,200</b>    | <b>52,000</b>    | <b>62,900</b>    | <b>66,600</b>    | 40.5        | 5.9        |
| Growth YoY (%)        | 21.2             | 17.6             | 19.0             | 24.6             | 40.5             | 1928bps     | 1595bps    |
| Growth QoQ (%)        | (6.1)            | 35.4             | (19.0)           | 21.0             | 5.9              | 1202bps     | (1508bps)  |
| <b>SA</b>             | <b>324,700</b>   | <b>360,400</b>   | <b>338,700</b>   | <b>369,100</b>   | <b>357,500</b>   | 10.1        | (3.1)      |
| Growth YoY (%)        | (6.2)            | 4.1              | (5.4)            | 4.1              | 10.1             | 1631bps     | 604bps     |
| Growth QoQ (%)        | (8.5)            | 11.0             | (6.0)            | 9.0              | (3.1)            | 532bps      | (1212bps)  |
| <b>CASA Deposits</b>  | <b>372,100</b>   | <b>424,600</b>   | <b>390,700</b>   | <b>432,000</b>   | <b>424,100</b>   | 14.0        | (1.8)      |
| Growth YoY (%)        | (3.4)            | 5.9              | (2.8)            | 6.6              | 14.0             | 1740bps     | 736bps     |
| Growth QoQ (%)        | (8.2)            | 14.1             | (8.0)            | 10.6             | (1.8)            | 634bps      | (1240bps)  |
| <b>Term Deposits</b>  | <b>650,730</b>   | <b>656,093</b>   | <b>694,100</b>   | <b>688,792</b>   | <b>750,100</b>   | 15.3        | 8.9        |
| Growth YoY (%)        | 41.6             | 16.6             | 31.3             | 17.1             | 15.3             | (2628bps)   | (178bps)   |
| Growth QoQ (%)        | 10.6             | 0.8              | 5.8              | (0.8)            | 8.9              | (168bps)    | 967bps     |
| <b>Total Deposits</b> | <b>1,022,830</b> | <b>1,080,693</b> | <b>1,084,800</b> | <b>1,120,792</b> | <b>1,174,200</b> | <b>14.8</b> | <b>4.8</b> |
| Growth YoY (%)        | 21.0             | 12.2             | 16.6             | 12.8             | 14.8             | (625bps)    | 200bps     |
| Growth QoQ (%)        | 2.9              | 5.7              | 0.4              | 3.3              | 4.8              | 183bps      | 145bps     |

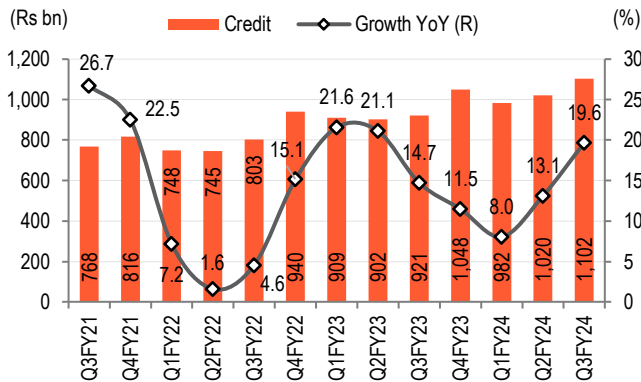
Source: Company, BOBCAPS Research

**Fig 6 – Deposit distribution**

| Segment (%)           | Q3FY23       | Q4FY23       | Q1FY24       | Q2FY24       | Q3FY24       | YoY (%)    | QoQ (%)    |
|-----------------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| CASA Deposits         | 36.4         | 39.3         | 36.0         | 38.5         | 36.1         | (0.7)      | (6.3)      |
| Term Deposits         | 63.6         | 60.7         | 64.0         | 61.5         | 63.9         | 0.4        | 3.9        |
| <b>Total Deposits</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>0.0</b> | <b>0.0</b> |

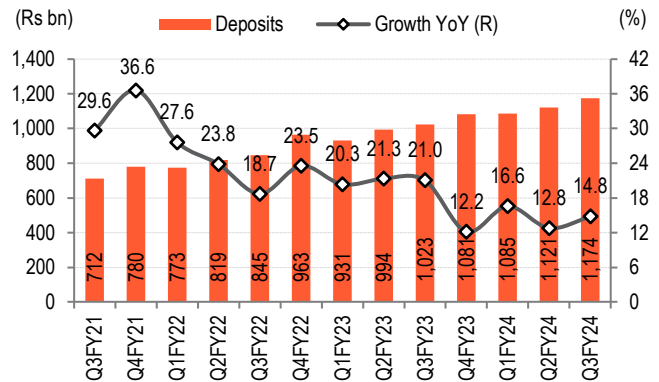
Source: Company, BOBCAPS Research

**Fig 7 – Credit growth rebounded in Q3FY24...**



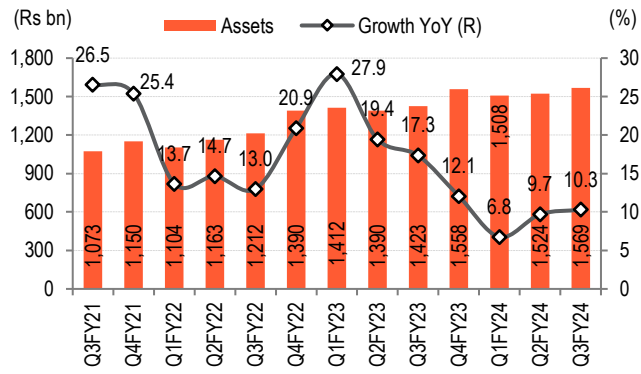
Source: Company, BOBCAPS Research

**Fig 8 – ...with deposits up 15% YoY**



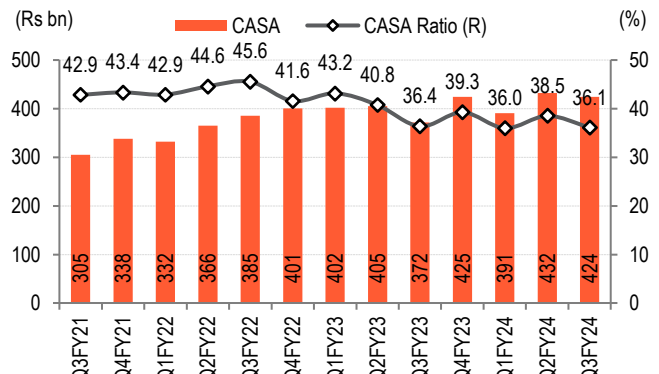
Source: Company, BOBCAPS Research

**Fig 9 – Asset growth healthy**



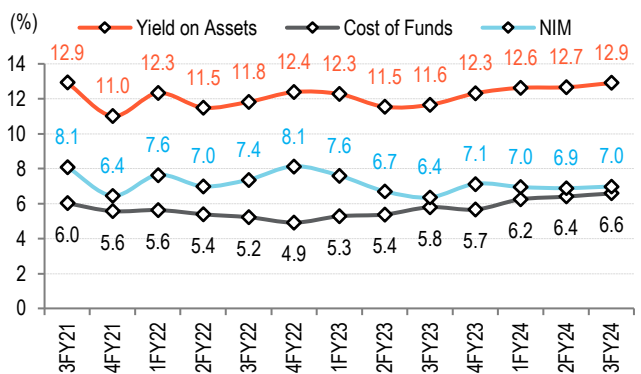
Source: Company, BOBCAPS Research

**Fig 10 – Increased SA rate to support CASA mobilisation**



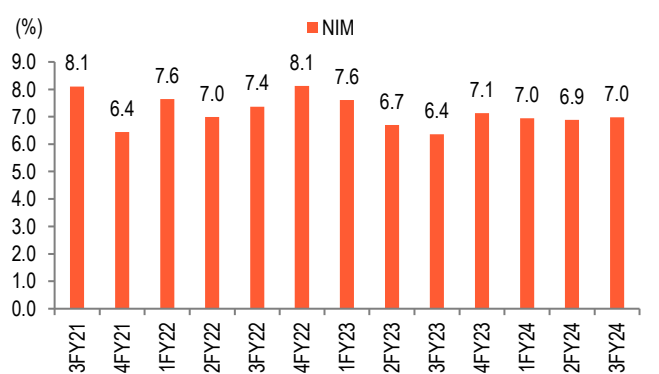
Source: Company, BOBCAPS Research

**Fig 11 – Cost of funds rising**



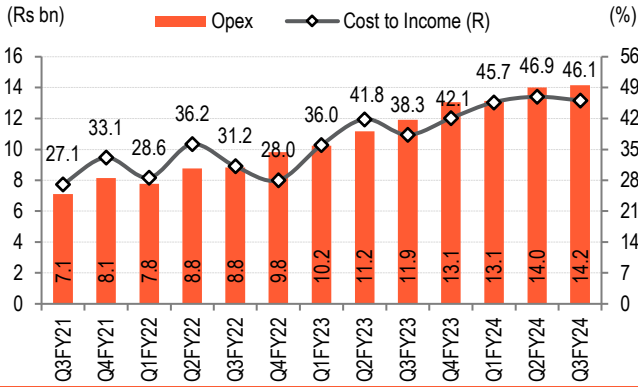
Source: Company, BOBCAPS Research

**Fig 12 – NIM (calc.) guided to remain stable**



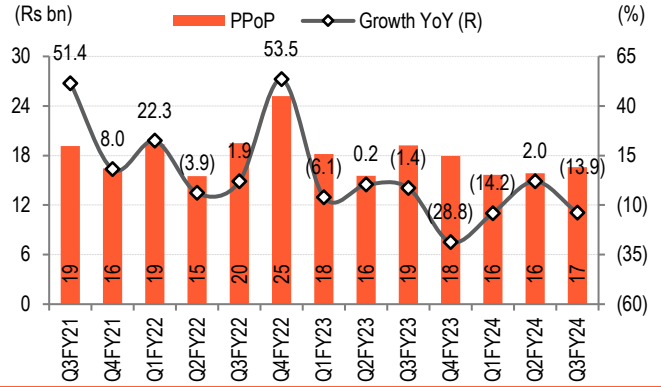
Source: Company, BOBCAPS Research

**Fig 13 – Operating cost still elevated**



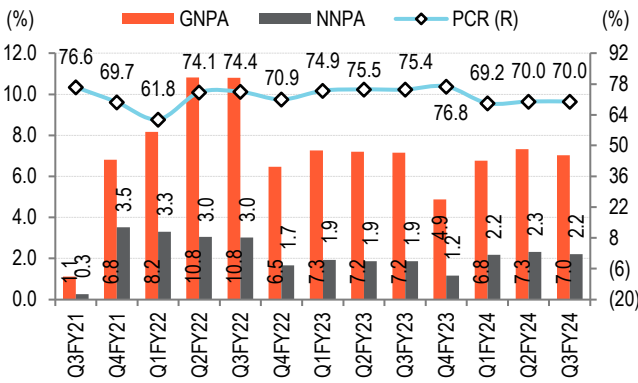
Source: Company, BOBCAPS Research

**Fig 14 – PPOP growth falls on lower other income**



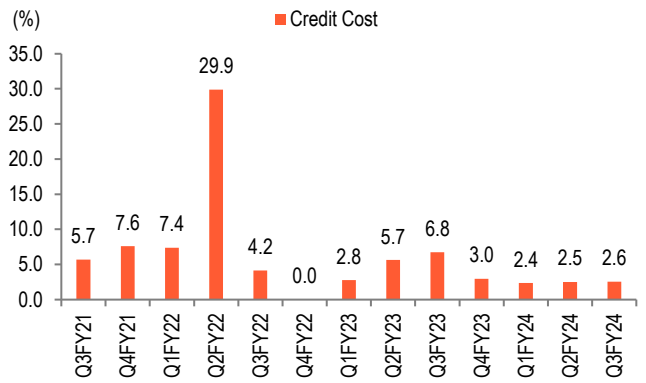
Source: Company, BOBCAPS Research

**Fig 15 – Asset quality to improve on higher recoveries**



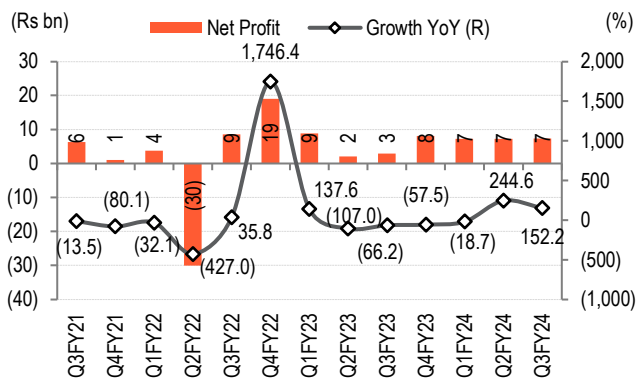
Source: Company, BOBCAPS Research

**Fig 16 – Credit cost guided at 2% (+/-20bps) for FY24; we estimate 2.2%**



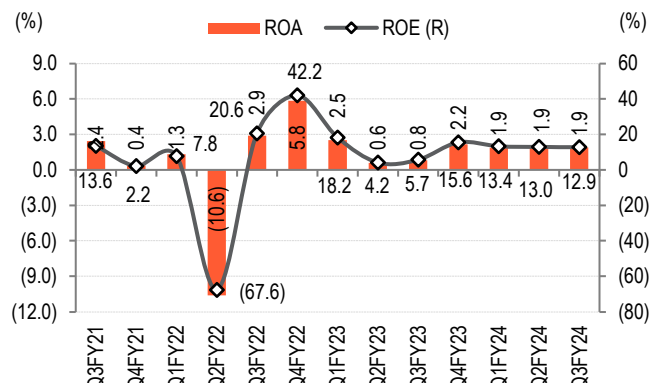
Source: Company, BOBCAPS Research

**Fig 17 – PAT jumps off a low base**



Source: Company, BOBCAPS Research

**Fig 18 – Return ratios expected to improve**



Source: Company, BOBCAPS Research

## Earnings call highlights

### Operational highlights

- Bandhan Bank's other income declined 47% YoY (flat QoQ) in Q3FY24 in the absence of treasury gains, partly set off by one-off income from asset sale to ARC.
- C/I ratio declined 84bps QoQ to 46.1%.
- Credit cost was flat YoY at 2.5% and management maintains guidance for FY24 at 2% (+/-20bps).

### Loans and Deposits

- Retail loans (ex-housing) grew 70% YoY while the commercial banking segment was up 60%. Emerging entrepreneurs' business (EEB) grew 10% YoY.
- The bank added 900,000 customers during the quarter for a total of 32.6mn, wherein the EEB segment has 24.4mn customers.
- Retail deposits formed 71% of the total. Wholesale savings deposits stood at Rs 50bn.
- CASA ratio for the quarter declined 30bps YoY and 240bps QoQ to 36.1%.
- The cost of bulk deposits was slightly higher than 8% in Q3.
- LCR stood at 142%.

### Asset quality and Capital adequacy

- Slippages from the EEB segment stood at Rs 9.9bn in Q3 while write-offs for the quarter were nil.
- The bank sold Rs 7.2bn of loans to ARC, mainly from the housing portfolio.
- Collection efficiency was at 98% (99% in EEB). Geography-wise, collection efficiency in Assam and West Bengal stood at 99%.
- SMA1 for the quarter stood at Rs 5.7bn and SMA 2 came in at Rs 6.9bn.
- GNPA for the EEB book disbursed in FY24 to date is 0.11%.
- The company has claims worth Rs 22bn under the Credit Guarantee Fund of Micro Units (CGFMU).
- The bank has received approval from the RBI to appoint an executive director and a new CFO will also be inducted soon.

## Valuation methodology

Considering the recovery in business growth despite competitive intensity in the retail and microfinance businesses, we maintain our credit growth expectation for Bandhan at 19% CAGR over FY23-FY26 (vs. guidance of 20%). On the liability side, we model for a deposit CAGR of 18% over our forecast period (vs. 19% earlier).

Management expects the cost of funds to rise 20-25bps over the next two quarters and is guiding for NIM (reported) of 7-7.5% in FY24. We model for a more conservative print of 6.7%/7.1%/7% in FY24/FY25/FY26. Credit cost guidance remains at 2% (+/-20bps) for the year. We conservatively factor in 2.2% for each of our forecast years – the upper end of the industry average. We expect an NII/PAT CAGR of 17%/30% for the bank over FY23-FY26, with profits rising off a lower base impacted by high credit costs.

Upon rolling valuations over to 1.6x FY26E ABV using the Gordon Growth Model (earlier 1.9x on FY25E), we have a slightly revised TP of Rs 270 (earlier Rs 276). The recent stock price correction provides a further investment opportunity. Maintain BUY.

**Fig 19 – Revised estimates**

| (Rs mn)    | New       |           |           | Old       |           |           | Change (%) |       |       |
|------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-------|-------|
|            | FY24E     | FY25E     | FY26E     | FY24E     | FY25E     | FY26E     | FY24E      | FY25E | FY26E |
| Loan       | 1,254,986 | 1,493,433 | 1,762,251 | 1,236,130 | 1,473,467 | 1,746,058 | 1.5        | 1.4   | 0.9   |
| Deposits   | 1,255,765 | 1,493,105 | 1,766,343 | 1,288,186 | 1,539,383 | 1,834,944 | (2.5)      | (3.0) | (3.7) |
| Assets     | 1,752,165 | 2,076,370 | 2,449,896 | 1,824,367 | 2,148,787 | 2,551,238 | (4.0)      | (3.4) | (4.0) |
| NII        | 102,759   | 124,946   | 147,847   | 104,858   | 123,791   | 145,482   | (2.0)      | 0.9   | 1.6   |
| PPOP       | 67,843    | 83,111    | 99,129    | 73,523    | 87,279    | 103,510   | (7.7)      | (4.8) | (4.2) |
| Provisions | 26,646    | 29,958    | 34,185    | 25,121    | 29,535    | 33,805    | 6.1        | 1.4   | 1.1   |
| PAT        | 31,205    | 39,546    | 48,319    | 36,090    | 42,962    | 51,861    | (13.5)     | (8.0) | (6.8) |

Source: BOBCAPS Research

**Fig 20 – Key operational assumptions**

| Parameter (%)   | FY23A   | FY24E | FY25E | FY26E |
|-----------------|---------|-------|-------|-------|
| Advances Growth | 11.5    | 19.8  | 19.0  | 18.0  |
| NII Growth      | 6.3     | 11.0  | 21.6  | 18.3  |
| PPoP Growth     | (11.5)  | (4.3) | 22.5  | 19.3  |
| PAT Growth      | 1,644.6 | 42.2  | 26.7  | 22.2  |
| NIM             | 6.8     | 6.7   | 7.1   | 7.0   |
| GNPA            | 4.8     | 6.6   | 5.9   | 5.5   |
| CAR             | 19.8    | 19.2  | 18.7  | 18.4  |

Source: Company, BOBCAPS Research

**Fig 21 – Key valuation assumptions**

| Gordon growth model                   |            |
|---------------------------------------|------------|
| Cost of equity (%)                    | 13.6       |
| Blended ROE (%)                       | 16.1       |
| Initial high growth period (yrs)      | 10.0       |
| Payout ratio of high-growth phase (%) | 30.0       |
| Long-term growth (%)                  | 6          |
| Long term dividend payout ratio (%)   | 60         |
| Justified P/BV Multiple (x)           | 1.6        |
| Implied BVPS (Rs)                     | 169        |
| <b>Value per share (Rs)</b>           | <b>270</b> |

Source: Company, BOBCAPS Research



## Key risks

Key downside risks to our estimates are:

- inability of the bank to manage cost of funds, leading to margin compression, and
- inability to manage the credit cycle.

## Sector recommendation snapshot

| Company             | Ticker     | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|---------------------|------------|----------------------|------------|-------------|--------|
| Axis Bank           | AXSB IN    | 39.3                 | 1,047      | 1,252       | BUY    |
| Bandhan Bank        | BANDHAN IN | 3.9                  | 201        | 270         | BUY    |
| DCB Bank            | DCBB IN    | 0.5                  | 125        | 172         | BUY    |
| Federal Bank        | FB IN      | 4.3                  | 147        | 189         | BUY    |
| HDFC Bank           | HDFCB IN   | 127.5                | 1,390      | 1,896       | BUY    |
| ICICI Bank          | ICICIB IN  | 85.1                 | 996        | 1,189       | BUY    |
| Indusind Bank       | IIB IN     | 13.7                 | 1,447      | 1,952       | BUY    |
| Kotak Mahindra Bank | KMB IN     | 44.6                 | 1,710      | 2,100       | BUY    |
| RBL Bank            | RBK IN     | 1.8                  | 244        | 309         | BUY    |
| State Bank of India | SBIN IN    | 76.9                 | 708        | 842         | BUY    |

Source: BOBCAPS Research, NSE | Price as of 12 Feb 2024

## Glossary

| Glossary of Abbreviations |  |             |   |
|---------------------------|--|-------------|---|
| <b>AUCA</b>               | Advance Under Collection Account       | <b>LAP</b>  | Loans against Property                    |
| <b>ARC</b>                | Asset Reconstruction Company           | <b>LCR</b>  | Liquidity Coverage Ratio                  |
| <b>BRDS</b>               | Bills Rediscounting Scheme             | <b>MCLR</b> | Marginal Cost of Funds-based Lending Rate |
| <b>CAR</b>                | Capital Adequacy Ratio                 | <b>MFI</b>  | Microfinance Institution                  |
| <b>CASA</b>               | Current Account and Savings Account    | <b>MTM</b>  | Mark to Market                            |
| <b>CD</b>                 | Credit-Deposit Ratio                   | <b>NII</b>  | Net Interest Income                       |
| <b>CET1</b>               | Common Equity Tier 1                   | <b>NIM</b>  | Net Interest Margin                       |
| <b>CGFMU</b>              | Credit Guarantee Fund for Micro Units  | <b>NNPA</b> | Net Non-Performing Assets                 |
| <b>C/I</b>                | Cost-Income Ratio                      | <b>PCR</b>  | Provision Coverage Ratio                  |
| <b>CRB</b>                | Commercial and Rural Banking           | <b>PPOP</b> | Pre-Provision Operating Profit            |
| <b>EBLR</b>               | External Benchmark-based Lending Rate  | <b>PSU</b>  | Public Sector Unit                        |
| <b>ECL</b>                | Expected Credit Loss                   | <b>RWA</b>  | Risk-weighted Assets                      |
| <b>ECLGS</b>              | Emergency Credit Line Guarantee Scheme | <b>SLR</b>  | Statutory Liquidity Ratio                 |
| <b>GNPA</b>               | Gross Non-Performing Assets            | <b>SMA</b>  | Special Mention Account                   |
| <b>IBPC</b>               | Interbank Participation Certificate    | <b>SME</b>  | Small and Medium-sized Enterprises        |

## Financials

### Income Statement

| Y/E 31 Mar (Rs mn)         | FY22A         | FY23A         | FY24E          | FY25E          | FY26E          |
|----------------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Net interest income</b> | <b>87,140</b> | <b>92,596</b> | <b>102,759</b> | <b>124,946</b> | <b>147,847</b> |
| NilI growth (%)            | 15.2          | 6.3           | 11.0           | 21.6           | 18.3           |
| Non-interest income        | 28,228        | 24,686        | 21,057         | 25,843         | 32,589         |
| Total income               | 115,368       | 117,282       | 123,817        | 150,788        | 180,436        |
| Operating expenses         | 35,234        | 46,368        | 55,973         | 67,677         | 81,307         |
| PPOP                       | 80,134        | 70,913        | 67,843         | 83,111         | 99,129         |
| PPOP growth (%)            | 18.4          | (11.5)        | (4.3)          | 22.5           | 19.3           |
| Provisions                 | 78,848        | 41,984        | 26,646         | 29,958         | 34,185         |
| PBT                        | 1,286         | 28,930        | 41,197         | 53,153         | 64,945         |
| Tax                        | 28            | 6,983         | 9,992          | 13,607         | 16,626         |
| <b>Reported net profit</b> | <b>1,258</b>  | <b>21,946</b> | <b>31,205</b>  | <b>39,546</b>  | <b>48,319</b>  |
| Adjustments                | 0             | 0             | 0              | 0              | 0              |
| <b>Adjusted net profit</b> | <b>1,258</b>  | <b>21,946</b> | <b>31,205</b>  | <b>39,546</b>  | <b>48,319</b>  |

### Balance Sheet

| Y/E 31 Mar (Rs mn)                | FY22A            | FY23A            | FY24E            | FY25E            | FY26E            |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Equity capital                    | 16,108           | 16,108           | 16,109           | 16,109           | 16,109           |
| Reserves & surplus                | 157,704          | 179,733          | 207,194          | 241,994          | 284,515          |
| Net worth                         | 173,812          | 195,842          | 223,303          | 258,103          | 300,624          |
| Deposits                          | 963,306          | 1,080,693        | 1,255,765        | 1,493,105        | 1,766,343        |
| Borrowings                        | 199,212          | 247,108          | 187,802          | 206,582          | 231,372          |
| Other liab. & provisions          | 52,336           | 34,057           | 85,294           | 118,579          | 151,556          |
| <b>Total liab. &amp; equities</b> | <b>1,388,665</b> | <b>1,557,700</b> | <b>1,752,165</b> | <b>2,076,370</b> | <b>2,449,896</b> |
| Cash & bank balance               | 93,214           | 82,497           | 72,899           | 94,836           | 112,451          |
| Investments                       | 290,787          | 323,659          | 310,271          | 363,046          | 427,050          |
| Advances                          | 939,749          | 1,047,568        | 1,254,986        | 1,493,433        | 1,762,251        |
| Fixed & Other assets              | 64,916           | 103,976          | 114,008          | 125,054          | 148,143          |
| <b>Total assets</b>               | <b>1,388,665</b> | <b>1,557,700</b> | <b>1,752,165</b> | <b>2,076,370</b> | <b>2,449,896</b> |
| Deposit growth (%)                | 23.5             | 12.2             | 16.2             | 18.9             | 18.3             |
| Advances growth (%)               | 15.1             | 11.5             | 19.8             | 19.0             | 18.0             |

### Per Share

| Y/E 31 Mar (Rs)      | FY22A | FY23A | FY24E | FY25E | FY26E |
|----------------------|-------|-------|-------|-------|-------|
| EPS                  | 0.8   | 13.6  | 19.4  | 24.5  | 30.0  |
| Dividend per share   | 0.0   | 1.5   | 2.3   | 2.9   | 3.6   |
| Book value per share | 107.9 | 121.6 | 138.6 | 160.2 | 186.6 |

### Valuations Ratios

| Y/E 31 Mar (x)     | FY22A | FY23A | FY24E | FY25E | FY26E |
|--------------------|-------|-------|-------|-------|-------|
| P/E                | 257.0 | 14.7  | 10.4  | 8.2   | 6.7   |
| P/BV               | 1.9   | 1.7   | 1.4   | 1.3   | 1.1   |
| Dividend yield (%) | 0.0   | 0.7   | 1.2   | 1.5   | 1.8   |

### DuPont Analysis

| Y/E 31 Mar (%)          | FY22A | FY23A | FY24E | FY25E | FY26E |
|-------------------------|-------|-------|-------|-------|-------|
| Net interest income     | 6.9   | 6.3   | 6.2   | 6.5   | 6.5   |
| Non-interest income     | 2.2   | 1.7   | 1.3   | 1.4   | 1.4   |
| Operating expenses      | 2.8   | 3.1   | 3.4   | 3.5   | 3.6   |
| Pre-provisioning profit | 6.3   | 4.8   | 4.1   | 4.3   | 4.4   |
| Provisions              | 6.2   | 2.8   | 1.6   | 1.6   | 1.5   |
| PBT                     | 0.1   | 2.0   | 2.5   | 2.8   | 2.9   |
| Tax                     | 0.0   | 0.5   | 0.6   | 0.7   | 0.7   |
| ROA                     | 0.1   | 1.5   | 1.9   | 2.1   | 2.1   |
| Leverage (x)            | 7.3   | 8.0   | 7.9   | 8.0   | 8.1   |
| ROE                     | 0.7   | 11.9  | 14.9  | 16.4  | 17.3  |

### Ratio Analysis

| Y/E 31 Mar                                   | FY22A  | FY23A  | FY24E | FY25E | FY26E |
|--|--------|--------|-------|-------|-------|
| <b>YoY growth (%)</b>                        |        |        |       |       |       |
| Net interest income                          | 15.2   | 6.3    | 11.0  | 21.6  | 18.3  |
| Pre-provisioning profit                      | 18.4   | (11.5) | (4.3) | 22.5  | 19.3  |
| EPS  | (94.3) | 1644.5 | 42.2  | 26.7  | 22.2  |
| <b>Profitability &amp; Return ratios (%)</b> |        |        |       |       |       |
| Net interest margin                          | 7.2    | 6.8    | 6.7   | 7.1   | 7.0   |
| Fees / Avg. assets                           | 0.2    | 0.2    | 0.2   | 0.2   | 0.2   |
| Cost-Income                                  | 30.5   | 39.5   | 45.2  | 44.9  | 45.1  |
| ROE  | 0.7    | 11.9   | 14.9  | 16.4  | 17.3  |
| ROA  | 0.1    | 1.5    | 1.9   | 2.1   | 2.1   |
| <b>Asset quality (%)</b>                     |        |        |       |       |       |
| GNPA   | 6.4    | 4.8    | 6.6   | 6.3   | 5.7   |
| NNPA   | 1.7    | 1.2    | 2.0   | 1.9   | 1.7   |
| Slippage ratio                               | 11.6   | 10.3   | 5.7   | 5.4   | 4.5   |
| Credit cost                                  | 9.0    | 4.2    | 2.3   | 2.2   | 2.1   |
| Provision coverage                           | 75.5   | 76.8   | 72.0  | 72.0  | 72.0  |
| <b>Ratios (%)</b>                            |        |        |       |       |       |
| Credit-Deposit                               | 97.6   | 96.9   | 99.9  | 100.0 | 99.8  |
| Investment-Deposit                           | 30.2   | 29.9   | 24.7  | 24.3  | 24.2  |
| CAR  | 20.1   | 19.8   | 19.2  | 18.7  | 18.4  |
| Tier-1                                       | 18.9   | 18.7   | 18.5  | 18.0  | 17.8  |

Source: Company, BOBCAPS Research

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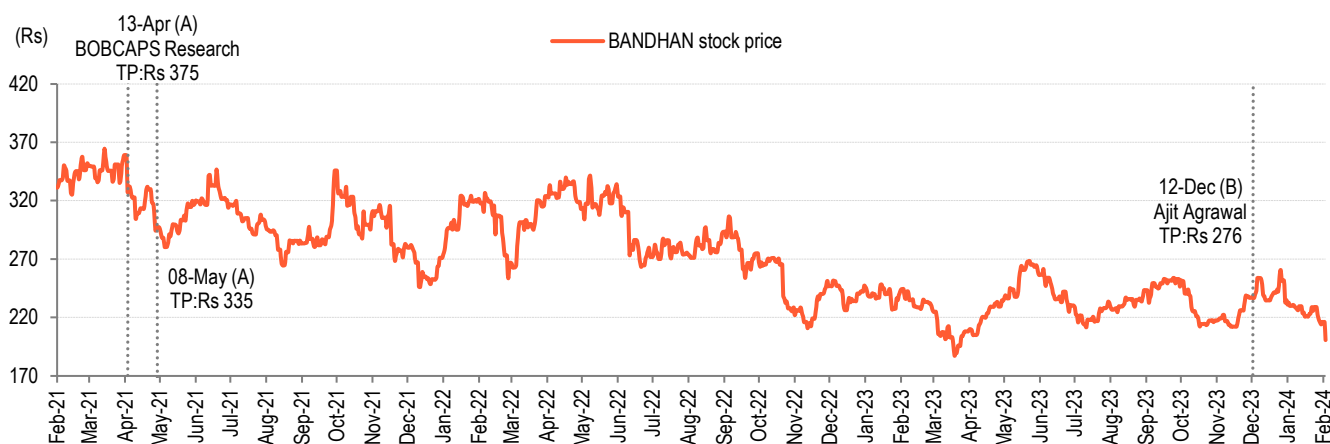
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