FIRST LIGHT

13 December 2023

RESEARCH

BANDHAN BANK | TARGET: Rs 276 | +16% | BUY

Thrust on secured business to aid asset health

BOB ECONOMICS RESEARCH | CPI AND IIP

Sticky food driving inflation higher

Daily macro indicators

Indicator	8-Dec	11-Dec	Chg (%)
US 10Y yield (%)	4.23	4.23	1bps
India 10Y yield (%)	7.27	7.28	1bps
USD/INR	83.39	83.39	0.0
Brent Crude (US$/bbl)	75.8	76.0	0.3
Dow	36,248	36,405	0.4
Hang Seng	16,334	16,201	(0.8)
Sensex	69,826	69,929	0.1
India FII (US$ mn)	**7-Dec**	**8-Dec**	**Chg ($ mn)**
FII-D	122.6	139.0	16.5
FII-E	(54.4)	479.1	533.5

Source: Bank of Baroda Economics Research

SUMMARY

BANDHAN BANK

- Expect 19% credit and deposit CAGR over FY23-FY25 on retail-led growth and targeted increase in secured book
- Geographical diversification and digital transformation likely to aid PPOP margin
- We model for 40% PAT CAGR over FY23-FY25 and assume coverage with BUY for a TP of Rs 276 (1.9x FY25E ABV)

Click here for the full report.

INDIA ECONOMICS: CPI AND IIP

CPI print came in at 5.55%, slightly lower compared to our estimate of 5.7%. This is attributable to 209bps YoY jump in food inflation especially items such as vegetables, pulses. Excluding vegetables and pulses, CPI inflation is at 4.4%. Comfort continue to come from core inflation. However, the sequential picture of core showed some demand side momentum is there on the back of resilient growth picture.

Click here for the full report.

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COMPANY UPDATE

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 276 | ↑ 16%

BANDHAN BANK | Banking | 12 December 2023

Thrust on secured business to aid asset health

- **Expect 19% credit and deposit CAGR over FY23-FY25 on retail-led growth and targeted increase in secured book**
- **Geographical diversification and digital transformation likely to aid PPOP margin**
- **We model for 40% PAT CAGR over FY23-FY25 and assume coverage with BUY for a TP of Rs 276 (1.9x FY25E ABV)**

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Secured retail/commercial loans to fuel growth: Bandhan Bank aims to have 50% of its loan book from the secured retail and commercial business by FY26 as against 44% now. This should support guided loan growth of 20% over FY23-FY26 and provide much-needed stability to asset quality. Further, the bank's initiatives toward product and geographical diversification are likely to reduce concentration risk and could improve asset health. Baking in competitive pressures, we model for a 19% CAGR in both credit and deposits through to FY25. CASA is estimated at 40% by FY25 (38.5% in Q2FY24).

NIM to improve but C/I to remain high: The bank is guiding for another 20-25bps rise in deposit cost during H2FY24, which may offset gains from higher yields, but has retained NIM guidance at 7-7.5% for FY24. It expects to derive cost efficiencies following the recent digital transition and a slower pace of branch opening, with guidance of a cost-to-asset ratio of 3.5% vs. 3.7% in Q2FY24. We model for a 16% NII CAGR through to FY25 with C/I ratio improving to 43% by FY25 from 47% in Q2.

Asset quality a key monitorable: Although Bandhan's asset quality has improved post Covid, its SMA-0,1 and 2 books still hover around the 3-4% mark. Management is guiding for a substantial pick-up in recoveries (CGFMU and ECLGS), but we believe this would require a structural change in approach towards asset quality and remains a key monitorable. We factor in slippages of 5.4%/4.5% for FY24/FY25 (vs. +10% in the last 3Y and ~6% in H2FY24), leading to GNPA of 6.8%/5.9% and NNPA of 2.0%/1.8% (vs. 7.3%/2.3% in Q2FY24). Credit cost is guided at 2% (+/-20bps) for FY24, but we conservatively factor in figures of 2.2% each for FY24/FY25.

BUY, TP Rs 276: Baking in gradual improvement in both operational costs and asset quality, we forecast a PAT CAGR of 40% for Bandhan over FY23-FY25, albeit on a lower base, with ROA/ROE rising to 2.2%/17.4% in FY25. Considering sustainable growth and margins coupled with gradual improvement in the asset base, we assume coverage with a BUY rating, valuing stock at 1.9x FY25E ABV using the Gordon growth model. The extension of MD & CEO Chandra Shekhar Gosh's tenure for three years, subject to RBI approval, would lend added comfort on growth, in our view.

Key changes

Target	Rating
▼	▲

Ticker/Price	BANDHAN IN/Rs 238
Market cap	US$ 4.7bn
Free float	60%
3M ADV	US$ 25.7mn
52wk high/low	Rs 272/Rs 182
Promoter/FPI/DII	40%/33%/17%

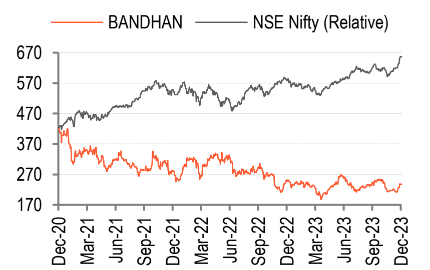
Source: NSE | Price as of 11 Dec 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	92,596	104,858	123,791
NII growth (%)	6.3	13.2	18.1
Adj. net profit (Rs mn)	21,946	36,090	42,962
EPS (Rs)	13.6	22.4	26.7
Consensus EPS (Rs)	13.6	21.7	26.8
P/E (x)	17.5	10.6	8.9
P/BV (x)	2.0	1.7	1.4
ROA (%)	1.5	2.1	2.2
ROE (%)	11.9	17.0	17.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

CPI AND IIP

12 December 2023

Sticky food driving inflation higher

Dipanwita Mazumdar | Jahnavi
Economist

CPI print came in at 5.55%, slightly lower compared to our estimate of 5.7%. This is attributable to 209bps YoY jump in food inflation especially items such as vegetables, pulses. Excluding vegetables and pulses, CPI inflation is at 4.4%. Comfort continue to come from core inflation. However, the sequential picture of core showed some demand side momentum is there on the back of resilient growth picture.

Going forward, the outlook of food inflation is murky. Rabi sowing trailing behind last year, transient reoccurrence of veggie price shock and reversal of favourable base could keep food inflation elevated in the near term. The high frequency price data of Nov'23 also reflects pressure building up for items such as salt, tea, sugar, potato, Urad dal and Rice. Our in house BoB ECI is running at 4.9% YoY, higher than last month, thus we do foresee upside risks to our forecast. For FY24, we expect headline CPI to be in the range of 5-5.5%. The possibility of a rate cut remains only in Q2 of next year when inflation comes down to 4%.

CPI inflation inched up

Food driving CPI higher: CPI inflation rose to its three month high of 5.55% in Nov'23 and slightly lower than our estimate of 5.7%. This is attributable to 209bps jump in food inflation which rose to 8.7% in Nov'23 from 6.6% in Oct'23, on YoY basis. Among major food items, vegetable prices rose at the sharpest pace by 17.7% in Nov'23 from 2.8% in Oct'23. Even fruit prices rose by 11% from 9.3%. Pulses inflation maintained its double digit pace of 20.2% from 18.8%. Even inflation in sugar and confectionary category rose by 6.6% from 5.5%. Cereal and spices inflation have also remained stickier at 10.3% and 21.5% respectively. Notably, 6 of the 12 broad categories of food inflation have remained above 6%.

On sequential basis, food inflation has risen by 1.1% in Nov'23 as well (seasonally adjusted basis: +0.5% increase). The sequential increase was driven by cereals, oils and fats, vegetables and sugar and confectionary products. Going forward, upward risks to food inflation remains. Certain cereals are likely to exhibit pressure due to suboptimal sowing, supply side issues may cloud prices of oilseeds. However, transient shock in vegetable prices might also persist longer than anticipated due to erratic weather conditions.

Core CPI (excl. food and fuel) has moderated further to 4.1%. All broad sub components of core noticed a drop in inflation in Nov'23. Amongst them, components such as household goods and services (3.6% in Nov'23 from 3.9% in Oct'23), clothing and footwear (3.9% from 4.3%) and housing (3.6% from 3.8%) have noticed fair degree of moderation. However, health, education and personal care items of inflation have remained stickier.

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