

Q2FY25 Bandhan Bank Ltd.



Bandhan Bank Ltd.

Healthy quarter in terms of business momentum; asset quality took a hit due to higher slippages

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 185	INR 200	8.2%	INR 296,983	ACCUMULATE	Banking

Result Highlights Q2FY25:

- Net Interest Income (NII) for Q2FY25 stood at INR 29,483 Mn, a growth of 20.7% YoY (-1.9% QoQ). The yields on advances improved by 40 bps YoY (-20 bps QoQ) at 13.7%. The Core NIMs stood at 7.4% in Q2FY25, improving by 20 bps YoY. The NII was 2.0% lower than our estimates. Pre-Provision Operating Profits (PPOP) grew by 17.2% YoY (-4.4% QoQ) to INR 18,551 Mn. PPOP was in line with our estimates. The net profit for Q2FY25 stood at INR 9,374 Mn, a growth of 30.0% YoY, primarily led by lower provisions.
- We adjusted our EPS estimates downwards for FY26E by 2.9%, assuming slightly higher credit costs. We revise our target price to INR 200 per share (earlier INR 217) by assigning a P/ABV multiple of 1.2x (earlier INR 1.3x) to the adjusted book value of INR 166.8 per share for FY26E, implying an upside of 8.2% over the CMP. We have lowered our multiple in light of the challenges facing the MFI industry, which are likely to affect business growth due to the risks associated with the EEB portfolio concerning both growth and asset quality. We maintain our rating at “ACCUMULATE”.

MARKET DATA

Shares outs (Mn)	1,611
Mkt Cap (INR Mn)	296,983
52 Wk H/L (INR)	263/ 167
Volume Avg (3m K)	19,578
Face Value (INR)	10
Bloomberg Code	BANDHAN IN

KEY FINANCIALS

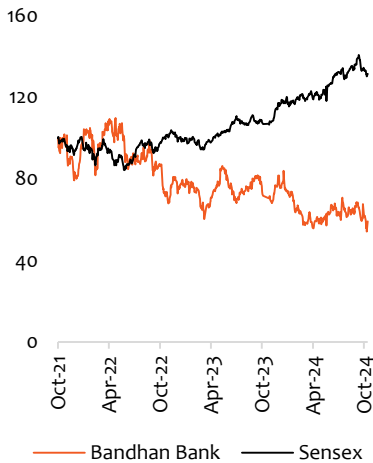
Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
NII	92,596	103,256	121,136	121,136	138,962
PPOP	70,913	66,395	78,138	87,449	98,707
PAT	21,946	22,296	39,221	44,858	50,336
EPS (INR / Share)	13.6	13.8	24.3	27.8	31.2
ABVPS (INR / Share)	114.0	125.8	142.9	166.8	195.9
Advances Growth YoY (%)	11.5%	15.6%	15.0%	17.0%	17.0%

Source: Company, KRChoksey Research

Steady growth across its key focus segments:

- As of September 30, 2024, net loans and advances stood at INR 1,260,557 Mn, a 23.6% YoY/ 3.7% QoQ growth. The loan portfolio (on-book + off-book + TLTRO + PLC) grew by 21.4% YoY, supported by the growth in the secured loans. The bank added 0.7 Mn customers during the quarter, bringing the total customer base to 35.1 Mn.
- The Emerging Entrepreneur Business (EEB) loan book has registered a growth of 10.7% YoY (-4.2% QoQ). During the quarter, retail credit remained robust and grew by 16.5% YoY/ 7.5% QoQ. The secured book constituted around 47.0% of advances, which is higher from a level of 42.0% in March 2024.
- Bandhan Bank's strategy focuses on growing its secured asset portfolio. This includes a focus on housing, commercial banking products, and other diversification products. The bank also aims to reduce its reliance on unsecured assets.
- The retail asset growth is primarily driven by auto loans, commercial vehicle and equipment loans, and gold loans. The bank is actively focusing on customer centricity and aims to strengthen its value proposition for customers.
- From a business mix standpoint, EEB group lending constituted 29.0% of advances, small business and Agri loans at 16.0%, commercial banking at 25.0%, housing at 24.0%, and retail at 6.0%, respectively.
- BANDHAN's geographic diversification strategy has significantly reduced the concentration of its loan book in the East and Northeast regions. The share of advances in these regions decreased from 53.0% in FY22 to 41.0% by Q2FY25. This shift is part of BANDHAN's ongoing effort to diversify its loan portfolio and reduce geographic concentration risk.
- On the liabilities side, deposits reported a growth of 27.2% YoY (+7.0% QoQ) at INR 1,425.1 Bn with a CASA ratio of 33.2% as of September 30, 2024, a decline of 530 bps YoY/ 18 bps QoQ.
- Within CASA deposits, the savings account deposits have grown by 11.0% YoY and 7.0% QoQ as the bank continues to focus on building relationships across its customer base, strengthening its value proposition and garnering new customers.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,005
NIFTY	24,339

SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	40.0	40.0	40.0
FIIIs	26.7	28.3	31.2
DIIIs	16.3	15.1	12.4
Others	17.0	16.6	16.4
Total	100.0	100.0	100.0

*Based on previous closing

Note: All the market data is as of previous closing

16.0%

NII CAGR between FY24 and FY26E

41.8%

PAT CAGR between FY24 and FY26E

Bandhan Bank Ltd.

Higher slippages in EEB segment led to pressure on asset quality:

- The GNPA was 4.68% as of September 30, 2024, compared to 7.32% as of September 30, 2023 (vs. 4.23% as of June 30, 2024). The NNPA for the quarter ended at 1.29%, compared to 2.32% of the net advances as of September 30, 2023.
- The slippages for Q2FY25 moderated to INR 11.15 Bn, as against INR 8.9 Bn in Q1FY25. Increase in slippages in Q2FY25 was mainly in the EEB book, where it increased to INR 7.5 Bn as compared to INR 5.4 Bn in the previous quarter.
- The bank's overall collection efficiency, excluding NPA, in Q2FY25 was marginally lower at 98.2% as compared to 98.7% in Q1FY25. For the EEB book, collection efficiency, excluding NPA, in Q2FY25 declined to 98.1% versus 98.7% in Q1FY25, reflecting the stress that is visible in the MFI segment.
- The upgradation and recovery for this quarter stood at INR 3,050 Mn, compared to INR 3,710 Mn in Q1FY25. This figure does not include recoveries from the written-off portfolio, which is reported under other income, amounting to INR 320 Mn for Q2FY25.
- In Q2FY25, Bandhan Bank reported an increase in Special Mention Account (SMA) categories within its loan portfolio, particularly in the microfinance (EEB) segment, indicating some stress in the sector. SMA-1 increased from INR 4.2 Bn (0.7%) in Q1FY25 to INR 5.6 Bn (0.9%) in Q2FY25, while SMA-2 rose from INR 4.4 Bn (0.7%) in Q1FY25 to INR 5.4 Bn (0.9%) in Q2FY25. Despite these pressures, BANDHAN has implemented proactive measures to manage this risk and has intensified collection efforts at early delinquency stages to prevent further slippages.
- Credit costs for this quarter were at 2.0%. However, for H1FY25, the credit costs were at 1.8%, which is the lower end of the bank's guided range of 1.8% to 2.0% for FY25E.

Higher Cost-to-income ratio due to continued investments in new initiatives:

- Net interest margin (NIM) was reported at 7.4% in Q2FY25, a 20-bps increase YoY compared to 7.2% in Q2FY24. Despite pressure on the cost of funds and a change in product mix, the bank was able to sustain and protect NIM.
- The yields on advances improved by 40 bps YoY (-20 bps QoQ), at 13.7%. The cost of funds for the quarter increased to 7.0% in Q2FY25 from 6.5% in Q2FY24 (vs 7.0% in Q1FY25).
- The bank aims to maintain NIM within the guided range of 7.0% to 7.5% and remains confident about achieving this goal. However, NII declined by 1.9% QoQ, which was primarily on account of the change in product mix towards secured and the impact of higher slippages.
- Operating expenses grew by 20.5% YoY/ 6.0% QoQ, as a result of investments in people, technology and infrastructure, and based on the business volume growth. The cost-to-income ratio increased by 71 bps YoY/ 258 bps QoQ to 47.6% for the quarter.
- During the quarter, the operating expenses to average assets ratio was 3.8%, while in the H1FY25, the OpEx to asset ratio was 3.7%. BANDHAN expects the OpEx ratio to be at a similar level to FY24 for FY25E as the bank will continue to invest in people and technology and build key capabilities throughout the year. The numbers are in alignment with the same guidance.

Key Concall Highlights:

- RBI has granted its approval to the appointment of Mr. Partha Pratim Sengupta as MD and CEO of the Bank for a period of three years. Pursuant to this approval, the Board has earlier today approved the appointment of Mr. Sengupta as MD and CEO, with effect from 1 November 2024.
- India's macro parameters remain strong, with real GDP growth of 6.7% in Q1FY25 and expected growth of 7.2% during FY25E. CPI inflation is expected to average around 4.5% during FY25E. Globally, several central banks, including the U.S. Fed, have started easing interest rates. The RBI continues to stay cautious. However, the stance of monetary policy has changed to neutral from the withdrawal of accommodation earlier.
- Banking system liquidity turned surplus in Q2FY25 from a deficit between January to June 2024.
- The government maintains its focus on long-term goals of sustainable growth and development towards a Viksit Bharat with special emphasis on several key areas such as infrastructure, rural development, agriculture, MSME, affordable housing, employment, skilling, middle class and women empowerment. Bandhan Bank remains steadfastly committed to creating a greater impact by participating and contributing to this journey.
- The microfinance industry has been facing headwinds and witnessing elevated risk in portfolio quality. Whilst the microfinance sector continues to face headwinds, BANDHAN has been proactive and have taken steps over the last 18 plus months to address the business risk.
- The bank is committed to delivering excellence by offering products and services tailored to meet the requirements of the customer and to enhance their banking experience.
- Some of the key products launched during the quarter are the Avni Savings Account, GST and the Pension Collection, Delights which is a loyalty reward, and the debit card for the non-individual.
- BANDHAN maintained a strong capital adequacy ratio, ensuring sufficient buffers to support future growth initiatives. Liquidity remained robust, with a healthy loan-to-deposit ratio, providing flexibility to meet lending demands without liquidity strain.
- Return on assets was at 2.3% and return on equity at 17.3% for H1FY25 on an annualized basis.
- On capital adequacy, the CRAR stood at 15.6%, including profits, for H1FY25.

Valuation and view

In Q2FY25, Bandhan Bank reported healthy performance, with a significant focus on growing core income streams. Bandhan Bank expects continued growth in core lending areas and remains cautiously optimistic about asset quality. The focus will remain on strengthening digital services and expanding customer outreach, particularly in underserved regions. BANDHAN has guided for a credit growth of ~18.0% with a focus on secured lending, and credit costs are projected in the range of 1.8%-2.0% for FY25E. The bank expects steady growth in earnings for the next quarter, with potential challenges anticipated from external economic factors. We expect CAGR in NII to be 16.9%, PPOP 16.6%, and PAT 43.9% over FY24–26E.

Due to the ongoing challenges in the MFI segment and the anticipated slow recovery, we have lowered our P/Adj. BV multiple for the bank. **We revise our target price to INR 200 per share (earlier INR 217) by assigning a P/ABV multiple of 1.2x to the adjusted book value of INR 166.8 per share for FY26E, thereby implying an upside of 8.2% over the CMP. Accordingly, we maintain our rating of “ACCUMULATE” on the shares of Bandhan Bank Ltd.**

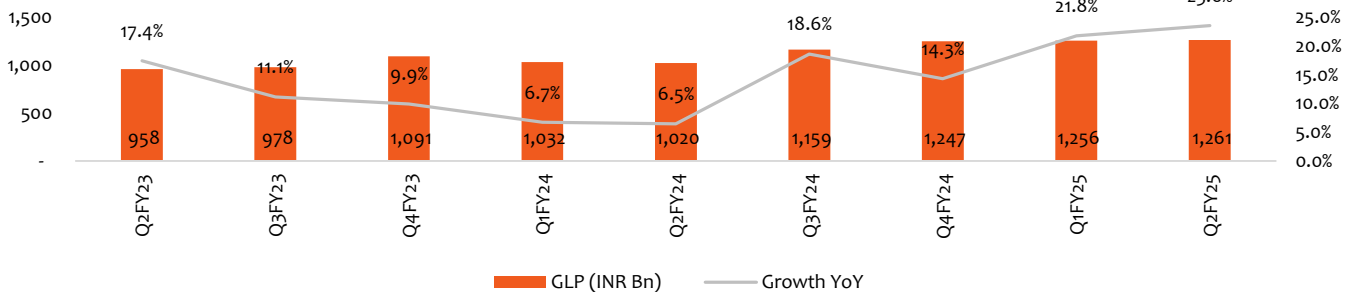
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Result Snapshot

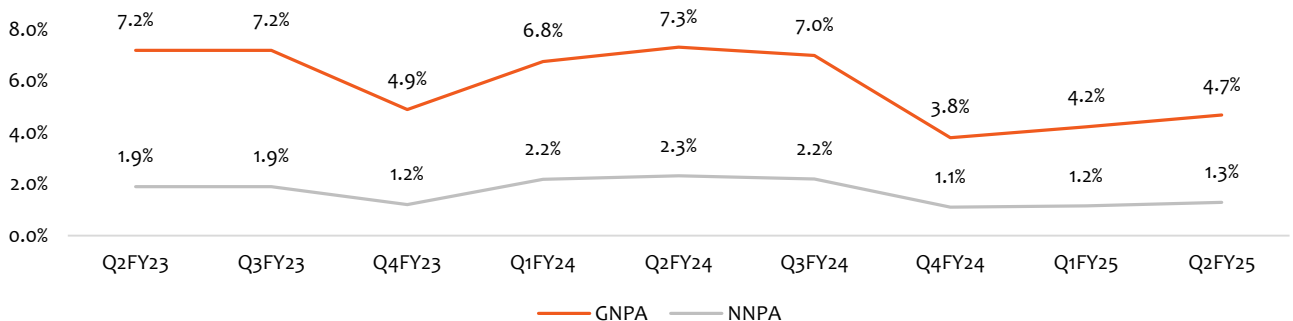
Particulars (In Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y	H1FY25	H1FY24	Y-o-Y
Income Statement								
Interest income	54,998	55,358	44,919	-0.7%	22.4%	110,356	90,148	22.4%
Interest expense	25,516	25,308	20,486	0.8%	24.6%	50,824	40,809	24.5%
Net interest income	29,483	30,050	24,433	-1.9%	20.7%	59,533	49,340	20.7%
Non-interest income	5,947	5,275	5,403	12.7%	10.1%	11,223	9,254	21.3%
Total income	35,430	35,326	29,836	0.3%	18.7%	70,755	58,593	20.8%
Operating expenses	16,879	15,917	14,002	6.0%	20.5%	32,795	27,137	20.9%
Pre-provision profit	18,551	19,409	15,834	-4.4%	17.2%	37,960	31,457	20.7%
Provisions	6,062	5,230	6,362	15.9%	-4.7%	11,292	12,382	-8.8%
Profit before tax	12,489	14,179	9,472	-11.9%	31.8%	26,667	19,074	39.8%
Tax expense	3,114	3,544	2,261	-12.1%	37.7%	6,658	4,652	43.1%
Net profit	9,374	10,635	7,211	-11.8%	30.0%	20,009	14,422	38.7%
Balance sheet analysis								
Deposits	1,425,095	1,332,100	1,120,792	7.0%	27.2%	1,425,095	1,120,792	27.2%
CASA Deposits	473,132	444,600	431,505	6.4%	9.6%	473,132	431,505	9.6%
CASA (%)	33.2%	33.4%	38.5%	-18bps	-530bps	33.2%	38.5%	
Advances	1,260,557	1,215,900	1,020,277	3.7%	23.6%	1,260,557	1,020,277	23.6%
Total Assets	1,797,677	1,733,000	1,524,379	3.7%	17.9%	1,797,677	1,524,379	17.9%
Capital adequacy ratio (%)	14.3%	15.0%	19.2%	-63bps	-487bps	14.3%	19.2%	-487bps
Spread Analysis								
Yield on avg advances (%)	13.7%	13.9%	13.3%	-20bps	40bps	13.8%	13.3%	50bps
Cost of funds (%)	7.0%	7.0%	6.5%	0bps	50bps	7.0%	6.5%	50bps
NIM (%)	7.4%	7.6%	7.2%	-20bps	20bps	7.5%	7.3%	20bps
Asset quality								
Gross NPA	61,053	53,044	78,738	15.1%	-22.5%	61,053	78,738	-22.5%
Net NPA	16,202	13,964	23,652	16.0%	-31.5%	16,202	23,652	-31.5%
GNPA (%)	4.68%	4.23%	7.32%	45bps	-264bps	4.68%	7.32%	-264bps
NNPA (%)	1.29%	1.15%	2.32%	14bps	-103bps	1.29%	2.32%	-103bps
PCR (%)	73.5%	73.7%	70.0%	-21bps	350bps	73.5%	70.0%	350bps
Core Credit Cost ratio (%)	2.0%	1.6%	2.5%	40bps	-50bps	1.8%	2.5%	-70bps
Key ratios								
Cost to income ratio (%)	47.6%	45.1%	46.9%	258bps	71bps	46.4%	46.3%	4bps
C/D ratio (%)	88.5%	91.3%	91.0%	-282bps	-258bps	88.5%	91.0%	-258bps
RoA (%) (Not annualized)	0.53%	0.61%	0.48%	-8bps	5bps	1.14%	0.96%	18bps

Source: Company, KRChoksey Research

Credit growth remained strong



Asset quality deteriorated due to slightly higher slippages



Source: Company, KRChoksey Research

Bandhan Bank Ltd.

Financials:

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	159,047	188,696	218,080	252,936	296,004
Interest Expense	66,451	85,440	96,943	113,973	135,647
Net Interest Income	92,596	103,256	121,136	138,962	160,357
Non-interest income	24,686	21,647	25,110	28,876	33,497
Operating income	117,282	124,903	146,246	167,839	193,854
Operating Expense	46,368	58,508	68,108	80,390	95,146
PPOP	70,913	66,395	78,138	87,449	98,707
Provisions	41,984	36,966	26,190	28,034	32,037
PBT	28,930	29,429	51,948	59,415	66,670
Tax Expense	6,983	7,133	12,727	14,557	16,334
PAT	21,946	22,296	39,221	44,858	50,336
Diluted EPS (INR)	13.6	13.8	24.3	27.8	31.2

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Source of Funds					
Share capital	16,108	16,110	16,110	16,110	16,110
Reserves & surplus	179,733	199,987	234,893	275,436	321,457
Shareholders' funds	195,842	216,096	251,002	291,546	337,567
Borrowings	247,108	163,715	127,090	149,712	174,414
Deposits	1,080,693	1,352,020	1,588,623	1,871,398	2,180,179
Other liabilities & provisions	34,057	46,585	26,632	32,248	46,369
TOTAL LIABILITIES & EQUITY	1,557,700	1,778,417	1,993,348	2,344,904	2,738,529
USES OF FUNDS					
Cash and cash equivalent	82,497	161,705	142,976	177,783	207,117
Investments	323,659	292,876	333,611	392,994	457,838
Advances	1,047,568	1,211,368	1,393,073	1,629,895	1,906,978
Fixed & other assets	103,976	112,468	123,688	144,232	166,597
TOTAL ASSETS	1,557,700	1,778,417	1,993,348	2,344,904	2,738,529

Exhibit 3: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
Growth Rates					
Advances (%)	11.5%	15.6%	15.0%	17.0%	17.0%
Deposits (%)	12.2%	25.1%	17.5%	17.8%	16.5%
Total assets (%)	12.2%	14.2%	12.1%	17.6%	16.8%
NII (%)	6.3%	11.5%	17.3%	14.7%	15.4%
Pre-provisioning profit (%)	-11.5%	-6.4%	17.7%	11.9%	12.9%
PAT (%)	1644.6%	1.6%	75.9%	14.4%	12.2%
B/S Ratios					
Credit/Deposit (%)	96.9%	89.6%	87.7%	87.1%	87.5%
CASA (%)	39.3%	37.1%	35.5%	35.0%	35.0%
Advances/Total assets (%)	67.3%	68.1%	69.9%	69.5%	69.6%
Leverage - Total Assets to Equity	7.95	8.23	7.94	8.04	8.11
Operating efficiency					
Cost/income (%)	39.5%	46.8%	46.6%	47.9%	49.1%
Opex/total assets (%)	3.1%	3.5%	3.6%	3.7%	3.7%
Opex/total interest earning assets	3.4%	3.8%	3.9%	4.0%	4.0%
Profitability					
NIM (%)	6.8%	6.7%	6.9%	6.9%	6.7%
RoA (%)	1.4%	1.3%	2.0%	1.9%	1.8%
RoE (%)	11.2%	10.3%	15.6%	15.4%	14.9%
Asset quality					
Gross NPA (%)	4.9%	3.8%	4.7%	4.6%	4.5%
Net NPA (%)	1.2%	1.1%	1.5%	1.4%	1.2%
PCR (%)	76.8%	71.8%	68.5%	69.3%	74.5%
Slippage (%)	10.2%	4.5%	4.0%	4.0%	4.0%
Credit cost (%)	4.0%	3.1%	1.9%	1.7%	1.7%
Per share data / Valuation					
EPS (INR)	13.6	13.8	24.3	27.8	31.2
BVPS (INR)	121.6	134.1	155.8	181.0	209.5
ABVPS (INR)	114.0	125.8	142.9	166.8	195.9
P/E (x)	14.4	13.0	7.6	6.6	5.9
P/BV (x)	1.6	1.3	1.2	1.0	0.9
P/ABV (x)	1.7	1.4	1.3	1.1	0.9

Source: Company, KRChoksey Research

Bandhan Bank Ltd.

Bandhan Bank Limited			
Date	CMP (INR)	TP (INR)	Recommendation
29-Oct-24	185	200	ACCUMULATE
05-Aug-24	213	217	ACCUMULATE
22-May-24	184	193	HOLD
08-Apr-24	188	193	HOLD
12-Feb-24	201	225	ACCUMULATE
23-Oct-23	221	265	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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