



Q3FY25 Bandhan Bank Ltd.



Bandhan Bank Ltd.

Elevated credit costs and opex impact profitability; Near-term pressures persist

CMP*	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 148	INR 164	11.1%	INR 238,279	ACCUMULATE	Banking

Result Highlights Q3FY25:

- Net Interest Income (NII) for the quarter stood at INR 28,303 Mn, reflecting a 12.1% YoY growth but a 4.0% QoQ decline. Core NIMs stood at 7.4%, improving by 20 bps YoY but contracting 20 bps QoQ. The NII missed our expectations primarily due to lower yields. Pre-Provision Operating Profits (PPOP) increased by 21.1% YoY (+9.0% QoQ) to INR 20,214 Mn, exceeding our estimates by 2.4%, driven by higher non-interest income. The net profit for Q3FY25 stood at INR 4,265 Mn, a decline of 41.8% YoY, primarily led by higher provisions.
- We trim our adjusted book value estimates downwards for FY26E/ FY27E by 4.4%/ 6.7%, respectively, given the continued stress in the microfinance portfolio and the need for higher provisions. We revise our target price to INR 164 per share (earlier INR 200) by assigning a P/ABV multiple of 0.9x (earlier INR 1.2x), rolling over our valuation to the adjusted book value of INR 182.7 per share for FY27E, implying an upside of 11.1% over the CMP. We maintain our "ACCUMULATE" rating as we expect gradual recovery and value creation over the medium to long term.

MARKET DATA

Shares outs (Mn)	1,611
Mkt Cap (INR Mn)	238,279
52 Wk H/L (INR)	233/ 137
Volume Avg (3m K)	7,949
Face Value (INR)	10
Bloomberg Code	BANDHAN IN

KEY FINANCIALS

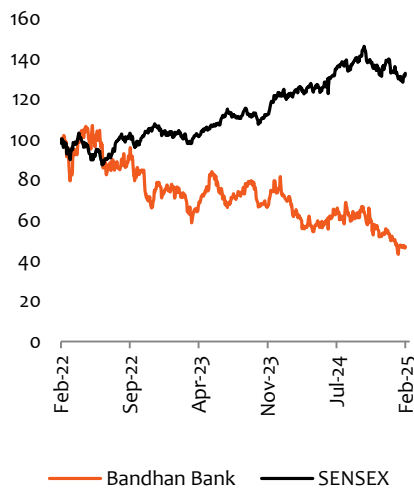
Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
NII	92,596	103,256	116,444	129,565	148,203
PPOP	70,913	66,395	76,733	77,634	87,045
PAT	21,946	22,296	32,397	36,529	43,068
EPS (INR / Share)	13.6	13.8	20.1	22.7	26.7
ABVPS (INR / Share)	114.0	125.8	140.7	159.5	182.7
Advances Growth YoY (%)	11.5%	15.6%	13.5%	15.0%	15.0%

Source: Company, DevenChoksey Research

Moderation in credit growth amid slowdown in the MFI portfolio:

- As of December 31, 2024, net loans and advances stood at INR 1,273,800 Mn, a 15.6% YoY/ 1.1% QoQ growth. The gross advances grew by 13.9% YoY/ 1.0% QoQ, supported by the growth in the secured loans, which was up 34.0% YoY.
- The Emerging Entrepreneur Business (EEB) loan book has registered a decline of 2.6% YoY (-5.3% QoQ). The share of EEB (Group + SBAL) reduced to 42.5% in Q3FY25 from 49.6% in Q3FY24. The management expects the current stress in the microfinance sector to persist for one more quarter but is optimistic about a gradual recovery thereafter. During the quarter, retail credit reported a robust growth of 95.1% YoY/ 16.6% QoQ, driven by secured retail products, including gold loans, auto loans, and commercial vehicle financing. The housing loan portfolio also saw 19.0% YoY growth, adjusting for the IBPC portfolio. Apart from retail, commercial and SME banking has emerged as a key growth driver, with a 38.0% YoY (+7.1% QoQ) increase in commercial banking loans. The bank is shifting away from heavy reliance on microfinance and expanding into secured retail loans, housing loans, commercial banking, and digital banking.
- From a business mix standpoint, EEB group lending constituted 27.3% of advances, Small Business and Agri Loans (SBAL) at 15.2%, commercial banking at 26.1%, housing at 24.7%, and retail at 3.7%, respectively.
- BANDHAN has announced plans to open approximately 200 new branches, with a strategic focus on South India, to reduce geographical concentration risk and drive pan-India growth. This expansion aims to increase the bank's footprint in underpenetrated markets, enhance its retail banking presence, and tap into new customer segments, including high-value retail and SME borrowers.
- On the liabilities side, deposits reported a growth of 20.1% YoY (-1.1% QoQ) at INR 1,410.0 Bn with a CASA ratio of 31.7% as of December 31, 2024, a decline of -439 bps YoY/ -147 bps QoQ, which, although lower than industry leaders, remained in-line with broader banking trends. Within CASA deposits, the savings account deposits have grown by 8.0% YoY but declined by 5.5% QoQ. The bank's focus on retail deposits remains strong, as it aims to enhance its liability franchise and improve cost efficiency.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	77,187
NIFTY	23,361

SHARE HOLDING PATTERN (%)

Particulars	Dec-24	Sep-24	Jun-24
Promoters	40.0	40.0	40.0
FIIIs	23.2	26.7	28.3
DIIIs	15.4	16.3	15.1
Others	21.4	17.0	16.6
Total	100.0	100.0	100.0

*Based on previous closing

Note: All the market data is as of previous closing

12.8%

NII CAGR between FY24 and FY27E

24.5%

PAT CAGR between FY24 and FY27E

Bandhan Bank Ltd.

Slippages continued to be a concern:

- The GNPA was 4.68% as of December 31, 2024, compared to 7.02% as of December 31, 2023 (vs. 4.68% as of September 30, 2024). The NNPA for the quarter ended at 1.28%, compared to 2.21% of the net advances as of December 31, 2023.
- The slippages for Q3FY25 increased to INR 16.2 Bn, as against INR 11.1 Bn in Q2FY25, mainly due to stress in the microfinance segment, which is experiencing challenges across the industry. The EEB slippages increased to INR 11,960 Mn from INR 7,520 Mn in Q2FY25.
- The bank undertook technical write-offs of INR 12,660 Mn, resulting in an additional provision of INR 3,360 Mn to maintain coverage levels. Total provisions for the quarter stood at INR 13,760 Mn, significantly higher than INR 6,840 Mn in Q3FY24. Despite this, the Provision Coverage Ratio (PCR), including write-offs, remains strong at 85.4%.
- The upgradation and recovery for this quarter stood at INR 2,800 Mn, compared to INR 3,050 Mn in Q2FY25. Going forward, the bank expects an increase in recoveries and upgrades, supported by a structured collection strategy, QR-based repayment solutions for microfinance borrowers, and stricter underwriting standards.
- Credit costs for this quarter were at 4.1% as against 2.0% in Q2FY25 (2.5% in Q3FY24). For 9MFY25, the credit costs were at 2.6% (vs. 2.5% in 9MFY24), which was above the bank's previous guided range of 1.8% to 2.0% for FY25E.
- The credit costs for the quarter increased due to higher provisioning requirements, primarily related to the microfinance portfolio and write-offs. While the bank is experiencing short-term stress in asset quality, management remains optimistic about gradual improvement over the next few quarters as guardrails and risk control measures are strengthened.
- While microfinance stress may persist for another quarter, overall asset quality is expected to stabilize, with slippages moderating in the coming financial year.

NIMs saw contraction due to a shift in loan portfolio; Opex remains elevated:

- Net interest margin (NIM) was reported at 6.9% in Q3FY25, a contraction of 30 bps YoY/ 50 bps QoQ. The bank has traditionally maintained NIMs in the 7.0%–7.5% range, supported by its high-yield microfinance portfolio. However, with a gradual shift towards secured retail, housing, and commercial banking loans, along with higher funding costs due to rising term deposit rates, NIMs have moderated slightly.
- The yields on advances declined by 10 bps YoY (-40 bps QoQ), at 13.3%. The cost of funds for the quarter increased to 7.1% in Q3FY25 from 6.6% in Q3FY24 (vs 7.0% in Q2FY25).
- Going forward, the bank aims to sustain NIMs within the 7.0%–7.5% range, leveraging a balanced loan mix, improved deposit mobilization, and cost-efficient funding strategies.
- On the cost front, operating expenses remained elevated, with an increase of 34.6% YoY/ 12.8% QoQ, driven by higher employee costs, technology investments, and branch expansion efforts. Additionally, the shift to fair valuation accounting for ESOPs resulted in an extra cost of INR 1,660 Mn, impacting the quarter's expense structure. These factors, combined with an overall increase in operational expenditure, led to a rise in the Cost-to-Income (C/I) Ratio, which stood at 48.5% in Q3FY25, up from 46.1% YoY.
- BANDHAN aims to improve operational efficiency through digital transformation, branch rationalization, and cost optimization initiatives in the medium-term.

Key Concall Highlights:

- The management remains committed to supporting microfinance borrowers but will implement stricter lending guardrails, including limiting borrower exposure to three lenders and capping total indebtedness at INR 0.2 Mn.
- The Capital Adequacy Ratio (CRAR) showed a marginal decline from 19.8% to 16.1% due to increased risk weights on unsecured loans,
- The bank is focusing on diversifying its portfolio beyond microfinance to include retail loans, housing loans, and commercial loans.
- BANDHAN is aiming for a more secular growth approach, with a focus on liability products and digital banking. The bank intends to go almost fully digital.
- The bank has plans to expand its branch network, opening around 200 branches, primarily in the southern region of India, to dilute its geographical concentration.
- The management expects the microfinance sector to improve after one more quarter, as it is currently experiencing a cyclical downturn.
- The bank has resolved its CGFMU (Credit Guarantee Fund for Micro Units) case and received a balance amount of INR 2,890 Mn during the quarter.
- The bank has changed its accounting policy for ESOPs (Employee Stock Option Plans) to fair valuation, resulting in an expense of INR 1,660 Mn.
- While the collection efficiency in the eastern part of the country, particularly in Assam and West Bengal, remained strong (over 99.0%), other regions experienced higher delinquencies.
- Net profit decreased due to a) change in ESOP accounting to fair valuation from intrinsic valuation, b) Additional provisions related to an asset debt swap totaled around INR 300 Mn, c) Higher provisions were made on account of stress in the microfinance portfolio, and d) The technical write-off of INR 12,660 Mn and the related additional provision of INR 3,360 Mn.

Valuation and view

Bandhan Bank's Q3FY25 results were disappointing, primarily due to higher slippages in the microfinance segment, increased provisioning, and one-off accounting adjustments. Although the bank is making strides to diversify its loan portfolio and enhance its digital and retail banking capabilities, asset quality remains a significant concern. These ongoing challenges are likely to impede any substantial re-rating of the stock in the near term. We expect CAGR in NII to be 12.8%, PPOP 13.6%, and PAT 24.5% over FY24–27E. We trim our adj. book value for FY26E/FY27E by 4.4%/ 6.7%, respectively. **We lower our target price to INR 164 per share (earlier INR 200), assigning a P/ABV multiple of 0.9x (earlier 1.1x FY26E) to the adjusted book value of INR 182.7 per share for FY27E, implying a potential upside of 11.1% over the CMP. Despite the near-term challenges, we continue to see long-term value in Bandhan Bank's strategic shift towards a more diversified loan mix and its focus on digital initiatives. Therefore, we maintain our "ACCUMULATE" rating on the stock, reflecting our belief in its long-term growth potential, albeit with a more cautious near-term outlook.**

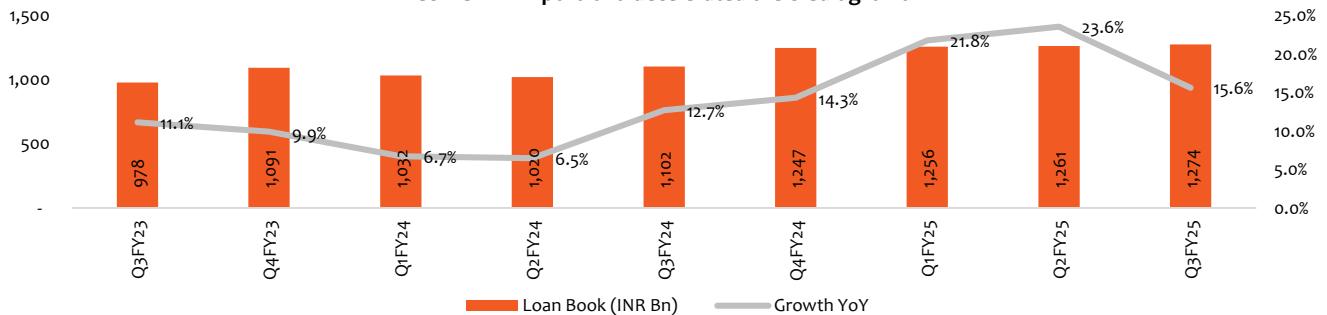
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Result Snapshot

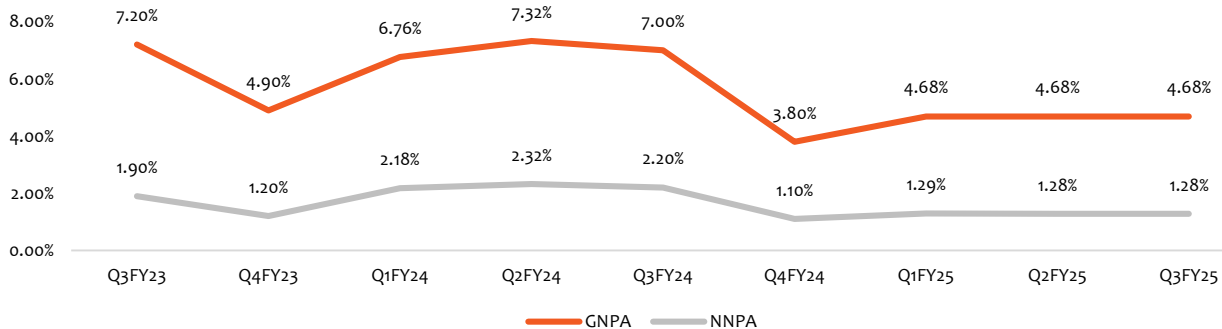
Particulars (In Mn)	Q3FY25	Q2FY25	Q3FY24	Q-o-Q	Y-o-Y	9MFY25	9MFY24	Y-o-Y
Income Statement								
Interest income	54,787	54,998	46,654	-0.4%	17.4%	165,144	136,803	20.7%
Interest expense	26,484	25,516	21,401	3.8%	23.8%	77,308	62,209	24.3%
Net interest income	28,303	29,483	25,254	-4.0%	12.1%	87,836	74,593	17.8%
Non-interest income	10,959	5,947	5,452	84.3%	101.0%	22,181	14,705	50.8%
Total income	39,261	35,430	30,705	10.8%	27.9%	110,017	89,299	23.2%
Employee costs	12,274	10,440	8,987	17.6%	36.6%	32,768	25,727	27.4%
Other operating expenses	6,774	6,438	5,165	5.2%	31.2%	19,076	15,562	22.6%
Operating expenses	19,048	16,879	14,152	12.8%	34.6%	51,843	41,289	25.6%
Pre-provision profit	20,214	18,551	16,553	9.0%	22.1%	58,173	48,010	21.2%
Provisions	13,760	6,062	6,840	127.0%	101.2%	25,053	19,222	30.3%
Profit before tax	6,454	12,489	9,713	-48.3%	-33.6%	33,121	28,788	15.1%
Tax expense	2,189	3,114	2,386	-29.7%	-8.3%	8,847	7,038	25.7%
Net profit	4,265	9,374	7,327	-54.5%	-41.8%	24,274	21,749	11.6%
Balance sheet analysis								
Deposits	1,410,000	1,425,095	1,174,200	-1.1%	20.1%	1,410,000	1,174,200	20.1%
CASA Deposits	447,350	473,132	424,130	-5.4%	5.5%	447,350	424,130	5.5%
CASA (%)	31.7%	33.2%	36.1%	-147bps	-439bps	31.7%	36.1%	-439bps
Advances	1,273,800	1,260,557	1,101,800	1.1%	15.6%	1,273,800	1,101,800	15.6%
Total Assets	1,839,100	1,797,677	1,569,200	2.3%	17.2%	1,839,100	1,569,200	17.2%
Capital adequacy ratio (%)	14.5%	14.3%	17.9%	20bps	-332bps	14.5%	17.9%	-332bps
Asset quality								
Gross NPA	61,785	61,053	81,355	1.2%	-24.1%	61,785	81,355	-24.1%
Net NPA	16,367	16,202	24,396	1.0%	-32.9%	16,367	24,396	-32.9%
GNPA (%)	4.68%	4.68%	7.02%	0bps	-234bps	4.68%	7.02%	-234bps
NNPA (%)	1.28%	1.29%	2.21%	-1bps	-93bps	1.28%	2.21%	-93bps
PCR (%)	73.5%	73.5%	70.0%	5bps	350bps	73.5%	70.0%	350bps
Key ratios								
Cost to income ratio (%)	48.5%	47.6%	46.1%	87bps	242bps	47.1%	46.2%	89bps
C/D ratio (%)	90.3%	88.5%	93.8%	189bps	-349bps	90.3%	93.8%	-349bps
RoA (%) (Not annualized)	0.24%	0.53%	0.48%	-29bps	-24bps	1.37%	1.44%	-7bps

Source: Company, DevenChoksey Research

Decline in MFI portfolio decelerated the credit growth



Elevated slippages impact asset quality



Source: Company, DevenChoksey Research

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Financials:

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	159,047	188,696	224,612	253,117	291,280
Interest Expense	66,451	85,440	108,168	123,552	143,077
Net Interest Income	92,596	103,256	116,444	129,565	148,203
Non-interest income	24,686	21,647	29,872	32,262	34,843
Operating income	117,282	124,903	146,316	161,827	183,046
Operating Expense	46,368	58,508	69,584	84,193	96,000
PPOP	70,913	66,395	76,733	77,634	87,045
Provisions	41,984	36,966	33,823	29,251	30,002
PBT	28,930	29,429	42,910	48,383	57,043
Tax Expense	6,983	7,133	10,513	11,854	13,976
PAT	21,946	22,296	32,397	36,529	43,068
Diluted EPS (INR)	13.6	13.8	20.1	22.7	26.7

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	228,069	260,283	299,036
Shareholders' funds	195,842	216,096	244,178	276,393	315,145
Borrowings	247,108	163,715	151,426	174,140	202,873
Deposits	1,080,693	1,352,020	1,514,262	1,741,402	2,028,733
Other liabilities & provisions	34,057	46,585	90,796	98,999	97,035
TOTAL LIABILITIES & EQUITY	1,557,700	1,778,417	2,000,663	2,290,933	2,643,786
USES OF FUNDS					
Cash and cash equivalent	82,497	161,705	128,712	139,312	162,299
Investments	323,659	292,876	378,566	435,350	507,183
Advances	1,047,568	1,211,368	1,374,902	1,581,138	1,818,309
Fixed & other assets	103,976	112,468	118,483	135,132	155,996
TOTAL ASSETS	1,557,700	1,778,417	2,000,663	2,290,933	2,643,786

Exhibit 3: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
Growth Rates					
Advances (%)	11.5%	15.6%	13.5%	15.0%	15.0%
Deposits (%)	12.2%	25.1%	12.0%	15.0%	16.5%
Total assets (%)	12.2%	14.2%	12.5%	14.5%	15.4%
NII (%)	6.3%	11.5%	12.8%	11.3%	14.4%
Pre-provisioning profit (%)	-11.5%	-6.4%	15.6%	1.2%	12.1%
PAT (%)	1644.6%	1.6%	45.3%	12.8%	17.9%
B/S Ratios					
Credit/Deposit (%)	96.9%	89.6%	90.8%	90.8%	89.6%
CASA (%)	39.3%	37.1%	34.0%	33.0%	32.5%
Advances/Total assets (%)	67.3%	68.1%	68.7%	69.0%	68.8%
Leverage - Total Assets to Equity	7.95	8.23	8.19	8.29	8.39
Operating efficiency					
Cost/income (%)	39.5%	46.8%	47.6%	52.0%	52.4%
Opex/total assets (%)	3.1%	3.5%	3.7%	3.9%	3.9%
Opex/total interest earning assets	3.4%	3.8%	3.9%	4.2%	4.2%
Profitability					
NIM (%)	6.8%	6.7%	6.6%	6.4%	6.4%
RoA (%)	1.4%	1.3%	1.6%	1.6%	1.6%
RoE (%)	11.2%	10.3%	13.3%	13.2%	13.7%
Asset quality					
Gross NPA (%)	4.9%	3.8%	4.6%	4.6%	4.5%
Net NPA (%)	1.2%	1.1%	1.3%	1.2%	1.1%
PCR (%)	76.8%	71.8%	72.6%	73.2%	74.5%
Slippage (%)	10.2%	4.5%	4.0%	4.0%	4.0%
Credit cost (%)	4.0%	3.1%	2.5%	1.9%	1.7%
Per share data / Valuation					
EPS (INR)	13.6	13.8	20.1	22.7	26.7
BVPS (INR)	121.6	134.1	151.6	171.6	195.6
ABVPS (INR)	114.0	125.8	140.7	159.5	182.7
P/E (x)	14.4	13.0	7.5	6.7	5.7
P/BV (x)	1.6	1.3	1.0	0.9	0.8
P/ABV (x)	1.7	1.4	1.1	0.9	0.8

Source: Company, DevenChoksey Research

Bandhan Bank Ltd.

Bandhan Bank Limited			
Date	CMP (INR)	TP (INR)	Recommendation
04-Feb-25	148	164	ACCUMULATE
28-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

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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