

Weak Quarter; Growth Guidance Lowered – Downgrade to HOLD
Est. Vs. Actual for Q4FY25: NII – MISS; PPOP – MISS; PAT – MISS
Changes in Estimates post Q4FY25
FY26E/FY27E (in %): NII: -5.8/-7.6; PPOP: -14.2/-16.7; PAT: -17.7/-19.2
Recommendation Rationale

- NIMs to take a hit owing to portfolio shift:** With the element of cyclical attached to the MFI segment, the management intends to further improve the share of the secured products in the portfolio to 55% by FY27 from ~50% in FY25. Given the portfolio skew towards lower-yielding secured portfolios, yield pressures surfacing is imminent. **The yield differential between the EEB and non-EEB book is fairly large (~10%). Thus, margins are expected to contract by ~50-60bps over the next 3 years.** However, NIMs would find some support from the improving CoF in the current rate-easing cycle. Bandhan has reduced its SA and TD rates (~30bps down from peak rates w.e.f May 1, 2025), and the benefit should reflect with a lag. The near-term margins will continue to face challenges with ~26% EBLR (primarily repo-linked loans) repricing downwards and expectations of higher slippages driving interest reversals. **We expect some respite on NIMs in H2FY26, given CoF benefit reflecting and an anticipated slowdown in slippages.** Currently, ~55% of Bandhan's book is fixed rate, and 19% is MCLR-linked.
- Asset quality disappointment continues:** A majority of the slippages during the quarter were from the EEB pool. The overall stress level (SMA+NPA) in the EEB portfolio remains elevated at 11.7% vs 11.1% QoQ. Currently, ~25% of the NPA pool in the eEB segment is paying at least one EMI. Bandhan has seen a deterioration in the SMA0 in WB, which inched up to 2.3% vs 0.9% in Q3FY25, primarily driven by local disruptions and higher holidays in Mar'25. The management indicated that the bank has seen some clawback in terms of CE in the 1st week of Apr'25. The collection efficiency (CE) in the EEB portfolio has seen a slight improvement during the quarter, and similar trends have continued in Apr'25. The management expects credit costs to remain elevated in H1FY26, before gradually declining from H2FY26 onwards. With the improving mix of secured portfolio and receding EEB asset quality stress, **Bandhan expects to limit its credit costs to 1.5-1.6% over the next 2-3 years vs 3.0% in FY25.** However, the higher exposure to the EEB segment will continue to pose a risk to the consistency in asset quality performance delivery.

Sector Outlook: Positive

Company Guidance: Navigating headwinds in the EEB segment and gradually improving the mix of secured products to ~55% by FY27, the management has guided for a 15-17% CAGR credit growth over the next 2-3 years. Deposits growth will continue to outpace credit growth, thereby driving LDR improvement. The portfolio mix shift will exert pressure on NIMs. However, margins could find support from a decline in CoF, though with a lag. Investment in tech, franchise and branch expansion will keep Opex growth higher than income growth, thereby resulting in pressure on the Opex ratio. The C-A Ratio is expected to increase by 10-20 bps over the next 2 years. Credit costs improving from H2FY26 remains the only lever driving RoA improvement. However, RoA is expected to settle lower at 1.8-1.9% over the medium term vs earlier guidance of 2-2.2%.

Current Valuation: 1.0x FY27E ABV; Earlier Valuation: 1.1x Sep'26E ABV

Current TP: Rs 180/share; Earlier TP: Rs 170/share

Recommendation: We revise our rating from BUY to HOLD, as we see limited upside from the CMP.

Alternative BUY Ideas from our Sector Coverage

Ujjivan SFB (TP – Rs 49/share)

Financial Performance:

Operating Performance: Bandhan's disbursements (ex-commercial) de-grew sharply YoY, led by a sharp decline in MFI disbursements (-34% YoY/+24% QoQ). Advances growth was slower at 9/4%. EEB book de-grew by 9% YoY and was flattish QoQ. The no-EEB portfolio growth continued to remain healthy at 29/6% YoY/QoQ. Deposits grew by 12/7% YoY/QoQ, largely led by TDs (22/8% YoY/QoQ), while CASA growth stood at -5/+6% YoY/QoQ. CASA Ratio contracted marginally to 31.4% vs 31.7% QoQ.

Financial Performance: NII growth was weak at -4/-3% YoY/QoQ owing to portfolio mix shift and elevated slippages. NIMs contracted by 20bps QoQ to stand at 6.7% vs 6.9% QoQ. Opex grew by controlled at 9/-1% YoY/QoQ. However, due to weak topline growth, the C-I Ratio inched up to 54.5% vs 48.5% QoQ. Credit costs continued to remain elevated, though moderated marginally to 3.9% vs 4.3% QoQ. Earnings growth was weak during the quarter.

Asset quality: The CE for EEB loans was marginally higher at 97.8% vs 97.4% QoQ. While the CE in Assam has held up well, WB, Maharashtra, Gujarat, Karnataka and Tamil Nadu have seen some stress in terms of CE. Slippages stood at Rs 1,750 Cr (slippage ratio of 5.2% vs 4.9% QoQ). GNPA/NNPA remained stable at 4.71/1.28%, flat QoQ led by better recoveries and write-offs.

Key Financials (Standalone)

(Rs Cr)	Q4FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income (NII)	2,756	-2.6	-3.9	2,860	-3.6
PPOP	1,571	-22.3	-14.5	1,659	-5.3
Net Profit	318	-25.5	+482.0	332	-4.4
NNPA (%)	1.3	0 bps	+17 bps	1.3	-1 bps
RoA (%)	0.7	-26 bps	+58 bps	0.7	-3 bps

Source: Company, Axis Securities Research

(CMP as of 30th April, 2025)

CMP (Rs)	166
Upside /Downside (%)	9%
High/Low (Rs)	222/128
Market cap (Cr)	27,040
Avg. daily vol. (6m) Shrs.	91,80,269
No. of shares (Cr)	161.1

Shareholding (%)

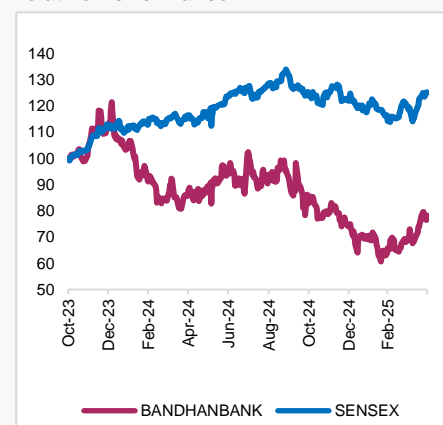
	Sep-24	Dec-24	Mar-25
Promoter	40.0	40.0	40.0
FIIs	26.7	23.2	23.2
MFs / FIIs	9.4	8.2	8.2
Others	23.9	28.6	28.6

Financial & Valuations

Y/E Mar (Rs Cr)	FY25	FY26E	FY27E
NII	11,491	12,376	14,402
PPOP	7,389	6,969	8,246
Net Profit	2,745	3,016	3,997
EPS (Rs)	17.0	18.7	24.8
ABV (Rs)	142.2	158.5	179.0
P/ABV (x)	1.2	1.0	0.9
RoA (%)	1.5	1.5	1.7
NNPA (%)	1.3	1.1	1.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
NII	-5.8	-7.6
PPOP	-14.2	-16.7
PAT	-17.7	-19.2

Relative Performance


Source: Ace Equity, Axis Securities Research

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Key Takeaways

- **Opex ratios to inch up:** The bank will continue to invest in technology, scaling up the secured businesses and the distribution franchise. This is expected to keep Opex growth higher vs income growth over the medium term, driving C-A Ratio higher by 10-20 bps.
- **Building a granular deposit franchise:** Bandhan's focus remains on improving the deposit franchise's granularity. Over the next couple of years, the bank's strategic priorities will centre on achieving deposit growth that outpaces the advances growth with a strong emphasis on stable, granular retail deposits, particularly CASA and Retail TDs, while gradually reducing the share of bulk deposits.
- **Regulatory decision boosts capital adequacy:** In Q1FY25, the bank had adopted a conservative approach by increasing the risk weight on the EEB portfolio from 75% to 125%, resulting in a 362bps reduction in CRAR. However, with the RBI reversing its risk-weight norm and reducing it to 100% or 75% for MFI loans based on certain eligibility criteria, the CRAR/Tier I increased to 18.7/17.9%. This makes Bandhan well-capitalised to drive growth over the medium term.

Outlook

De-risking the portfolio with the shifting mix towards secured assets should ensure lower volatility in asset quality outcomes. However, it will keep margins under pressure with a meaningful yield differential between EEB and secured products. The bank will focus on improving and strengthening the fee income profile, which is expected to offset the pressure on margins partially. Continued investments in tech, franchise and scaling of new products will result in an upward movement in Opex ratios. A sharp moderation in credit costs, assuming asset quality improvement in the EEB portfolio and a shift towards secured assets, is the only factor driving RoA improvement. We cut our NII estimates by 5-8% over FY26-27E, factoring in slower growth and margin pressure. We also cut our earnings estimates sharply by 17-19% owing to higher Opex growth and a delay in the credit costs improvement cycle. We expect Bandhan to deliver RoA/RoE of 1.5-1.7%/12-14% over FY26-27E.

Valuation & Recommendation

We value the stock at 1.0x FY27E ABV vs. current valuations of 0.9x FY27E ABV to arrive at a target price of Rs 180/share, implying an upside of 9% from CMP. **Resultantly, we revise our rating from BUY to HOLD. We do not see any re-rating levers in the near term. A faster-than-expected credit cost decline should be positive for the stock.**

Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum, potentially derailing earnings momentum for the bank.
- Any additional asset quality stress arising from the EEB book could potentially impact our earnings estimates.

Change in Estimates

Rs Cr	Revised		Old		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
NII	12,376	14,402	13,135	15,592	-5.8	-7.6
PBP	6,969	8,246	8,126	9,894	-14.2	-16.7
Provisions	2,948	2,916	3,237	3,296	-8.9	-11.5
PAT	3,016	3,997	3,666	4,949	-17.7	-19.2

Source: Company, Axis Securities Research

Results Review (Standalone)

	Q4FY25	Q4FY24	% YoY	Q3FY25	% QoQ	FY25	FY24	% YoY
Net Interest Income	2,756	2,866	-3.9	2,830	-2.6	11,539	10,326	11.8
Non-Interest Income	700	694	0.8	1,096	-36.2	2,918	2,165	34.8
Operating expenses	1,884	1,722	9.4	1,905	-1.1	7,068	5,851	20.8
Staff Cost	1,084	970	11.8	1,227	-11.7	4,361	3,543	23.1
Pre-provision profits	1,571	1,838	-14.5	2,021	-22.3	7,389	6,639	11.3
Provisions and contingencies	1,260	1,774	-29.0	1,376	-8.4	3,765	3,697	1.9
PBT	311	64	385.0	645	-51.8	3,623	2,943	23.1
Provision for Tax	-7	10	-170.6	219	-103.1	878	713	23.1
PAT	318	55	482.0	426	-25.5	2,745	2,230	23.1
Business Update								
Disbursements (ex-Commercial)	20,110	26,750	-24.8	16,510	21.8	70,540	76,120	-7.3
EEB	15,100	22,810	-33.8	12,220	23.6	53,490	65,300	-18.1
Mortgage	2,680	2,640	1.5	2,300	16.5	9,340	7,160	30.4
Retail	2,330	1,300	79.2	1,990	17.1	7,710	3,660	110.7
AUM								
EEB	56,540	62,240	-9.2	56,120	0.7	56,540	62,240	-9.2
Mortgage	33,090	29,920	10.6	32,640	1.4	33,090	29,920	10.6
Commercial	36,340	26,980	34.7	34,500	5.3	36,340	26,980	34.7
Retail	11,020	5,580	97.5	8,760	25.8	11,020	5,580	97.5
Deposits								
CASA Deposits	47,436	50,151	-5.4	44,735	6.0	47,436	50,151	-5.4
CASA Ratio	31.4	37.1	-572bps	31.7	-36bps	31.4	37.1	-572bps
Retail Deposits %	68.9	69.4	-50bps	68.6	23bps	68.9	69.4	-50bps
NIMs	6.7	7.6	-90bps	6.9	-20bps	7.2	7.3	-17bps
Cost-Income ratio (%)	54.5	48.4	616bps	48.5	601bps	48.9	46.8	217bps
Asset Quality								
Gross NPA (%)	4.7	3.8	87bps	4.7	3bps	4.7	3.8	87bps
Net NPA (%)	1.3	1.1	17bps	1.3	0bps	1.3	1.1	17bps
PCR (%)	73.7	71.8	186bps	73.5	19bps	73.7	71.8	186bps
Capital Adequacy								
CRAR	18.7	18.3	40bps	16.1	260bps	18.7	18.3	40bps
Tier I	17.9	17.2	70bps	14.4	350bps	17.9	17.2	70bps
Tier II	0.8	1.1	-30bps	1.7	-90bps	0.8	1.1	-30bps

Source: Company, Axis Securities Research

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
Net Interest Income	10,326	11,491	12,376	14,402
Other Income	2,165	2,967	2,802	3,281
Total Income	12,490	14,457	15,179	17,683
Total Operating Exp	5,851	7,068	8,210	9,437
PPOP	6,639	7,389	6,969	8,246
Provisions & Contingencies	3,697	3,765	2,948	2,916
PBT	2,943	3,623	4,021	5,330
Provision for Tax	713	878	1,005	1,332
PAT	2,230	2,745	3,016	3,997

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25	FY26E	FY27E
SOURCES OF FUNDS				
Share Capital	1,611	1,611	1,611	1,611
Reserves	19,999	22,994	25,607	29,055
Shareholder's Funds	21,610	24,605	27,218	30,666
Total Deposits	1,35,202	1,51,212	1,76,376	2,06,804
Borrowings	16,372	11,138	11,379	12,374
Other Liabilities & Provisions	4,659	4,520	5,198	6,041
Total Liabilities	1,77,842	1,91,476	2,20,172	2,55,884
APPLICATION OF FUNDS				
Cash & Bank Balance	16,171	9,569	11,140	12,825
Investments	29,288	40,712	45,900	53,818
Advances	1,21,137	1,31,987	1,52,104	1,76,425
Fixed Assets & Other Assets	11,247	9,207	11,027	12,816
Total Assets	1,77,842	1,91,476	2,20,172	2,55,884

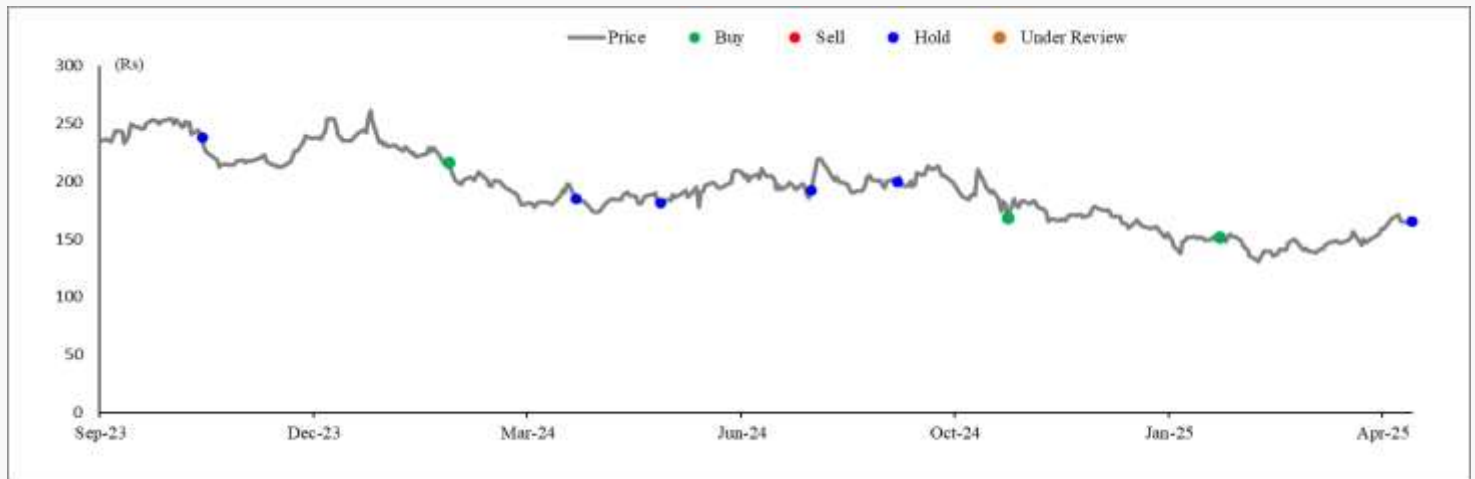
Source: Company, Axis Securities Research

Ratio Analysis
(%)

Y/E March	FY24	FY25	FY26E	FY27E
VALUATION RATIOS				
EPS	13.8	17.0	18.7	24.8
Earnings Growth (%)	1.6	23.1	9.8	32.6
BVPS	134.1	152.7	169.0	190.4
Adj. BVPS	125.8	142.2	158.5	179.0
ROAA (%)	1.3	1.5	1.5	1.7
ROAE (%)	10.8	11.9	11.6	13.8
P/E (x)	12.0	9.7	8.8	6.7
P/ABV (x)	1.3	1.2	1.0	0.9
PROFITABILITY				
NIM (%)	7.3	7.1	6.8	6.9
Cost-Income Ratio	46.8	48.9	54.1	53.4
BALANCE SHEET STRUCTURE RATIOS				
Loan Growth (%)	15.6	9.0	15.2	16.0
Deposit Growth (%)	25.1	11.8	16.6	17.3
C-D Ratio	89.6	87.3	86.2	85.3
Equity/Assets (%)	12.2	12.9	12.4	12.0
Equity/Loans (%)	17.8	18.6	17.9	17.4
CAR	18.3	18.7	17.6	17.2
CAR Tier I	17.2	17.9	16.8	16.5
ASSET QUALITY				
Gross NPLs (%)	3.8	4.7	4.2	4.0
Net NPLs (%)	1.1	1.3	1.1	1.0
Coverage Ratio (%)	71.8	73.7	74.5	75.0
Credit Costs	3.3	3.0	2.1	1.8
ROAA TREE				
Net Interest Income	6.2	6.2	6.0	6.1
Non-Interest Income	1.3	1.6	1.4	1.4
Operating Cost	3.5	3.8	4.0	4.0
Provisions	2.2	2.0	1.4	1.2
Tax	0.4	0.5	0.5	0.6
ROAA	1.3	1.5	1.5	1.7
Leverage (x)	8.1	8.0	7.9	8.2
ROAE	10.8	11.9	11.6	13.8

Source: Company, Axis Securities Research

Bandhan Bank Price Chart and Recommendation History



Date	Reco	TP	Research
19-Oct-23	HOLD	250	Result Update
12-Feb-24	BUY	240	Result Update
09-Apr-24	HOLD	175	Company Update
18-May-24	HOLD	190	Result Update
29-Jul-24	HOLD	205	Result Update
05-Sep-24	HOLD	205	Company Update
28-Oct-24	BUY	200	Result Update
01-Feb-25	BUY	170	Result Update
02-May-25	HOLD	180	Result Update

Source: Axis Securities Research

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BUY	More than 10%
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.