

**Recovery Slated for H2FY26, HOLD Stays!**
**Est. Vs. Actual for Q1FY26:** NII – **INLINE**; PPOP – **BEAT**; PAT – **BEAT**
**Changes in Estimates post Q1FY26**
**FY26E/FY27E (in %):** NII: -5.3/-4.6; PPOP: -1.3/-2.2; PAT: -11.7/-8.3

**Recommendation Rationale**

- **Slippages Moderate; Improving Trend Likely to Continue:** In Q1FY26, Bandhan witnessed an improvement in slippages, in line with management guidance and the trend is expected to continue in FY26. The management has indicated that slippages will continue to remain elevated in Q2FY26, post which gradual normalisation is likely. The NPA (% of disbursements) in the EEB portfolio has been elevated at 4-5% over the past few quarters, largely attributed to the customer over-leveraging and is expected to subside over the coming quarters, eventually settling at <3%. The SMA0 pool witnessed a slight deterioration owing to (a) procedural changes (change in billing policy), (b) implementation of tighter MFIN norms alongside (c) a marginal drop in the CE in the key states of WB and Assam. A similar trend is expected to be seen in Q2; however, the management believes that this is not worrisome as these dues would be collected subsequently and roll forward is likely to be avoided. **Bandhan's credit costs are expected to remain on a declining trend, with gradual normalisation in credit costs expected from H2FY26. The management has continued to guide for 2.5% credit costs for FY26.**
- **Near-term NIM Pressures Inevitable:** The (a) shift towards lower-yielding secured portfolios, (b) higher slippages driving interest reversals, and (c) slower repo rate cuts weighed on Bandhan's margins. However, a 19bps improvement in CoF, aided by SA rate cuts, partially offset the impact. The banks' endeavour to bring more stability to their portfolio by improving the share of secured portfolio will continue to weigh on margins in the near term. However, the impact of the SA and TD rate cuts is expected to reflect in the CoF from Q3FY26 onwards. Similarly, improving slippages trends should further lend some support to NIMs for the bank. Bandhan continues to make focused efforts towards improving the CASA deposit accretion, which could further support margins. Currently, ~45-48% of the book is floating, and the impact of the rate cut would reflect in the following quarter. The ~52% fixed rate book should provide some cushion to NIMs from Q3FY26 onwards. **Thus, NIM pressures will continue in Q2FY26, before margins stabilise from Q3FY26.**
- **Cautious EEB Growth:** The bank continues to remain cautious in pursuing growth in the EEB segment and has guided for a modest 5-7% advances growth in FY26, with a pick-up visible only in the latter half of the year. Bandhan has been facing challenges in growing in the newer states of TN, KA, GJ, and UP, owing to elevated stress and challenges owing to the ordinances. Currently, the majority of the EEB disbursements are towards ETB customers.

**Sector Outlook: Positive**

**Company Outlook:** Navigating headwinds in the EEB segment while adopting a cautious approach, Bandhan expects advances growth to be 15-17% in FY26, primarily driven by faster growth in the non-EEB segments (26-27% growth in FY26). Margin pressures will continue over the next quarter before stabilising from H2FY26, supported by lower slippages and the downward trajectory of CoF as the rate cuts on TDs and SA get reflected. Asset quality challenges seem to be gradually fading, with the slippage trend expected to improve from H2 onwards, driving near-normalisation of credit costs. Resultantly, assuming the guided recovery progresses well, we expect a gradual recovery in RoA for Bandhan from 1.5% in FY25 to 1.7-1.8% over FY26-27E.

**Current Valuation: 1.1x FY27E ABV; Earlier Valuation: 1.0x FY27E ABV**
**Current TP: Rs 195/share; Earlier TP: Rs 180/share**
**Recommendation:** We maintain our **HOLD** recommendation, given limited upside potential.

**Financial Performance:**

- **Operating Performance:** Bandhan's disbursements (ex-commercial) de-grew sharply by 17/28% YoY/QoQ, led by weaker trends in the EEB and Mortgage segment, while Retail disbursements grew 17% YoY (QoQ de-growth). Advances growth was weak at 6% YoY/ -3% QoQ, majorly led by a sharp de-growth in MFI book (-15/-7% YoY/QoQ). The non-MFI book showed strong growth of 27% YoY but remained flat QoQ. Deposits growth outpaced credit growth and was healthy at 16/2% YoY/QoQ, led by TDs (+27/9% YoY/QoQ). CASA growth was weak and de-grew by 6/12% YoY/ QoQ, with CASA Ratio declining to 27.1% vs 31.4% QoQ.
- **Financial Performance:** NII de-grew by 8% YoY and remained flat QoQ. NIMs contracted by 30 bps QoQ due to a decline in yields with the shift in the portfolio mix and slower growth in EEB segments despite a marginal fall in the CoF. Non-interest income growth was strong, supported by strong treasury gains. Opex growth was controlled, growing at 14% YoY and de-grew by 4% QoQ. C-I Ratio stood at 52.1% vs 54.5% QoQ. Credit Costs continued to remain elevated at 3.52% though moderated marginally QoQ from 3.89% QoQ. Earnings growth was weak.
- **Asset quality:** The collection efficiency for EEB loans was marginally lower at 97.6% vs 97.8% in Q4FY25. Slippages moderated sequentially, with the slippages ratio at 4.6% vs 5.2% QoQ. GNPA/NNPA inched up to 4.96/1.36% vs 4.7/1.28% QoQ. The bank wrote off loans worth Rs 1,047 Cr.

**Key Financials (Standalone)**

(Rs Cr)	Q1FY26	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income (NII)	2,757	0.0	-8.2	2,720	+1.4
PPOP	1,668	+6.2	-14.0	1,572	+6.1
Net Profit	372	+17.0	-65.0	323	+15.3
NNPA (%)	1.4	+8 bps	+21 bps	1.5	-16 bps
RoA (%)	0.8	+12 bps	-170 bps	0.6	+24 bps

Source: Company, Axis Securities Research

(CMP as of 18<sup>th</sup> July, 2025)

CMP (Rs)	187
Upside /Downside (%)	4%
High/Low (Rs)	222/128
Market cap (Cr)	30,157
Avg. daily vol. (6m) Shrs.	93,89,829
No. of shares (Cr)	161.1

**Shareholding (%)**

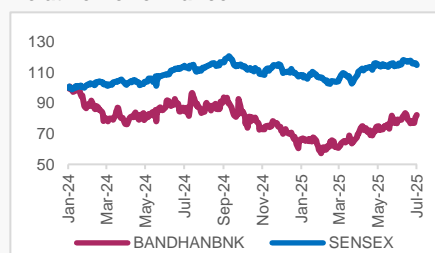
	Sep-24	Dec-24	Mar-25
Promoter	40.0	40.0	40.0
FII/s	26.7	23.2	23.2
MF/s / FI/s	9.4	8.2	8.2
Others	23.9	28.6	28.6

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY26E	FY27E	FY28E
NII	11,722	13,743	16,111
PPOP	6,875	8,067	9,529
Net Profit	2,663	3,664	4,628
EPS (Rs)	16.5	22.7	28.7
ABV (Rs)	157.3	177.5	203.5
P/ABV (x)	1.2	1.1	0.9
RoA (%)	1.3	1.6	1.7
NNPA (%)	1.1	1.0	0.9

**Change in Estimates (%)**

Y/E Mar	FY26E	FY27E
NII	-5.3	-4.6
PPOP	-1.3	-2.2
PAT	-11.7	-8.3

**Relative Performance**


Source: Ace Equity, Axis Securities Research

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## Key Takeaways

- **Building a granular deposit franchise:** Bandhan's focus continues to remain on improving the granularity of the deposit franchise. The bank has introduced the "One-Bandhan" campaign to ensure strong mobilisation of deposits and has been able to garner retail deposits to the tune of Rs 4200 Cr in the last 40 days. CASA ratio declined in Q1FY26 owing to seasonality and the rate cut taken by the bank, resulting in a shift towards retail TDs. The bank will continue to focus on CASA deposits to strengthen the deposit mix alongside containing CoF.

## 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. Continued investments in tech, franchise and scaling of new products will pressure Opex ratios. This transformation is currently weighing on the bank's profitability and is expected to keep RoA subdued. As asset quality challenges wane and credit costs gradually gravitate towards normalised levels, we expect RoA to improve to 1.7% by FY28E from 1.5% in FY25. We cut our NII estimates by 4-5% over FY26-27E, factoring in sharper margin pressures, and also cut our earnings estimates by 8-12% owing to higher opex growth and slightly higher credit costs. We expect Bandhan to deliver RoA/RoE of 1.6-1.7%/13-14% over FY27-28E, an improvement from RoA/RoE of 1.3/10.3% in FY26E.

## Valuation & Recommendation

We value the stock at 1.1x FY27E ABV vs. current valuations of 1.1x FY27E ABV to arrive at a target price of Rs 195/share, implying a limited upside of 4% from CMP. **A meaningful re-rating would be driven by sustained growth, delivery and decisive trends indicating improving profitability.**

## Key Risks to Our Estimates and TP

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

## Change in Estimates

	Revised			Old			% Change		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
NII	11,722	13,743	16,111	12,376	14,402	-	-5.3	-4.6	-
PBP	6,875	8,067	9,529	6,969	8,246	-	-1.3	-2.2	-
Provisions	3,360	3,231	3,422	2,948	2,916	-	14.0	10.8	-
PAT	2,663	3,664	4,628	3,016	3,997	-	-11.7	-8.3	-

Source: Company, Axis Securities Research

**Results Review (Standalone)**

<b>Rs Cr</b>	<b>Q1FY26</b>	<b>Q1FY25</b>	<b>% YoY</b>	<b>Q4FY25</b>	<b>% QoQ</b>
Net Interest Income	2,757	3,005	-8.2	2,756	0.0
Non-Interest Income	726	528	37.6	700	3.8
Operating expenses	1,815	1,592	14.0	1,884	-3.7
Staff Cost	1,124	1,005	11.8	1,084	3.6
Pre-provision profits	1,668	1,941	-14.0	1,571	6.2
Provisions and contingencies	1,147	523	119.3	1,260	-9.0
PBT	521	1,418	-63.2	311	67.6
Provision for Tax	150	354	-57.8	-7	-2323.6
PAT	372	1,063	-65.0	318	17.0

**Business Update**

<b>Disbursements (ex-Commercial)</b>	<b>14,510</b>	<b>17,490</b>	<b>-17.0</b>	<b>20,110</b>	<b>-27.8</b>
EEB	10,710	13,720	-21.9	15,100	-29.1
Mortgage	1,830	2,080	-12.0	2,680	-31.7
Retail	1,970	1,690	16.6	2,330	-15.5

<b>AUM</b>	<b>1,33,635</b>	<b>1,25,620</b>	<b>6.4</b>	<b>1,36,990</b>	<b>-2.4</b>
EEB	52,810	61,910	-14.7	56,540	-6.6
Mortgage	32,660	29,410	11.1	33,090	-1.3
Commercial	37,050	28,070	32.0	36,340	2.0
Retail	11,100	6,230	78.2	11,020	0.7

<b>Deposits</b>	<b>1,54,664</b>	<b>1,33,210</b>	<b>16.1</b>	<b>1,51,212</b>	<b>2.3</b>
CASA Deposits	41,859	44,456	-5.8	47,436	-11.8
CASA Ratio	27.1	33.4	-631bps	31.4	-431bps
Retail Deposits %	68.2	69.1	-92bps	68.9	-66bps

NIMs	6.4	7.6	-120bps	6.7	-30bps
Cost-Income ratio (%)	52.1	45.1	704bps	54.5	-243bps

**Asset Quality**

Gross NPA (%)	5.0	4.2	73bps	4.7	25bps
Net NPA (%)	1.4	1.2	21bps	1.3	8bps
PCR (%)	73.7	73.7	-1bps	73.7	-3bps

**Capital Adequacy**

CRAR	19.4	15.7	370bps	18.7	70bps
Tier I	18.3	14.1	420bps	17.9	40bps
Tier II	1.1	1.6	-50bps	0.8	30bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>Net Interest Income</b>	<b>11,491</b>	<b>11,722</b>	<b>13,743</b>	<b>16,111</b>
Other Income	2,967	2,982	3,154	3,377
<b>Total Income</b>	<b>14,457</b>	<b>14,705</b>	<b>16,896</b>	<b>19,488</b>
Total Operating Expense	7,068	7,830	8,830	9,959
<b>PPOP</b>	<b>7,389</b>	<b>6,875</b>	<b>8,067</b>	<b>9,529</b>
Provisions & Contingencies	3,765	3,360	3,231	3,422
<b>PBT</b>	<b>3,623</b>	<b>3,515</b>	<b>4,835</b>	<b>6,108</b>
Provision for Tax	878	852	1,172	1,480
<b>PAT</b>	<b>2,745</b>	<b>2,663</b>	<b>3,664</b>	<b>4,628</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY25	FY26E	FY27E	FY28E
<b>SOURCES OF FUNDS</b>				
Share Capital	1,611	1,611	1,611	1,611
Reserves	22,994	25,441	28,788	33,003
<b>Shareholder's Funds</b>	<b>24,605</b>	<b>27,052</b>	<b>30,399</b>	<b>34,614</b>
<b>Total Deposits</b>	<b>1,51,212</b>	<b>1,77,185</b>	<b>2,09,688</b>	<b>2,50,350</b>
Borrowings	11,138	9,823	6,176	7,535
Other Liabilities & Provisions	4,520	5,176	5,954	7,072
<b>Total Liabilities</b>	<b>1,91,476</b>	<b>2,19,236</b>	<b>2,52,218</b>	<b>2,99,571</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	9,569	11,181	12,971	15,172
Investments	40,712	46,110	50,375	60,144
Advances	1,31,987	1,50,964	1,76,239	2,09,251
Fixed Assets & Other Assets	9,207	10,981	12,633	15,004
<b>Total Assets</b>	<b>1,91,476</b>	<b>2,19,236</b>	<b>2,52,218</b>	<b>2,99,571</b>

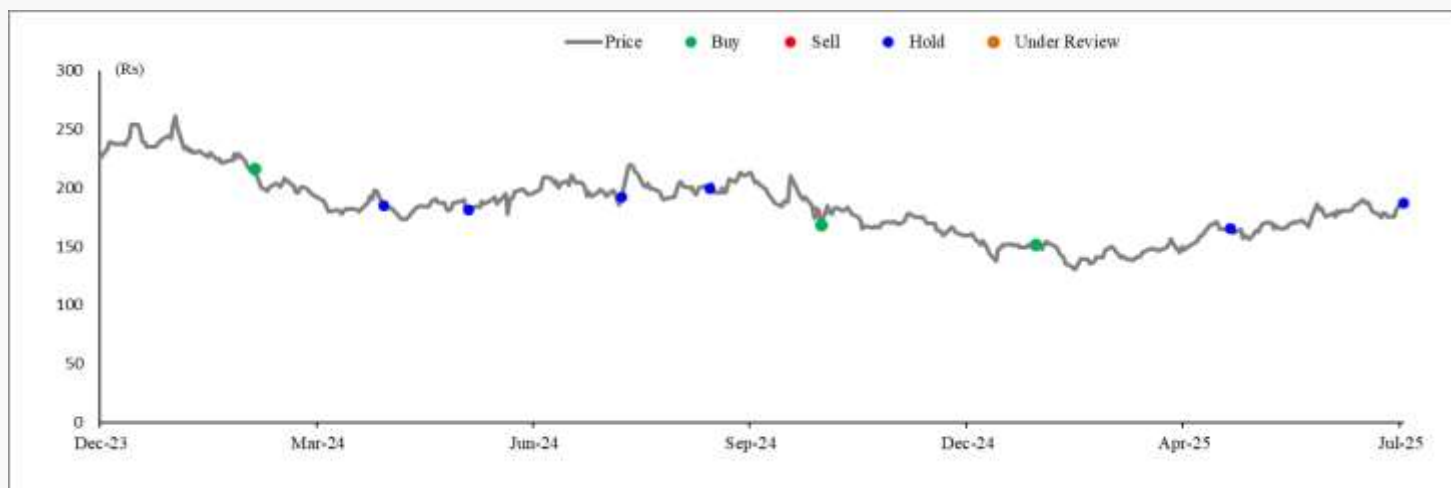
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY25	FY26E	FY27E	FY28E
<b>VALUATION RATIOS</b>				
EPS	17.0	16.5	22.7	28.7
Earnings Growth (%)	23.1	-3.0	37.6	26.3
BVPS	152.7	167.9	188.7	214.9
Adj. BVPS	142.2	157.3	177.5	203.5
ROAA (%)	1.5	1.3	1.6	1.7
ROAE (%)	11.9	10.3	12.8	14.2
P/E (x)	11.0	11.3	8.2	6.5
P/ABV (x)	1.3	1.2	1.1	0.9
<b>PROFITABILITY</b>				
NIM (%)	7.1	6.5	6.6	6.6
Cost-Income Ratio	48.9	53.2	52.3	51.1
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	9.0	14.4	16.7	18.7
Deposit Growth (%)	11.8	17.2	18.3	19.4
C-D Ratio	87.3	85.2	84.0	83.6
Equity/Assets (%)	12.9	12.3	12.1	11.6
Equity/Loans (%)	18.6	17.9	17.2	16.5
CAR	18.7	17.6	17.2	16.4
CAR Tier I	17.9	16.8	16.5	15.8
<b>ASSET QUALITY</b>				
Gross NPLs (%)	4.7	4.1	3.7	3.1
Net NPLs (%)	1.3	1.1	1.0	0.9
Coverage Ratio (%)	73.7	73.0	73.0	73.0
Credit Costs	3.0	2.4	2.0	1.8
<b>ROAA TREE</b>				
Net Interest Income	6.2	5.7	5.8	5.8
Non-Interest Income	1.6	1.5	1.3	1.2
Operating Cost	3.8	3.8	3.7	3.6
Provisions	2.0	1.6	1.4	1.2
Tax	0.5	0.4	0.5	0.5
ROAA	1.5	1.3	1.6	1.7
Leverage (x)	8.0	8.0	8.2	8.5
ROAE	11.9	10.3	12.8	14.2

Source: Company, Axis Securities Research

## Bandhan Bank Price Chart and Recommendation History



Date	Reco	TP	Research
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
21-Jul-25	HOLD	195	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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.