

CMP: INR 168

Rating: BUY

Target Price: INR 205

Stock Info

BSE	5
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	16.1
Mkt Cap (INR Bn)	270
52w H/L (INR)	263 / 167
Avg Yearly Vol (in 000')	14,731

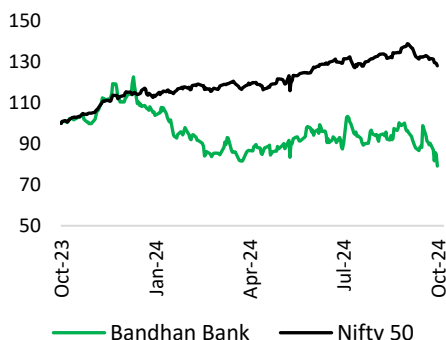
Shareholding Pattern %

(As on June, 2024)

Promoters	39.98
Public & Others	60.02

Stock Performance (%)	1m	6m	12m
Bandhan Bank	-8.1	-15.4	-14.3
Nifty 50	3.8	14.0	25.3

Bandhan Bank Vs Nifty 50



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Bandhan Bank has reported a rather weak performance during Q2FY25 falling short of all our estimates. Bank has reported profit of INR 9374 mn (falling 11.8% QoQ / up 30.0% YoY). NII decreased sequentially to INR 29,483 mn (down 1.9% QoQ / up 20.7% QoQ) as compared to our estimate of INR 30,291 mn. NII growth was impacted due to degrowth of the Microfinance book. NIMs came down by 20 bps sequentially and up 20 bps YoY to 7.4%. The bank expects NIM to remain steady at around 7% in FY25. Operating profit of the bank decreased by 4.4% QoQ / up 17.2% YoY at INR 18,551 mn. Asset quality of the bank deteriorated during the quarter as GNPA increased by 45 bps QoQ at 4.68% due to higher slippages than anticipated.

Loan growth was impacted due to degrowth seen in MFI portfolio:

Total advances grew to INR 1,260 bn in Q2FY25 (up 3.7% QoQ / up 23.6% YoY). This sluggish growth in advances sequentially was primarily because of two reasons: Firstly, Bandhan bank is growing its retail and commercial books at a faster rate while checking the growth of the EEB (Microfinance books). Hence, their AUM Portfolio mix is seeing the EEB mix shrinking against the secured books. During Q2FY25, the MicroFinance loans decreased sequentially to INR 572.3 bn with the MFI mix falling to 45% in the overall loan mix.

Asset quality deteriorated with increase in GNPA & NNPA increase:

GNPA / NNPA for Q2FY25 came at 4.68%/1.29% (4.23%/1.15% in Q1FY25 respectively). The increase in NPAs was primarily because of increase in gross slippages to INR 11.1 bn against INR 8.9 bn in Q1FY25. While the slippages increased sequentially, the Recoveries & Upgrades fell from to INR 3.0 bn for Q2FY25 against INR 3.7 bn in Q1FY25. The Collection Efficiency for the MFI book fell by 60 bps in Q2FY25 to 98.1% against 98.7% in Q1FY25. Thus, Credit Costs too increased significantly to 2.0% for the Q2FY25 against 1.6% in Q1FY25.

Decrease in the Cost to Income Ratios along with stable NIMs:

Bandhan Bank's NIMs fell to 7.4% in Q2FY25, further while the Cost of Funds stabilized at 7.0%. The Bank added 3 branches during the quarter while banking units fell by 3 numbers in the quarter, and yet Cost to Income ratio increased by 258 bps QoQ to 47.6%. Additionally, the Credit Cost bumped up on account of the slippages and low recoveries to 2.0% from 1.6% in Q1FY25.

Valuation & View: With the Bandhan Bank Management trying to achieve around 50% of the Portfolio mix made up with the secured books from earlier high yield generating MFI business, that too with healthy composition of mortgage loans in it, we don't see Profitability of the bank improving much in the next couple of quarters. However, with the bank appointing new MD & CEO, and subsequent quarters expected to see some revival in the rural economies with harvesting season going on, we believe MFI segment to see better collections in coming months. While we maintain our estimates on account of good growth in Retail, BB and Mortgages, an unsure MFI industry requires the Bank's Valuation pulled at 0.9x of ABV of FY27E with a Target Price of INR 205 (earlier INR 228).

Particulars (Rs. in Cr.)	2024A	2025E	2026E	2027E
Net Interest Income	10325.6	12828.1	13954.0	16935.0
Operating Profit	6639.5	10899.4	12808.5	15692.5
PAT	2229.6	4498.8	5054.4	6127.3
EPS	13.8	27.9	31.4	38.0
EPS Growth	1.6%	101.8%	12.3%	21.2%
NIMs (calculated)	7.1%	7.2%	6.1%	6.1%
P/E	13.9x	6.9x	6.1x	5.0x
P/ABV	1.5x	1.2x	1.2x	1.2x

Q1FY25 result Snapshot

Income Statement (INR Mn.)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Interest Income	54,998	55,358	44,919	-0.7%	22.4%
Interest Expense	25,516	25,308	20,486	0.8%	24.6%
Net Interest Income	29,483	30,050	24,434	-1.9%	20.7%
Non Interest Income	5,947	5,275	5,403	12.7%	10.1%
Total Income	35,430	35,326	29,836	0.3%	18.7%
Employee Costs	10,440	10,054	8,623	3.8%	21.1%
Other Operating Expenses	6,438	5,863	5,379	9.8%	19.7%
Operating Expenses	16,879	15,917	14,002	6.0%	20.5%
Pre-Provision Profit	18,551	19,409	15,834	-4.4%	17.2%
Provisions	6,062	5,230	6,362	15.9%	-4.7%
Profit Before Tax	12,489	14,179	9,472	-11.9%	31.8%
Tax Expense	3,114	3,544	2,261	-12.1%	37.7%
Net Profit	9,374	10,635	7,212	-11.8%	30.0%
Balance Sheet Analysis					
Deposits	14,25,095	13,32,030	11,20,792	7.0%	27.2%
CASA Deposits	4,72,800	4,44,600	4,32,000	6.3%	9.4%
CASA (%)	33.2%	33.4%	38.5%	-20bps	-537bps
Advances	12,60,557	12,15,900	10,78,695	3.7%	12.3%
Total Assets	17,97,677	17,33,000	15,24,379	3.7%	17.9%
Capital Adequacy Ratio (%)	14.3%	15.0%	19.2%	-63bps	-487bps
Spread Analysis					
NIM (%)	7.40%	7.60%	7.20%	-20bps	20bps
Asset Quality					
Gross NPA	61,053	53,044	78,738	15.10%	-22.46%
Net NPA	16,202	13,964	23,652	16.02%	-31.50%
GNPA (%)	4.68%	4.23%	7.32%	45bps	-264bps
NNPA (%)	1.29%	1.15%	2.32%	14bps	-103bps
Key Ratios					
Cost to Income Ratio (%)	47.6%	45.1%	46.9%	258bps	71bps
C/D Ratio (%)	88.5%	91.3%	96.2%	-283bps	-665bps
RoA (%) (annualized)	2.12%	2.44%	1.92%	-32bps	20bps

Source: Arihant Research, Company Filings

Conference Call Highlights:**Guidance:**

- The Bank's Management is targeting a loan growth target of around 18% for FY25.
- The Bank intends to improve share of secured book. The MFI book is expected to grow at 10-12% for the FY25.
- The Management expects the Slippages may remain elevated in next quarter as well.
- The Credit cost for FY25 is guided at 18-20% mark.
- The Management guided NIMs to be in the range of 7-7.5% for FY25.
- The Bank's Management said that they will receive INR 5.43 bn on Credit Guarantee Fund for Micro Units claims and will be credited to P&L in near term.

Key Highlights:

- Net Interest Income for Q2FY25 stood at INR 29,483 mn against our estimates of INR 30,291 mn, down by 1.9% QoQ / up by 20.7% YoY while NIMs came at 7.4%, down by 20 bps QoQ / up by 20 bps YoY.
- PPOP came at INR 18,551 mn against our estimates of INR 18,696 mn, down 4.4% QoQ / up by 17.2% YoY.
- Provisions stood at INR 6,062 mn against our estimates of INR 5,420 mn up by 15.9% QoQ/down by 4.7% YoY.
- PAT stood at INR 9,374 mn against our estimates of INR 9,958 mn decreasing by 11.8% QoQ / up by 30.0% YoY.
- GNPA came at 4.68% up 45 bps QoQ / down 264 bps YoY against our estimates of 4.32% while NNPA was at 1.29% against our estimates of 1.17% up 14 bps QoQ / down 103 bps YoY.
- Deposits increased by 7.0% QoQ / up 27.2% YoY to INR 1,425 bn.
- Advances increased by 3.7% QoQ / up 12.3% YoY to INR 1,260 bn.
- The non-interest income increased by 12.7% QoQ / up 10.1% YoY driven by third party income and card charges.
- The Bank's Retail loans excl. housing were up 92% YoY while the commercial banking segment was up 40% YoY.
- The Housing loan book was up 17% YoY. Within the Retail segment, the Auto, Gold and CV/CE segment showed healthy growth.
- The Bank's growth in EEB segment (Micro Finance) was at 11% YoY, slower against historical basis owing to cautious approach considering stress industry wide.
- The disbursement for Micro Finance segment for the quarter were down to INR 124.5 bn against INR 169.3 bn.
- The Bank's Housing loan disbursements came in at INR 22.80 bn against INR 15.8 bn YoY.
- The Secured book increased to 46% of the total loan portfolio of the Bank against 42% in Q2FY24.
- The Bank added 7 lakh customers during the quarter taking the total customer base to 35 mn as of Sept 2024.
- The Micro Finance segment has customers to the tune of 26.2 mn for Q2FY25.
- The Customers unique to Bandhan were 60% of the total, while customers with over 4 bank lenders formed ~4.5% of total.
- The Retail term deposits were up 24% YoY while CASA ratio for the quarter was down 530 bps YoY, with the Retail Deposits + Retail Term Deposits at 68% against 74% in Q2FY24.
- The top 5 states contributed to 64% of total deposits in which West Bengal formed 40% of total deposit.
- Slippages during the quarter stood at INR 11.1 bn against INR 13.2 bn in Q2FY24.
- Slippages from MFI segment stood at over INR 7.0 bn in Q2FY25.
- Recoveries & upgrades for the quarter stood at INR 3.0 bn v/s INR 3.7 bn in Q1FY25.
- Collection efficiency in MicroFinance loans for the quarter declined ~60 bps to 98.1%.
- PCR stood at 73.5% against 73.7% in Q1FY25. SMA for the quarter increased INR ~5.5 bn on sequential basis in the MFI segment.
- Disbursement wise SMA 1 & 2 was minimal during the quarter.
- The Management acknowledged some pain was seen in the MFI segment in line with the industry.
- The Credit cost for the quarter stood at 2% as against 1.6% in Q1FY25.

Key Financials

Income Statement

Particulars (INR Mn)	2023A	2024A	2025E	2026E	2027E
Interest Income	1,59,047	1,88,696	2,18,922	2,59,576	3,15,459
(-) Interest Expense	-66,451	-85,440	-99,290	-1,20,872	-1,47,433
Total Net Interest Income	92,596	1,03,256	1,19,633	1,38,704	1,68,026
Other Income	24,686	21,647	32,698	32,179	38,998
Total Income	1,17,282	1,24,903	1,52,330	1,70,883	2,07,025
Total Operating Expenses	46,368	58,508	49,191	43,421	51,096
Operating Profit	70,913	66,395	1,03,139	1,27,462	1,55,929
Provisions	46,538	42,492	48,850	60,514	75,010
Profit before Tax	28,930	29,429	54,288	66,948	80,919
Provision for Taxes	6,983	7,133	13,681	16,871	20,392
PAT	21,946	22,296	40,608	50,077	60,527

Balance Sheet

Particulars (INR Mn)	2023A	2024A	2025E	2026E	2027E
Assets					
Cash and Balances with RBI	73,266	1,53,927	1,30,969	1,59,337	1,94,141
Money at call and short notice	9,231	7,778	9,231	9,231	9,231
Investments	3,23,659	2,92,876	4,09,277	4,97,928	6,06,692
Advances	10,47,568	12,11,368	16,37,106	19,91,711	24,26,767
Fixed Assets	8,546	11,734	9,966	10,820	11,855
Other Assets	95,430	1,00,733	1,20,880	1,45,056	1,74,067
Total Assets	15,57,700	17,78,417	23,33,968	28,33,930	34,46,570
Liabilities					
Capital	16,108	16,110	16,110	16,110	16,110
Reserves and Surplus	1,79,733	1,99,987	2,54,631	3,04,708	3,65,235
Deposits	10,80,693	13,52,020	16,37,106	19,91,711	24,26,767
Borrowing from other banks	2,47,108	1,63,715	3,92,537	4,80,521	5,88,623
Other liabilities and provisions	34,057	46,585	33,585	40,881	49,836
Total Liabilities	15,57,700	17,78,417	23,33,968	28,33,930	34,46,570

Source: Arianth Research, Company Filings

Ratios					
Particulars (INR in Mn)	2023A	2024A	2025E	2026E	2027E
Basic Ratio					
EPS	13.6	13.8	25.2	31.1	31.1
Book Value per share	121.6	134.1	168.1	199.2	199.2
Adjusted book value per share	120.2	132.2	166.0	196.5	196.5
Dividend per share	3.4	0.0	0.0	0.0	0.0
Asset Quality					
Gross NPAs	5.7%	4.5%	4.6%	4.7%	4.7%
Net NPAs	2.2%	2.4%	2.2%	2.3%	2.3%
PCR	65.0%	50.0%	55.0%	55.0%	55.0%
Profitability Ratio					
RoAE	11.9%	10.8%	16.2%	16.9%	16.9%
RoAA	1.5%	1.3%	1.9%	1.9%	1.9%
NIMs (as calculated)	7.0%	7.1%	6.4%	6.1%	6.1%
Valuation					
P/E (x)	14.1	13.9	9.4	7.6	7.6
P/BV (x)	1.6	1.4	1.4	1.2	1.2
P/ABV (x)	1.6	1.5	1.4	1.2	1.2
Analysis					
Particulars (INR Mn)	2023A	2024A	2025E	2026E	2027E
Spread Analysis					
Yield on advances	14.7%	12.9%	12.8%	12.5%	12.5%
Yield on investments	6.0%	6.0%	6.0%	6.0%	6.0%
Cost of deposits	4.1%	3.9%	3.9%	3.9%	3.9%
Cost of funds	5.3%	4.9%	5.3%	5.3%	5.3%
Spread	6.9%	6.1%	5.7%	5.4%	5.4%
Growth (%)					
Advances growth	11.5%	15.6%	35.1%	21.7%	21.8%
Deposit growth	12.2%	25.1%	21.1%	21.7%	21.8%
Net Profit growth	1644.6%	1.6%	18.4%	23.3%	23.3%
Liquidity					
Advances to deposit ratio	96.9%	89.6%	100.0%	100.0%	100.0%
CASA	44.0%	35.2%	29.0%	23.9%	19.6%
CET 1 Ratio	17.7%	17.1%	16.3%	16.0%	2.3%
Efficiency					
Cost-to-income	39.5%	46.8%	32.3%	25.4%	25.4%

Source: Arihant Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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