

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	193
12 month price target (INR)	200
52 Week High/Low	263/169
Market cap (INR bn/USD bn)	310/3.7
Free float (%)	52.0
Avg. daily value traded (INR mn)	2,904.4

SHAREHOLDING PATTERN

	Jun-24	Mar-24	Dec-23
Promoter	40.0%	40.0%	40.0%
FII	28.3%	31.2%	34.7%
DII	15.1%	12.4%	14.8%
Pledge	0.0%	0.0%	0.0%

FINANCIALS

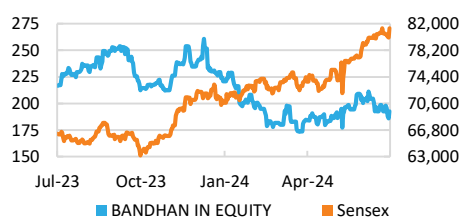
(INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Revenue	117282	124903	142803	163379
PPoP	70913	66395	75873	86410
Adjusted profit	21946	22295	37365	43040
Diluted EPS (INR)	13.6	13.8	23.2	26.7
EPS growth (%)	8621.9	1.6	67.6	15.2
RoAE (%)	14.2	13.9	8.3	7.2
P/E (x)	11.9	10.8	16.1	16.1
P/ABV (x)	1.6	1.4	1.3	1.1

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	142803	163379	-	-
EBITDA	75873	86410	-	-
Adjusted profit	37365	43040	-	-
Diluted EPS (INR)	23.2	26.7	-	-

PRICE PERFORMANCE



Earnings strong; CAR markdown big too

Bandhan reported strong Q1FY25 earnings with a beat on PAT driven by lower-than-normalised seasonality. AUM grew 0.7% QoQ—a contrast to typical sequential decline in Q1—led by sharp growth in retail. Even EEB loans stayed flat QoQ versus the usual 5–7% QoQ dip in Q1. PAT surged 48% YoY, and skyrocketed QoQ on a low base, beating consensus by 35%. That said, the bank took a hit of 362bp on CAR as it increased risk weights on EEB loans from 75% to 125% based on its conservative reading of the RBI's November risk-weight circular.

Given the lower capital, we retain the TP at INR200 and 'HOLD'. Feedback from other MFI lenders suggests they do not need to mark down capital. The CEO guided for stable-to-declining slippages.

Strong earnings driven by lower seasonality

Loans grew 24% YoY/0.4% QoQ. The normal Q1 weakness was not seen in AUM growth even for EEB. EEB loans grew 22% YoY/remained flat QoQ while non-EEB loans grew 22% YoY/2% QoQ. Contribution of EEB to total loans decreased to 32% from 40%. NIM remained flat QoQ. NII grew strongly by 21% YoY/5% QoQ. Non-interest income grew 37% YoY. Opex increased 2% QoQ/23% YoY, the QoQ growth looks subdued to one-off items in the base. PPOP shot up 24% YoY/6% QoQ. Core credit cost dipped QoQ to 1.6% from 1.8% QoQ, lower than the guided 1.8–2%. The improvement is driven by much lower seasonality as CE stayed stable QoQ at 98.7%. This is the lowest credit cost since Q1FY23. In Q4, including the big write-off, total credit cost was higher at 5.8%. PAT surged 48% YoY, but skyrocketed QoQ (low base).

Asset quality improves despite Q1 being seasonally weakest

EEB slippage ratio decreased from 4.5% to 4.3% QoQ, among the lowest in many quarters. Total slippage also declined sharply by 13% QoQ with total slippage ratio falling to 3.5% from 3.7% QoQ. The overdue standard book in EEB rose notably QoQ to 14.2% from 12.5%. Even so, management is confident of total slippage remaining constant or declining in the quarters ahead. Credit cost fell to 1.6% in Q1FY25 lower than the guided 1.8–2% with stable CE in Q1FY25 and lower slippage. However, with a sharp rise in 1–90 DPD, credit cost for the full year would settle at 1.8–2%

Tier I looks low for an MFI-heavy book

The bank has risk-weighted EEB loans at 125% (earlier 75%), dragging its CAR by 362bp. This was done because the bank believes that while the RBI circular explicitly exempts NBFC-MFI loans from the higher risk weight of 125%, it does not explicitly exempt bank-MFI portfolios. Peer banks tell us that they will not see such markdowns. CAR with profit declined to 15.7% from 18.3%.

Financials

Year to March	Q1FY25	Q1FY24	% Change	Q4FY24	% Change
Net Revenue	30,050	24,906	20.7	28,663	4.8
Pre-provisioning Profits	19,409	15,623	24.2	18,385	5.6
Reported Profits	10,635	7,211	47.5	546	1846.8
EPS	6.60	4.48	47.3	0.34	1841.2

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Net interest income	92,596	1,03,256	1,17,668	1,34,701
Non interest income	24,686	21,647	25,135	28,678
Net revenues	1,17,282	1,24,903	1,42,803	1,63,379
Operating expense	46,368	58,508	66,930	76,969
Employee exp	27,151	35,429	40,389	46,448
Other opex	19,217	23,079	26,540	30,521
Preprovision profit	70,913	66,395	75,873	86,410
Provisions	41,984	36,966	26,384	29,403
PBT	28,930	29,429	49,490	57,007
Taxes	6,983	7,134	12,125	13,967
PAT	21,946	22,295	37,365	43,040
Extraordinaries	0	0	0	0
Reported PAT	21,946	22,295	37,365	43,040
Diluted EPS (INR)	13.6	13.8	23.2	26.7

Important Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
Net interest margins	7.0	6.9	6.7	6.5
Cost-income	39.5	46.8	46.9	47.1
Tax rate	24.1	24.2	24.5	24.5

Valuation Metrics

Year to March	FY23A	FY24E	FY25E	FY26E
Diluted PE (x)	14.2	13.9	8.3	7.2
Price/BV (x)	1.6	1.4	1.3	1.1

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY23A	FY24E	FY25E	FY26E
Equity capital	16,108	16,110	16,110	16,110
Reserves	1,79,733	1,99,987	2,32,363	2,69,815
Net worth	1,95,842	2,16,096	2,48,472	2,85,924
Deposits	10,80,647	13,52,020	16,35,944	19,30,414
Borrowings	2,47,108	1,63,715	1,83,361	2,05,364
Other liabilities	36,774	46,585	51,244	56,368
Total	15,60,371	17,78,417	21,19,021	24,78,071
Assets				
Loans	10,47,568	12,11,368	14,65,755	17,29,591
Investments	3,23,659	2,92,876	3,28,709	3,64,803
Cash & equi	82,497	1,61,705	1,94,046	2,32,856
Fixed assets	8,546	11,734	14,668	17,601
Other assets	98,101	1,00,733	1,15,843	1,33,220
Total	15,60,371	17,78,417	21,19,021	24,78,071
BV/share (INR)	121.6	134.1	154.2	177.5

Balance Sheet Ratios (%)

Year to March	FY23A	FY24E	FY25E	FY26E
Credit growth	11.5	15.6	21.0	18.0
Deposit growth	12.2	25.1	21.0	18.0
Gross NPA ratio	4.9	3.8	3.5	3.6
Net NPA ratio	1.2	1.1	0.9	0.9

ROA Decomposition (%)

Year to March	FY23A	FY24E	FY25E	FY26E
NII/Assets	6.3	6.2	6.0	5.9
Net revenues/assets	6.3	6.2	6.0	5.9
Opex/Assets	(3.1)	(3.5)	(3.4)	(3.3)
Provisions/Assets	(2.8)	(2.2)	(1.4)	(1.3)
Taxes/Assets	(0.5)	(0.4)	(0.6)	(0.6)
Total costs/Assets	(6.5)	(6.1)	(5.4)	(5.2)
RoA	1.5	1.3	1.9	1.9
Equity/Assets	12.5	12.3	11.9	11.6
RoAE	11.9	10.8	16.1	16.1

Valuation Drivers

Year to March	FY23A	FY24E	FY25E	FY26E
EPS growth (%)	8621.9	1.6	67.6	15.2
RoAE (%)	11.9	10.8	16.1	16.1
Net NPA ratio (%)	1.2	1.1	0.9	0.9

Q1FY25 earnings call: Key takeaways

Guidance

- Management reiterated the loan growth guidance of 18–20%.
- Deposit growth would continue to remain higher than loan growth for the bank.
- Management aims to maintain margins in the range of 7–7.5%.
- For FY25, credit cost is expected to be 1.8–2%, as guided earlier by management.
- Yield on advances are expected to be 15–16%
- Release of provision on redemption of SRs is expected to be INR600–700mn per quarter for FY25.

General comments

- Historically, Q1 has always witnessed a QoQ decline for Bandhan. However, in Q1FY25, the bank witnessed pickup in business momentum, control over opex and improved asset quality.
- Despite increase in the cost of funds, margins were protected on a quarterly basis.
- Management outlined the core focus areas of the bank which are as follows: 1) Risk focused culture, 2) Geographic diversification, 3) Customer centric approach, and 4) Data analytics and digital approach.

Increase in risk weight for the EEB portfolio

- During the quarter, the bank increased the risk weights for the EEB group loans from 75% to 125%, which impacted its CAR by 362bp. Consequently, CAR stood at 15% (including profits, the CAR stood at 15.7%).
- Management explained there was no explicit mention of SCBs for exemption on MFI loans for higher risk weights; accordingly, the bank sought clarification for its EEB book.
- Consequently, in consultation with the board, the bank provided higher risk weights on a conservative basis.

Loan book

- Retail book (excluding housing) grew 84% YoY, and management stated that the focus was on the secured retail products.
- Going forward, the bank aims to increase the share of secured book in the overall mix. However, growth in EEB book would continue, but at a slower pace than the secured book. Furthermore, loans to NBFCs-MFI would be muted, going forward.
- On the housing book, management stated that the problems which existed earlier with this book were now resolved.

Deposits

- Deposits stood at INR1.33tn versus INR1.08tn in Q1FY24, translating to growth of 23% YoY.
- Due to the continued focus on granular retail deposits, retail TD grew 25% YoY. The share of retail deposits in overall deposits remained stable at 69% QoQ.

- While the focus would continue to grow retail deposits, management stated that it will be cognizant of the cost as there is pressure in the market.
- The top-5 states of West Bengal, Maharashtra, UP, Delhi and Orissa constituted ~64% of total deposits, of which West Bengal constituted 39% (versus 43% in Q1FY24).
- CASA declined QoQ because some current account flows moved out during the quarter. And were parked in the term deposits. Management stated that the stable CA and stable SA have grown YoY.
- Management aims to increase the CASA ratio every quarter and this would be done by building capabilities, emphasis on digital channels and etc.

Asset quality

- Management stated that the steps taken by the bank on asset quality since Apr-23 are showing signs of improvement as reflected in reduction of fresh slippages.
- Total gross slippages were INR8.91bn down from INR10.17bn in Q4FY24, of which INR5.43bn pertained to EEB Slippages (versus INR6.1bn QoQ).
- Management alluded that the SMA-0 for EEB book increased QoQ from 0.6% to 0.7% of the book primarily because of slow down in collections due to heatwaves and floods in certain areas.
- Total SMA increased QoQ but it has been declining for the last four quarters. The QoQ increase was attributed to the effect of heatwaves and general elections. Management remained confident that the recovery efficiency and the guardrails, which are in place, would lead to steady asset quality performance.
- On the SMA front, some stress was witnessed in the regions of Punjab and Maharashtra.

Margins

- Margins remained stable QoQ at 7.6%. Management stated that despite the pressure on cost of funds, margins were protected
- Margins are expected to remain between 7–7.5% through FY25E.

Other highlights

- The net worth of the bank as at Q1FY25 was INR218.83bn.
- On the CGFMU audit, the CEO stated that the audit has progressed well and the management has provided all the support to auditors. The management is confident that the audit would get over soon with a positive outcome.
- Management stated that capital monitoring will happen on a continued basis, but as of now, they believe capital-raise would not be required for FY25E.
- The number of employees has been growing steadily, but it would also depend on the outcome of the tech and digital initiatives.
- The bank had added ~500 branches over the last 18 months. Going forward, the pace of branch addition would be slower.

Exhibit 1: Movement in EEB NPLs

INR bn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
Opening EEB NPL	32.1	64.4	56.3	47.6	33.4
Add: Slippage	5.4	6.3	9.9	10.0	15.0
Less: Recovery	0.0	0.0	1.8	1.3	0.9
Less: Write off	0.0	38.5	0.0	0.0	0.0
Closing	36.2	32.2	64.4	56.3	47.6
Core Slippage ratio, % of lagged EEB loans	4.3%	4.5%	7.5%	7.4%	6.3%

Source: Company, Nuvama Research

Exhibit 2: GNPLs by segment

INR bn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
EEB	36.2	32.1	64.3	56.2	47.5
SME	10.0	9.6	11.4	10.7	10.6
Housing	5.4	4.9	4.7	11.1	10.9
Retail	1.4	1.2	1.0	0.7	0.6
Total	53.0	47.8	81.4	78.7	69.6

Source: Company, Nuvama Research

Exhibit 3: EEB DPD movement

INR bn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
1-30	5.6	3.7	8.1	9.7	13.2
30-60	4.3	3.7	5.8	5.9	7.6
60-90	4.3	5.0	5.2	7.0	7.1
NPL	35.9	32.4	64.5	56.1	47.4
Restructured	0.0	0.0	0.0	0.0	0.0
Total	50.1	44.8	83.5	78.8	75.4

Source: Company, Nuvama Research

Exhibit 4: EEB book – Vintage analysis

INR bn	Disbursement	As a % of disbursements		
		SMA1	SMA2	NPA
Q4FY23	211	0.65%	0.88%	3.42%
Q1FY24	80	0.46%	0.43%	1.55%
Q2FY24	169	0.53%	0.48%	1.03%
Q3FY24	174	0.45%	0.34%	0.29%
Q4FY24	228	0.23%	0.11%	0.02%
Q1FY25	137	0.01%	0.00%	0.00%

Source: Company, Nuvama Research

Exhibit 5: Movement in total NPLs

INR mn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24
Opening NPLs	47,780	81,300	78,700	69,600	52,938
Add: Slippage	8,900	10,200	13,900	13,200	19,400
Less: Recovery/upgrade	3,700	5,200	4,100	4,100	2,738
Less: Write-offs	-	38,520	-	-	-
Less: NPA Sale to ARC	-	-	7,200	-	-
Closing NPLs	52,980	47,780	81,300	78,700	69,600

Source: Company, Nuvama Research

Exhibit 6: Yield, cost and margin movement

%	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	YoY (bps)	QoQ (bps)
NIM	7.6	7.6	7.2	7.2	7.3	30bps	0bps
Cost of funds	7.0	6.9	6.6	6.5	6.4	60bps	10bps
Yield	13.9	13.8	13.4	13.3	13.3	60bps	10bps

Source: Company, Nuvama Research

Exhibit 7: Asset book mix

INR bn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	YoY (%)	QoQ (%)
Micro	619.1	622.4	576.0	539.9	509.3	21.6%	-0.5%
Mortgages	294.1	299.2	288.5	267.5	273.0	7.7%	-1.7%
Retail	62.3	55.8	44.9	39.0	33.9	83.8%	11.6%
SME, NBFC - MFI & NBFC - Others	280.7	269.8	250.0	229.9	215.5	30.3%	4.0%
Total	1,256.2	1,247.2	1,159.4	1,076.3	1,031.7	21.8%	0.7%

Source: Company, Nuvama Research

Exhibit 8: Deposit mix

INR bn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	YoY (%)	QoQ (%)
Current account	61.5	96.6	66.6	62.9	52.0	18.3%	-36.3%
Saving account	383.9	404.9	357.5	369.1	338.7	13.3%	-5.2%
Term deposit - Retail	476.5	436.5	412.6	397.8	381.7	24.8%	9.2%
Term deposit - Others	411.0	414.0	337.5	291.0	312.4	31.6%	-0.7%
Total deposits	1332.9	1352.0	1174.2	1120.8	1084.8	22.9%	-1.4%

Source: Company, Nuvama Research

Exhibit 9: Income statement summary

INR mn	Q1FY25	Q4FY24	Q3FY24	Q2FY24	Q1FY24	YoY (%)	QoQ (%)
Interest on advances	48,695	46,293	40,829	38,882	39,057	25%	5%
Income on investments	5,324	4,744	4,923	5,311	5,158	3%	12%
Interest on other resources	417	224	181	138	236	77%	87%
Others	922	633	721	588	778	18%	46%
Interest Income	55,358	51,893	46,654	44,919	45,229	22%	7%
Interest expended	25,308	23,231	21,401	20,486	20,323	25%	9%
Net Interest Income	30,050	28,663	25,254	24,434	24,906	21%	5%
Non-interest income	5,275	6,941	5,452	5,403	3,851	37%	-24%
Total Revenue	35,326	35,604	30,705	29,836	28,757	23%	-1%
Employee expenses	10,054	9,702	8,987	8,623	8,117	24%	4%
Other Operating expenses	5,863	7,517	5,165	5,379	5,017	17%	-22%
Total Operating expenses	15,917	17,219	14,152	14,002	13,134	21%	-8%
Operating Profit	19,409	18,385	16,553	15,834	15,623	24%	6%
Provisions	5,230	17,743	6,840	6,362	6,021	-13%	-71%
PBT	14,179	642	9,713	9,472	9,602	48%	2110%
Tax	3,544	95	2,386	2,261	2,392	48%	3620%
Net Profit	10,635	546	7,327	7,212	7,211	47%	1847%

Source: Company, Nuvama Research

Company Description

Bandhan Bank started its journey as a not-for-profit entity in 2001, which became an NBFC in 2009 and then the first microfinance company to receive a banking licence from the RBI in August 2015. The company was established by Mr Chandra Shekhar Ghosh to provide micro loans to women that are socially disadvantaged and economically exploited. It is a bank for all, but its focus remains on meeting financial needs of people that are overlooked by the formal banking system—economically disadvantaged sections of society—and acting as a vehicle-of-empowerment and creating better education, health care and self-employment opportunities.

In January 2019, Bandhan decided to merge with Gruh Finance. Gruh Finance is a housing finance company with a loan book of ~INR177bn (June 2019) engaged in retail home loans.

Investment Theme

On lower capital we maintain TP at INR200 and maintain 'Hold'. Feedback from other MFI lenders suggests, they don't need to mark down capital. CEO guided for stable-to-declining slippages ahead.

Key Risks

- Behaviour of the SMA pool
- Tier 1 appears low for an MFI heavy book
- Asset quality risks in the microfinance portfolio

Additional Data

Management

MD & CEO	Ratan Kumar Kesh
Chairman	Anup Kumar Sinha
ED and CBO	Rajinder Kumar Babbar
CFO	Rajeev Mantri
Auditor	M M Nissim & Co LLP

Holdings – Top 10*

% Holding		% Holding	
Caladium Invst	7.78	Aditya Birla Sun life	1.05
LIC	3.69	Mathews Emerging Mkt	1.05
SBI Life Insurance	1.82		
Tata Flexi Cap	1.31		
Tata AIA Life	1.07		

*Latest public data

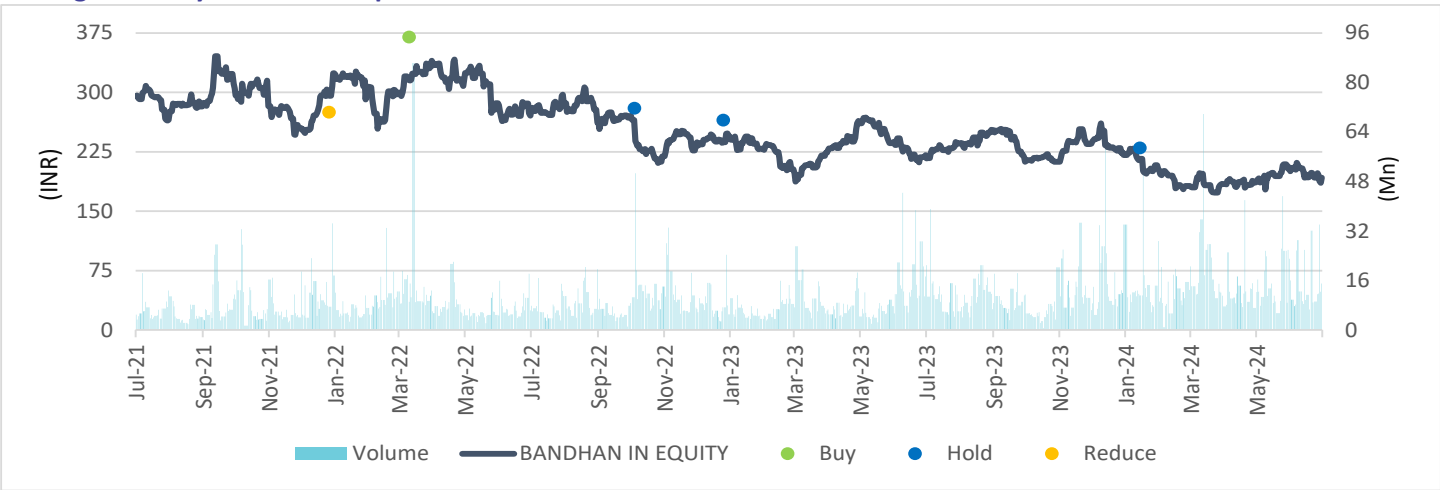
Recent Company Research

Date	Title	Price	Reco
17-May-24	Clean-up complete; all eyes on new CEO; <i>Result Update</i>	181	Hold
09-Feb-24	Small improvement in SMA, miss on PAT; <i>Result Update</i>	217	Hold
19-Oct-23	Standard stress continues to stay high; <i>Result Update</i>	238	Hold

Recent Sector Research

Date	Name of Co./Sector	Title
20-Sep-21	Banking	Reimagining credit; <i>Sector Update</i>
11-Feb-20	Union Bank (I)	Union Bank of India - Result Update Q3FY; <i>Result Update</i>
17-Jan-20	South Ind.Bank	South Indian Bank - Result Update Q3FY20; <i>Result Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	214
Hold	<15% and >-5%	65
Reduce	<-5%	24

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