BANDHAN

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	168
12 month price target (INR)	190
52 Week High/Low	263/167
Market cap (INR bn/USD bn)	271/3.2
Free float (%)	51.0
Avg. daily value traded (INR mn)	4,144.0

SHAREHOLDING PATTERN

	Sep-24	Jun-24	Mar-24
Promoter	40.0%	40.0%	40.0%
FII	26.7%	28.3%	31.2%
DII	16.3%	15.1%	12.4%
Pledge	0.0%	0.0%	0.0%

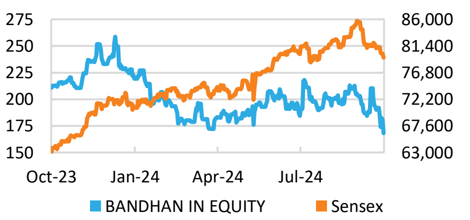
FINANCIALS (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	117282	124903	144799	162507
PPoP	70913	66395	76675	84164
Adjusted profit	21946	22296	36340	41711
Diluted EPS (INR)	13.6	13.8	22.6	25.9
EPS growth (%)	8621.9	1.6	63.0	14.8
RoAE (%)	11.9	10.8	15.6	15.6
P/E (x)	12.3	12.2	7.5	6.5
P/ABV (x)	1.4	1.3	1.1	0.9

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	144799	162507	1.4	-0.5
EBITDA	76675	84164	1.1	-2.6
Adjusted profit	36340	41711	-2.7	-3.1
Diluted EPS (INR)	22.6	25.9	-2.7	-3.1

PRICE PERFORMANCE



Better than peers

Bandhan's earnings deteriorated in Q2FY25, but were stronger than MFI peers given the big clean-up that has already happened and early guardrails. Lagged EEB slippage rose to 5.6% from 4.3%, up 38% QoQ, but declined 25% YoY. EEB GNPL rose 18% QoQ, 30+ DPD rose 28% QoQ to 1.8% from 1.4% QoQ while 1-30 DPD also rose sharply to 1.5% from 0.9%. Credit cost increased to 2% from 1.6% on total loans, whereas NII dipped 2% QoQ due to higher mix of secured loans.

Bandhan's EEB book looks better than peers given huge write-offs in the last few years and early guardrails. However, the bank cannot remain isolated from MFI risks—only that the pain will be lower. Given low visibility on MFI, we retain 'HOLD' with a TP of INR190.

Weaker QoQ earnings, but still holding up better than peers

Loans grew 21% YoY/4% QoQ. While there was strong growth in secured retail loans, EEB loans slid 4% QoQ. Non-EEB loans shot up 32% YoY/12% QoQ. With higher deposit growth of 7% QoQ, LDR improved to 88% from 91%. NIM edged down 20bp QoQ to 7.4% due to a higher share of secured assets. NII declined 2% QoQ. Non-interest income grew 13% QoQ driven by trading gains and distribution income. Opex grew 3% QoQ. PPOP slid 4% QoQ, but rose 17% YoY. Core credit cost rose to 2% from 1.6% QoQ. PAT shot up 30% YoY/13% QoQ.

EEB stress rises QoQ in line with operating environment

EEB slippage rose 38% QoQ to 5.6% from 4.3% QoQ. Total slippage rose 25% QoQ to 4.4% of lagged loans. GNPL in EEB rose 18% QoQ while whole bank NPLs rose 15%. 30+ DPD in EEB rose 28% QoQ to 1.8% from 1.4% while 1-30 DPD also rose 68% QoQ to 1.5% from 0.9%. Collection efficiency (CE) in EEB fell from 98.7% to 98.1% QoQ. CE in top three states of Assam, WB and Bihar was resilient, but deteriorated in rest of India. CE in rest of India including Bihar fell from 98.2% to 97.2% QoQ. PCR for the whole bank stood at 73.5% from 73.7%. Management guided for elevated slippage and credit cost for EEB even in Q3FY25, but believes full-year credit cost will still be 1.8–2% with a strong recovery in Q4. We note that visibility on MFI recovery in FY25 remains low for the sector. The bank will likely recover INR3.2bn from CGFMU following completion of the audit, which will form part of other income. Furthermore, the bank has recovered written off accounts of INR2.9bn, which will also flow through to other income. Bandhan was the first bank to correctly interpret the risk weights on MFI and took the lead in providing a risk weight of 125% on these loans from 75% in Q1FY25. Other banks are now following. CAR, including profit, stood at 15.6%; management clarified they will not raise equity in the near future.

Financials

Year to March	Q2FY25	Q2FY24	% Change	Q1FY25	% Change
Net Revenue	29,483	24,434	20.7	30,050	-1.9
Pre-provisioning Profits	18,551	15,834	17.2	19,409	-4.4
Reported Profits	9,374	7,212	30.0	10,635	-11.8
EPS	5.82	4.47	30.2	6.60	-11.8

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Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Net interest income	**92,596**	**1,03,256**	**1,20,999**	**1,38,712**
Non interest income	24,686	21,647	23,800	23,795
Net revenues	**1,17,282**	**1,24,903**	**1,44,799**	**1,62,507**
Operating expense	46,368	58,508	68,124	78,343
Employee exp	27,151	35,429	42,161	48,485
Other opex	19,217	23,079	25,963	29,858
Preprovision profit	**70,913**	**66,395**	**76,675**	**84,164**
Provisions	41,984	36,966	28,542	28,917
PBT	28,930	29,430	48,132	55,247
Taxes	6,983	7,134	11,792	13,535
PAT	**21,946**	**22,296**	**36,340**	**41,711**
Extraordinaries	0	0	0	0
Reported PAT	21,946	22,296	36,340	41,711
Diluted EPS (INR)	13.6	13.8	22.6	25.9

Balance Sheet (INR mn)

Year to March	FY23A	FY24A	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	16,08,904	18,98,506
Borrowings	2,47,108	1,63,715	85,000	95,200
Other liabilities	36,774	46,585	59,629	65,592
Total	**15,60,371**	**17,78,417**	**20,02,005**	**23,45,223**
Assets				
Loans	10,47,568	12,11,368	14,41,528	17,01,003
Investments	3,23,659	2,92,876	2,38,588	2,64,944
Cash & equi	82,497	1,61,705	1,94,046	2,32,856
Fixed assets	8,546	11,734	12,000	13,200
Other assets	98,101	1,00,733	1,15,843	1,33,220
Total	**15,60,371**	**17,78,417**	**20,02,005**	**23,45,223**
BV/share (INR)	121.6	134.1	154.2	177.5

Important Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Net interest margins	7.0	6.9	7.0	7.0
Cost-income	39.5	46.8	47.0	48.2
Tax rate	24.1	24.2	24.5	24.5

Balance Sheet Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Credit growth	11.5	15.6	19.0	18.0
Deposit growth	12.2	25.1	19.0	18.0
Gross NPA ratio	4.9	3.8	4.5	4.2
Net NPA ratio	1.2	1.1	1.2	1.1

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted PE (x)	12.3	12.2	7.5	6.5
Price/BV (x)	1.4	1.3	1.1	0.9

Source: Company and Nuvama estimates

ROA Decomposition (%)

Year to March	FY23A	FY24A	FY25E	FY26E
NII/Assets	6.3	6.2	6.4	6.4
Net revenues/assets	8.0	7.2	6.4	6.4
Opex/Assets	(3.1)	(3.5)	(3.6)	(3.6)
Provisions/Assets	(2.8)	(2.2)	(1.5)	(1.3)
Taxes/Assets	(0.5)	(0.4)	(0.6)	(0.6)
Total costs/Assets	(6.5)	(6.1)	(5.7)	(5.6)
RoA	1.5	1.3	1.9	1.9
Equity/Assets	12.5	12.3	12.3	12.3
RoAE	11.9	10.8	15.6	15.6

Valuation Drivers

Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	8621.9	1.6	63.0	14.8
RoAE (%)	11.9	10.8	15.6	15.6
Net NPA ratio (%)	1.2	1.1	1.2	1.1

Q2FY25 earnings call: Key takeaways

Guidance

- Management reiterated the loan growth guidance of 18% for FY25E. At present, it is comfortable with the growth of 15.6% YoY.
- Going forward, secured book would be grown faster than the EEB book.
- Growth in the EEB book is expected to be 10–12% for FY25E.
- For FY25E, credit cost is expected to be 1.8–2.0%, as guided earlier by management. Separately, credit cost for EEB book would be above 3%.
- Management is confident of achieving of 7–7.5% for FY25E.

Update on CGFMU audit

- Management stated that ~85% of the total portfolio of INR208.1bn as of Mar-24 under the CGFMU scheme has been repaid by customers.
- The total claim as on Mar-24 stood at INR12.3bn, out of which INR9.2bn had already been claimed by the bank in tranche-1. Consequently the total outstanding claim amount stood at INR3.2bn (net of recoveries).
- Furthermore, the bank has recovered written off accounts of INR 2.9bn, which will also flow through to other income.
- On settlement of the total outstanding claim of INR3.2bn and the written off accounts that were recovered of INR2.9bn, the amount would be accounted in the profit & loss account as a part of other income.

Loan book

- Retail book (excluding housing) grew ~91% YoY, and management stated that the focus was on the secured retail products. Within retail, strong demand was witnessed in auto, gold, commercial vehicle and commercial equipment loans.
- The EEB book declined 4% QoQ, but grew 11% YoY, and management stated that for FY25E, this book is expected to grow at 10–12% YoY.
- Within EEB, the individual loans is doing better than the group loans in terms of the stress in the book.
- The Top-5 states in the order of exposure for EEB loans: West Bengal, Bihar Assam, Maharashtra and Madhya Pradesh.
- Commenting on the disbursement in the EEB book going forward, management mentioned they had intentionally slowed down on growth and would maintain the cautious approach in Q3FY25 as well.
- 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.

Deposits

- Due to the continued focus on granular retail deposits, retail TD grew 24% YoY/ 4% QoQ. The share of retail deposits in overall deposits remained largely stable QoQ at 68%.

- The top-5 states of West Bengal, Maharashtra, UP, Delhi and Orissa constituted ~64% of total deposits, of which West Bengal constituted 40% (versus 44% in Q2FY24).

Asset quality

- Collection efficiency in West Bengal and Assam for Q2FY25 stood at 99% and 99.2%, respectively.

- Total gross slippages were INR11.15bn, up from INR8.91bn in Q1FY25, of which INR7.52bn pertained to EEB Slippages (versus INR5.43bn QoQ). Increase in slippages was attributed to the industry-wide issue in the MFI loans.

- SMA-1 and SMA-2 of EEB book increased QoQ constituting 3.3% of EEB advances.

- Credit cost for the quarter stood at ~2%, and management hinted that this may remain elevated in Q3FY25 as well. However, credit cost for full year would remain in the guided range of 1.8–2%. Management would comment on it further in Q3FY25.

- Management stated that the collections in the SMA pool are generally more than 50%.

- On the EEB book, the top-3 states are holding up well; however, stress was witnessed in ome regions of Maharashtra and Odisha.

Margins

- Margins declined 20bp QoQ and stood at 7.4%. Management stated that despite the pressure on cost of funds and change in product mix, margins were protected

- The yield differential in the EEB and the secured book is ~10%. Margins improved 10bp YoY even though there was a decline the EEB book by ~4% YoY because of the lag effect, credit cost for the EEB book and slippages being better than previous years.

- Margins are expected to remain within 7–7.5% through FY25E.

Other highlights

- CRAR (including profits) for Q2FY25 stood at ~15.6%.

- Of the total customers, customers unique to Bandhan were 60%, Bandhan plus another bank were 80% and Bandhan plus 4 and above banks stood at 4.5%.

- On geographical diversification, management stated that though the eastern part would continue to be the stronghold for the bank, expansion in the rest of the parts would also be done to increase the outreach.

- Management stated that capital monitoring happens on a continued basis, but as of now, they believe there is no need of a capital-raise for the next four quarters.

- Even though a detailed audit was imposed on the claims made by Bandhan under the CGFMU scheme, management stated that, going forward, they would continue to participate in government schemes and grants.

Exhibit 1: Changes in estimates

	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
	Old		New		% Change	
NII, INR M	1,17,668	1,34,701	1,20,999	1,38,712	2.8%	3.0%
PAT, INR M	37,365	43,040	36,340	41,711	-2.7%	-3.1%
EPS, INR	23.2	26.7	22.6	25.9	-2.7%	-3.1%
BVPS, INR	154.2	177.5	154.2	177.5	0.0%	0.0%
Target price, INR		**200**		**190**		**-5.0%**

Source: Company, Nuvama Research

Exhibit 2: Movement in EEB NPLs

INR bn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
Opening EEB NPL	36.2	32.1	64.3	56.2	47.5
Add: Slippage	7.5	5.4	6.3	9.9	10.0
Less: Recovery	0.0	0.0	0.0	1.8	1.3
Less: Write off	0.1	0.0	38.5	0.0	0.0
Closing	42.6	36.2	32.1	64.3	56.2
Core Slippage ratio, % of lagged EEB loans	5.6%	4.3%	4.5%	7.5%	7.4%

Source: Company, Nuvama Research

Exhibit 3: GNPLs by segment

INR bn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
EEB	42.6	36.2	32.1	64.3	56.2
SME	11.0	10.0	9.6	11.4	10.7
Housing	5.8	5.4	4.9	4.7	11.1
Retail	1.6	1.4	1.2	1.0	0.7
Total	**61.0**	**53.0**	**47.8**	**81.4**	**78.7**

Source: Company, Nuvama Research

Exhibit 4: EEB DPD movement

INR bn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
1-30	8.9	5.6	3.7	8.1	9.6
30-60	5.3	4.3	3.7	5.8	5.9
60-90	5.3	4.3	5.0	5.2	7.0
NPL	42.7	35.9	32.4	64.5	55.7
Restructured	0.0	0.0	0.0	0.0	0.0
Total	**62.3**	**50.1**	**44.8**	**83.5**	**78.2**

Source: Company, Nuvama Research

Exhibit 5: EEB book – Vintage analysis

INR bn	Disbursement	As a % of disbursements		
		SMA1	SMA2	NPA
Q1FY24	80	0.42%	0.35%	2.23%
Q2FY24	169	0.55%	0.52%	1.98%
Q3FY24	174	0.69%	0.62%	1.24%
Q4FY24	228	0.73%	0.57%	0.60%
Q1FY25	137	0.35%	0.17%	0.06%
Q2FY25	125	0.02%	0.00%	0.00%

Source: Company, Nuvama Research

Exhibit 6: Movement in total NPLs

INR mn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24
Opening NPLs	**52,980**	**47,780**	**81,300**	**78,700**	**69,600**
Slippage	11,100	8,900	10,200	13,900	13,200
Recovery/upgrade	3,000	3,700	5,200	4,100	4,100
Write-offs	100	-	38,520	-	-
NPA Sale to ARC	-	-	-	7,200	-
Closing NPLs	**60,980**	**52,980**	**47,780**	**81,300**	**78,700**

Source: Company, Nuvama Research

Exhibit 7: Movement in yield, cost and margin

%	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	YoY (bps)	QoQ (bps)
NIM	7.4	7.6	7.6	7.2	7.2	20bps	-20bps
Cost of funds	7.0	7.0	6.9	6.6	6.5	50bps	0bps
Yield	13.7	13.9	13.8	13.4	13.3	40bps	-20bps

Source: Company, Nuvama Research

Exhibit 8: Asset book mix

INR bn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	YoY (%)	QoQ (%)
Micro	592.9	619.1	622.4	576.0	535.8	10.7%	-4.2%
Mortgages	316.3	294.1	299.2	288.5	271.4	16.5%	7.5%
Retail	75.1	62.3	55.8	44.9	39.2	91.6%	20.5%
SME, NBFC - MFI & NBFC – Others	322.2	280.7	269.8	250.0	229.9	40.1%	14.8%
Total	**1,306.5**	**1,256.2**	**1,247.2**	**1,159.4**	**1,076.3**	**21.4%**	**4.0%**

Source: Company, Nuvama Research

Exhibit 9: Deposit mix

INR bn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	YoY (%)	QoQ (%)
Current account	64.3	61.5	96.6	66.6	62.9	2.2%	4.6%
Saving account	408.5	383.9	404.9	357.5	369.1	10.7%	6.4%
Term deposit - Retail	493.2	476.5	436.5	412.6	397.8	24.0%	3.5%
Term deposit - Others	459.1	411.0	414.0	337.5	291.0	57.8%	11.7%
Total deposits	**1425.1**	**1332.9**	**1352.0**	**1174.2**	**1120.8**	**27.2%**	**6.9%**

Source: Company, Nuvama Research

Exhibit 10: Income statement summary

INR mn	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q2FY24	YoY (%)	QoQ (%)
Interest on advances	48,820	48,695	46,293	40,829	38,882	26%	0%
Income on investments	5,189	5,324	4,744	4,923	5,311	-2%	-3%
Interest on other resources	302	417	224	181	138	119%	-28%
Others	687	922	633	721	588	17%	-26%
Interest Income	54,998	55,358	51,893	46,654	44,919	22%	-1%
Interest expended	25,516	25,308	23,231	21,401	20,486	25%	1%
Net Interest Income	**29,483**	**30,050**	**28,663**	**25,254**	**24,434**	**21%**	**-2%**
Non-interest income	5,947	5,275	6,941	5,452	5,403	10%	13%
Total Revenue	**35,430**	**35,326**	**35,604**	**30,705**	**29,836**	**19%**	**0%**
Employee expenses	10,440	10,054	9,702	8,987	8,623	21%	4%
Other Operating expenses	6,438	5,863	7,517	5,165	5,379	20%	10%
Total Operating expenses	**16,879**	**15,917**	**17,219**	**14,152**	**14,002**	**21%**	**6%**
Operating Profit	**18,551**	**19,409**	**18,385**	**16,553**	**15,834**	**17%**	**-4%**
Provisions	6,062	5,230	17,743	6,840	6,362	-5%	16%
PBT	**12,489**	**14,179**	**642**	**9,713**	**9,472**	**32%**	**-12%**
Tax	3,114	3,544	95	2,386	2,261	38%	-12%
Net Profit	**9,374**	**10,635**	**546**	**7,327**	**7,212**	**30%**	**-12%**

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

Bandhan's EEB book looks better than peers given huge write-offs in the last few years and early guardrails. However, the bank cannot remain isolated from MFI risks, only that the pain will be lower. Given low visibility on MFI, we retain 'HOLD' and reduce our TP to INR190 from INR200.

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	Singhi & Co.

Holdings – Top 10*

	% Holding		% Holding
Caladium Invst	7.78	Mathews Emerging	1.07
LIC	3.69	Tata AIA Life	1.01
SBI Life Insurance	1.40		
Tata Large & Midcap	1.35		
Aditya Birla Su	1.08		

**Latest public data*

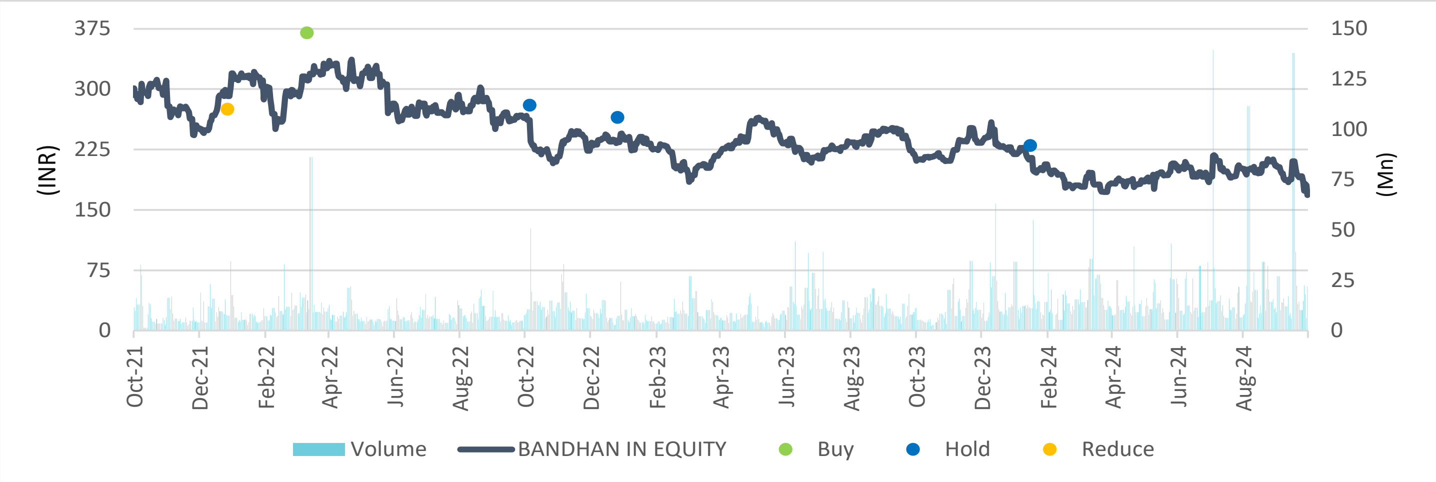
Recent Company Research

Date	Title	Price	Reco
27-Jul-24	Earnings strong; CAR markdown big too; *Result Update*	192	Hold
17-May-24	Clean-up complete; all eyes on new CEO; *Result Update*	181	Hold
09-Feb-24	Small improvement in SMA, miss on PAT; *Result Update*	217	Hold

Recent Sector Research

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

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	223
Hold	<15% and >-5%	62
Reduce	<-5%	25

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