BANDHAN

nuvama institutional equities

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	151
12 month price target (INR)	160
52 Week High/Low	235/137
Market cap (INR bn/USD bn)	239/2.8
Free float (%)	51.0
Avg. daily value traded (INR mn)	1,922.0

SHAREHOLDING PATTERN

	Dec-24	Sep-24	Jun-24
Promoter	40.0%	40.0%	40.0%
FII	23.2%	26.7%	28.3%
DII	15.4%	16.3%	15.1%
Pledge	0.0%	0.0%	0.0%

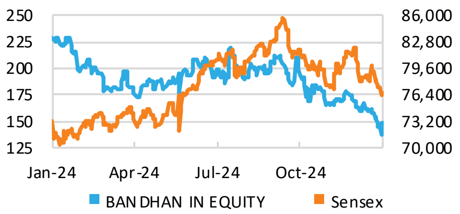
FINANCIALS (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Revenue	117282	124903	144475	154807
PPoP	70913	66395	74693	75105
Adjusted profit	21946	22296	29532	32653
Diluted EPS (INR)	13.6	13.8	18.3	20.3
EPS growth (%)	8621.9	1.6	32.5	10.6
RoAE (%)	11.9	10.8	12.9	12.7
P/E (x)	11.1	10.9	8.3	7.5
P/ABV (x)	1.2	1.1	1.0	0.9

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	1,44,475	1,54,807	-0.2%	-4.7%
PPOP	74,693	75,105	-2.6%	-10.8%
Adjusted profit	29,532	32,653	-18.7%	-21.7%
Diluted EPS (INR)	18.3	20.3	-18.7%	-21.7%

PRICE PERFORMANCE



A subdued quarter

Bandhan reported weak Q3FY25 earnings with a sharp drop in NIM and a big technical write-off. A sharp decline in NII due to margin miss and weak core fees led to PAT missing consensus by 7%. Net one-off income was high at 9% of PBT. EEB slippage rose 59% QoQ to 8% of EEB loans while the bank wrote off 2% of EEB loans. 0+ DPD in EEB rose from 3.3% to 3.8% QoQ. Core PPOP fell 21% QoQ/4% YoY.

With secured loans expected to outgrow EEB loans, normalised NIM would be lower. Slippage would remain elevated in Q4FY25E. Given the ongoing MFI stress, we maintain 'HOLD'. We are cutting FY25E/26E EPS by 19%/22%, and TP to INR160/1x BV FY26E from INR190/1.2x. JLG exposure to Karnataka is small at 0.7% of EEB loans.

Higher EEB slippage and write-off

EEB slippage shot up 59% QoQ to 8% of EEB loans. 30+DPD stood at 2.4%, rising 19% QoQ from 1.8%. However, SMA0 fell 8% QoQ to 1.4% from 1.5% QoQ. Whole bank slippage rose 46% QoQ and stood at 5.6% of lagged loans with EEB forming 74% of total. EEB GNPL, including write-off, rose 31% QoQ. CE for EEB in Dec-24 at 97.5% was lower than 97.8% in Sep-24, versus uptick for peers, due to weak CE in UP, Maharashtra, TN and Gujarat. Management guided for elevated slippage and credit cost for EEB even in Q4FY25. The bank wrote off INR12.6bn/2% of EEB loans, for which additional provisions of INR3.4bn shall be made in Q4FY25. Credit cost stood at 4.3% of loans (1.9% QoQ). Ex-technical write-off, credit cost was 3.3%, still much higher than 1.9% QoQ. Non-MFI slippage grew 13% QoQ. PCR is stable at 73.5%.

Sharp decline in NIM; net one-off income at 9% of PBT

Loans grew 14% YoY/1% QoQ. Including write-off, growth would have been higher by 100bp. Deposits declined 1% QoQ/20% YoY with CASA growing 6% YoY. CASA ratio declined by 150bps QoQ while LDR stood at 90%. NIM declined sharply by 50bp QoQ due to MFI reversals, higher share of secured loans and lower CASA. NII declined 4% QoQ and grew 12% YoY. Core opex grew 3% QoQ / 23% YoY. The bank made ESOP provisions of INR1.66bn, which drove total opex to rise at a higher 13% QoQ. Core non-interest income fell 15% QoQ. The bank earned one-off income of INR5.4bn towards CGFMU claim recovery and INR0.52bn from the Assam government totalling to INR5.92bn. Against this income, the bank made provisions for write-off (INR3.4bn), ESOP (INR1.7bn) and non-banking assets (INR0.3bn) totalling INR5.3bn. Net one-off income was INR0.6bn/9% of PBT. Core PPOP was weak, down 21% QoQ/4% YoY. PAT slid 42% YoY/55% QoQ and was 7% below-consensus. Management guides to the share of secured loans rising to 55% from 49% currently. Credit cost would normalise at 2% in FY27E.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	39,261	30,705	27.9	35,430	10.8
Pre-provisioning Profits	20,214	16,553	22.1	18,551	9.0
Reported Profits	4,265	7,327	-41.8	9,374	-54.5
EPS	2.65	4.55	-41.8	5.82	-54.5

Mahrukh Adajania
Mahrukh.Adajania@nuvama.com

Madhukar Ladha
Madhukar.ladha@nuvama.com

Anant Dumbhare
Anant.Dumbhare@nuvama.com

Sagar Rungta
sagar.rungta@nuvama.com

Financial Statements

Income Statement (INR mn)

Year to March	FY23A	FY24A	FY25E	FY26E
Net interest income	92,596	1,03,256	1,16,831	1,29,802
Non interest income	24,686	21,647	27,644	25,006
Net revenues	1,17,282	1,24,903	1,44,475	1,54,807
Operating expense	46,368	58,508	69,782	79,703
Employee exp	27,151	35,429	43,594	49,063
Other opex	19,217	23,079	26,188	30,640
Preprovision profit	70,913	66,395	74,693	75,105
Provisions	41,984	36,966	35,000	31,567
PBT	28,930	29,430	39,693	43,538
Taxes	6,983	7,134	10,161	10,884
PAT	21,946	22,296	29,532	32,653
Extraordinaries	0	0	0	0
Reported PAT	21,946	22,296	29,532	32,653
Diluted EPS (INR)	13.6	13.8	18.3	20.3

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	2,25,975	2,54,710
Net worth	1,95,842	2,16,096	2,42,084	2,70,819
Deposits	10,80,647	13,52,020	14,66,942	16,72,313
Borrowings	2,47,108	1,63,715	1,40,700	1,57,584
Other liabilities	36,774	46,585	54,000	59,400
Total	15,60,371	17,78,417	19,03,726	21,60,117
Assets				
Loans	10,47,568	12,11,368	13,18,574	15,03,174
Investments	3,23,659	2,92,876	3,71,287	4,11,597
Cash & equi	82,497	1,61,705	83,000	95,450
Fixed assets	8,546	11,734	12,000	13,200
Other assets	98,101	1,00,733	1,18,865	1,36,695
Total	15,60,371	17,78,417	19,03,726	21,60,117
BV/share (INR)	121.6	134.1	150.3	168.1

Important Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Net interest margins	7.0	6.9	6.6	6.5
Tax rate	24.1	24.2	25.6	25.0

Balance Sheet Ratios (%)

Year to March	FY23A	FY24A	FY25E	FY26E
Credit growth	11.5	15.6	8.9	14.0
Deposit growth	12.2	25.1	8.5	14.0
C-D ratio	96.9	89.6	89.9	89.9
Gross NPA ratio	4.9	3.8	4.8	4.5

Valuation Metrics

Year to March	FY23A	FY24A	FY25E	FY26E
Diluted PE (x)	11.1	10.9	8.3	7.5
Price/BV (x)	1.2	1.1	1.0	0.9

Source: Company and Nuvama estimates

ROA Decomposition (%)

Year to March	FY23A	FY24A	FY25E	FY26E
NII/Assets	6.3	6.2	6.3	6.4
Net revenues/assets	8.0	7.5	7.8	7.6
Opex/Assets	(3.1)	(3.5)	(3.8)	(3.9)
Provisions/Assets	(2.8)	(2.2)	(1.9)	(1.6)
Taxes/Assets	(0.5)	(0.4)	(0.6)	(0.5)
Total costs/Assets	(6.5)	(6.1)	(6.2)	(6.0)
RoA	1.5	1.3	1.6	1.6
Equity/Assets	12.5	12.3	12.4	12.6
RoAE	11.9	10.8	12.9	12.7

Valuation Drivers

Year to March	FY23A	FY24A	FY25E	FY26E
EPS growth (%)	8621.9	1.6	32.5	10.6
RoAE (%)	11.9	10.8	12.9	12.7
RoA (%)	1.5	1.3	1.6	1.6

Q3FY25 earnings call: Key takeaways

Important strategic initiatives

- **Dedicated transformation management team:** This team will be essential for driving innovation and improving operational efficiency. It will be responsible for aligning new technologies with business goals.

- **Digital and transaction excellence unit:** This unit will enhance focus and efficiency in managing transactions, payment solutions, and digital customer journeys, ultimately helping to improve granular deposits and fee-based income for the bank.

- **Market intelligence team:** This team will process unstructured public information using generative AI and LLMs to develop awareness of early warning signals, enabling appropriate risk mitigation steps.

- **Credit administration department:** This department will strengthen the bank's credit processes, oversee NPAs and post-disbursement monitoring, and enhance underwriting standards.

Focus on improving mix towards secured loans

- On the asset side, the focus will remain on increasing the secured loan mix with products such as home loans, gold loans, and CV and CE loans. Management sees significant potential in the MSME segment and aims to build a strong MSME loan book. The goal is to achieve a secured-to-unsecured loan mix of 55:45 by FY27.

- With a focus on growing the secured loan book, management stated that they view all segments in a secular manner and will equally focus on all targeted segments. Management has guided that the secured book will grow at three times the rate of the EEB book.

- The EEB book as of Q3FY25 stood at INR 561.2bn, declining 3% QoQ. Excluding write-offs, growth remained flat sequentially.

- Management explained that the fourth quarter traditionally sees high disbursements in the EEB segment. However, due to an increase in delinquencies and the implementation of strict guardrails by the bank, disbursements are not expected to be as aggressive as in Q4FY24, though they may still exceed Q3FY25 levels.

- The maturity of the EEB portfolio varies from 1 year to a maximum of 2 years, with an average maturity of 18 months.

- The bank has made good progress on geographical diversification over the years. Advances in the eastern and north-eastern regions have reduced to 39% as of Dec-24, down from 53% in FY22. The top five states—West Bengal, Maharashtra, Bihar, Gujarat, and Madhya Pradesh—contribute 59% of gross advances.

- Regarding the current scenario in Karnataka, management stated that due to the insignificant size of the loan book in the state, it is not a major concern for the bank. The total EEB portfolio in Karnataka stands at INR 7.4bn, with a delinquency rate of 13%. Of this, the group lending book accounts for only INR 4bn.

Deposits

- The bank will focus on achieving strong granular deposit growth, with management aiming to drive deposit growth higher than advance growth.
- Deposits for the quarter stood at INR1.42tn, declining 1.1% sequentially. This decline was primarily due to management's conscious decision to reduce bulk deposits.
- CASA deposits stood at INR447.4bn, growing 5.5% YoY. Management stated that while growth has been softer, it remains largely in line with industry trends.

Asset quality and collection efficiency

- With improvements in the SMA-0 bucket for EEB loans and the bank's implementation of stronger guardrails, management is seeing signs of a trend reversal and expects asset quality to improve from Q1FY26.
- Collection efficiency (CE) for the non-EEB book declined to 98.3% in Q3FY25 from 98.7% in Q2FY25.
- CE for the EEB book also declined in Dec-24 compared to Sep-24. The dip in CE during Q3FY25 was primarily driven by the states of Uttar Pradesh, Tamil Nadu, Maharashtra and Gujarat.

Yields, cost and margins

- NIM for the quarter stood at 6.9%, down from 7.4% QoQ. The decline was driven by a fall in yields due to a shift in the loan mix towards secured assets and an increase in costs due to a competitive deposit market.
- Management emphasized the need to acknowledge that other universal peer banks do not have NIMs as high as Bandhan Bank. With the strategic shift towards a more secured book, NIM is expected to moderate. However, the bank will focus on maintaining RoA close to 2%, which will be achieved through increased business volumes and controlled slippages.
- The average and disbursement yield in the EEB book stood at 22.95% and 20.30%, respectively.

Financial overview

- NII for the quarter declined 4.0% QoQ to INR 28.3bn due to a shift in the product mix towards secured loans and higher slippages in the current quarter.
- Interest reversals for the quarter amounted to INR 0.69bn.
- Non-interest income for the quarter was INR 11bn, growing 84.4% QoQ, primarily driven by two one-offs: 1.) Receipt of INR 525mn against MFI loans from the Assam government. 2.) Claim payout from CGFMU, amounting to INR 5,376mn.
- Employee expenses for Q3FY25 stood at INR 12.3bn, growing 36.6% YoY and 17.6% QoQ. This was impacted by INR 1.7bn due to a change in accounting policy related to ESOPs.
- Growth in operating expenses (excluding one-offs) was 23% YoY and 3% QoQ, driven by investments in technology and volume growth in non-EEB segments.
- Management stated that, given the bank's current capacity-building phase, operating expense growth will remain around 20%.

- Provisions for the quarter were high at INR 13.8bn, compared to INR 6.1bn QoQ. Q3FY25 provisions included two one-offs: i) Incremental provisions of INR 3.36bn on account of technical write-offs for the EEB portfolio, amounting to INR 12.66bn. ii) Provisions of INR 0.3bn for non-banking assets.
- With a focus on reducing slippages and shifting towards a secured book, management guided for a credit cost of 2% for FY27.

Exhibit 1: Changes in estimates

	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
	Old	**Old**	**New**	**New**	**% Change**	**% Change**
NII, INR M	1,20,999	1,38,712	1,16,831	1,29,802	-3.4%	-6.4%
PAT, INR M	36,340	41,711	29,532	32,653	-18.7%	-21.7%
EPS, INR	22.6	25.9	18.3	20.3	-18.7%	-21.7%
BVPS, INR	154.2	177.5	150.3	168.1	-2.6%	-5.3%
Target price, INR		**190**		**160**		**-15.8%**
CMP				151		
% Change to CMP				6%		
Rating		**HOLD**		**HOLD**		

Source: Company, Nuvama Research

Exhibit 2: Movement in EEB NPLs

INR bn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
Opening EEB NPL	42.6	36.2	32.1	64.3	56.2
Add: Slippage	12.0	7.5	5.4	6.4	9.9
Less: Recoveries & Write offs	13.6	1.1	1.3	38.6	1.8
Closing NPLs	**41.0**	**42.6**	**36.2**	**32.1**	**64.3**
Slippage ratio, % of lagged EEB loans	8.3%	5.6%	4.3%	4.5%	7.5%

Source: Company, Nuvama Research

Exhibit 3: GNPLs by segment

INR bn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
EEB	41.0	42.6	36.2	32.1	64.3
SME	11.9	11.0	10.0	9.6	11.4
Housing	6.5	5.8	5.4	4.9	4.7
Retail	2.4	1.6	1.4	1.2	1.0
Total	**61.8**	**61.0**	**53.0**	**47.8**	**81.4**

Source: Company, Nuvama Research

Exhibit 4: EEB DPD movement

INR bn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
1-30	8.1	8.8	5.8	3.8	8.0
30-60	6.6	5.6	4.2	4.0	5.7
60-90	6.5	5.4	4.4	4.8	5.2
NPL	41.0	42.6	36.2	32.1	64.3
Total	**62.2**	**62.4**	**50.6**	**44.7**	**83.2**

Source: Company, Nuvama Research

Exhibit 5: EEB Book – Vintage analysis

INR bn	Disbursement	As a % of disbursements		
		SMA1	SMA2	NPA
Q3FY25	**122**	**0.00%**	**0.00%**	**0.00%**
Q2FY25	125	0.40%	0.20%	0.10%
Q1FY25	137	0.80%	0.80%	1.00%
Q4FY24	228	0.90%	0.90%	2.30%
Q3FY24	174	0.70%	0.70%	2.70%

Source: Company, Nuvama Research

Exhibit 6: Movement in total NPLs

INR bn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24
Opening NPLs	61.0	53.0	47.8	81.4	78.7
Slippage	16.2	11.1	8.9	10.2	13.9
Recovery/upgrade	2.8	3.0	3.7	5.2	4.1
Write-offs	12.7	0.1	-	38.5	-
NPA Sale to ARC	-	-	-	-	7.2
Closing NPLs	**61.8**	**61.0**	**53.0**	**47.8**	**81.4**
Slippage ratio, % of lagged loans	5.6%	4.1%	3.5%	3.7%	5.7%

Source: Company, Nuvama Research

Exhibit 7: Movement in yield, cost and margin

%	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	YoY (bps)	QoQ (bps)
NIM	6.9	7.4	7.6	7.6	7.2	-30bps	-50bps
Cost of funds	7.1	7.0	7.0	6.9	6.6	50bps	10bps
Yield	13.3	13.7	13.9	13.8	13.4	-10bps	-40bps

Source: Company, Nuvama Research

Exhibit 8: Asset book mix

INR bn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	YoY (%)	QoQ (%)
Micro	561.2	592.9	619.1	622.4	576.0	-2.6%	-5.3%
Mortgages	326.4	316.3	294.1	299.2	288.5	13.1%	3.2%
Retail	87.6	75.1	62.3	55.8	44.9	95.1%	16.6%
SME, NBFC - MFI & NBFC - Others	345.0	322.2	280.7	269.8	250.0	38.0%	7.1%
Total	**1,320.2**	**1,306.5**	**1,256.2**	**1,247.2**	**1,159.4**	**13.9%**	**1.0%**

Source: Company, Nuvama Research

Exhibit 9: Deposit mix

INR bn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	YoY (%)	QoQ (%)
Current account	61.2	64.3	61.5	96.6	66.6	-8.1%	-4.8%
Saving account	386.2	408.5	383.9	404.9	357.5	8.0%	-5.5%
Term deposit - Retail	520.6	493.2	476.5	436.5	412.6	26.2%	5.6%
Term deposit - Others	442.0	459.1	411.0	414.0	337.5	31.0%	-3.7%
Total deposits	**1,410.0**	**1,425.1**	**1,332.9**	**1,352.0**	**1,174.2**	**20.1%**	**-1.1%**

Source: Company, Nuvama Research

Exhibit 10: Income statement summary

INR mn	Q3FY25	Q2FY25	Q1FY25	Q4FY24	Q3FY24	YoY (%)	QoQ (%)
Interest on advances	48,524	48,820	48,695	46,293	40,829	19%	-1%
Income on investments	5,484	5,189	5,324	4,744	4,923	11%	6%
Interest on other resources	159	302	417	224	181	-12%	-47%
Others	621	687	922	633	721	-14%	-10%
Interest Income	54,787	54,998	55,358	51,893	46,654	17%	0%
Interest expended	26,484	25,516	25,308	23,231	21,401	24%	4%
Net Interest Income	**28,303**	**29,483**	**30,050**	**28,663**	**25,254**	**12%**	**-4%**
Non-interest income	10,959	5,947	5,275	6,941	5,452	101%	84%
Total Revenue	**39,261**	**35,430**	**35,326**	**35,604**	**30,705**	**28%**	**11%**
Employee expenses	12,274	10,440	10,054	9,702	8,987	37%	18%
Other Operating expenses	6,774	6,438	5,863	7,517	5,165	31%	5%
Total Operating expenses	19,048	16,879	15,917	17,219	14,152	35%	13%
Operating Profit	**20,214**	**18,551**	**19,409**	**18,385**	**16,553**	**22%**	**9%**
Provisions	13,760	6,062	5,230	17,743	6,840	101%	127%
PBT	6,453	12,489	14,179	642	9,713	-34%	-48%
Tax	2,189	3,114	3,544	95	2,386	-8%	-30%
Net Profit	**4,265**	**9,374**	**10,635**	**546**	**7,327**	**-42%**	**-55%**

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

With secured loans expected to grow faster than EEB loans, normalized NIM would be lower. Slippage would remain elevated in Q4FY25E. With the ongoing MFI stress, we maintain HOLD. We cut EPS by 19%/22% for FY25E/FY26E. We cut TP to INR160/1x BV FY26 from INR190 / 1.2x. JLG exposure to Karnataka is small at 0.7% of EEB loans.

Key Risks

- CE in Q4FY25 may not consistently improve
- Margin pressure due to change in loan mix

Additional Data

Management

MD & CEO	Partha Pratim Sengupta
Chairman	Anup Kumar Sinha
ED	Ratan Kumar Kesh
CFO	Rajeev Mantri
Auditor	Singhi & Co.

Holdings – Top 10*

	% Holding		% Holding
Caladium Invst	7.78	Tata AIA Life	1.11
LIC	3.69	HDFC MF	1.06
TATA Fund	1.55	SBI Life	1.02
Gov Pension Fund	1.29	MFS Equity Fund	1.02
Mathews Fund	1.20		

**Latest public data*

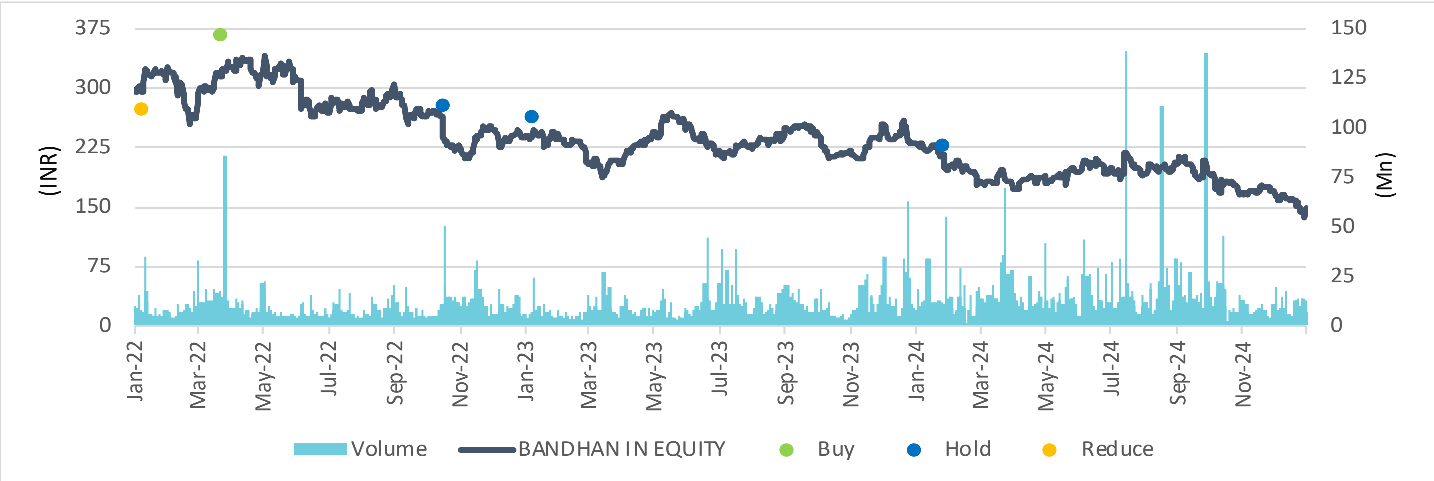
Recent Company Research

Date	Title	Price	Reco
25-Oct-24	Better than peers ; *Result Update*	168	Hold
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

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%	226
Hold	<15% and >-5%	64
Reduce	<-5%	27

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Abneesh Roy
Head of Research Committee
Abneesh.Roy@nuvama.com

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