

**CMP: INR 192**

**Rating: Accumulate**

**Target Price: INR 228**

**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)	383
52w H/L (INR)	263 / 169
Avg Yearly Vol (in 000')	12,426

**Shareholding Pattern %**

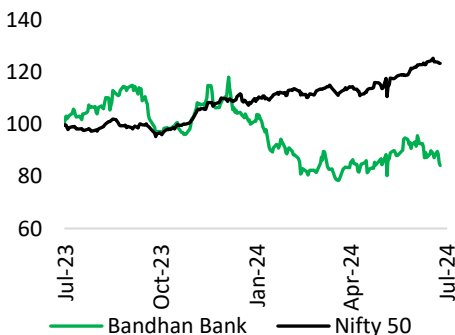
(As on June, 2024)

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 strong performance during Q1FY25 on most parameters. Bank has reported profit of INR 10.63 bn (against Profits of INR 0.55 bn in Q4FY24 and up 47.5% YoY). NII increased marginally on an annual basis (4.8% QoQ/ up 20.7% QoQ) to INR 30.05 bn as compared to our estimate of INR 29.39 bn. NII growth was impacted due to lower growth of Microfinance book. NIMs were stable at 7.6% sequentially and up 30 bps YoY. The bank expects NIM to remain steady at around 7% in FY25. Operating profit of the bank increased by 5.6% QoQ / 24.2% YoY at INR 19.41 bn. Asset quality of the bank deteriorated during the quarter as GNPA increased by 39 bps QoQ at 4.23% due to higher slippages than anticipated.**

**Loan growth was impacted due to pale growth seen in EEB portfolio:**

**Total advances grew to INR 1,215 bn in Q1FY25 (up 0.4% QoQ & up 19.2% 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 the last quarter, company had slippages of INR 8.9 bn, of which EEB contributed INR 10 bn. Now, with the EEB book shrinking in the overall Portfolio mix, and the percentage mix of the retail and the commercial book still not of comparable size, the bank's overall loan book growth looked stalled during the quarter.

**Asset quality deteriorated:**

GNPA / NNPA for Q1FY25 came at 4.23%/1.15% (3.84%/1.11% in Q1FY24 respectively). The increase in NPAs was primarily because of **change in classification norms**. Earlier, **ECLGS guaranteed advances which defaulted** were not required to be classified as NPA, but after RBI IRAC circular dated 1st April 2023, **they have to be classified as NPA**, which in turn led to an increase in NPAs. Irrespective, their **provisions reduced by 50.3% YoY to INR 6.36 bn** (up 5.7% sequentially).

**Increase in slippages and decline in recoveries:**

**Slippages increased to INR 13.6 Bn in Q1FY24 (up 21% QoQ, up 20% YoY).** Out of total slippages, **INR 10 bn (INR 9 bn previous quarter) came from the EEB book**, which arised due to the seasonality in their key markets of West Bengal and Assam. Recovery made during the quarter came at INR 4.6 bn (**which was also lower than the recovery of Q1FY24 & Q4FY24**). However, as is the nature of the EEB business, the recoveries are expected to increase substantially in the H2FY25 , specially in Q4FY25.

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

Bandhan Bank's NIMs stabilized at 7.6% in Q1FY25, further while the Cost of Funds increased by 200 bps YoY / 500 bps YoY. The addition of 29 new branches during the quarter to gain more market opportunities in the retail customer segment, the Cost to Income ratio increased to 46.9% (510 bps YoY/ 126 bps QoQ). Additionally the Credit Cost bumped up on account of the slippages and low recoveries to 2.5% from 2.4% in Q1FY24.

**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 EEB 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 corteinies. However, with the bank increasing their branches and shifting to new core banking platform to target more retail loans in the mix, there arises some hope for the Profitability to increase after some time. Hence, we revise our estimates upwards along with change in ratings to Accumulate rating on the stock with a TP of INR 228, based on 1.0x FY27E ABV of Rs 228 per share.

## Q1FY25 result Snapshot

Income Statement (INR Mn.)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Interest Income	55,358	51,893	45,229	6.7%	22.4%
Interest Expense	25,308	23,231	20,323	8.9%	24.5%
<b>Net Interest Income</b>	<b>30,050</b>	<b>28,663</b>	<b>24,906</b>	4.8%	20.7%
Non Interest Income	5,275	6,941	3,851	-24.0%	37.0%
<b>Total Income</b>	<b>35,326</b>	<b>35,604</b>	<b>28,757</b>	-0.8%	22.8%
Employee Costs	10,054	9,702	8,117	3.6%	23.9%
Other Operating Expenses	5,863	7,517	5,017	-22.0%	16.9%
Operating Expenses	15,917	17,219	13,134	-7.6%	21.2%
<b>Pre-Provision Profit</b>	<b>19,409</b>	<b>18,385</b>	<b>15,623</b>	5.6%	24.2%
Provisions	5,230	17,743	6,021	-70.5%	-13.1%
<b>Profit Before Tax</b>	<b>14,179</b>	<b>642</b>	<b>9,602</b>	2110.1%	47.7%
Tax Expense	3,544	95	2,392	3619.7%	48.2%
<b>Net Profit</b>	<b>10,635</b>	<b>546</b>	<b>7,211</b>	1846.8%	47.5%
<b>Balance Sheet Analysis</b>					
Deposits	13,32,030	13,52,020	10,80,693	-1.5%	23.3%
CASA Deposits	4,44,560	5,01,500	3,90,700	-11.4%	13.8%
CASA (%)	33.4%	37.1%	36.2%	-372bps	-278bps
Advances	12,15,900	12,11,368	10,20,277	0.4%	19.2%
Total Assets	17,33,000	17,78,417	15,57,700	-2.6%	11.3%
Capital Adequacy Ratio (%)	15.0%	14.7%	19.8%	28bps	-478bps
<b>Spread Analysis</b>					
NIM (%)	7.60%	7.60%	7.30%	0bps	30bps
<b>Asset Quality</b>					
Gross NPA	53,044	47,849	78,738	10.86%	-32.63%
Net NPA	13,964	13,476	23,652	3.62%	-40.96%
GNPA (%)	4.23%	3.84%	6.76%	39bps	-253bps
NNPA (%)	1.15%	1.11%	2.18%	4bps	-103bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	45.1%	48.4%	45.7%	-331bps	-62bps
C/D Ratio (%)	91.3%	89.6%	94.4%	168bps	-313bps
RoA (%) (annualized)	2.44%	0.12%	1.92%	232bps	52bps

Source: Arianth Research, Company Filings

**Conference Call Highlights:****Guidance:**

- The Bank expects secured book to grow faster than EEB books.
- The Management said the total loan growth is expected to be around 18-20%.
- The Deposit growth is expected to be higher than credit growth.
- NIMs is projected to be in the range of 7-7.5%.
- The Management expects New branch additions to be slower as compared to previous year.
- Provision coverage ratio is expected to increase going ahead.

**Key Highlights:**

- NII came at INR 30.05 bn against our estimates of INR 29.39 bn (up 4.8% QoQ/up 20.7% YoY) which was driven by good loan book growth as well as improvement in margins.
- PPOP came at INR 19.41 bn against our estimate of INR 16.26 bn (up 5.6% QoQ / up 24.2% YoY).
- Provisions decreased in the quarter to INR 5.23 bn against our estimate of INR 6.32 bn (down 70.5% QoQ/ down 13.1% QoQ).
- PAT came at INR 10.63 bn against our estimate of INR 7.45 bn (against INR 0.55 bn in Q4FY24/ up 47.5% YoY).
- NIMs for Q1FY25 stood at 7.6%, flat QoQ / up 30 bps YoY.
- Cost of Funds increased to 7.0%, up 10 bps QoQ / up 60 bps YoY.
- Asset Quality: GNPA ratio increased by 39 bps QoQ / down 253 bps YoY at 4.23% against our estimates of 3.50% and NNPA also went up by 4 bps QoQ / down 103 bps YoY to 1.15% against our estimates of 1.0% for Q1FY25.
- Balance Sheet: Advances at INR 1,216 bn grew by 0.4% QoQ / up 19.2% YoY against Deposits at INR 1,332 bn which were down by 1.5% QoQ / up 23.3% YoY.
- Cost to income ratio decreased by 331 bps QoQ and by 62 bps YoY to 45.1%.
- CASA ratio declined by 372 bps QoQ / 278 bps YoY to 33.4%.
- Non interest income was up down 24% QoQ / up 37% YoY on account of higher fee income and redemption of security receipts.
- Cost to income ratio declined 331 bps QoQ / 62 bps YoY to 45.1%.
- In Q1FY25, Bandhan Bank posted Retail loans growth 84% YoY while commercial banking segment was up 30% YoY.
- Housing book was up 7.7% YoY. Growth in the EEB segment posted a growth of 21.6% YoY.
- EEB (Microfinance) disbursement for the quarter stood at INR 137.2 bn v/s INR 79.6 bn YoY. Housing loan disbursement came at INR 20.8 bn v/s INR 13.0 bn QoQ.
- The bank added 0.8 mn customers during the quarter taking total customer base as on June 2024 at 34.4 mn. EEB segment has customers to the tune of 25.8 mn at the end of Q1FY25.
- Retail term deposits were up 24.9% YoY.
- CASA ratio for the quarter was down 260 bps YoY, while CASA + Retail Term deposit stood at 69% versus 71% YoY.
- In Q1FY25, the asset quality for the bank deteriorated as GNPA and NNPA ratio were up 39 bps and 4 bps sequentially to 4.23% and 1.15%, respectively.
- Slippages during the quarter declined to INR 8.9 bn v/s INR 13.6 bn in Q1FY24.
- Slippages from EEB segment stood at INR 5.43 bn in Q1FY25 v/s INR 6.1 bn in Q4FY24.
- The Management informed that there were no Write-offs for the quarter and there was no sale to asset restructuring company.
- Collection efficiency in EEB loans for the quarter was healthy at 98.7% down 10 bps QoQ.
- The Management explained that the slow-down in collections in some regions was on account of heat wave and floods.
- PCR stood at 73.7% versus 71.8% in Q4FY24. SMA 1 & 2 loans stood at 0.7% each, while SMA 0 saw 30 bps rise sequentially to 0.9%.
- The Management recognized that there are some stress coming from Punjab and Maharashtra regions.
- Total EEB stress book for the quarter stood at INR 45 bn.
- Credit cost for the quarter stood at 1.6% and declined from 2.4% in Q1FY24.
- The Bank's board has appointed a search firm for seeking new MD & CEO for the bank.
- The Bank recently added some new products in the transaction business.
- The Bank's higher risk weight taken for EEB loans resulted into 362 bps impact on Capital adequacy ratio.

## 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
<b>Total Net Interest Income</b>	92,596	1,03,256	1,19,633	1,38,704	1,68,026
<b>Other Income</b>	24,686	21,647	32,698	32,179	38,998
<b>Total Income</b>	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
<b>Operating Profit</b>	70,913	66,395	1,03,139	1,27,462	1,55,929
Provisions	46,538	42,492	48,850	60,514	75,010
<b>Profit before Tax</b>	28,930	29,429	54,288	66,948	80,919
Provision for Taxes	6,983	7,133	13,681	16,871	20,392
<b>PAT</b>	21,946	22,296	40,608	50,077	60,527

## Balance Sheet

Particulars (INR Mn)	2023A	2024A	2025E	2026E	2027E
<b>Assets</b>					
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
<b>Total Assets</b>	15,57,700	17,78,417	23,33,968	28,33,930	34,46,570
<b>Liabilities</b>					
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
<b>Total Liabilities</b>	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
<b>Basic Ratio</b>					
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
<b>Asset Quality</b>					
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%
<b>Profitability Ratio</b>					
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%
<b>Valuation</b>					
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
<b>Spread Analysis</b>					
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%
<b>Growth (%)</b>					
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%
<b>Liquidity</b>					
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%
<b>Efficiency</b>					
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**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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