

## Better Placed vs. Peers in the MFI Downcycle; Upgrade to BUY!

**Est. Vs. Actual for Q2FY25: NII – MISS; PPOP – MISS; PAT – BEAT**

**Changes in Estimates post Q2FY25**

**FY25E/FY26E/FY27E (in %): NII: -3.5/-3.3%/-3.9; PPOP: -6.3/-3.5/-4.3; PAT: -8.8/-4.1/-4.8**

**Recommendation Rationale**

- Microfinance stress better managed than peers:** In line with industry trends, Bandhan witnessed a decline in Collection Efficiency (CE) in the EEB book to 98.1% from 98.7% in Q1FY25. On the brighter side, the CE in the non-delinquent portfolio has improved in Oct'24 vs Sep'24. Thus, the bank will continue to maintain a cautious stance in Q3FY25 and with the expectation of trends stabilising by Jan'25, Bandhan will look to accelerate growth in the EEB book. The management indicated that the stress in the microfinance portfolio pertains to certain states, primarily the rest of India's portfolio, while the core states of West Bengal and Assam continue to hold up well. Of the Top-5 states (59% mix), West Bengal, Assam and Bihar continue to exhibit resilience, while stress is visible in certain pockets of MH, Odisha, RJ and UP. While the SMA/01/2 book has seen an uptick in QoQ, the bank has intensified its collection efforts to restrict forward flows and improve early bucket delinquencies. In terms of portfolio composition, Bandhan's unique customers constitute 60% of the portfolio, while Bandhan +1 is ~20%. The over-leveraged customers with exposure to >4 lenders are lower at ~4.5%. We believe Bandhan is at a natural advantage given its dominant presence in West Bengal, where the proportion of customers having >4 lenders is significantly lower vs. other states and industry average.
- Asset quality healthy in the non-EEB portfolio:** In the EEB book, the management has indicated that the Individual Portfolio (IL) continues to exhibit better asset quality trends vs. the Group Loan (GL) portfolio. Apart from the EEB portfolio, the other segments – Mortgage, Retail and commercial continue to see healthy asset quality. The slippages are likely to be elevated in Q3FY25, primarily from the EEB pool with some improvement expected as Bandhan exits FY25. **The management has retained its credit costs guidance at 1.8-2% for FY25, with EEB credit costs at ~3%.**

**Sector Outlook: Positive**

**Company Outlook:** With stringent guardrails in place and a conservative lending approach, we believe Bandhan has been able to control its stress in the EEB segment better than its peers. While EEB growth is expected to remain tepid, the secured businesses will continue to drive healthy growth. The overhangs on the stock have now been addressed with the appointment of the new MD CEO and a positive outcome of the CGFMU audit. However, strategy implementation by the new MD CEO would remain monitorable.

**Current Valuation: 1.1x Sep'26E ABV; Earlier Valuation: 1.2x FY26E ABV**

**Current TP: Rs 200/share; Earlier TP: Rs 205/share**

**Recommendation:** We revise our rating **BUY** from **HOLD** earlier.

**Alternative BUY Ideas from our Sector Coverage**

CreditAccess Grameen (TP – Rs 1,100/share); Ujjivan SFB (TP – Rs 41/share)

### Financial Performance:

- Operating Performance:** Bandhan's disbursements (ex-commercial) de-grew by 6% QoQ, led by a sharp decline in group MFI disbursements (-30/-13% YoY/QoQ). Housing and Retail disbursements were up 50/10% and 115%/flat YoY/QoQ respectively. Advances growth improved to 21/4% YoY/QoQ (ex-write/off advances growth would have been ~20% YoY). EEB book grew by 10% YoY and de-grew by 4% QoQ. The bank has curtailed the pace of new customer acquisition. Bank added 0.7 Mn customers during the quarter vs 1.4 Mn YoY/QoQ.
- Financial Performance:** NII grew by 21% YoY and was down 2% QoQ owing to margin compression of ~20bps QoQ. Non-interest income was better than expected and grew by 10/13% YoY/QoQ. Opex growth was elevated at 21/6% YoY/QoQ (owing to higher overhead cost +20/10% YoY/QoQ). This resulted in the C-I Ratio inching up to 47.6% from 46.9/45.1% YoY/QoQ. PPOP grew by 17% YoY but was down 4% QoQ. Credit costs inched up to ~2% vs 1.7% QoQ to account for MFI stress. PAT de-grew by 12% QoQ but grew by 30% YoY.
- Asset quality:** Collection Efficiency (CE) for EEB loans dropped marginally to an average of 98.1% vs 98.7% in Q1FY25. Slippages during the quarter stood elevated at Rs 1,110 Cr, with a slippage ratio of 3.5% vs 2.8% QoQ. GNPA/NNPA inched up to 4.7/1.3% vs 4.2/1.15%.

### Key Financials (Standalone)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Interest Income (NII)	2,948	-1.9	+20.7	3,050	-3.3
PPOP	1,855	-4.4	+17.2	1,922	-3.5
Net Profit	937	-11.8	+30.0	906	+3.4
NNPA (%)	1.3	+14 bps	-103 bps	1.2	+6 bps
RoA (%)	2.1	-40 bps	20 bps	2.0	+8 bps

Source: Company, Axis Securities Research

(CMP as of 25<sup>th</sup> October, 2024)

CMP (Rs)	168
Upside /Downside (%)	19%
High/Low (Rs)	263/167
Market cap (Cr)	27,113
Avg. daily vol. (6m) Shrs.	1,77,88,319
No. of shares (Cr)	161.1

### Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	40.0	40.0	40.0
FII	31.2	28.3	26.7
MFs / FII	8.1	7.8	9.4
Others	20.8	23.9	23.9

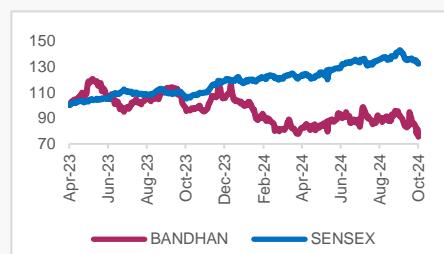
### Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
NII	12,083	14,305	17,149
PPOP	7,694	9,305	11,323
Net Profit	3,768	4,686	5,891
EPS (Rs)	23.4	29.1	36.6
ABV (Rs)	143.1	167.3	196.1
P/ABV (x)	1.2	1.0	0.9
RoA (%)	1.9	2.0	2.1
NNPA (%)	1.2	0.9	0.8

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
NII	-3.5	-3.3	-3.9
PPOP	-6.3	-3.5	-4.3
PAT	-8.8	-4.1	-4.8

### Relative performance



Source: Ace Equity, Axis Securities Research

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## Outlook

The portfolio mix shifting towards secured products would help reduce the element of cyclicity. However, it would weigh on NIMs over the medium term. Resultantly, we trim our NII estimates by 3-4% over FY25-27E. The bank will continue to invest in team and tech and build key capabilities. We revise our earnings estimates downwards by 4-5% while taking a sharper cut of 8% in FY25 to reflect higher credit costs. We expect RoA/RoE delivery of 1.9-2.1%/16-19% over FY25-27E.

## Valuation & Recommendation

We value the stock at 1.1x Sep'26E ABV vs. current valuations of 0.9x Sep'26E ABV to arrive at a target price of Rs 200/share, implying an upside of 19% from CMP. **We revise our rating from HOLD to BUY.**

## Key Highlights

- Aiming at reducing geographical concentration:** The bank has made considerable progress in diversifying its geographical footprint resultantly reducing the dependence on the core states of WB and Assam. The share of WB+AS has reduced from 53% in FY22 to ~41% in Q2FY25. Bandhan has gradually expanded its geographic footprint in the West, North and South by 2/3/7% respectively. Similarly, on the liability front, the bank has been aiming at reducing the geographical concentration and has seen the dependence of WB reducing from 44% in Q2FY24 to 40% in Q2FY25. The Top 5 states (WB, MH, UP, OR, DL) contribute ~59% of the total deposits.
- Credit growth healthy; NIMs to compress owing to portfolio mix shift:** Bandhan has been aiming at reducing its share of EEB portfolio in its efforts to build secured businesses to ensure portfolio stability in the event of an MFI downturn. Hereon, the bank's focus will remain on ramping up the Mortgage, Retail and Commercial portfolio. However, this will weigh on the margins of the bank, given that the yield differential in the EEB and non-EEB portfolios is ~10%. The bank aspires to contain its NIMs in a broad range of 7-7.5%, owing to which focus will remain on pursuing growth in the better-yielding non-EEB segment. The management remains confident of delivering credit growth of ~18% (+/- 1%) in FY25, with faster growth in the non-EEB portfolio and the EEB growth expected at ~10-12%.

## Key Risks to Our Estimates and TP

- The key risk to our estimates remains a slowdown in overall credit momentum which could potentially derail earnings momentum for the bank.
- Any additional asset quality stress arising from the EEB book could potentially impact our earnings estimates

## Change in Estimates

(Rs Cr)	Revised			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
NII	12,083	14,305	17,149	12,516	14,801	17,854	-3.5	-3.3	-3.9
PBP	7,694	9,305	11,323	8,212	9,641	11,828	-6.3	-3.5	-4.3
PAT	3,768	4,686	5,891	4,132	4,887	6,188	-8.8	-4.1	-4.8

Source: Company, Axis Securities Research

**Results Review (Standalone)**

(Rs Cr)	Q2FY25	Q2FY24	% YoY	Q1FY25	% QoQ	H1FY25	H1FY24	% YoY
Net Interest Income	2,948	2,443	20.7	3,005	-1.9	5,953	4,934	20.7
Non-Interest Income	595	540	10.1	528	12.7	1,122	925	21.3
Operating expenses	1,688	1,400	20.5	1,592	6.0	3,280	2,714	20.9
<i>Staff Cost</i>	<i>1,044</i>	<i>862</i>	<i>21.1</i>	<i>1,005</i>	<i>3.8</i>	<i>2,049</i>	<i>1,674</i>	<i>22.4</i>
Pre provision profits	1,855	1,583	17.2	1,941	-4.4	3,796	3,146	20.7
Provisions and contingencies	606	636	-4.7	523	15.9	1,129	1,238	-8.8
PBT	1,249	947	31.8	1,418	-11.9	2,667	1,907	39.8
Provision for Tax	311	226	37.7	354	-12.1	666	465	43.1
PAT	937	721	30.0	1,063	-11.8	2,001	1,442	38.7
<b>Business Update</b>								
Disbursements (ex-Commercial)	16,430	19,300	-14.9	17,490	-6.1	33,920	29,210	16.1
<i>EEB</i>	<i>12,450</i>	<i>16,990</i>	<i>-26.7</i>	<i>13,720</i>	<i>-9.3</i>	<i>26,170</i>	<i>25,010</i>	<i>4.6</i>
<i>Mortgage</i>	<i>2,280</i>	<i>1,520</i>	<i>50.0</i>	<i>2,080</i>	<i>9.6</i>	<i>4,360</i>	<i>2,770</i>	<i>57.4</i>
<i>Retail</i>	<i>1,700</i>	<i>790</i>	<i>115.2</i>	<i>1,690</i>	<i>0.6</i>	<i>3,390</i>	<i>1,430</i>	<i>137.1</i>
AUM	1,30,652	1,07,630	21.4	1,25,619	4.0	1,30,652	1,07,630	21.4
<i>EEB</i>	<i>59,290</i>	<i>53,990</i>	<i>9.8</i>	<i>61,910</i>	<i>-4.2</i>	<i>59,290</i>	<i>53,990</i>	<i>9.8</i>
<i>Mortgage</i>	<i>31,630</i>	<i>26,750</i>	<i>18.2</i>	<i>29,410</i>	<i>7.5</i>	<i>31,630</i>	<i>26,750</i>	<i>18.2</i>
<i>Commercial</i>	<i>32,220</i>	<i>22,990</i>	<i>40.1</i>	<i>28,070</i>	<i>14.8</i>	<i>32,220</i>	<i>22,990</i>	<i>40.1</i>
<i>Retail</i>	<i>7,510</i>	<i>3,900</i>	<i>92.6</i>	<i>6,230</i>	<i>20.5</i>	<i>7,510</i>	<i>3,900</i>	<i>92.6</i>
Deposits	1,42,510	1,12,079	27.2	1,33,210	7.0	1,42,510	1,12,079	27.2
CASA Deposits	47,284	43,200	9.5	44,456	6.4	47,284	43,200	9.5
<i>CASA Ratio</i>	<i>33.2</i>	<i>38.5</i>	<i>-536bps</i>	<i>33.4</i>	<i>-19bps</i>	<i>33.2</i>	<i>38.5</i>	<i>-536bps</i>
<i>Retail Deposits %</i>	<i>67.8</i>	<i>74.0</i>	<i>-625bps</i>	<i>69.1</i>	<i>-135bps</i>	<i>67.8</i>	<i>74.0</i>	<i>-625bps</i>
NIMs	7.4	7.2	20bps	7.6	-20bps	7.5	7.3	25bps
Cost-Income ratio (%)	47.6	46.9	71bps	45.1	258bps	46.3	46.3	5bps
<b>Asset Quality</b>								
Gross NPA (%)	4.7	7.3	-264bps	4.2	45bps	4.7	7.3	-264bps
Net NPA (%)	1.3	2.3	-103bps	1.2	14bps	1.3	2.3	-103bps
PCR (%)	73.5	70.0	350bps	73.7	-21bps	73.5	70.0	350bps
<b>Capital Adequacy</b>								
CRAR	15.6	19.2	-360bps	15.7	-10bps	15.6	19.2	-360bps
Tier I	13.6	18.2	-460bps	14.1	-50bps	13.6	18.2	-460bps
Tier II	2.0	1.0	100bps	1.6	40bps	2.0	1.0	100bps

Source: Company, Axis Securities Research

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Net Interest Income</b>	<b>10,326</b>	<b>12,083</b>	<b>14,305</b>	<b>17,149</b>
Other Income	2,165	2,468	2,885	3,242
<b>Total Income</b>	<b>12,490</b>	<b>14,551</b>	<b>17,190</b>	<b>20,391</b>
Total Operating Exp	5,851	6,857	7,885	9,067
<b>PPOP</b>	<b>6,639</b>	<b>7,694</b>	<b>9,305</b>	<b>11,323</b>
Provisions & Contingencies	3,697	2,670	3,057	3,469
PBT	2,943	5,024	6,248	7,854
Provision for Tax	713	1,256	1,562	1,964
<b>PAT</b>	<b>2,230</b>	<b>3,768</b>	<b>4,686</b>	<b>5,891</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>SOURCES OF FUNDS</b>				
Share Capital	1,611	1,611	1,611	1,611
Reserves	19,999	23,104	26,965	31,708
<b>Shareholder's Funds</b>	<b>21,610</b>	<b>24,715</b>	<b>28,576</b>	<b>33,319</b>
<b>Total Deposits</b>	<b>1,35,202</b>	<b>1,64,895</b>	<b>2,03,836</b>	<b>2,50,937</b>
Borrowings	16,372	15,978	17,624	17,177
Other Liabilities & Provisions	4,659	5,965	7,254	8,745
<b>Total Liabilities</b>	<b>1,77,842</b>	<b>2,11,552</b>	<b>2,57,290</b>	<b>3,10,178</b>
<b>APPLICATION OF FUNDS</b>				
Cash & Bank Balance	16,171	13,270	19,392	23,774
Investments	29,288	39,512	48,843	60,130
Advances	1,21,137	1,42,853	1,70,982	2,04,487
Fixed Assets & Other Assets	11,247	15,917	18,072	21,787
<b>Total Assets</b>	<b>1,77,842</b>	<b>2,11,552</b>	<b>2,57,290</b>	<b>3,10,178</b>

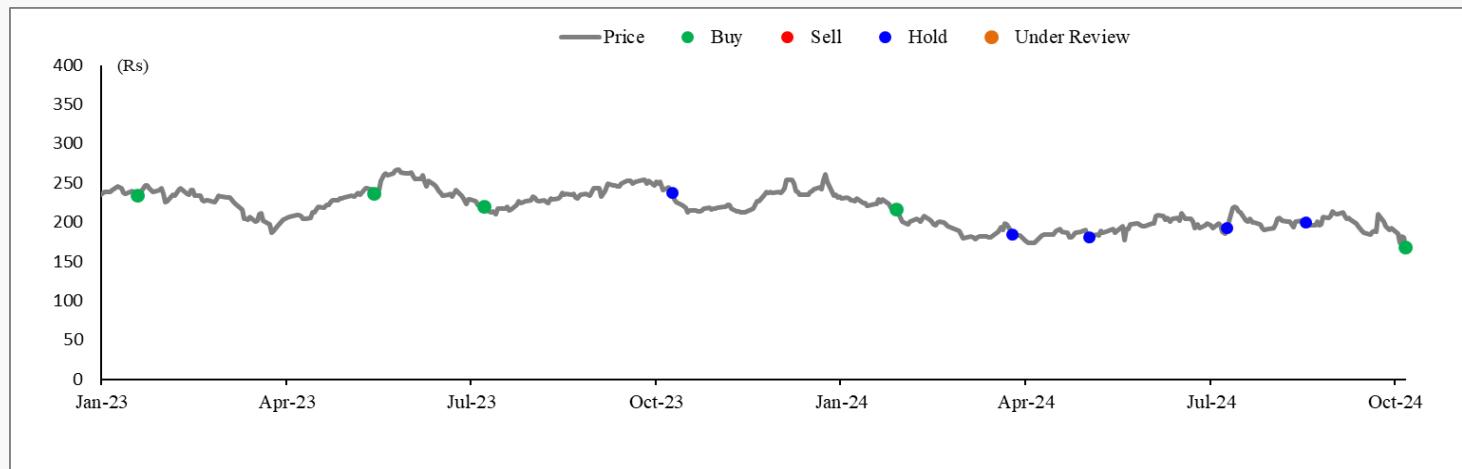
Source: Company, Axis Securities Research

**Ratio Analysis**
**(%)**

Y/E March	FY23	FY24	FY25E	FY26E
<b>VALUATION RATIOS</b>				
EPS	13.8	23.4	29.1	36.6
Earnings Growth (%)	1.6	69.0	24.4	25.7
BVPS	134.1	153.4	177.4	206.8
Adj. BVPS	125.8	143.1	167.3	196.1
ROAA (%)	1.3	1.9	2.0	2.1
ROAE (%)	10.8	16.3	17.6	19.0
P/E (x)	12.2	7.2	5.8	4.6
P/ABV (x)	1.3	1.2	1.0	0.9
<b>PROFITABILITY</b>				
NIM (%)	7.3	7.4	7.3	7.2
Cost-Income Ratio	46.8	47.1	45.9	44.5
<b>BALANCE SHEET STRUCTURE RATIOS</b>				
Loan Growth (%)	15.6	17.9	19.7	19.6
Deposit Growth (%)	25.1	22.0	23.6	23.1
C-D Ratio	89.6	86.6	83.9	81.5
Equity/Assets (%)	12.2	11.7	11.1	10.7
Equity/Loans (%)	17.8	17.3	16.7	16.3
CAR	18.3	16.1	14.8	14.5
CAR Tier I	17.2	15.1	13.8	13.6
<b>ASSET QUALITY</b>				
Gross NPLs (%)	3.8	4.3	3.6	3.2
Net NPLs (%)	1.1	1.2	0.9	0.8
Coverage Ratio (%)	71.8	74.0	74.0	74.0
Credit Costs	3.3	2.0	1.9	1.8
<b>ROAA TREE</b>				
Net Interest Income	6.2	6.2	6.1	6.0
Non-Interest Income	1.3	1.3	1.2	1.1
Operating Cost	3.5	3.5	3.4	3.2
Provisions	2.2	1.4	1.3	1.2
Tax	0.4	0.6	0.7	0.7
ROAA	1.3	1.9	2.0	2.1
Leverage (x)	8.1	8.4	8.8	9.2
ROAE	10.8	16.3	17.6	19.0

Source: Company, Axis Securities Research

## Bandhan Bank Price Chart and Recommendation History



Date	Reco	TP	Research
23-Jan-23	BUY	275	Result Update
22-May-23	BUY	275	Result Update
17-Jul-23	BUY	255	Result Update
19-Oct-23	HOLD	250	Result Update
12-Feb-24	BUY	240	Result Update
09-Apr-24	HOLD	175	Company Update
18-May-24	HOLD	190	Result Update
29-Jul-24	HOLD	205	Result Update
05-Sep-24	HOLD	205	Company Update
28-Oct-24	BUY	200	Result Update

Source: Axis Securities Research

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<b>Ratings</b>	<b>Expected absolute returns over 12 – 18 months</b>
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.