

Margins near the bottom; expected recovery from Q4 onwards

**CMP: INR 156**

**Rating: Accumulate**

**Target Price: INR 181**

**Stock Info**

BSE	541153
NSE	BANDHANBNK
Bloomberg	BANDHAN IN
Reuters	BANH.BO
Sector	Banks
Face Value (INR)	10
Equity Capital (INR Bn)	16.1
Mkt Cap (INR Bn)	273
52w H/L (INR)	193 / 128
Avg Yearly Vol (in 000')	7,953

**Shareholding Pattern %**

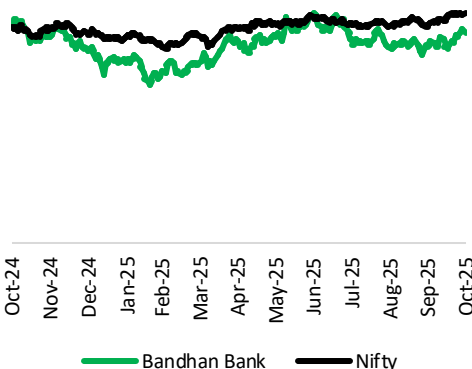
(As on Sept, 2025)

Promoters	40.29
Public & Others	59.71

**Stock Performance (%)**

	3m	6m	12m
Bandhan Bank	2.47	4.76	-3.0
Nifty 50	5.19	6.51	7.04

**Bandhan Bank Vs Nifty 50**



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The company reported a mixed quarter with lower-than-expected NII and PPOP, though provisions increased sequentially and sharply YoY. Net Interest Income stood at INR 25,890 Mn compared to our estimate of INR 30,800 Mn, down by 6.12% QoQ & 12.20% YoY. PPOP came in at INR 13,100 Mn vs estimate of INR 17,620 Mn, down by 21.46% QoQ & 29.36% YoY. Provisions were at INR 11,530 Mn vs estimate of INR 12,730 Mn, up by 0.49% QoQ / 90.12% YoY. PAT stood at INR 1,120 Mn vs estimate of INR 3,910 Mn, down by 69.93% QoQ / 88.07% YoY. GNPA stood at 5.02% vs estimate of 4.95%, up by 6bps QoQ & 34 bps YoY. NNPA stood at 1.37% vs estimate of 1.34%, flat on QoQ/ up by 8 bps YoY. Deposits increased to INR 15,80,750 Mn vs estimate of INR 15,57,490 Mn, up 4.54% QoQ / 10.92% YoY. Advances increased to INR 13,45,930 Mn vs estimate of INR 12,93,480 Mn, up 1.97% QoQ / 6.77% YoY.

**Deposit repricing benefits expected to flow from Q4FY26:** Bank's deposit growth continues to outpace advances, rising 11% YoY to INR 1.58 lakh crore. Retail deposits, comprising CASA and term deposits, grew 16% YoY, with retail term deposits surging 38% YoY. While CASA declined 6.5% YoY due to savings rate repricing, sequential growth of 5.6% in Q2 signals recovery momentum aided by the "Grow CASA, Grow Together" campaign. CASA ratio improved to 28%, and overall retail deposits form 71% of total deposits. With deposit repricing benefits (200 bps cut in savings rate to 4.2%) expected to flow through from Q4FY26, the liability mix will become more efficient and margin-accretive.

**NIM pressure near trough; margins expected to recover from Q4FY26:** NIM stood at 5.8% for Q2FY26, down from 6.4% in Q1 due to the 75-bps repo cut and 200-bps reduction in MCLR impacting ~50% of the loan book. However, management indicated this quarter marks the bottom for NIMs, with recovery expected from Q4FY26 as term deposit costs reset and new lending reprices upward. H1FY26 NIM remains robust at 6.1%. The calibrated reduction in savings rates and improvement in CASA granularity further enhance visibility of NIM improvement back to ~6% levels over FY27, supporting steady expansion in PPOP margins.

**Asset quality showing early stabilization; secured mix driving comfort:** Despite stress in the Emerging Entrepreneurs Business (EEB) segment, asset quality metrics remain stable with Gross NPA at 5% and Net NPA at 1.4%. SMA1 and SMA2 balances have declined sequentially; improving collection efficiency. Collection efficiency, excluding NPAs, stood at 98.0% in Q2FY26, marginally higher than 97.9% in Q1. Moreover, with secured loans up 25% YoY, now forming 50%+ of the loan book, future slippage risks are expected to taper off. Credit cost is expected to normalization to 1.5–1.6% over the next 2–3 years.

**Valuation & View:** While near-term profitability remains subdued, the structural realignment underway toward secured assets, granular deposits, and controlled credit costs provides a compelling medium-term story. Management expects the benefit of lower funding costs from the repo and MCLR cuts to reflect from Q4FY26 onward, helping NIMs improve from the current trough levels. Credit costs are guided to normalize gradually, with the EEB segment expected to stabilize over the next 1-2 months as collections recover. Hence, we revise our estimates along with change in rating to Accumulate rating on the stock with a TP of INR 181, based on 0.95x FY28E ABV of INR 181 per share.

Exhibit: Financial Performance

Particulars (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Net Interest Income	10,325.6	11,490.6	11,563.6	12,103.2	13,158.5
Operating Profit	6,639.5	7,388.7	6,457.9	6,950.2	8,027.5
PAT	2,229.6	2,745.3	1,785.1	1,975.4	2,655.9
EPS	13.8	17.0	11.1	12.3	16.5
EPS Growth	1.6%	23.1%	-35.0%	10.7%	34.5%
NIMs (calculated)	7.1%	7.0%	6.5%	6.5%	6.7%
RoE	10.8%	11.9%	7.0%	7.2%	8.9%
P/E	11.3x	9.2x	14.1x	12.7x	9.5x
P/BV	1.16x	1.02x	1.20x	1.20x	1.20x
P/ABV	1.2x	1.0x	1.2x	1.2x	1.2x

Source: Arihant Research, Company Filings

## Q4FY25 result Snapshot

Income Statement (INR Mn.)	Q2FY26	Q1FY26	Q2FY25	Q-o-Q	Y-o-Y
Interest Income	53,538	54,756	54,998	-2.2%	-2.7%
Interest Expense	27,653	27,184	25,516	1.7%	8.4%
<b>Net Interest Income</b>	<b>25,886</b>	<b>27,572</b>	<b>29,483</b>	-6.1%	-12.2%
Non Interest Income	5,464	7,259	5,947	-24.7%	-8.1%
<b>Total Income</b>	<b>31,350</b>	<b>34,831</b>	<b>35,430</b>	-10.0%	-11.5%
Employee Costs	10,773	11,236	10,440	-4.1%	3.2%
Other Operating Expenses	7,474	6,911	6,438	8.1%	16.1%
Operating Expenses	18,246	18,147	16,879	0.5%	8.1%
<b>Pre-Provision Profit</b>	<b>13,104</b>	<b>16,684</b>	<b>18,551</b>	-21.5%	-29.4%
Provisions	11,526	11,469	6,062	0.5%	90.1%
<b>Profit Before Tax</b>	<b>1,578</b>	<b>5,215</b>	<b>12,489</b>	-69.7%	-87.4%
Tax Expense	459	1,495	3,114	-69.3%	-85.3%
<b>Net Profit</b>	<b>1,119</b>	<b>3,720</b>	<b>9,374</b>	-69.9%	-88.1%
<b>Balance Sheet Analysis</b>					
Deposits	15,80,746	15,46,700	14,25,095	2.2%	10.9%
CASA Deposits	4,42,609	4,19,156	4,72,800	5.6%	-6.4%
CASA (%)	28.0%	27.1%	33.2%	90bps	-518bps
Advances	13,45,928	12,85,100	12,60,557	4.7%	6.8%
Total Assets	19,50,106	18,94,100	17,97,677	3.0%	8.5%
Capital Adequacy Ratio (%)	18.6%	19.4%	14.3%	-80bps	426bps
<b>Spread Analysis</b>					
NIM (%)	5.80%	6.40%	7.40%	-60bps	-160bps
<b>Asset Quality</b>					
Gross NPA	70,151	66,226	61,053	5.93%	14.90%
Net NPA	18,435	17,442	16,202	5.70%	13.79%
GNPA (%)	5.02%	4.96%	4.68%	6bps	34bps
NNPA (%)	1.37%	1.36%	1.29%	1bps	8bps
<b>Key Ratios</b>					
Cost to Income Ratio (%)	54.5%	48.5%	48.4%	601bps	616bps
C/D Ratio (%)	87.3%	90.3%	89.6%	-305bps	-231bps
RoA (%) (annualized)	0.70%	0.90%	0.12%	-20bps	58bps

Source: Arianth Research, Company Filings

**Q2FY26 Conference Call Highlights:****Management Commentary:**

- Q2FY26 performance was below internal expectations, affected by repo cuts, elevated slippages, and delayed impact of term deposit repricing.
- However, the underlying trends are improving, with better secured loan growth, higher granularity in deposits, and improving EEB collection efficiency.
- The bank expects credit cost to stabilize ~ 2.5–3% for the EEB segment and 1.5–1.6% at the overall bank level over the next 2–3 years.
- The repo and MCLR cuts (200 bps) will help lower funding costs and improve NIMs from Q4FY26 onwards.

**Asset Quality and Credit Cost**

- Gross NPA ratio remained stable at 5%, while the net NPA ratio stood at 1.4%.
- PCR, excluding write-offs, was steady at 76.7%.
- Credit cost improved marginally to 3.4% in Q2FY26 from 3.5% in Q1FY26.
- The bank undertook technical write-offs of INR 865 crore during the quarter, with INR 799 crore attributable to the EEB segment.
- Slippages increased slightly to INR 1,590 crore versus INR 1,553 crore in Q1FY26, primarily led by the EEB portfolio (INR 1,118 crore vs INR 1,089 crore in Q1).
- Collection efficiency (excluding NPAs) stood at 98%, compared to 97.9% in Q1FY26.
- Within the EEB portfolio, collection efficiency was 97.8% in Q2FY26.

**Advances and Portfolio Mix**

- The EEB portfolio stood at INR 51,733 crore, down 13% YoY and 2% QoQ, mainly due to technical write-offs and industry-level stress.
- The non-EEB book now accounts for 63% of total advances, up from 60% in Q1FY26 and 55% a year ago, up by 24% YoY. Within non-EEB, retail assets grew 66% YoY, driven by secured loans such as commercial vehicle, auto, and gold loans, while social banking grew 27% YoY.
- The secured book grew 25% YoY, improving the secured mix to 55% of total advances versus 47% last year.
- The business mix comprises EEB: 24%, social banking: 13%, wholesale: 29%, housing: 24%, and retail assets: 9%.

**Operational Performance**

- Total deposits stood at INR 1.58 lakh crore, up 11% YoY, with growth outpacing advances.
- Retail deposits, comprising CASA and retail term deposits, grew 16% YoY; within that, retail term deposits increased by 38% YoY.
- CASA deposits stood at INR 44,211 crore, down 6.5% YoY, but up 5.6% QoQ; showing early recovery. The CASA ratio improved to 28% from 27% in Q1FY26, while retail deposits (CASA + retail term) rose to 71% of total deposits, from 68% in Q1FY26.
- The share of bulk deposits fell to 29% from 32% in Q2FY25.
- NIM for Q2FY26 was 5.8%, down from 6.4% in Q1FY26, mainly due to the 75 bps repo cut and MCLR reset. For H1FY26, the NIM stood at 6.1%.
- The OPEX-to-assets ratio improved by 9 bps sequentially to 3.8%
- Margin improvement is expected from Q4FY26 onwards, as the repricing of term deposits and the impact of lower savings rates (down from 5.5% to 4.2%) materialize.

**Other Highlights**

- The bank launched Grow CASA, Grow Together, a campaign to boost current and savings account growth.
- New premium products were introduced for HNI customers, including Elite, Elite Plus, and Legacy Savings Accounts.
- A web-based collection module was introduced for easy EMI repayments, integrated with the BBPS ecosystem, enabling payments through the M1 app, internet banking, and 700+ payment apps.
- The branch network expanded to 1,754 branches, with 4 new additions in Q2FY26.
- Strong repayment trends in West Bengal, Assam, and Bihar, with improvement in Odisha and Madhya Pradesh, while Tamil Nadu and Karnataka remain relatively weaker due to late entry.
- Stress in the EEB segment is expected to normalize over the next 1–2 months, with recoveries already

## Key Financials

## Income Statement

Particulars (INR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	1,59,047	1,88,696	2,19,482	2,23,024	2,33,485	2,50,428
(-) Interest Expense	-66,451	-85,440	-1,04,576	-1,07,388	-1,12,452	-1,18,843
<b>Total Net Interest Income</b>	92,596	1,03,256	1,14,906	1,15,636	1,21,032	1,31,585
<b>Other Income</b>	24,686	21,647	29,666	26,696	30,110	34,414
<b>Total Income</b>	1,17,282	1,24,903	1,44,572	1,42,332	1,51,143	1,65,999
Total Operating Expenses	46,368	58,508	70,685	77,753	81,641	85,723
<b>Operating Profit</b>	70,913	66,395	73,887	64,579	69,502	80,275
Provisions	28,682	38,040	43,286	40,777	43,163	44,863
<b>Profit before Tax</b>	28,930	29,429	36,233	23,801	26,338	35,412
Provision for Taxes	6,983	7,133	8,780	5,950	6,585	8,853
<b>PAT</b>	21,946	22,296	27,453	17,851	19,754	26,559

## Balance Sheet

Particulars (INR Mn)	FY23	FY24	FY25	2026E	2027E	2028E
<b>Assets</b>						
Cash and Balances with RBI	73,266	1,53,927	74,774	1,01,532	1,06,136	1,12,306
Money at call and short notice	9,231	7,778	20,919	23,011	25,312	27,844
Investments	3,23,659	2,92,876	4,07,123	3,52,176	3,69,178	3,98,542
Advances	10,47,568	12,11,368	13,19,873	14,34,268	15,03,507	16,23,098
Fixed Assets	8,546	11,734	11,804	11,092	11,848	12,668
Other Assets	95,430	1,00,733	80,269	84,730	89,439	94,410
<b>Total Assets</b>	<b>15,57,700</b>	<b>17,78,417</b>	<b>19,14,763</b>	<b>20,06,810</b>	<b>21,05,420</b>	<b>22,68,868</b>
<b>Liabilities</b>						
Capital	16,108	16,110	16,110	16,110	16,110	16,110
Reserves and Surplus	1,79,733	1,99,987	2,29,940	2,47,791	2,67,545	2,94,104
Deposits	10,80,693	13,52,020	15,12,125	16,00,801	16,78,080	18,11,556
Borrowing from other banks	2,47,108	1,63,715	1,11,385	1,12,665	1,12,814	1,13,806
Other liabilities and provisions	34,057	46,585	45,203	29,442	30,871	33,292
<b>Total Liabilities</b>	<b>15,57,700</b>	<b>17,78,417</b>	<b>19,14,763</b>	<b>20,06,809</b>	<b>21,05,420</b>	<b>22,68,868</b>

Source: Arian Research, Company Filings

Particulars (INR Mn)	Ratios					
	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Basic Ratios</b>						
EPS	13.6	13.8	17.0	11.1	12.3	16.5
Book Value per share	121.6	134.1	152.7	163.8	176.1	192.6
Adjusted book value per share	120.8	133.3	151.7	161.9	174.2	190.7
Dividend per share	3.4	0.0	0.0	0.0	0.0	0.0
<b>Asset Quality</b>						
Gross NPAs	4.7%	3.5%	4.6%	4.7%	4.5%	4.3%
Net NPAs	1.2%	1.1%	1.3%	2.3%	2.1%	1.9%
PCR	76.8%	84.5%	86.5%	84.0%	82.0%	80.0%
<b>Profitability Ratio</b>						
RoAE	11.9%	10.8%	11.9%	7.0%	7.2%	8.9%
RoAA	1.5%	1.3%	1.5%	0.9%	1.0%	1.2%
NIMs (as calculated)	7.0%	7.1%	7.0%	6.5%	6.5%	6.7%
<b>Valuation</b>						
P/E (x)	11.5	11.3	9.2	14.1	12.7	9.5
P/BV (x)	1.3	1.2	1.0	1.2	1.2	1.2
P/ABV (x)	1.3	1.2	1.0	1.2	1.2	1.2

Particulars (INR Mn)	Analysis					
	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Spread Analysis</b>						
Yield on advances	13.5%	13.5%	12.9%	14.0%	14.1%	14.2%
Yield on investments	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Cost of deposits	5.3%	3.9%	3.9%	6.0%	6.0%	6.0%
Cost of funds	5.2%	5.8%	4.4%	6.3%	6.3%	6.3%
Spread	6.1%	5.6%	6.6%	5.5%	5.6%	5.7%
<b>Growth (%)</b>						
Advances growth	11.5%	15.6%	9.0%	8.7%	4.8%	8.0%
Deposit growth	12.2%	25.1%	11.8%	5.9%	4.8%	8.0%
Net Profit growth	1649.1%	1.6%	23.1%	-35.0%	10.7%	34.5%
<b>Liquidity</b>						
Advances to deposit ratio	96.9%	89.6%	87.3%	89.6%	89.6%	89.6%
CASA	39.3%	37.1%	31.4%	29.7%	28.3%	26.2%
CET 1 Ratio	17.7%	17.1%	17.7%	17.9%	2.3%	1.6%
<b>Efficiency</b>						
Cost-to-income	39.5%	46.8%	48.9%	54.6%	54.0%	51.6%

Source: Arihant Research, Company Filings

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

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