

A strategic pivot toward secured lending drives a sharp recovery in asset quality, setting the stage for a lower-risk earnings transformation.

CMP: INR 142

Rating: Buy

Target Price: INR 215

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)	230
52w H/L (INR)	192/ 128
Avg Yearly Vol (in 000')	7,947

Shareholding Pattern %

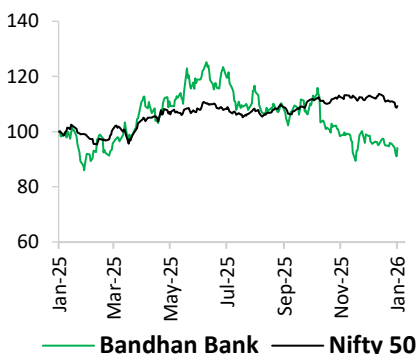
(As on Sept, 2025)

Promoters	39.74
Public & Others	60.26

Stock Performance (%)

	3m	6m	12m
Bandhan Bank	-16.8%	-21.3%	-6.0%
Nifty 50	-2.3%	0.9%	9.2%

Bandhan Bank Vs Nifty 50



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The company reported a mixed quarter with lower-than-expected NII and PAT, though PPOP exceeded expectations and asset quality improved significantly both sequentially and YoY. Net Interest Income stood at INR 26,880 Mn compared to our estimate of INR 27,380 Mn, up by 3.85% QoQ but down 5.02% YoY. PPOP came in at INR 14,450 Mn vs. estimate of INR 13,630 Mn, up by 10.28% QoQ and down 28.51% YoY. Provisions were at INR 11,550 Mn vs. estimate of INR 10,600 Mn, flat on a QoQ basis and down 16.09% YoY. PAT stood at INR 2,060 Mn vs. estimate of INR 2,270 Mn, up by 83.77% QoQ and down 51.79% YoY. GNPA showed a sharp beat, standing at 3.33% vs. estimate of 5.01%, down by 169 bps QoQ and 135 bps YoY. NNPA stood at 0.99% vs. estimate of 1.36%, down by 38 bps QoQ and 29 bps YoY. Deposits reached INR 15,67,200 Mn vs. estimate of INR 16,28,170 Mn, down 0.86% QoQ and up 11.15% YoY. Advances increased to INR 14,11,000 Mn vs. estimate of INR 14,40,140 Mn, up 4.83% QoQ and 10.77% YoY

Strong Growth in Non-Microfinance Segments De-Risking Earnings Profile: In Q3FY26, the Bank's diversification efforts continued to show traction, with the non-EEB book growing to INR 951.5 billion, a 25.4% YoY and 7.7% QoQ increase. This segment now forms 65.5% of the total gross advances. Retail assets surged 57.1% YoY, wholesale banking grew 32.3% YoY, and housing loans rose 10.1% YoY. This strategic move mitigates concentration risk from the microfinance (EEB) portfolio, which declined 10.8% YoY due to calibrated disbursements. The strong growth in secured retail and wholesale books will support margin resilience and credit quality improvement, providing a steadier earnings profile amid cyclicality in microfinance.

Sustained Growth in Secured Loan Portfolio Enhancing Asset Quality Stability: Bandhan Bank has continued to make significant progress in diversifying and securing its loan book, with the secured advances portfolio growing by 27.6% YoY. This strategic pivot has increased the secured mix to 56.7% in Q3FY26 from 48.9% in Q3FY25. This shift effectively reduces concentration risk from the historically volatile EEB book which saw its share of the total book decrease to 34.5% and enhances overall asset quality resilience. Reflecting the benefits of this transition, asset quality improved significantly with GNPA and NNPA declining to 3.3% and 1.0%, respectively. This positioning supports management's objective of achieving a more predictable and lower-risk earnings profile through a diversified lending base

Improving Collection Efficiency and Early Containment in Stressed Microfinance Portfolio: Bandhan Bank achieved sequential improvement in collection efficiency during the quarter. The EEB book's collection efficiency (excluding NPAs) improved to 98.2% in Q3FY26 from 98.1% in Q2FY26. Similarly, the monthly efficiency for the EEB segment rose to 98.0% in December 2025 from 97.5% in September 2025. The stress pool showed significant containment, with the combined SMA-1 and SMA-2 pool for the EEB segment reducing to 1.9% in December 2025 from 1.7% in the previous quarter. Credit cost continued its moderating trend, declining to 3.3% for Q3FY26 from 3.4% in Q2FY26 and 4.1% in the same quarter last year.

Valuation & View: The Bank is focused on a structural transformation toward a secured lending model, aiming for 15% to 17% CAGR growth in advances through FY27. Secured loans have already reached 56.7% of the portfolio in Q3FY26, ahead of previous targets, which significantly bolsters asset quality. Management targets improving ROA to 1.8% to 1.9% over the next two to three years despite some near-term NIM pressure. Strategic initiatives, cost optimization, and a diversified geographical presence should aid in stabilizing profitability and maintaining strong capital ratios in the medium term. **Hence, we give buy rating on the stock with a revised TP of INR 215, based on 1.3x FY28E ABV of INR 166 per share.**

Exhibit: Financial Performance

Particulars (Rs. in Cr.)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Net Interest Income	9260	10326	11491	10687	11366	12655
Operating Profit	7091	6639	7389	5942	6650	8073
PAT	2195	2230	2745	947	1421	2347
EPS	14	14	17	6	9	15
EPS Growth	1649%	2%	23%	-65%	50%	65%
NIMs (calculated)	7.0%	7.1%	7.0%	6.0%	6.0%	6.1%
RoE	11.9%	10.8%	11.9%	3.8%	5.4%	8.3%
P/E	12.4x	12.2x	9.9x	28.8x	19.2x	11.6x
P/BV	1.39x	1.26x	1.11x	1.20x	1.20x	1.20x
P/ABV	1.4x	1.3x	1.1x	1.2x	1.2x	1.2x

Source: Arihant Research, Company Filings

Q4FY25 result Snapshot

Income Statement (INR Cr.)	Q3FY26	Q2FY26	Q3FY25	Q-o-Q	Y-o-Y
Interest Income	5,431	5,354	5,479	1.4%	-0.9%
Interest Expense	2,743	2,765	2,648	-0.8%	3.6%
Net Interest Income	2,688	2,589	2,830	3.9%	-5.0%
Non Interest Income	691	546	1,096	26.5%	-36.9%
Total Income	3,379	3,135	3,926	7.8%	-13.9%
Employee Costs	1,133	1,077	1,227	5.2%	-7.6%
Other Operating Expenses	801	747	677	7.2%	18.2%
Operating Expenses	1,934	1,825	1,905	6.0%	1.6%
Pre-Provision Profit	1,445	1,310	2,021	10.3%	-28.5%
Provisions	1,155	1,153	1,376	0.2%	-16.1%
Profit Before Tax	290	158	645	84.0%	-55.0%
Tax Expense	85	46	219	84.6%	-61.3%
Net Profit	206	112	426	83.8%	-51.8%
Balance Sheet Analysis					
Deposits	1,56,724	1,58,075	1,41,000	-0.9%	11.2%
CASA Deposits	43,883	44,261	44,735	-0.9%	-1.9%
CASA (%)	28.0%	28.0%	31.7%	0bps	-373bps
Advances	1,45,225	1,34,593	1,27,380	7.9%	14.0%
Total Assets	1,96,130	1,95,011	1,83,910	0.6%	6.6%
Capital Adequacy Ratio (%)	17.8%	18.6%	14.4%	-80bps	340bps
Spread Analysis					
NIM (%)	5.90%	5.80%	6.90%	10bps	-100bps
Asset Quality					
Gross NPA	4,805	7,015	6,179	-31.51%	-22.23%
Net NPA	1,402	1,844	1,637	-23.94%	-14.33%
GNPA (%)	3.33%	5.02%	4.68%	-169bps	-135bps
NNPA (%)	0.99%	1.37%	1.28%	-38bps	-29bps
Key Ratios					
Cost to Income Ratio (%)	57.2%	58.2%	48.5%	-96bps	872bps
C/D Ratio (%)	92.7%	85.1%	90.3%	752bps	232bps
RoA (%) (annualized)	0.50%	0.20%	0.90%	30bps	-40bps

Source: Arianth Research, Company Filings

Q3FY26 Conference Call Highlights:**Outlook and Strategic Transition**

The bank is currently navigating a significant structural transition, moving from a microfinance-heavy institution to a well-diversified universal bank. For the third quarter of FY2026, the outlook remains cautiously optimistic as early signs of stabilization emerge in the microfinance (EEB) segment. With the secured loan mix reaching a high of 57%, the bank is successfully de-risking its balance sheet and reducing its historical reliance on unsecured lending. The bank expects a gradual recovery in profitability and return on assets (RoA) by FY2027, supported by a bottoming out of net interest margins (NIM) and a steady decline in funding costs. While asset quality pressures from legacy portfolios persist, the aggressive cleanup of the balance sheet through non-performing asset (NPA) sales indicates a proactive approach to maintaining financial health.

Financial Performance Analysis

- The bank reported a significant recovery in performance during Q3 FY2026 compared to the previous quarter. The primary drivers for this increase include:
- Profit Recovery: Net profit reached INR 2,060 million (\$2.06\$ billion), representing a sequential growth of approximately 84% compared to the INR 1,120 million reported in Q2 FY2026.
- Asset Quality Management: A massive cleanup of the balance sheet was executed by selling stressed assets worth INR 68,720 million (\$68.72\$ billion) to ARCs. This reduced the Gross NPA ratio significantly from 5.02% to 3.33% on a quarter-on-quarter basis.
- Margin Improvement: Net Interest Margin (NIM) improved to 5.9% (up from 5.8% in Q2). This was driven by a calibrated reduction in high-cost bulk deposits and the repricing of retail term deposits as the cost of funds eased.
- Loan Book Growth: Gross advances reached INR 1,450 billion (\$1.45\$ trillion), representing a 10% YoY growth. The secured book now constitutes 57% of the total portfolio, providing a more stable revenue stream.

Future Guidance and Targets

The bank has provided a clear roadmap for the medium term, targeting a credit growth CAGR of 15–17% over the next three years, primarily driven by a 25–27% growth in the secured portfolio. Management expects credit costs to normalize and settle at approximately 1.5% to 1.6% by FY2027-28 as the higher-risk EEB (microfinance) book reduces its overall share. While NIMs faced temporary pressure due to interest rate resets, the bank guides for a steady state NIM of approximately 6.0% by the end of FY2026, aided by the repricing of term deposits. Profitability metrics are expected to improve meaningfully, with the bank aiming to deliver a Return on Assets (RoA) of 1.2% to 1.5% and a Return on Equity (RoE) of 10% to 13% by the end of FY2027.

Digitalization and New Schemes

- The bank has intensified its digital transformation to enhance transparency and modernize operations. Key initiatives launched during the quarter include:
- Digital Collection Ecosystem: The bank introduced real-time SMS acknowledgments for cash collections in group meetings, providing immediate confirmation to microfinance borrowers and reducing fraud risk.
- Tablet-Integrated Operations: Relationship officers are now equipped with tablets and Bluetooth printers, allowing for instant printed receipts at the point of collection in rural areas.
- WhatsApp Banking & QR Codes: The bank launched WhatsApp Banking for retail customers and introduced unique QR codes for EEB collection points to facilitate cashless repayments.
- Government & Corporate Integration: The bank completed digital integrations with government platforms like Khajane-2 and onboarded Razorpay as a payment gateway partner to support utility and educational fee collections.
- In-App Collection Solutions: A new mobile-based payment acceptance solution allows merchants to accept digital payments without physical POS hardware.

Balance Sheet and Regulatory Adjustments

- Stressed Asset Sales: The bank sold an unsecured NPA portfolio of INR 31,650 million to ARCs and a written-off portfolio of INR 37,070 million, leading to a cleaner balance sheet and cash inflows recorded under other income.
- Labor Code Provision: To comply with new Government Labor Codes, the bank made a one-time incremental provision of INR 1,200 million (\$1.2\$ billion) towards gratuity costs.
- Liability Profile: Total deposits reached INR 1,570 billion (\$1.57\$ trillion). Retail term deposits grew by 36% YoY, while the share of bulk deposits was reduced to 38% of total term deposits.

Key Financials

Income Statement						
Particulars (INR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	1,59,047	1,88,696	2,19,482	2,14,331	2,28,024	2,50,392
(-) Interest Expense	-66,451	-85,440	-1,04,576	-1,07,458	-1,14,365	-1,23,844
Total Net Interest Income	92,596	1,03,256	1,14,906	1,06,873	1,13,659	1,26,548
Other Income	24,686	21,647	29,666	26,762	30,770	36,012
Total Income	1,17,282	1,24,903	1,44,572	1,33,635	1,44,429	1,62,560
Total Operating Expenses	46,368	58,508	70,685	74,219	77,930	81,827
Operating Profit	70,913	66,395	73,887	59,416	66,499	80,734
Provisions	28,682	38,040	43,286	46,786	47,547	49,446
Profit before Tax	28,930	29,429	36,233	12,630	18,951	31,287
Provision for Taxes	6,983	7,133	8,780	3,157	4,738	7,822
PAT	21,946	22,296	27,453	9,472	14,214	23,465

Balance Sheet						
Particulars (INR Mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Assets						
Cash and Balances with RBI	73,266	1,53,927	74,774	93,186	87,459	86,018
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	3,52,623	3,82,253	4,21,352
Advances	10,47,568	12,11,368	13,19,873	14,36,088	15,56,760	17,15,993
Fixed Assets	8,546	11,734	11,804	11,136	11,858	12,661
Other Assets	95,430	1,00,733	80,269	84,730	89,439	94,410
Total Assets	15,57,700	17,78,417	19,14,763	20,00,775	21,53,082	23,58,277
Liabilities						
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	2,39,413	2,53,626	2,77,092
Deposits	10,80,693	13,52,020	15,12,125	16,02,833	17,37,516	19,15,237
Borrowing from other banks	2,47,108	1,63,715	1,11,385	1,12,822	1,13,809	1,14,601
Other liabilities and provisions	34,057	46,585	45,203	29,598	32,022	35,238
Total Liabilities	15,57,700	17,78,417	19,14,763	20,00,775	21,53,082	23,58,278

Source: Arihant Research, Company Filings

Particulars (INR in Mn)	Ratios					
	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic Ratio						
EPS	13.6	13.8	17.0	5.9	8.8	14.6
Book Value per share	121.6	134.1	152.7	158.6	167.4	182.0
Adjusted book value per share	120.8	133.3	151.7	157.0	165.7	180.1
Dividend per share	3.4	0.0	0.0	0.0	0.0	0.0
Asset Quality						
Gross NPAs	4.7%	3.5%	4.6%	4.7%	4.5%	4.3%
Net NPAs	1.2%	1.1%	1.3%	1.9%	1.9%	1.9%
PCR	76.8%	84.5%	86.5%	84.0%	82.0%	80.0%
Profitability Ratio						
RoAE	11.9%	10.8%	11.9%	3.8%	5.4%	8.3%
RoAA	1.5%	1.3%	1.5%	0.5%	0.7%	1.0%
NIMs (as calculated)	7.0%	7.1%	7.0%	6.0%	6.0%	6.1%
Valuation						
P/E (x)	12.4	12.2	9.9	28.8	19.2	11.6
P/BV (x)	1.4	1.3	1.1	1.2	1.2	1.2
P/ABV (x)	1.4	1.3	1.1	1.2	1.2	1.2

Particulars (INR Mn)	Analysis					
	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spread Analysis						
Yield on advances	13.5%	13.5%	12.9%	13.3%	13.4%	13.6%
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%	5.1%	5.2%	5.4%
Growth (%)						
Advances growth	11.5%	15.6%	9.0%	8.8%	8.4%	10.2%
Deposit growth	12.2%	25.1%	11.8%	6.0%	8.4%	10.2%
Net Profit growth	1649.1%	1.6%	23.1%	-65.5%	50.1%	65.1%
Liquidity						
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%	27.4%	24.8%
CET 1 Ratio	17.7%	17.1%	17.7%	17.3%	2.3%	1.6%
Efficiency						
Cost-to-income	39.5%	46.8%	48.9%	55.5%	54.0%	50.3%

Source: Arianth Research, Company Filings

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Stock Rating Scale**Absolute Return**

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

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