Bandhan Bank | ADD

JM Financial

Growth remains healthy; profitability target pushed out

Bandhan Bank reported a weak quarter with PPoP declining by 19% YoY/6% QoQ (20% below JMFe), due to higher-than-expected opex and lower non-interest income. While reported NIM was stable at 6.2%, higher tech spends, annual wage revision/incentives and gratuity provision kept cost elevated, resulting in weaker-than-expected profitability. Asset quality trends were steady with gross/net slippages improving by 4bps/22bps QoQ and credit cost declining modestly to 1.8% (-5bps QoQ). Overall loan growth was robust at 18% YoY supported by the non-MFI portfolio, whereas deposit growth remained subdued at 7% YoY, leading to CD ratio inching up to 92%. The key negative from the quarter was management lowering its FY27 exit RoA guidance to 1.2–1.4% from 1.6–1.8% earlier. It maintained its credit cost guidance of 1.6–1.8% and growth guidance of ~14% for FY27. We believe earnings recovery is likely to be slower than earlier anticipated as margin expansion and operating leverage benefits get pushed out. Hence, we reduce EPS by 2–3% for FY27/28E and retain ADD. We raise TP to INR 220 (from INR 200) led by rollover of multiple, valuing the stock at 1.2x FY28E P/B (earlier 1.1x of FY28E P/B).

- **Non-EEB traction drives loan growth; deposit growth lags**: Overall loan growth remained robust at 18% YoY/1% QoQ. This growth was led by healthy traction in corporate (+27% YoY) and retail (+45% YoY) portfolios, despite sequential seasonal moderation in the MFI portfolio. Deposit growth remained muted at 7% YoY (-1% QoQ) due to conscious reduction in bulk deposits. Retail deposits grew 16% YoY, substantially ahead of overall deposit growth, reflecting continued focus on granular liabilities. Consequently, CASA ratio improved marginally by 9bps QoQ to 29.4%. Management reiterated FY27 credit growth guidance of ~14%, with EEB expected to grow at 5–10% and non-EEB portfolio at +20%.

- **Margins outlook weakens; elevated opex weighs on profitability**: Reported NIM was stable at 6.2% as cost of deposits has bottomed out. Management highlighted that deposit competition has intensified, limiting further margin expansion. Operating expenses increased 19% YoY/2% QoQ due to higher technology investments, annual wage revisions and ~INR 610mn of one-off gratuity provision. Technology expenses now account for ~9% of operating cost versus ~6% earlier, with elevated investments likely to continue over the next 18 months. As a result, management reduced its FY27 exit RoA guidance to 1.2–1.4% from 1.6–1.8% earlier.

- **Assets quality continues to improve**: Asset quality trends remained the key positive from the quarter. Gross and net slippages modestly improved by 4bps QoQ/22bps QoQ to 2.9%/1.7%, while credit cost declined 5bps QoQ to 1.8%. MFI gross slippages improved sequentially to 4.5% from 5.5% in Q4FY26, while MFI credit cost moderated to 3.3%. Although SMA-0 increased to 1.8% from 1.5%, management attributed this largely to temporary disruptions such as West Bengal elections, while SMA-1 trends were stable. Management reiterated its overall guidance of 1.6–1.8% for credit cost and expects it to gradually improve.

- **Valuation and view**: While asset quality concerns continue to recede, return normalisation is likely to be slower than previously anticipated as NIM expansion and operating leverage benefits get deferred. The stock currently trades at 1.1x of FY28E P/B. We continue to see value in the franchise given improving asset quality and healthy growth outlook, though near-term earnings upgrades appear unlikely until NIM pressures ease and operating efficiency improves. We reduce EPS by 2–3% for FY27/28E and revise TP to INR 220, valuing the stock at 1.2x FY28E BVPS.

Recommendation and Price Target

Current Reco.	ADD
Previous Reco.	ADD
Current Price Target (12M)	220
Upside/(Downside)	5.3%
Previous Price Target	200
Change	10.0%

Key Data – BANDHAN IN

Current Market Price	INR209
Market cap (bn)	INR336.4/US$3.5
Free Float (%)	57.2
Shares in issue (mn)	1,611.1
Diluted share (mn)	1,611.1
3-mon avg daily val (mn)	INR2,653.7/US$27.6
52-week range	INR221/134
Sensex/Nifty	77,470/24,188
INR/US$	96.2

Price Performance

%	1M	6M	12M
Absolute	0.4	51.3	14.6
Relative*	-0.1	60.8	21.6

*To the NSE Nifty 50

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Financial Summary (INR mn)

Y/E Mar	FY24A	FY25A	FY26A	FY27E	FY28E
Net Profit	22,296	27,453	12,235	23,925	33,066
Net Profit (YoY) (%)	1.6	23.1	-55.4	95.5	38.2
PPOP (YoY) (%)	-6.4	11.3	-20.6	1.7	28.1
Loan (YoY) (%)	15.6	9.0	13.7	14.9	15.0
Deposit (YoY) (%)	25.1	11.8	10.0	15.0	15.0
ROA (%)	1.3	1.5	0.6	1.1	1.3
ROE (%)	10.8	11.9	4.9	9.0	11.5
EPS (INR)	13.8	17.0	7.6	14.9	20.5
EPS (YoY) (%)	1.6	23.1	-55.4	95.5	38.2
P/E (x)	**15.1**	**12.3**	**27.5**	**14.1**	**10.2**
BV (INR)	134.1	152.7	158.8	170.7	187.1
BV (YoY) (%)	10.3	13.9	3.9	7.5	9.7
P/BV (x)	**1.6**	**1.4**	**1.3**	**1.2**	**1.1**

Source: Company data, JM Financial. Note: Valuations as of July 21, 2026

Q1FY27 conference call takeaways

Guidance

- Management revised FY27 exit RoA guidance downward to 1.2–1.4% from 1.6–1.8% earlier.
- RoA target cut isn't due to asset quality or growth concerns but because of persistent funding cost pressure, high opex due to technology investments, potential impact of energy price volatility amid Middle East tensions, uncertain monsoon outlook and tight banking system liquidity.
- Credit growth guidance maintained at ~14% for FY27. EEB growth guidance retained at 5–10%, while non-EEB portfolio is expected to grow 20%+.
- Credit cost guidance unchanged at 1.6–1.8% for FY27.
- Portfolio mix target maintained: EEB share at 33–35% and non-EEB at 65–67% of advances; ~60% would be in secured and the rest in unsecured.
- Management expects RoA to improve gradually from the current ~1% through better fee income and marginal moderation in credit costs.

Growth

- EEB growth will remain calibrated as management aims to keep EEB mix at 33–35% of advances.
- Retail portfolio remained healthy across segments, with management indicating only OD against term deposits witnessed weakness.
- MFI yields were increased by ~100bps in Feb'26; no further yield hike undertaken since then.
- Quality of bulk deposits remains healthy, with ~86% being non-callable in nature.
- Bandhan reiterated preference for granular retail liabilities over chasing high-cost bulk deposits.

Margins and opex

- NIM broadly stable during the quarter, contrary to earlier expectations of gradual improvement. Management indicated that benefit from RBI rate cuts has largely played out.
- Deposit competition has intensified and several banks have started increasing deposit rates. Savings account cost of funds increased by nearly ~20bps during the quarter.
- Near-term focus has shifted from NIM expansion to maintaining margins around current levels.
- Processing fee income improved due to higher business volumes.
- Operating cost remained high due to tech investments, annual wage revision, performance-linked incentives and one-time gratuity provision of INR 610mn related to new wage code implementation.
- Technology cost has increased to ~9% of opex versus ~6% a year ago.
- Elevated tech spending is expected to continue for another ~18 months. Investments are being made in Loan Origination Systems (LOS), digital lending platforms, analytics and automation.

Asset quality

- Collection efficiency (excluding NPA) in EEB stable at ~98.5% for Jun'26.
- EEB slippages improved to INR 6.04bn from INR 6.90bn in Q4FY26. MFI credit cost falls to 3.3%.
- 0-90 DPD pool increased to 3.5% from 3.1%, primarily due to increase in SMA-0 led by April holidays and West Bengal elections. Management said SMA-1 and SMA-2 trends stable and does not see any deterioration.
- Housing NPAs worth INR 2.91bn were sold to ARC. This transaction resulted in recovery of approximately INR 1.20bn during the quarter.
- Management continues to expect gradual moderation in credit costs over the coming quarters.

Q1FY27 quarterly performance

Exhibit 1: Q1FY27 result summary

(INR bn)	Q1FY26	Q4FY26	Q1FY27	YoY (%)	QoQ (%)	Q1FY27E	A/E
Interest income	54.8	54.3	56.3	3%	4%	57.0	-1%
Interest expense	27.2	26.3	27.1	0%	3%	27.4	-1%
Net Interest Income	**27.6**	**28.0**	**29.2**	**6%**	**4%**	**29.6**	**-1%**
Fee Income	3.5	6.5	4.7	32%	-28%	4.3	8%
Other Income	7.3	7.7	6.0	-17%	-22%	7.9	-24%
Total Income	**34.8**	**35.7**	**35.2**	**1%**	**-1%**	**37.5**	**-6%**
Opex	18.1	21.3	21.7	19%	2%	20.5	6%
Core Operating Profit	**13.0**	**13.2**	**12.2**	**-6%**	**-7%**	**13.4**	**-9%**
Operating Profit	**16.7**	**14.4**	**13.6**	**-19%**	**-6%**	**17.0**	**-20%**
Provisions	11.5	6.8	6.8	-40%	1%	7.7	-11%
PAT	**3.7**	**5.3**	**5.0**	**35%**	**-6%**	**7.0**	**-29%**
Loan (INR bn)	1,285	1,501	1,517	18%	1%	1,513	0%
Deposit (INR bn)	1,547	1,663	1,649	7%	-1%	1,649	0%
Yield on IEA (calc, %)	12.1%	11.3%	11.3%	(77) bps	4 bps	11.3%	3 bps
Cost of funds (Calc, %)	6.7%	6.1%	6.1%	(62) bps	(2) bps	6.1%	2 bps
Interest spread	5.3%	5.1%	5.2%	(15) bps	6 bps	5.2%	1 bps
NIM (Calc, %)	**6.1%**	**5.8%**	**5.9%**	**(22) bps**	**6 bps**	**5.9%**	**0 bps**
NIM reported (%)	**6.4%**	**6.2%**	**6.2%**	**(20) bps**	**0 bps**		
Gross Slippages Ratio	4.8%	2.9%	2.9%	(186) bps	(4) bps	3.1%	(19) bps
Net Slippages Ratio	3.7%	1.9%	1.7%	(206) bps	(22) bps	2.1%	(45) bps
PCR (%)	73.7%	71.1%	71.1%	(259) bps	1 bps		
Credit cost (%)	3.5%	1.9%	1.8%	(171) bps	(5) bps	2.0%	(24) bps
ROA (%)	0.8%	1.0%	1.0%	17 bps	(9) bps	1.3%	(37) bps
ROE (%)	6.0%	8.4%	7.8%	176 bps	(68) bps	10.9%	(312) bps

Source: Company, JM Financial

Exhibit 2: AUM breakdown: AUM growth led by non-MFI portfolio

AUM mix (INR bn)	Q1FY26	Q4FY26	Q1FY27	YoY (%)	QoQ (%)
MFI	528.1	539.1	526.4	0%	-2%
Non-MFI	808.2	1,003.5	1,019.2	26%	2%
Mortgage	326.6	358.0	345.4	6%	-4%
Retail	111.0	161.0	161.0	45%	0%
NBFC	167.9	212.3	220.5	31%	4%
SME	202.7	272.2	292.3	44%	7%
AUM	**1,336.3**	**1,542.6**	**1,545.6**	**16%**	**0%**
AUM mix (%)					
MFI	40%	35%	34%	(546) bps	(89) bps
Non-MFI	60%	65%	66%	546 bps	89 bps
Mortgage	*24%*	*23%*	*22%*	*(209) bps*	*(86) bps*
Retail	*8%*	*10%*	*10%*	*211 bps*	*(2) bps*
NBFC	*13%*	*14%*	*14%*	*170 bps*	*50 bps*
SME	*15%*	*18%*	*19%*	*374 bps*	*127 bps*

Source: Company, JM Financial

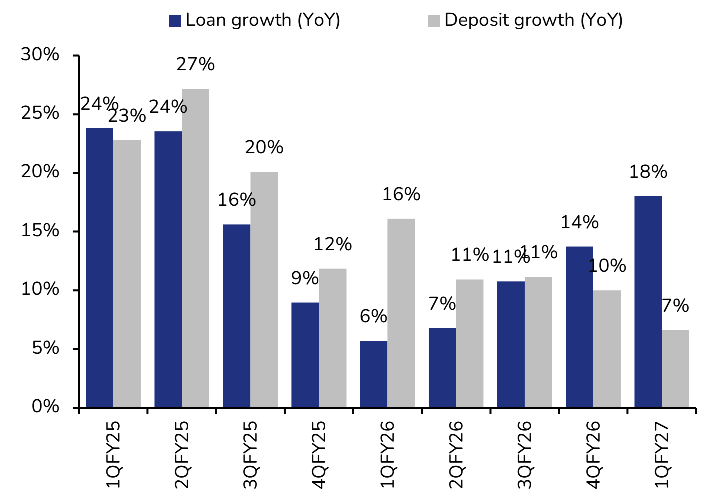
Exhibit 3: CASA improves modestly; deposit growth lags CASA

Deposit mix (INR bn)	Q1FY26	Q4FY26	Q1FY27	YoY (%)	QoQ (%)
Current	65	115	89	37%	-23%
Saving	354	373	396	12%	6%
Time	1,128	1,176	1,164	3%	-1%
Total Deposits	**1,547**	**1,663**	**1,649**	**7%**	**-1%**
Deposit mix (%)					
Current	4%	7%	5%	121 bps	(151) bps
Saving	23%	22%	24%	113 bps	160 bps
CASA	**27%**	**29%**	**29%**	**234 bps**	**9 bps**
Time	73%	71%	71%	(234) bps	(9) bps

Source: Company, JM Financial

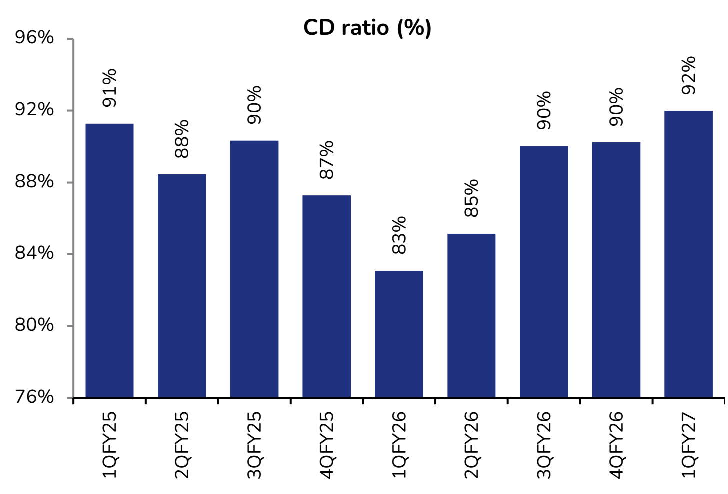
Quarterly trends

Exhibit 4: Deposit growth lags loan growth...



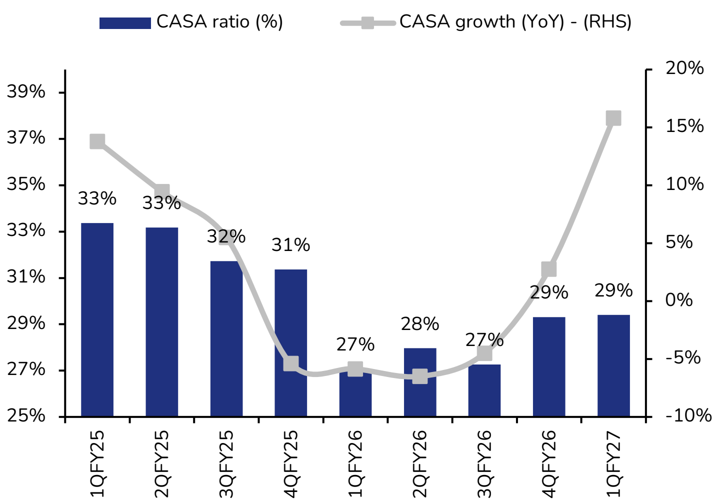
Source: Company, JM Financial

Exhibit 5: ...leading to inch-up in CD ratio



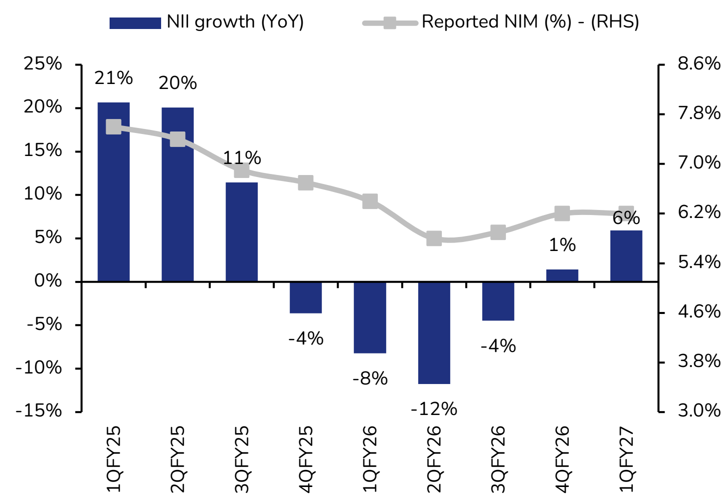
Source: Company, JM Financial

Exhibit 6: CASA growth robust, leads modest increase in CASA ratio



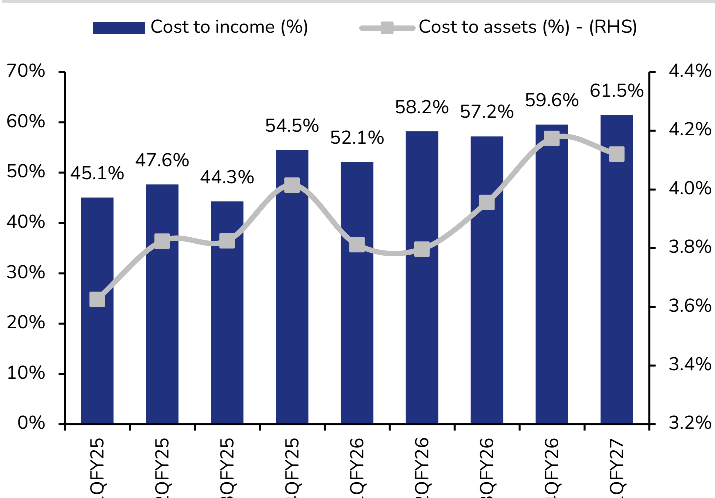
Source: Company, JM Financial

Exhibit 7: NIM stable leading to 6% YoY NII growth



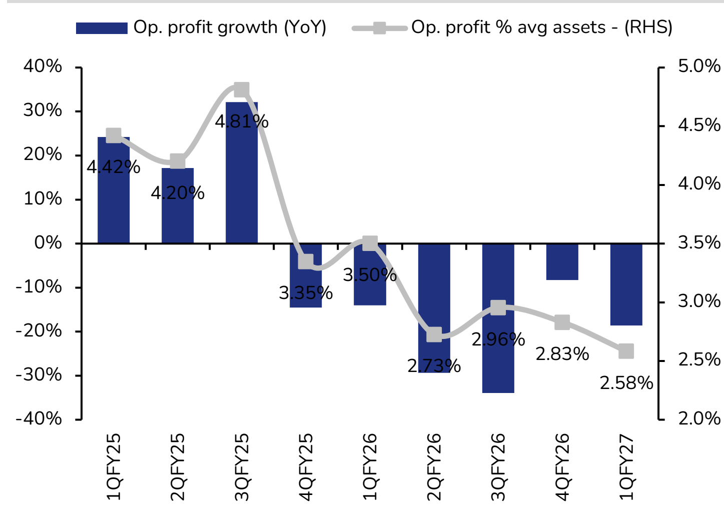
Source: Company, JM Financial

Exhibit 8: Cost ratios remain elevated



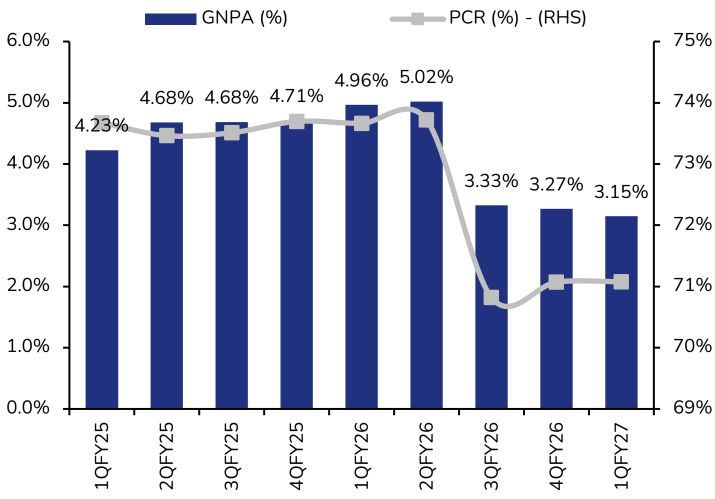
Source: Company, JM Financial

Exhibit 9: Operating profitability declines due to elevated opex



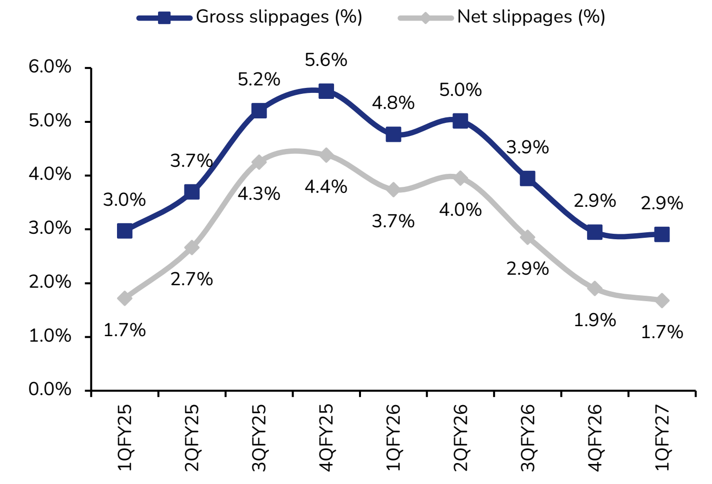
Source: Company, JM Financial

Exhibit 10: Assets quality stable...



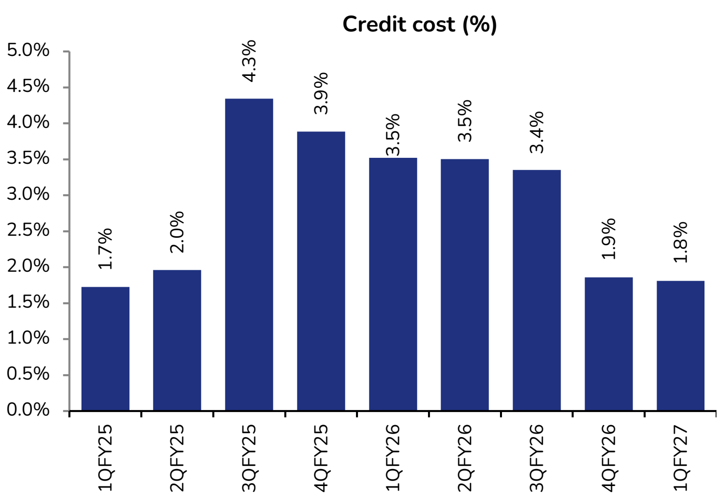
Source: Company, JM Financial

Exhibit 11: ...and slippages moderating...



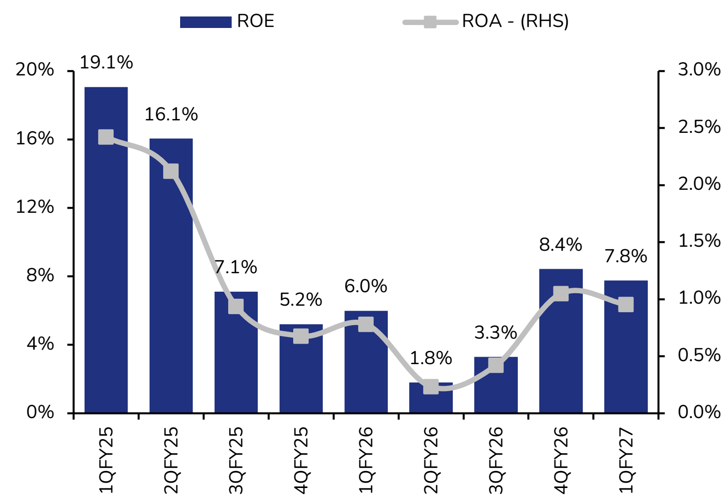
Source: Company, JM Financial

Exhibit 12: ...thus, credit cost moderated 5bps QoQ



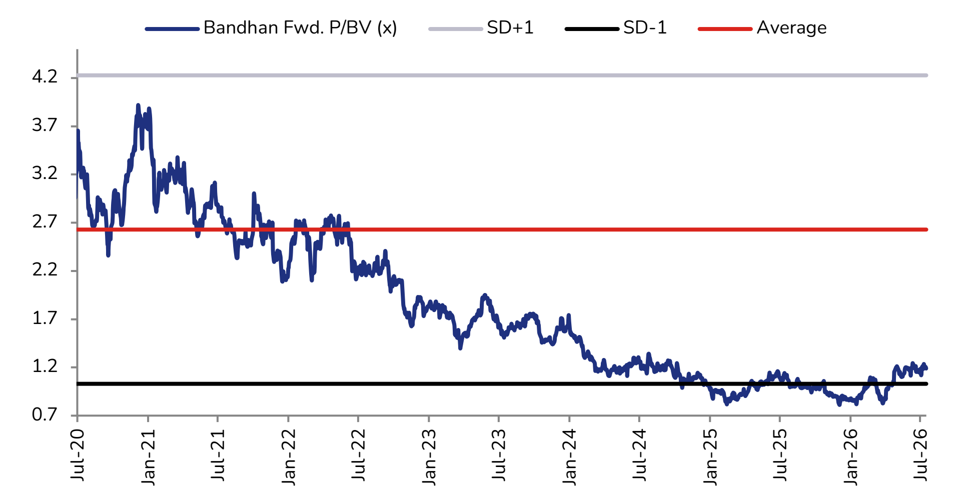
Source: Company, JM Financial

Exhibit 13: Stable margin/credit offset by high opex; RoA/RoE down



Source: Company, JM Financial

Exhibit 14: One-year forward P/B



Source: Company, JM Financial

Exhibit 15: Changes in estimates

	New estimates		Old estimates		Change	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
Recommendation	**ADD**		**ADD**			
Target price (INR)	**220**		**200**		**10%**	
Assumptions						
YoY loan growth	14.9%	15.0%	15.2%	15.0%	(34) bps	(1) bps
NIM (calculated)	5.71%	5.88%	5.89%	6.03%	(19) bps	(15) bps
Other income to asset	1.2%	1.2%	1.2%	1.1%	3 bps	11 bps
Cost to assets	3.9%	3.8%	3.9%	3.8%	7 bps	7 bps
Credit cost	1.67%	1.69%	1.96%	1.79%	(28) bps	(10) bps
Outputs (INR bn)						
Loans	1,725	1,983	1,730	1,989	0%	0%
Deposits	1,913	2,201	1,919	2,207	0%	0%
Assets	2,364	2,732	2,369	2,740	0%	0%
NII	**122**	**144**	**126**	**148**	**-3%**	**-3%**
Other income	27	32	27	29	2%	9%
Total income	**150**	**176**	**153**	**177**	**-2%**	**-1%**
Opex	90	99	89	98	2%	2%
Operating profit	**60**	**76**	**65**	**79**	**-8%**	**-4%**
Provisions	28	32	32	34	-15%	-6%
Net Profit	**24**	**33**	**24**	**34**	**-2%**	**-3%**
EPS (INR)	15	21	15	21	-2%	-3%
BVPS (INR)	171	187	171	188	0%	0%
ROA (%)	**1.0%**	**1.3%**	**1.1%**	**1.3%**	**(2) bps**	**(4) bps**
ROE (%)	**9.0%**	**11.5%**	**9.2%**	**11.8%**	**(17) bps**	**(34) bps**

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement					(INR mn)
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Net Interest Income	103,256	114,906	108,297	122,316	143,929
Profit on Investments	1,355	1,355	3,012	400	500
Exchange Income	-331	-	-	-	-
Fee & Other Income	17,116	17,255	20,102	19,721	25,527
Non-Interest Income	**21,647**	**29,666**	**27,340**	**27,391**	**31,924**
Total Income	**124,903**	**144,572**	**135,637**	**149,707**	**175,853**
Operating Expenses	58,508	70,685	76,988	90,041	99,420
Pre-provisioning Profits	**66,395**	**73,887**	**58,649**	**59,666**	**76,433**
Loan-Loss Provisions	-	-	-	-	-
Others Provisions	124	1,360	-	-	-
Total Provisions	**36,966**	**37,654**	**41,311**	**27,682**	**32,227**
PBT	**29,429**	**36,233**	**17,338**	**31,985**	**44,206**
Tax	7,133	8,780	5,102	8,060	11,140
PAT (Pre-Extraordinaries)	22,296	27,453	12,235	23,925	33,066
Extra ordinaries (Net of Tax)	-	-	-	-	-
Reported Profits	**22,296**	**27,453**	**12,235**	**23,925**	**33,066**
Dividend paid	2,416	2,416	2,416	4,725	6,530
Retained Profits	**19,879**	**25,036**	**9,819**	**19,199**	**26,535**

Source: Company, JM Financial

Balance Sheet					(INR mn)
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Equity Capital	16,110	16,110	16,110	16,110	16,110
Reserves & Surplus	199,987	229,940	239,639	258,839	285,374
Networth	216,096	246,050	255,749	274,948	301,484
Deposits	1,352,020	1,512,125	1,663,445	1,913,163	2,200,525
Borrowings	163,715	111,385	143,028	146,216	160,553
Other Liabilities	46,585	45,203	49,016	29,325	69,205
Total - Liabilities	**1,778,417**	**1,914,763**	**2,111,237**	**2,363,652**	**2,731,767**
Investments	292,876	407,123	386,683	422,173	519,437
Net Advances	1,211,368	1,319,873	1,501,038	1,724,730	1,983,305
Cash & Equivalents	161,705	95,694	139,511	113,266	129,859
Fixed Assets	11,734	11,804	14,013	-	-
Other Assets	100,733	80,269	69,992	103,484	99,165
Total - Assets	**1,778,417**	**1,914,763**	**2,111,237**	**2,363,652**	**2,731,767**

Source: Company, JM Financial

Key Ratios					
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Growth (YoY) (%)					
Deposits	25.1	11.8	10.0	15.0	15.0
Advances	15.6	9.0	13.7	14.9	15.0
Total Assets	14.2	7.7	10.3	12.0	15.6
NII	11.5	11.3	-5.8	12.9	17.7
Non-interest Income	-12.3	37.0	-7.8	0.2	16.5
Operating Expenses	26.2	20.8	8.9	17.0	10.4
Operating Profits	-6.4	11.3	-20.6	1.7	28.1
Core Operating profit	1.0	-0.1	-16.4	1.1	34.7
Provisions	-12.0	1.9	9.7	-33.0	16.4
Reported PAT	1.6	23.1	-55.4	95.5	38.2
Yields / Margins (%)					
Interest Spread	18.11	19.25	17.60	17.00	17.49
NIM	6.62	6.59	5.63	5.71	5.88
Profitability (%)					
Non-IR to Income	17.3	20.5	20.2	18.3	18.2
Cost to Income	46.8	48.9	56.8	60.1	56.5
ROA	1.34	1.49	0.61	1.07	1.30
ROE	10.8	11.9	4.9	9.0	11.5
Asset Quality (%)					
Slippages	5.49	4.49	4.21	2.88	2.92
Gross NPA	3.84	4.71	3.27	2.87	3.21
Net NPAs	1.11	1.28	0.97	0.85	0.95
Provision Coverage	71.8	73.7	71.1	71.1	71.1
Specific LLP	3.27	2.98	2.93	1.72	1.74
Net NPAs / Networth	6.2	6.9	5.7	5.3	6.3
Capital Adequacy (%)					
Tier I	17.2	17.9	17.3	13.0	12.4
CAR	18.3	18.7	18.0	13.5	12.8

Source: Company, JM Financial

Dupont Analysis					
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
NII / Assets	6.19	6.22	5.38	5.47	5.65
Other Income / Assets	1.30	1.61	1.36	1.22	1.25
Total Income / Assets	7.49	7.83	6.74	6.69	6.90
Cost / Assets	3.51	3.83	3.82	4.02	3.90
PPP / Assets	3.98	4.00	2.91	2.67	3.00
Provisions / Assets	2.22	2.04	2.05	1.24	1.26
PBT / Assets	1.76	1.96	0.86	1.43	1.74
Tax rate	24.2	24.2	29.4	25.2	25.2
ROA	1.34	1.49	0.61	1.07	1.30
RoRWAs	2.01	2.16	0.78	1.24	1.49
Leverage	8.1	8.0	8.0	8.4	8.8
ROE	10.8	11.9	4.9	9.0	11.5

Source: Company, JM Financial

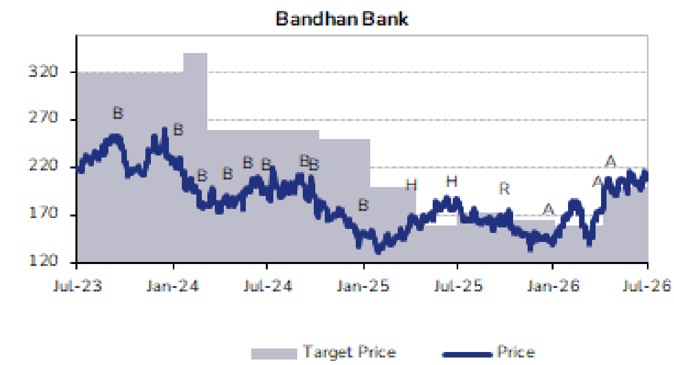
Valuations					
Y/E Mar	**FY24A**	**FY25A**	**FY26A**	**FY27E**	**FY28E**
Shares in Issue (mn)	1,611.0	1,611.0	1,611.0	1,611.0	1,611.0
EPS (INR)	13.8	17.0	7.6	14.9	20.5
EPS (YoY) (%)	1.6	23.1	-55.4	95.5	38.2
PER (x)	15.1	12.3	27.5	14.1	10.2
BV (INR)	134.1	152.7	158.8	170.7	187.1
BV (YoY) (%)	10.3	13.9	3.9	7.5	9.7
P/BV (x)	1.56	1.37	1.32	1.22	1.12
DPS (INR)	1.5	1.5	1.5	2.9	4.1
Div. yield (%)	0.7	0.7	0.7	1.4	1.9

Source: Company, JM Financial

Recommendation History Table

Date	Recommendation	Target Price	% Chg.
21-May-26	ADD	200	0.0
28-Apr-26	ADD	200	25.0
23-Jan-26	ADD	160	-3.3
31-Oct-25	REDUCE	165	-4.4
20-Jul-25	HOLD	173	8.1
2-May-25	HOLD	160	-20.0
2-Feb-25	BUY	200	-20.0
27-Oct-24	BUY	250	-3.8
10-Oct-24	BUY	260	0.0
28-Jul-24	BUY	260	0.0
25-Jun-24	BUY	260	0.0
18-May-24	BUY	260	0.0
28-Mar-24	BUY	260	-23.5
11-Feb-24	BUY	340	6.3
18-Oct-23	BUY	320	0.0
16-Jul-23	BUY	320	0.0
20-May-23	BUY	320	-8.6
22-Jan-23	BUY	350	7.7
12-Dec-22	BUY	325	0.0
2-Dec-22	BUY	325	

Recommendation History Chart



APPENDIX I

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

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