

September 30, 2025

Bandhan Bank Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
NCD programme	75.00	75.00	[ICRA]AA- (Stable); reaffirmed
Certificates of deposit	3,000.00	3,000.00	[ICRA]A1+; reaffirmed
Total	3,075.00	3,075.00	

*Instrument details are provided in Annexure I

Rationale

The ratings reaffirmation factors in Bandhan Bank Limited's (Bandhan) strong capitalisation levels and steady, albeit subpar, internal capital generation, which is in line with its growth requirement as the growth in advances had moderated in FY2025. The bank has also been steadily strengthening its portfolio mix and the share of the secured portfolio rose to 51% as of March 2025 from 42% as on March 31, 2024. Its capital ratio was also supported by the reversal of increased risk weights on microfinance loans. Consequently, its Tier I and capital-to-risk weighted assets ratio (CRAR)¹ improved to 18.27% and 19.08%, respectively, as on June 30, 2025 from 14.10% and 15.00%, respectively, as on June 30, 2024. The ratings also continue to consider the bank's long track record in the microfinance industry and operational experience of more than two decades.

From an asset quality perspective, Bandhan continues to witness high slippages, particularly in the emerging enterprise business (EEB) segment due to the weaker borrower profile, persisting stress in the retail unsecured segment and emerging stress in the small enterprises sector. Including write-offs, gross non-performing advances (GNPAs) remained elevated at 6.48% as on March 31, 2025 compared to 6.93% as on March 31, 2024. Additional guardrails placed by the microfinance industry are expected to help the bank witness an improvement in its asset quality metrics in H2 FY2026. Nevertheless, the impact of overleveraged borrowers and stress in the microfinance sector would be a near-term monitorable.

ICRA also takes note of the conclusion of the audit by the National Credit Guarantee Trustee Company Ltd (NCGTC) with a final payout of Rs. 314.68 crore, besides additional recoveries of Rs. 228.40 crore, reflecting closure of the pending issues and bringing clarity.

As seen in Q1 FY2026, the bank's margins will continue to be impacted in FY2026 owing to the faster repricing of advances than deposits along with the gradual increase in share of lower-yielding secured advances. Additionally, it remains weighed down by the relatively higher cost of funds vis-à-vis peers. The relatively elevated credit costs and the absence of income streams, like proceeds from the sale of priority sector lending certificates (PSLCs), would impact the profitability in FY2026. However, on a sequential basis, Bandhan is expected to witness an improvement in its asset quality and profitability in H2 FY2026 compared to H1 FY2026, which would help it maintain sufficient cushions in its capitalisation profile, thereby driving the Stable outlook.

The Stable outlook on the rating reflects ICRA's expectation that the bank will be able to maintain a steady credit profile with improving asset quality as well as steady profitability and capitalisation.

¹ Excluding Q1 FY2026 Profits

Key rating drivers and their description

Credit strengths

Long track record in microfinance loan segment – The bank has a long track record in the microfinance industry with operational experience of more than two decades. Consequently, it has high customer vintage, loyalty and a strong connect with its microloan customers. However, overleveraging by the customers from multiple lenders severely impacted their debt-servicing ability, leading to a significant deterioration in the asset quality of the industry as well as the bank. Bandhan has diversified into secured lending and has been gradually increasing the share of the non-EEB portfolio with commercial banking at a predominant share of 28% as on June 30, 2025, followed by housing at 24%. Nevertheless, microloans (or EEB segment) continued to account for 40% of the loan portfolio as on June 30, 2025. Given its presence in the microloan segment, the operating profitability remains strong, though the marginal borrower profile makes the portfolio vulnerable to any episodic events, translating into high credit costs.

Strong capital position; ability to meet targeted recovery from stressed pool remains monitorable – The bank's capitalisation profile continues to be strong with a Tier I ratio of 18.27% and CRAR of 19.08% as on June 30, 2025 (14.10% and 15.00%, respectively, as on June 30, 2024 and 18.80% and 19.80%, respectively, as on June 30, 2023). The capitalisation metrics have improved following the Reserve Bank of India's [\(RBI\) February 2025](#) circular, which reduced the risk weight on microfinance loans to 100%/75%² from 125%, thereby lowering the risk-weighted assets (RWAs) and enhancing the capital adequacy from past year levels.

Bandhan's ability to grow while maintaining and improving its capitalisation profile would continue to be contingent upon the improvement in its profitability, which will remain a function of lower credit costs. While the bank expects credit provisions to reduce in H2 FY2026, the same will depend on its ability to contain further slippages and achieve timely recoveries from overdue borrowers.

Healthy growth in deposits with higher share of retail deposits – The overall deposit base expanded by 16.11% year-on-year (YoY) to Rs. 1,54,670 crore as on June 30, 2025. While the share of current account savings account (CASA) deposits was low at 27% of total deposits as on June 30, 2025 (33% as on June 30, 2024), the bank continues to have a high share of retail deposits at 68% of total deposits (69% as on June 30, 2024). Deposit growth is also supported by the higher interest rate proposition on deposits (including savings deposits; despite recent reductions), due to which the cost of interest-bearing funds remained elevated at 6.73% in Q1 FY2026 compared to the private sector bank average (PVB) of 5.51%. Given the loan book mix, the yield on average earning assets remained high at 12.05% in Q1 FY2026 compared to the PVB average of 8.58%, supporting the net interest margin.

Credit challenges

Asset quality remains monitorable due to presence in marginal borrower profile segment – Although the fresh NPA generation rate moderated to 4.76% (annualised) of the standard advances in Q1 FY2026 from 5.57% (annualised) in Q4 FY2025, it remained elevated compared to 4.48% in FY2025, though lower than 5.48% in FY2024 and 10.24% in FY2023. The elevated slippages continue to be primarily from the microfinance (EEB) segment.

The gross EEB stress pool (SMA³-1 & 2 in EEB portfolio and overall GNPA's) increased to Rs. 5,753 crore (10.9% of EEB portfolio) as on June 30, 2025 from Rs. 4,487 crore (7.2%) as on June 30, 2024. Additionally, the bank has witnessed higher SMAs in certain segments in the non-EEB loan portfolio, though the slippage of same to NPA has been limited. The net stressed book at the bank level stood at Rs. 2,743 crore or 2.1% of standard advances or 11.5% of the CET⁴ as on June 30, 2025. This reflected

² 75% applicable on regulatory retail asset

³ SMA is defined as a special mention account (SMA), which is an account exhibiting signs of incipient stress resulting in the borrower defaulting in the timely servicing of their debt obligations though the account has not yet been classified as an NPA as per the extant RBI guidelines; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days

⁴ CET – Common equity tier

an improvement from 16.6% of standard advances and 84.2% of CET as on September 30, 2021, driven by partial recoveries as well as write-offs.

Despite the reduction in its net stressed book, Bandhan's asset quality remains monitorable, given the concerns of overleveraging by microloan borrowers, the marginal profile of the borrowers and portfolio vulnerability to episodic events that may translate into higher credit costs. The bank's ability to contain slippages in the EEB segment and ensure timely recoveries from the stress pool will be a key credit monitorable.

High geographical concentration of loan portfolio – While Bandhan has increased its pan-India presence across 35 states and Union Territories (UTs), 55% of the banking outlets were in the eastern and north-eastern regions as on June 30, 2025. Its advances and deposits have high geographical concentration in these regions (38% of advances as on June 30, 2025), specifically West Bengal and Assam, owing to the concentration of the branch network. This exposes the bank to event risks and economic conditions, especially in these geographies. Following the merger with GRUH Finance Limited, Bandhan has diversified geographically, especially in the western part of India. However, ICRA expects the portfolio to remain concentrated in these regions in the medium term, given the size of the existing portfolio and branch network.

Environmental and social risks

Environmental considerations – Given the service-oriented business of Bandhan, its direct exposure to environmental risks as well as those emanating from regulations or policy changes is not material. While it does not face any material physical climate risks, it is exposed to environmental risks indirectly through its portfolio of assets. However, such risk is unlikely to be material because the bank benefits from portfolio diversification. Further, the lending is usually short-to-medium term, which allows Bandhan to adapt while taking incremental exposures on less environmentally vulnerable businesses.

Social considerations – Data security and customer privacy are among the key sources of vulnerability for Bandhan as any material lapse could be detrimental to its reputation and could invite regulatory censure. Customer preference is increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. However, the possibility of subpar execution of the information technology strategy and thus the inability to adequately meet the customers' needs could result in more costs than benefits.

On the positive side, Bandhan contributes towards enhancing financial inclusion by providing several products and services that are specifically targeted towards the marginalised sections of society and attempts to address and cater to social concerns. Prudent lending to such underserved segments could create growth opportunities. However, such growth opportunities must be seen in conjuncture with the asset quality risks that could impact the bank's credit quality.

Liquidity position: Strong

Bandhan's largely stable deposit profile, coupled with the short tenure of microloans, mainly supports its strong liquidity profile. The daily average liquidity coverage ratio (LCR) remained strong at 200.09% for Q1 FY2026, while the net stable funding ratio (NSFR) stood at 135.11%, with both remaining above the regulatory level of 100%. Further, the bank had positive cumulative mismatches of 2.7% of the total outflows in the up to 6-month maturity bucket, as per its structural liquidity statement as on June 30, 2025.

Rating sensitivities

Positive factors – An improvement in the earnings profile, with a return on assets (RoA) of 2.0%, and a Tier I capital of more than 18% on a continued basis, while ensuring that the net stressed book (NPA + SMA-1 + SMA-2) remains below 3.5% of the portfolio on a sustained basis, will be positive factors.

Negative factors – Deterioration in the asset quality, with an increase in the net stressed book to more than 5% of the bank's portfolio, and a decline in the Tier I ratio to less than 13% on a sustained basis will be negative factors.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks and Financial Institutions
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of Bandhan

About the company

The erstwhile Bandhan Financial Services Private Limited (BFSL) was the largest non-banking financial company-microfinance institution (NBFC-MFI) in India and the first entity to receive an in-principle universal banking licence from the RBI. Following the transfer of BFSL's business to the bank, Bandhan Bank Limited (Bandhan) commenced operations in August 2015.

Bandhan was incorporated in December 2014 as a wholly-owned subsidiary of Bandhan Financial Holdings Limited (BFHL). On August 3, 2020, BFHL diluted its stake in Bandhan to 40% to comply with the regulatory requirement for promoter holding in the bank. Earlier, BFHL's stake was diluted to 82.28% upon the initial public offering by Bandhan in March 2018 and later to 60.96% upon the amalgamation with GRUH (housing finance company with a presence in 11 states and one UT through 195 GRUH centres, most of which are in the western part of India) in October 2019. BFHL is now required to further reduce its shareholding in the bank to 26% by August 2030.

Bandhan has its headquarters in Kolkata and follows the group-based individual lending model for the microfinance business. As on June 30, 2025, Bandhan had a network of 6,344 branches, banking units or doorstep service centres (DSCs) and GRUH centres, spread across 35 states and UTs.

Key financial indicators

Bandhan Bank Limited	FY2024	FY2025	Q1 FY2026
Total income [#]	12,490	14,457	3,483
Profit after tax	2,230	2,732	372
Total assets [^] (Rs. lakh crore)	1.78	1.91	1.89
CET I / Tier I	17.20%	17.90%	18.27%*
CRAR	18.30%	18.70%	19.08%*
PAT / ATA (annualised)	1.39%	1.57%	0.78%
Gross NPAs	3.84%	4.71%	4.96%
Net NPAs	1.11%	1.28%	1.35%

Source: Bandhan Bank, ICRA Research; Amount in Rs. crore unless mentioned otherwise

Note: Quarterly results are unaudited; annual results are audited

[#]Total income includes net interest income and non-interest income excluding trading income/loss

[^]Total assets exclude revaluation reserves

*Excluding Q1 FY2026 profit

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2026)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2026	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
			Sep 30, 2025	Oct 01, 2024	Oct 19, 2023	Oct 28, 2022
1 Term loans	Long-Term	-	-	[ICRA]AA- (Stable); withdrawn	[ICRA]AA (Negative)	[ICRA]AA (Negative)
2 Certificates of deposit	Short-Term	3,000.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Non-convertible debenture programme	Long-Term	75.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)
4 Non-convertible debenture programme	Long-Term	-	-	-	[ICRA]AA (Negative); reaffirmed and withdrawn	[ICRA]AA (Negative)
5 Non-convertible debenture programme	Long-Term	-	-	-	-	[ICRA]AA (Negative); reaffirmed and withdrawn

LT – Long term; ST – Short term

Complexity level of the rated instruments

Instrument	Complexity indicator
NCD programme	Very Simple
Certificates of deposit	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
INE580B07455	Non-convertible debentures [^]	Oct-30-2018	9.50%	Oct-30-2028	75.00	[ICRA]AA- (Stable)
INE545U16491	Certificates of deposit	Jun-30-2025	6.50%	Dec-19-2025	100.00	[ICRA]A1+
INE545U16483	Certificates of deposit	Jun-20-2025	6.95%	Jun-15-2026	100.00	[ICRA]A1+
Unplaced [#]	Certificates of deposit [#]	NA	NA	7-365 days	2,800.00	[ICRA]A1+

[^] These NCDs were transferred to Bandhan from erstwhile GRUH Finance Limited as a part of the amalgamation

Source: Bandhan Bank, ICRA Research; [#]As on September 21, 2025

Annexure II: List of entities considered for consolidated analysis

Not applicable

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