

Asset quality and restructuring book would be key monitorable for the quarter

Stocks under coverage

HDFC Bank Ltd	
Rating	Accumulate
TP	1,345
FY22E P/BV	3.7x
ICICI Bank Ltd	
Rating	Accumulate
TP	467
FY22E P/BV	2.7x
Axis Bank	
Rating	Accumulate
TP	554
FY22E P/BV	1.8x
State Bank of India	
Rating	Buy
TP	295
FY22E P/BV	0.9x
Bandhan Bank	
Rating	Buy
TP	376
FY22E P/BV	3.1x
IDFC First Bank	
Rating	Buy
TP	41
FY22E P/BV	1.4x
IndusInd Bank	
Rating	Hold
TP	651
FY22E P/BV	1.8x
City Union Bank	
Rating	Hold
TP	169
FY22E P/BV	2.1x
DCB Bank	
Rating	Reduce
TP	80
FY22E P/BV	1.0x
Manappuram Finance	
Rating	Accumulate
TP	183
FY22E P/BV	1.7x
Sundaram Finance	
Rating	Hold
TP	1,706
FY22E P/BV	3.0x

Source: Arihant Research

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- With increasing demand trend (primarily in retail loans), business momentum in the banking sector has improved while credit growth remained stable at (5.7% - 6.1% YoY) as risk aversion and focus on collection is high in the banking sector. Disbursements in retail portfolio is picking up well as demand for home loans, vehicle loans, gold loans is high. Additionally, the bank credit growth has also been supported by disbursements under the ECLGS scheme which has been extended further till March 31, 2021.
- Deposit growth momentum in the banking sector remained strong during the quarter. On fortnight basis (as on 18th December 2020), deposits grew by 11.3% on YoY basis as compared to 10.5% growth as on Sept' 2020. Moreover, as on December 18, 2020 the liquidity surplus in the banking system stood at Rs 4.6 lakh cr. The liquidity surplus can be ascribed to deposit growth outpacing credit growth persistently.
- **Asset Quality and Restructuring book would be key monitorable:** Clear picture of Covid impact on asset quality will emerge in the current quarter as Moratorium period ended on Aug'20. However, RBI has allowed one-time restructuring for most sectors impacted by Covid, Slippages and restructuring book will need to be watched keenly. Also, Management commentary on collections and restructured assets would be the key focus area. Due to expectation of higher slippages during the quarter, banks could utilize the provisions kept for Covid impact. NPA recognition is still not finalized as Supreme court's final decision on NPA recognition is still underway.
- NIM of the bank is likely to remain stable or we may see marginal decline in that as NPA recognition may squeeze the NIM as interest reversal will be there which could put pressure on the margins. However, Surplus liquidity expected to be lower in Q3FY21 as compared to Q2FY21 which could support the margins partially.
- With a rise in Vehicle sales, disbursements are expected to improve during the current quarter over a previous quarter. Higher ticket size of the loan will support the gold loan growth during the quarter as Gold prices remained flat on QoQ basis. Performance on Manappuram Finance's non-gold portfolio will need to be watched primarily in microfinance.

Outlook: Banks continue to be risk averse due to uncertainty led by pandemic and asset quality concerns. However, with the improving economic indicators we are seeing pick-up in demand. FY21 would be challenging year for the banking sector as there is stress in the system and credit growth remains stable. However, with the expectation of normalization in credit costs we expect significant recovery in FY22E. We continue to remain positive on large private sector banks like HDFC Bank, ICICI Bank and Axis Bank. SBI is our preferred pick in PSU space.

Q3FY21 Earnings Estimates:

in Cr.	Q3FY21E	Q3FY20A	Q2FY21A	YoY	QoQ	Remarks
Axis Bank						
NII	6,560	6,453	7,326	2%	-10%	Deposit growth momentum expected to remain strong while loan growth will remain in a single digit. Management commentary on asset quality and restructuring book will be keenly watched.
PPOP	6,506	5,743	6,898	13%	-6%	
PAT	2,668	1,757	1,683	52%	59%	
City Union Bank						
NII	441	427	475	3%	-7%	Loan growth expected to remain lower, primarily driven by Gold loan and MSME loans. Profit expected to decline due to higher provision.
PPOP	297	308	385	-4%	-23%	
PAT	122	192	158	-36%	-22%	
Bandhan Bank						
NII	1,802	1,540	1,923	17%	-6%	Advances growth momentum expected to remain strong with strong deposits growth trend. Collection efficiency expected to reach to near normalized level.
PPOP	1,525	1,264	1,628	21%	-6%	
PAT	813	731	920	11%	-12%	
DCB Bank						
NII	286	323	334	-12%	-14%	We expect decline in operating profit and NII growth due to muted loan growth estimates. We expect PAT to decline by ~33% yoy due to higher provisions for bad loans.
PPOP	161	190	225	-15%	-29%	
PAT	65	97	82	-33%	-21%	
ICICI Bank						
NII	9,641	8,545	9,366	13%	3%	We expect operating profit growth of 9% with NII growth of 13%. Loan growth expected to remain in a single digit. Deposit growth expected to remain strong. Margins are likely to remain stable.
PPOP	8,261	7,549	8,261	9%	0%	
PAT	2,619	4,146	4,251	-37%	-38%	
IDFC First Bank						
NII	1,727	1,534	1,660	13%	4%	Operating performance of the bank expected to remain healthy. PPOP is expected to increase by 15% YoY. On a sequential basis, profit will remain higher as there was one-off in previous quarter.
PPOP	786	682	342	15%	130%	
PAT	204	-1,639	101	NA	101%	
HDFC Bank						
NII	16,455	14,173	15,776	16%	4%	We expect NII growth at ~16% YoY led by strong loan growth of ~16% YoY. NIM is expected to remain largely stable. Management comments over asset quality and restructuring book will be keenly watched.
PPOP	13,726	12,945	13,814	6%	-1%	
PAT	7,041	7,416	7,513	-5%	-6%	
SBI						
NII	26,249	27,779	28,182	-6%	-7%	We expect loan growth to remain low. NII is expected to de-grow due to cut in lending rates and deposits rates. PAT growth to remain lower due to higher provisions.
PPOP	18,295	18,223	16,460	0%	11%	
PAT	4,488	5,583	4,574	-20%	-2%	
IndusInd Bank						
NII	3,491	3,074	3,278	14%	6%	Loan growth is likely to be in low single digit while deposit growth has picked up well (Reported). Commentary on CV portfolio, restructuring assets and guidance on credit cost would be the key monitorable.
PPOP	3,008	2,746	2,831	10%	6%	
PAT	989	1,300	647	-24%	53%	
Manappuram Finance						
NII	982	952	995	3%	-1%	NII growth to moderate. Gold loan AUM growth to remain strong driven by higher gold prices. Performance of Asirvad Microfinance need to be watch. Provisions are expected to remain higher.
PPOP	607	578	640	5%	-5%	
PAT	379	399	406	-5%	-7%	
Sundaram Finance						
NII	507	443	478	14%	6%	We expect Sundaram to deliver 14% YoY growth in NII followed by 21% growth in PPOP. AUM growth to increase on the back of gradual increase in disbursements due to improving vehicle sales.
PPOP	356	293	334	21%	6%	
PAT	171	167	192	3%	-11%	

Source: Arianth Research

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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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