

Banks

Oct-Dec'20 Earnings Preview

Favourable quarter for earnings

Banks earnings will be strong on continued double digit NII growth and relatively lower provisioning, while opex revival and moderate fee/treasury income will keep PPOP slower. The Hon. Supreme Court has not lifted its direction on NPA recognition, hence we will see another quarter of low slippages, relatively lower recovery but higher write-offs which will augur well for NPA ratios. Focus this quarter will be on three areas (i) loan restructuring outcomes (negligible restructuring has been the narrative) (ii) pro-forma slippages because of a full billing based quarter and (iii) collection efficiency of loans. Banks will continue to make additional provisions on restructuring/slippages, although we expect provisions will be lower than last 2-3 quarters as they now carry 30-140bps of loans as additional cushion. Also commentary on asset quality will be very important just in case conservatism on adverse outcome does not play out, we could see earnings upgrade.

For our coverage universe we expect, 13% YoY NII growth with 15% YoY for private banks and 10% for PSBs, PPOP growth of 7% YoY with 13% YoY Pvt & 1% for PSBs and PAT growth of 35% YoY with 23% YoY for private banks, while sharp jump of 85% for PSBs as base quarter PNB/BOB were in losses. Our preference continues with HDFCB & ICICIBC as front line picks, while IIB, SBI and Federal could shine on back of results.

- Loan growth provides no confidence; deposits strong:** Overall bank lending growth remains at steady rate of 5-6% YoY supported by retail growth of 10% and some pick up in Agri growth. Pick up was visible during festive but seems to have lost momentum and credit disbursement for many banks especially for private banks has returned to or above pre-COVID levels. Hence, the usual banks continue to gain market share in retail & wholesale loans. On deposits, system continues to see strong flow (growth of 10-11%) especially for private banks, while PSBs (ex-SBI) should be relatively slower. Higher deposit flow and lower lending opportunities continue to flow liquidity in investments leading to negative carry.
- Asset quality remains hazy but will improve this quarter:** Slippages will be low for another quarter as SC has not yet lifted the NPA recognition directive, although pro-forma NPA will look higher, as post Aug'20 moratorium ending this quarter will be full billing. To take incremental view on asset quality collection efficiency will be important, while focus will be on loan restructuring numbers. As PCR is now at comfortable levels (70-85% range), banks will make incremental provisions on pro-forma slippages and slightly higher floating provisions which should be lower than last 2-3 quarters. Non-slippage recognition should put pressure on slippages piling in Q4FY21.
- PPOP performance should be slow:** PPOP is likely to grow by <10% as was seen in last two quarters due to lower opex and better NII growth. Although, NII growth rate should come down but will remain in double digit while fees/treasury income should be still muted, while opex will revive higher than other income growth barring a few selected banks.

January 11, 2021

Exhibit 1: PL Universe

Companies	Rating	CMP (Rs)	TP (Rs)
Axis Bank	ACCU	673	750
HDFC Bank	BUY	1,432	1,645
ICICI Bank	BUY	542	614
IndusInd Bank	ACCU	940	1,026
Kotak	HOLD	1,971	1,912
Federal	ACCU	76	81
South Indian Bank	BUY	9	10
IDFC First Bank	SELL	44	32
Bank of Baroda	BUY	66	82
PNB	HOLD	35	37
SBI	BUY	286	325

Source: PL

Top Picks

HDFC Bank

ICICI Bank

Indusind Bank

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- **Valuations above mean post recent run-up:** Banks valuation have inched up above mean in last two months' post optimism on earnings with adequate provisions and non-adverse outcome on asset quality from COVID than envisaged. Most banks trade at 15-20% above mean multiples though many have not yet reached peak multiples. A quick rise in valuations and asset quality outcome (yet not clear) provides lower margin of safety, although our assessment remains if conservative provisioning and asset quality does not play put, chances of earnings upgrade become higher to driving performance.

Q3FY21 Banks Preview:

- **Private Banks –** We build in a 23% YoY earnings growth on back of strong NII of 15% YoY and lower provisions by 14% YoY. Asset quality will improve further with strong PCR of 75-85% for most private banks and further see some improvement. Slippages could be higher from Agri as Q3 is weak period. Bank wise, **HDFCB** will continue its 18-20% PAT growth with steady NIMs and continued strong CASA, while on retail growth will be lower than industry. **Kotak Bank** will continue to benefit from lowering cost of funds along with strong low cost deposit flow and slower growth (we expect YoY de-growth). **ICICIB** will have slower NII on back of Essar steel recovery benefit in base quarter, while small stake sale from ISec compared to large gains in base quarter will impact other income and keep PPOP slower, while **Axis** will see strong operating performance although will continue to have higher credit cost relatively. Additions to BB & below will be key watching point apart from restructuring.
- **Mid-sized banks – IIB/FB/IDFCFB** have seen strong deposit flow but will be slow on loan growth. **IDFCFB** will continue with strong NII as it continues to change business mix, while **IIB/FB** should give steady operating performance but will continue to make higher provisions to shield balance sheet from any COVID related adverse outcome ahead and also improve PCR. **SIB** will continue to have muted earnings owing to high provisions as PCR remains quite low and will be moved up. CASA deposit flow will be closely watched.
- **Public Sector Banks – SBI** should see mix earnings as base quarter had high interest income on Essar steel recovery, while provisions also were lower on write back, hence earnings growth is likely to look slower. Asset quality should be good with lower slippages. For **BOB/PNB** operating performance will be muted while asset quality will continue to improve with high provisions and improve PCR further.

Key Rating, Target Price and earning changes

For our coverage universe, we roll over our valuations and target prices to Mar-23 from Sep-22, while move up our multiples on back of lower cost of equity as we lower Risk free rate by 25bps lower to 6.25% and market risk premium to 7.0% driving up valuation multiples by 10-15% on banks. Valuations have moved much higher than mean levels but still remains 15-20% lower than peak levels so some room further available but risk reward has turned largely unfavorable on back of quick moves as asset quality & provisioning outcome is still not clear, while loan growth has yet to pick up.

- **Kotak Bank** - We downgrade Kotak to HOLD from Accumulate with core book value multiple of 3.7x FY23 (from 3.4x Sep-22) and subs value of Rs356 leading to a revised TP of Rs1,912 (from Rs1,503). Kotak has been one of our preferred picks during lockdown with strong asset quality and high capital benefitting NIMs. Kotak will continue to be strong on earnings given low provisioning requirement, cost control and relative delta available to lower cost of funds further.
- **HDFC Bank** – We retain BUY on HDFC Bank with revised TP of Rs1,645 (from Rs1,385) based on 3.5x Mar'23 ABV (from 3.1x Sep'22 ABV). HDFCB should see its retail portfolio growth bounce back as economic prospect improve, helping NIMs on liquidity deployment and mix change back to retail. It continues to have strong asset quality ratios with PCR of +70% and delivery of earnings by 20% CAGR, which makes it one of our preferred picks.
- **ICICI Bank** – We have not changed any TP post our recent note from analyst day on digital. We re-iterate ICICIB is strongly poised to take market share, strong PCR on legacy book & much higher COVID/additional provisions and operating performance focus has been high which should improve its ROE towards 13-14% by FY23. We retain BUY with TP of Rs615.
- **Axis Bank** – We retain our Accumulate rating with revised TP of Rs750 (from Rs570) based on 1.9x Mar-23 ABV (from 1.6x Sep-22 ABV). Axis had lagged on PCR while facing higher slippages and making higher write-offs. Last few quarters have improved PCR, lowered legacy asset quality stress and made high provisions for COVID/restructuring related stress. This will help lower credit cost trajectory as was envisaged earlier pre-COVID driving up return ratios towards 15% which can now be possible.
- **IIB** – We downgrade IIB to Accumulate from BUY post a strong run-up in last three months. We revise our TP to Rs1025 (from Rs720) based on 1.6x Mar-23 ABV (from 1.2x Sep-22 ABV) and tweak our estimates to incorporate strong deposit flow from envisaged earlier as it comes on track post facing issues in Mar'20. Higher provisions in FY21 and quick recognition on asset quality will cushion balance sheet and lower strain on FY22-FY23 earnings, while promoter infusion (will add Rs50 to BV if converted) will help capital.
- **SBI**: We retain BUY with revised TP of Rs325 based on 0l.7x Mar-23 ABV and sub value of Rs164 (from Rs290 with subs at Rs152). We also tweak our estimates to lower provisioning and slippages, while improve NII on lowering cost of funds and continued deposit flow. SBI has featured lower in our preference list due to volatility in slippages, lower PCR and NIMs being low.

Exhibit 2: Change in estimates table for coverage universe

Banks	Rs (mn)	Old estimates			Revised estimates			Change		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
IIB	NII	1,31,880	1,44,585	1,62,159	1,32,312	1,49,216	1,72,877	0.3	3.2	6.6
	PPOP	1,12,358	1,14,813	1,21,337	1,12,570	1,19,847	1,31,646	0.2	4.4	8.5
	PAT	36,015	51,463	67,483	35,560	51,608	70,877	(1.3)	0.3	5.0
	Loan Growth (%)	4.1	7.5	10.1	6.0	12.1	14.1	1.9	4.6	4.0
	Credit Cost (bps)	300.0	200.0	120.0	300.0	210.0	130.0	-	10.0	10.0
	EPS	49.7	68.0	89.2	49.0	68.2	93.7	(1.3)	0.3	5.0
	Adj. BV	520.5	578.0	657.4	524.9	580.7	665.2	0.9	0.5	1.2
	Price target (Rs)		720			1,026			42.5	
Recommendation		BUY			BUY					
IDFCB	NII	67,300	78,795	89,082	69,547	82,375	94,099	3.3	4.5	5.6
	PPOP	22,514	24,215	24,854	23,539	26,096	27,610	4.6	7.8	11.1
	PAT	4,432	5,562	7,806	5,359	7,187	9,910	20.9	29.2	27.0
	Loan Growth (%)	7.0	8.0	10.0	5.0	8.0	12.0	(2.0)	-	2.0
	Credit Cost (bps)	170.0	160.0	130.0	170.0	160.0	130.0	-	-	-
	EPS	0.8	1.0	1.4	1.0	1.3	1.7	20.9	29.2	27.0
	Adj. BV	30.5	30.6	32.3	30.6	31.2	33.5	0.6	2.1	3.6
	Price target (Rs)		21			32			55.9	
Recommendation		SELL			SELL					
BOB	NII	2,95,329	3,21,023	3,43,400	2,98,058	3,16,580	3,44,970	0.9	(1.4)	0.5
	PPOP	2,01,397	2,19,836	2,29,447	2,05,995	2,13,207	2,28,520	2.3	(3.0)	(0.4)
	PAT	9,515	24,615	58,229	38,323	40,242	48,707	302.8	63.5	(16.4)
	Loan Growth (%)	7.0	6.1	8.0	4.1	6.1	8.0	(2.9)	0.0	(0.0)
	Credit Cost (bps)	240.0	230.0	170.0	190.0	190.0	180.0	(50.0)	(40.0)	10.0
	EPS	2.1	5.3	12.6	8.3	8.7	10.5	302.8	63.5	(16.4)
	Adj. BV	114.5	111.8	124.1	124.9	127.6	139.4	9.0	14.1	12.3
	Price target (Rs)		65			82			26.6	
Recommendation		BUY			BUY					
SBI	NII	10,76,564	11,78,814	13,02,981	10,72,669	12,10,454	13,51,819	(0.4)	2.7	3.7
	PPOP	6,70,839	7,07,042	7,57,781	6,80,510	7,65,001	8,25,181	1.4	8.2	8.9
	PAT	1,30,019	1,45,057	2,14,094	1,74,631	1,92,682	2,35,369	34.3	32.8	9.9
	Loan Growth (%)	6.0	7.8	8.3	6.9	8.8	9.1	0.9	1.0	0.8
	Credit Cost (bps)	210	200	170	190	195	180	(20.0)	(5.0)	10.0
	EPS	14.6	16.3	24.0	19.6	21.6	26.4	34.3	32.8	9.9
	Adj. BV	190	196	214	192	202	226	0.7	3.4	5.8
	Price target (Rs)		276			325			17.8	
Recommendation		BUY			BUY					

Source: Company, PL

Exhibit 3: Valuation Summary for PL Banks Coverage

Coverage Universe	CMP (Rs)	MCap (Rs B)	Old Rating	New Rating	Old PT (Rs)	New PT (Rs)	Upside (%)	P/ABV (x)				RoE (%)			
								FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E
Axis Bank	673	2,059	ACCU	ACCU	570	750	11.5	2.5	2.2	2.0	1.7	2.1	7.5	11.3	14.3
HDFC Bank	1,432	7,885	BUY	BUY	1,385	1,645	14.9	4.8	4.0	3.5	3.0	16.4	16.8	17.4	18.2
ICICI Bank	542	3,742	BUY	BUY	614	614	13.3	2.9	2.4	2.1	1.8	7.3	11.7	12.3	13.3
IndusInd Bank	940	712	BUY	ACCU	720	1,026	9.2	2.0	1.8	1.6	1.4	13.6	9.4	11.9	14.6
Kotak	1,971	3,903	ACCU	HOLD	1,503	1,912	(3.0)	6.9	5.3	4.7	4.0	12.8	12.0	13.0	13.5
Federal	76	151	BUY	ACCU	69	81	6.9	1.2	1.3	1.0	0.9	11.1	9.9	10.9	12.2
South Indian Bank	9	17	BUY	BUY	10	10	13.0	0.6	0.7	0.6	0.4	2.0	3.9	5.1	9.5
IDFC First Bank	44	252	SELL	SELL	21	32	(27.9)	1.5	1.4	1.4	1.3	(19.1)	3.2	4.3	6.0
Bank of Baroda	66	303	BUY	BUY	65	82	25.1	0.6	0.5	0.5	0.5	0.9	5.2	5.2	6.0
PNB	35	371	HOLD	HOLD	30	37	4.5	0.6	0.6	0.5	0.5	0.7	4.0	5.0	5.0
SBI	286	2,552	BUY	BUY	290	325	13.6	0.7	0.6	0.6	0.5	7.2	8.1	8.3	9.5

Source: Company, PL; Note – *Kotak & SBI valuation on S'one book

Exhibit 4: Asset quality to improve on non-recognition of slippages due to SC order, although actual internal NPA to look higher for banks

Banks	Reported NPA		Pro-forma NPA				Estimated NPA	Pro-forma NPA Est	
	GNPA	PCR	GNPA	PCR	Pro-forma Slippages (Rs bn)	Provisions (Rs bn)	GNPA	GNPA	PCR
HDFC Bank	1.08%	84%	1.37%	74%	30.6	11.3	1.06%	1.17%	79%
ICICI Bank	5.17%	81%	5.36%	79%	14.1	5.0	4.79%	5.05%	84%
Axis Bank	4.18%	77%	4.28%	76%	6.4	4.0	3.84%	4.18%	78%
KMB	2.55%	75%	2.70%	73%	1.3	0.9	2.32%	2.55%	79%
IndusInd	2.21%	76%	2.32%	74%	2.2	NA	1.85%	2.55%	70%
SBI	5.28%	70%	5.88%	65%	143.9	31.9	5.06%	5.54%	69%
PNB	13.43%	65%	NA	NA	NA	1.8	10.74%	11.20%	70%
BOB	9.14%	73%	9.33%	71%	15.0	2.9	8.62%	8.75%	70%
Federal	2.84%	65%	NA	NA	2.4	NA	2.59%	3.00%	62%
IDFCB	1.62%	73%	1.87%	68%	NA	NA	1.53%	1.82%	68%

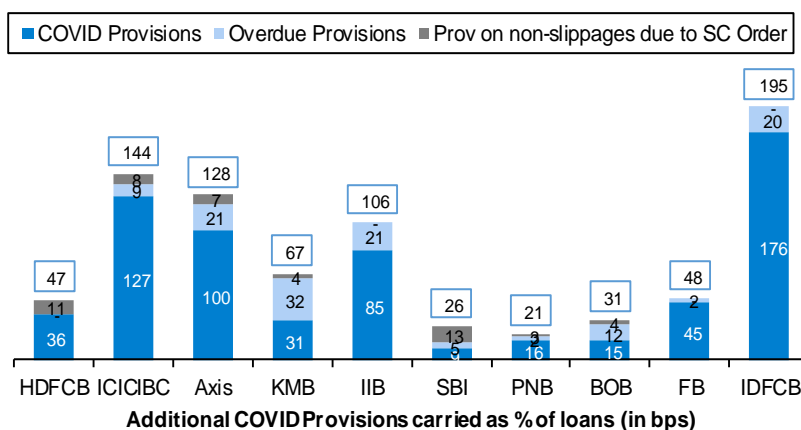
Source: Company, PL

Exhibit 5: Banks hold mixed set of COVID & other provisions (excl. Standard asset prov.) – Large private banks well placed

Banks (in Rs bn)	Covid Provision						Pro-forma NPA	Total Provision	Total Prov as of loans
	4Q20	1Q21	2Q21	Total COVID Provisions	Overdue Provisions	COVID Prov as % of Loans			
HDFCB	15.5	10.0	11.7	37.2	-	0.36%	11.3	48.5	0.5%
ICICIBC	27.3	55.5	0.0	82.8	6.1	1.27%	5.0	93.8	1.4%
Axis	18.8	7.3	50.0	76.2	11.9	1.00%	4.0	92.1	1.6%
KMB	0.0	6.2	0.1	6.3	6.5	0.31%	0.9	13.7	0.7%
IIB	2.6	5.0	9.5	17.1	4.3	0.85%	-	21.4	1.1%
SBI	0.0	18.4	2.4	20.8	11.7	0.09%	31.9	64.4	0.3%
PNB	0.0	6.2	4.0	10.2	1.4	0.16%	1.8	13.4	0.2%
BOB	0.0	10.0	0.0	10.0	8.1	0.15%	2.9	21.0	0.3%
FB	0.6	0.9	4.0	5.6	0.3	0.45%	-	5.9	0.5%
IDFCB	0.3	3.8	14.0	18.0	2.0	1.76%	-	20.0	2.0%

Source: Company, PL

Note – Axis 3Q21 COVID provisions include provisions for likely restructuring

Exhibit 6: Private banks hold adequate provisions to safeguard from COVID


Source: Company, PL

Exhibit 7: Q3FY21 Banks Results Preview – NII to be strong, while relatively lower provision to help earnings

Rs Million	NII	YoY	QoQ	PPOP	YoY	QoQ	PAT	YoY	QoQ
HDFC Bank	1,66,571	17.5%	5.6%	1,48,168	14.5%	7.3%	87,662	18.2%	16.7%
ICICI Bank	96,604	13.0%	3.1%	81,836	8.4%	-0.9%	40,923	-1.3%	-3.7%
Axis Bank	75,461	16.9%	3.0%	67,605	17.7%	-2.0%	20,746	18.1%	23.3%
Kotak	39,287	14.6%	0.4%	31,262	30.9%	-5.2%	19,494	22.2%	-10.8%
IndusInd	32,098	4.4%	-2.1%	26,562	-3.3%	-6.9%	10,940	-15.9%	65.0%
SIB	6,464	7.4%	-2.5%	3,925	2.4%	-5.2%	484	-46.6%	-25.7%
Federal	13,566	17.5%	-1.7%	9,105	22.4%	-9.5%	4,204	-4.6%	36.7%
IDFC First Bank	17,668	15.2%	6.5%	4,704	-31.0%	37.4%	1,527	NA	50.6%
SBI	2,79,016	0.4%	-1.0%	1,63,035	-10.5%	-0.9%	42,921	-23.1%	-6.2%
PNB	79,149	81.7%	-5.7%	55,468	47.4%	-2.3%	8,548	NA	37.7%
BOB	75,015	5.2%	-0.1%	54,200	9.3%	-2.4%	16,981	NA	NA
Total Banks	8,80,898	12.6%	0.7%	6,45,870	7.4%	0.0%	2,54,431	35.4%	7.6%
Total Private Banks	4,47,718	14.9%	3.3%	3,73,167	12.5%	1.2%	1,85,980	23.1%	10.9%
Total Public Banks	4,33,180	10.3%	-1.7%	2,72,703	1.2%	-1.5%	68,451	85.8%	-0.4%

Rs Billion	Loans	YoY	QoQ	Margins	YoY	QoQ	Credit Cost	YoY	QoQ
HDFC Bank	10,820	15.6%	4.2%	4.20%	0.00%	0.10%	1.15%	-0.15%	-0.28%
ICICI Bank	6,754	6.3%	3.5%	3.59%	-0.18%	0.02%	1.73%	0.42%	-0.10%
Axis Bank	5,994	9.0%	4.0%	3.56%	-0.01%	-0.02%	2.65%	0.12%	-0.53%
Kotak	2,120	-2.2%	3.5%	4.45%	-0.24%	-0.07%	0.98%	0.16%	0.26%
IndusInd	2,077	0.1%	3.2%	4.20%	0.05%	0.04%	2.30%	0.29%	-1.60%
SIB	650	1.1%	1.8%	2.85%	0.13%	-0.09%	2.02%	0.39%	-0.03%
Federal	1,266	6.2%	3.0%	3.14%	0.14%	0.01%	1.10%	0.56%	-0.83%
IDFC First Bank	1,056	5.8%	3.0%	4.60%	0.74%	0.03%	1.00%	-8.24%	0.16%
SBI	23,512	6.9%	2.5%	3.10%	0.05%	-0.02%	1.80%	0.48%	0.04%
PNB	6,494	52.6%	-0.5%	3.15%	0.88%	-0.06%	2.61%	-1.29%	-0.27%
BOB	6,765	3.4%	1.0%	2.90%	0.10%	0.04%	1.67%	-2.70%	-0.12%
Banks	67,510	10.5%	2.6%	3.61%	0.15%	0.00%	1.79%	-0.44%	-0.06%

Source: Company, PL Note – PNB is based on merged numbers

Exhibit 8: Margins should be holding up sequentially

	2Q21	3Q20	3Q21	YoY	QoQ
HDFC Bank	4.10%	4.20%	4.20%	0.00%	0.10%
ICICI Bank	3.57%	3.77%	3.59%	-0.18%	0.02%
Axis Bank	3.58%	3.57%	3.56%	-0.01%	-0.02%
Kotak	4.52%	4.69%	4.45%	-0.24%	-0.07%
IndusInd	4.16%	4.15%	4.20%	0.05%	0.04%
SIB	2.94%	2.72%	2.85%	0.13%	-0.09%
Federal	3.13%	3.00%	3.14%	0.14%	0.01%
IDFC First Bank	4.57%	3.86%	4.60%	0.74%	0.03%
SBI	3.12%	3.05%	3.10%	0.05%	-0.02%
PNB	2.35%	2.27%	3.15%	0.88%	0.80%
BOB	2.86%	2.80%	2.90%	0.10%	0.04%

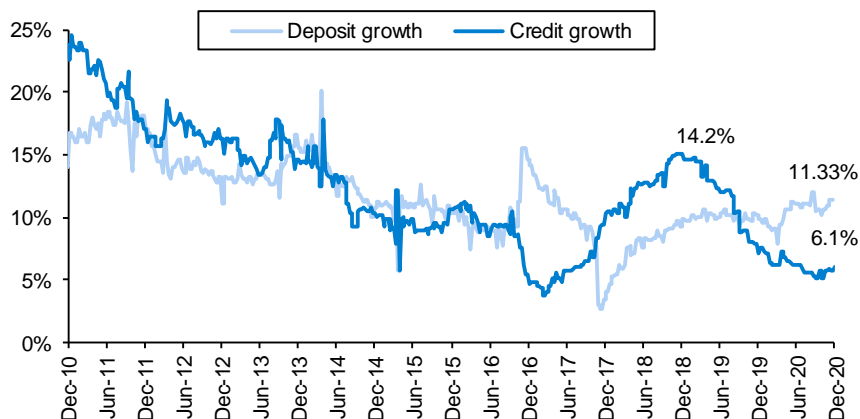
Source: Company, PL

Exhibit 9: Provisions to be lower from last two quarters

	2Q21	3Q20	3Q21	YoY	QoQ
HDFC Bank	1.43%	1.30%	1.15%	-0.15%	-0.28%
ICICI Bank	1.84%	1.31%	1.73%	0.42%	-0.10%
Axis Bank	3.18%	2.52%	2.65%	0.12%	-0.53%
Kotak	0.72%	0.82%	0.98%	0.16%	0.26%
IndusInd	3.90%	2.01%	2.30%	0.29%	-1.60%
SIB	2.04%	1.62%	2.02%	0.39%	-0.03%
Federal	1.93%	0.54%	1.10%	0.56%	-0.83%
IDFC First Bank	0.84%	9.24%	1.00%	-8.24%	0.16%
SBI	1.76%	1.32%	1.80%	0.48%	0.04%
PNB	2.88%	3.90%	2.61%	-1.29%	-0.27%
BOB	1.79%	4.37%	1.67%	-2.70%	-0.12%

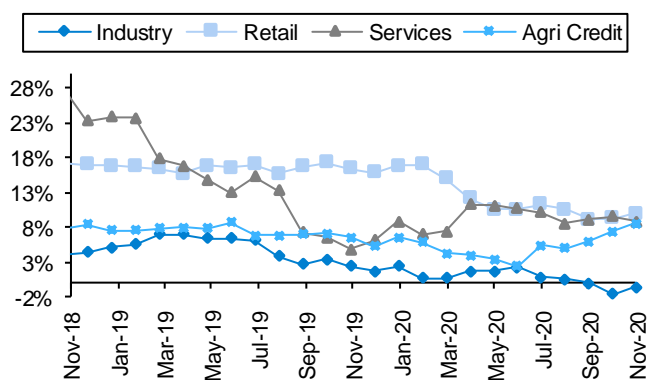
Source: Company, PL

Exhibit 10: Credit growth remains muted while deposit growth in double digits



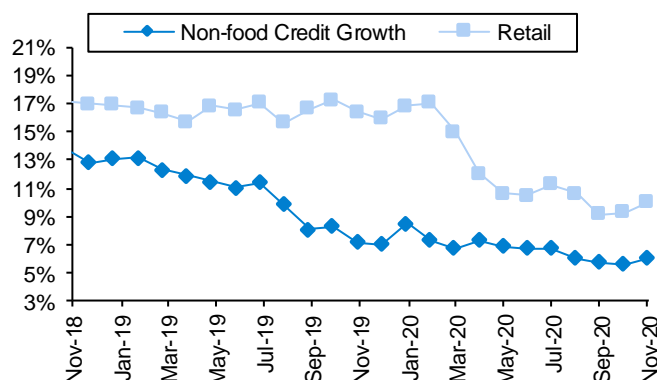
Source: RBI, PL

Exhibit 11: Agri/Retail aiding growth but retail still slow



Source: Company, PL

Exhibit 12: Retail showing very early signs of pick-up



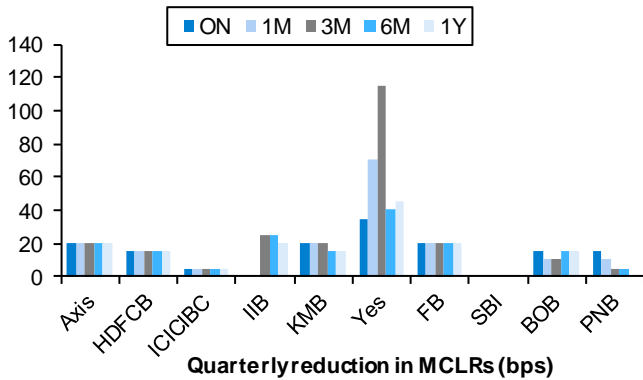
Source: Company, PL

Exhibit 13: Changes in bank MCLR – Marginal movements downwards

Banks	MCLR 1YR			% Change	
	Jun-20	Sep-20	Dec-20	3Months	6Months
HDFC Bank	7.65%	7.30%	7.25%	-0.05%	-0.40%
Axis Bank	7.75%	7.55%	7.45%	-0.10%	-0.30%
ICICI Bank	7.70%	7.40%	7.35%	-0.05%	-0.35%
KMB	7.75%	7.50%	7.35%	-0.15%	-0.40%
IndusInd Bank	9.15%	8.85%	8.65%	-0.20%	-0.50%
Yes Bank	9.40%	9.00%	8.55%	-0.45%	-0.85%
SBI	7.00%	7.00%	7.00%	0.00%	0.00%
Bank of Baroda	7.65%	7.55%	7.40%	-0.15%	-0.25%
Bank of India	7.70%	7.40%	7.35%	-0.05%	-0.35%
Punjab National Bank	7.60%	7.35%	7.35%	0.00%	-0.25%
Canara Bank	7.65%	7.40%	7.35%	-0.05%	-0.30%
Union Bank	7.60%	7.20%	7.20%	0.00%	-0.40%
Federal	8.50%	8.10%	7.90%	-0.20%	-0.60%
South Indian Bank	8.45%	8.20%	8.20%	0.00%	-0.25%
J&K Bank	7.80%	7.50%	7.50%	0.00%	-0.30%

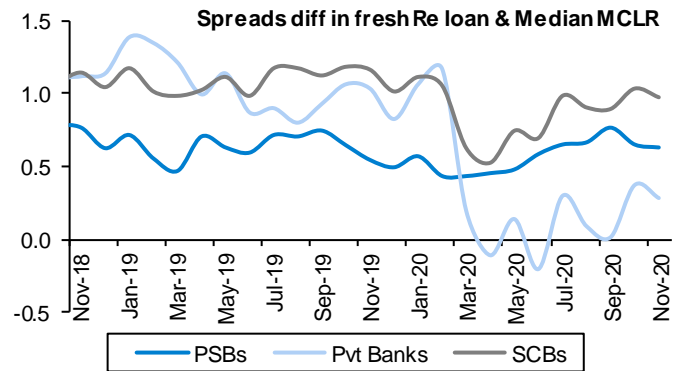
Source: Company, PL

Exhibit 14: MCLR reduction by around 20bps across



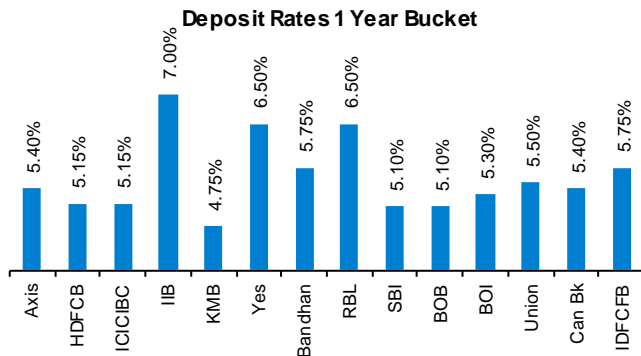
Source: Company, PL

Exhibit 15: Pvt banks spreads are improving post Mar'20



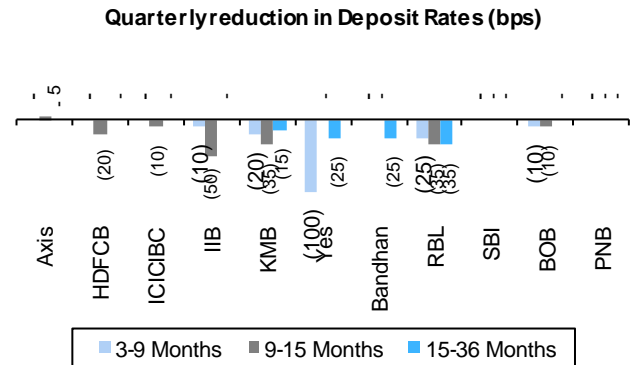
Source: RBI, PL

Exhibit 16: Majority of banks have lower deposit rates



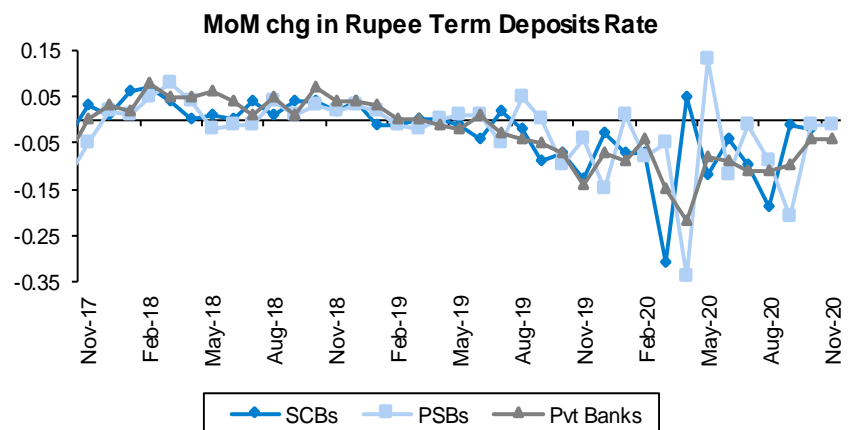
Source: Company, PL

Exhibit 17: Deposit rate cuts across industry but PSBs



Source: Company, PL

Exhibit 18: Cut in deposit rates have stabilized



Source: RBI, PL

Exhibit 19: Q3FY21 Result Preview (Private Banks)

Company Name	Q3FY21E	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	Remark
Axis Bank	NII (Rs mn)	75,461	64,530	16.9	73,261	3.0
	PPOP (Rs mn)	67,605	57,427	17.7	68,976	(2.0)
	Provisions (Rs mn)	39,683	34,709	14.3	45,807	(13.4)
	PAT (Rs mn)	20,746	17,570	18.0	16,827	23.3
	Loans (Rs bn)	5,994	5,501	9.0	5,764	4.0
	Margin (%)	3.56	3.57	(1)	3.58	(2)
	GNPA (%)	3.84	5.00	(116)	4.18	(34)
	Credit Cost (%)	2.65	2.52	12	3.18	(53)
HDFC Bank	NII (Rs mn)	166,571	141,729	17.5	157,764	5.6
	PPOP (Rs mn)	148,168	129,454	14.5	138,138	7.3
	Provisions (Rs mn)	31,020	30,436	1.9	37,035	(16.2)
	PAT (Rs mn)	87,662	74,165	18.2	75,131	16.7
	Loans (Rs bn)	10,820	9,360	15.6	10,383	4.2
	Margin (%)	4.20	4.20	-	4.10	10
	GNPA (%)	1.06	1.42	(36)	1.08	(2)
	Credit Cost (%)	1.15	1.30	(15)	1.43	(28)
ICICI Bank	NII (Rs mn)	96,604	85,453	13.0	93,661	3.1
	PPOP (Rs mn)	81,836	75,486	8.4	82,611	(0.9)
	Provisions (Rs mn)	29,255	20,832	40.4	29,953	(2.3)
	PAT (Rs mn)	40,923	41,465	(1.3)	42,513	(3.7)
	Loans (Rs bn)	6,754	6,357	6.3	6,526	3.5
	Margin (%)	3.59	3.77	(18)	3.57	2
	GNPA (%)	4.79	5.95	(116)	5.17	(38)
	Credit Cost (%)	1.73	1.31	42	1.84	(10)
IndusInd Bank	NII (Rs mn)	32,098	30,740	4.4	32,780	(2.1)
	PPOP (Rs mn)	26,562	27,456	(3.3)	28,520	(6.9)
	Provisions (Rs mn)	11,942	10,435	14.4	19,644	(39.2)
	PAT (Rs mn)	10,940	13,002	(15.9)	6,631	65.0
	Loans (Rs bn)	2,077	2,074	0.1	2,012	3.2
	Margin (%)	4.20	4.15	5	4.16	4
	GNPA (%)	1.85	2.18	(33)	2.21	(36)
	Credit Cost (%)	2.30	2.01	29	3.90	(160)
Kotak Mahindra Bank	NII (Rs mn)	39,287	34,295	14.6	39,132	0.4
	PPOP (Rs mn)	31,262	23,881	30.9	32,975	(5.2)
	Provisions (Rs mn)	5,211	4,440	17.4	3,686	41.4
	PAT (Rs mn)	19,494	15,959	22.2	21,845	(10.8)
	Loans (Rs bn)	2,120	2,168	(2.2)	2,048	3.5
	Margin (%)	4.45	4.69	(24)	4.52	(7)
	GNPA (%)	2.32	2.46	(14)	2.55	(23)
	Credit Cost (%)	0.98	0.82	16	0.72	26
IDFC First Bank	NII (Rs mn)	17,668	15,343	15.2	16,597	6.5
	PPOP (Rs mn)	4,704	6,817	(31.0)	3,423	37.4
	Provisions (Rs mn)	2,640	23,048	(88.5)	2,158	22.3
	PAT (Rs mn)	1,527	(16,389)	NA	1,014	50.6
	Loans (Rs bn)	1,056	998	5.8	1,025	3.0
	Margin (%)	4.60	3.86	74	4.57	3
	GNPA (%)	1.53	2.83	(130)	1.62	(9)
	Credit Cost (%)	1.00	2.92	(192)	0.84	16

Company Name	Q3FY21E	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	Remark
Federal	NII (Rs mn)	13,566	11,549	17.5	13,799	(1.7)
	PPOP (Rs mn)	9,105	7,438	22.4	10,065	(9.5)
	Provisions (Rs mn)	3,487	1,609	116.8	5,921	(41.1)
	PAT (Rs mn)	4,204	4,406	(4.6)	3,076	36.7
	Loans (Rs bn)	1,266	1,192	6.2	1,229	3.0
	Margin (%)	3.14	3.00	14	3.13	1
	GNPA (%)	2.59	2.99	(40)	2.84	(25)
	Credit Cost (%)	1.10	0.54	56	1.93	(83)
South Indian Bank	NII (Rs mn)	6,464	6,018	7.4	6,631	(2.5)
	PPOP (Rs mn)	3,925	3,832	2.4	4,140	(5.2)
	Provisions (Rs mn)	3,279	2,609	25.6	3,264	0.4
	PAT (Rs mn)	484	906	(46.6)	651	(25.7)
	Loans (Rs bn)	650	643	1.1	639	1.8
	Margin (%)	2.85	2.72	13	2.94	(9)
	GNPA (%)	4.67	4.96	(29)	4.87	(20)
	Credit Cost (%)	2.65	2.52	12	3.18	(53)

Source: Company, PL

Exhibit 20: Q2FY21 Result Preview (PSU Banks)

Company Name	Q3FY21E	Q3FY20	YoY gr. (%)	Q2FY21	QoQ gr. (%)	Remark
Bank of Baroda	NII (Rs mn)	75,015	71,291	5.2	75,075	(0.1)
	PPOP (Rs mn)	54,200	49,585	9.3	55,518	(2.4)
	Provisions (Rs mn)	28,274	71,554	(60.5)	30,016	(5.8)
	PAT (Rs mn)	16,981	(14,069)	(220.7)	16,786	1.2
	Loans (Rs bn)	6,765	6,545	3.4	6,699	1.0
	Margin (%)	2.90	2.80	10	2.86	4
	GNPA (%)	8.62	10.43	(181)	9.14	(52)
	Credit Cost (%)	1.67	4.37	(270)	1.79	(12)
Punjab National Bank	NII (Rs mn)	79,149	43,551	81.7	83,932	(5.7)
	PPOP (Rs mn)	55,468	37,629	47.4	56,749	(2.3)
	Provisions (Rs mn)	42,317	41,460	2.1	46,962	(9.9)
	PAT (Rs mn)	8,548	(4,923)	(273.6)	6,208	37.7
	Loans (Rs bn)	6,494	4,255	52.6	6,527	(0.5)
	Margin (%)	3.15	2.27	88	3.21	(6)
	GNPA (%)	10.74	16.30	(556)	13.43	(269)
	Credit Cost (%)	2.61	3.90	(129)	2.88	(27)
State Bank of India	NII (Rs mn)	279,016	277,788	0.4	281,815	(1.0)
	PPOP (Rs mn)	163,035	182,226	(10.5)	164,598	(0.9)
	Provisions (Rs mn)	105,806	72,529	45.9	101,183	4.6
	PAT (Rs mn)	42,921	55,834	(23.1)	45,742	(6.2)
	Loans (Rs bn)	23,512	21,999	6.9	22,939	2.5
	Margin (%)	3.10	3.05	5	3.12	(2)
	GNPA (%)	5.06	6.94	(188)	5.28	(22)
	Credit Cost (%)	1.80	1.32	48	1.76	4

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Axis Bank	Accumulate	570	505
2	Bank of Baroda	BUY	65	44
3	Federal Bank	BUY	69	52
4	HDFC Bank	BUY	1,385	1,203
5	HDFC Life Insurance Company	Reduce	600	717
6	ICICI Bank	BUY	614	502
7	ICICI Prudential Life Insurance Company	Reduce	485	526
8	IDFC First Bank	Sell	21	32
9	IndusInd Bank	BUY	720	586
10	Kotak Mahindra Bank	Accumulate	1,503	1,417
11	Max Financial Services	Accumulate	760	727
12	Punjab National Bank	Hold	30	28
13	SBI Life Insurance Company	Accumulate	1,026	936
14	South Indian Bank	BUY	10	7
15	State Bank of India	BUY	290	205

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Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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