July 8, 2021

Sluggish quarter due to pandemic; focus on outlook

Q1FY22 saw the ups and downs of partial lockdowns post a smooth recovery in Q4FY21. RBI again supported by offering extension of ECLGS schemes and government raising the cap to ₹ 4.5 lakh crore. With the second wave of the pandemic forcing lockdowns yet again, the road to recovery has been elongated as bank credit offtake has failed to garner momentum and has remained in the range of 5.5-6%. **However, given muted credit growth, absence of substantial treasury and revival in opex is seen keeping operational performance moderate, profitability is expected to witness a healthy surge led by lower provision compared to the last fiscal. On asset quality, divergence is expected in delinquencies based on loan mix wherein exposure to MSME & MFI segments could remain under pressure with focus on collection efficiency, especially in June 2021 and July 2021.**

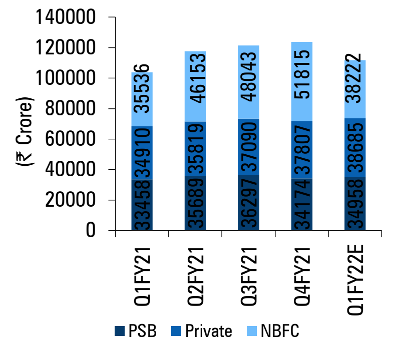
For banks and NBFCs, following are key expected highlights:

- For our coverage universe, credit growth is expected to be in line with industry at ~7.6% YoY to ₹ 48 lakh crore, driven by retail (home, auto & gold loan) and MSME segment. MSME segment should see steady credit offtake on account of ECLGS scheme. Private banks, with healthy capitalisation, may grow at ~8-10%, gaining market share from PSBs. Sequentially, growth is expected to be muted at 1-2% as Q1 is generally a slow quarter and lockdowns have further added pressure
- On the deposit front, traction is expected to remain healthy at ~10-11% YoY mark, with largely stable CASA to be maintained by most banks
- On the asset quality front, as lead indicators have suggested collection efficiencies have declined by 10-35% in April and May 2021 compared to March 2021 with MFIs seeing steepest decline of ~35%. There has been improvement in June 2021 on an MoM basis but still collections remain below March levels. For our coverage, GNPA ratio is set to increase ~20 bps QoQ to 5.3% in Q1FY22E. Large private banks are seen to be better placed with ~5-15 bps sequential rise in GNPA (MSME & unsecured retail being major contributor). Mid-sized banks with focus on MSME segment like DCB Bank, City Union Bank and banks with MFI exposure like Bandhan and IndusInd Bank are expected to see higher delinquencies
- Given provision buffer created in previous quarters, banks are well placed to absorb NPA volatility. Anticipation of higher slippages is seen keeping credit cost elevated in Q1FY22E, though lower compared to Q1FY21
- Steady MCLR & deposit rates, stable CD ratio and absence of compound interest reversal for large exposure is seen to offset incremental slippages
- Hardening of yields may keep treasury income muted. Disbursement related and cross sell fees may witness impressive revival YoY but remain lower QoQ due to seasonality. Opex should be sequentially steady as most banks were functional during current lockdowns
- **Muted credit growth and treasury performance coupled with increased opex is seen keeping operational performance moderate (PPP expected 3.5% YoY at ₹ 52009 crore). However, profitability is expected to witness healthy surge at 52.5% YoY to ₹ 21315 crore, led by lower provision**

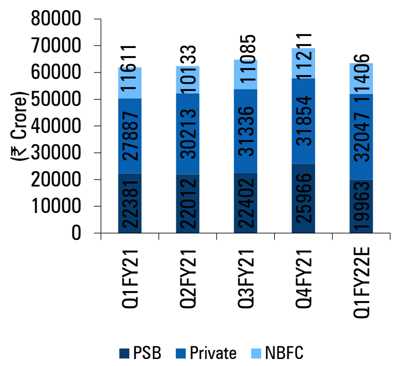
Outlook on business growth, road to recovery to be seen

Given adequate provision and capital buffer coupled with diversified asset mix and low cost liabilities franchise, large private banks like HDFC bank, Axis Bank are expected to report a steady performance. With exposure to more vulnerable segment, mid-sized banks, small finance banks (SFB) and NBFC MFI are seen reporting a relatively weaker performance. Management commentary on business growth outlook would be important factor to watch.

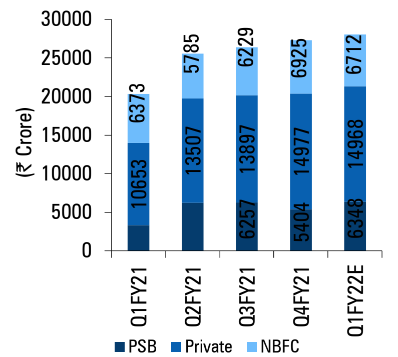
NII



PPP



PAT



Top Picks

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SBI Life

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Exhibit 1: Estimate for Q1FY22E (₹ crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ	Q1FY22E	YoY	QoQ
Public Sector Banks									
Bank of Baroda	7352.5	7.9%	3.5%	4260.5	-1.4%	-32.0%	758.8	NA	NA
SBI	27605.7	3.6%	2.0%	15702.0	-13.1%	-20.3%	5589.0	33.4%	-13.4%
Total	**34958.2**	**4.5%**	**2.3%**	**19962.6**	**-10.8%**	**-23.1%**	**6347.9**	**90.9%**	**17.5%**
Private Banks									
Axis Bank	7958.4	13.9%	5.3%	6851.9	17.2%	-0.2%	2794.1	151.2%	4.4%
DCB	323.1	5.3%	3.8%	204.9	7.2%	-0.1%	71.9	-9.4%	-7.7%
Federal Bank	1457.3	12.4%	2.6%	877.7	-5.9%	-0.8%	447.9	11.8%	-6.3%
HDFC Bank	17191.0	9.7%	1.7%	15356.8	19.7%	1.7%	8511.3	27.8%	-2.2%
IDFC Bank	1959.4	20.5%	0.0%	700.7	-21.4%	8.5%	99.5	6.3%	-22.2%
Indusind Bank	3662.8	10.7%	5.1%	3092.7	8.1%	-0.2%	856.8	86.0%	-2.8%
Kotak Bank	3810.9	2.3%	-8.0%	2980.6	13.6%	-6.6%	1744.4	40.2%	-7.6%
Bandhan Bank	2047.3	13.0%	16.5%	1825.1	15.2%	5.5%	377.3	-31.4%	266.2%
CSB Bank	274.6	48.2%	-0.4%	156.3	21.1%	21.2%	64.7	20.8%	50.8%
Total	38684.8	10.8%	2.3%	32046.8	14.9%	0.6%	14967.9	40.5%	-0.1%
Total Banks	**73643.0**	**7.7%**	**2.3%**	**52009.4**	**3.5%**	**-10.0%**	**21315.7**	**52.5%**	**4.6%**
NBFCs									
HDFC	4054.5	19.5%	3.5%	4568.1	-4.9%	-1.6%	3055.4	0.1%	-3.9%
Bajaj Finance	5040.0	21.4%	8.3%	3399.0	13.5%	11.3%	1409.2	46.4%	4.6%
Bajaj Finserv	13846.2	-2.4%	-13.0%	2318.5	-9.7%	-0.7%	1043.3	-14.1%	-5.4%
SBI Life Insurance	7867.2	3.7%	-44.8%	367.0	-39.8%	1.5%	403.1	3.1%	-24.8%
HDFC Life Insuranc	6844.6	19.6%	-45.1%	312.9	24.3%	-4.7%	470.2	4.2%	20.1%
HDFC AMC	569.6	15.9%	-5.9%	440.4	15.8%	-10.3%	330.3	9.3%	-10.3%
Total	**38222.1**	**7.6%**	**-26.2%**	**11405.9**	**-1.8%**	**1.7%**	**6711.6**	**5.3%**	**-3.1%**

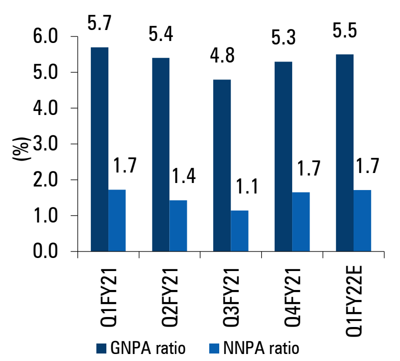
Source: Company, ICICI Direct Research

Exhibit 2: Bank Specific Views

Banks	Remarks
Bank of Baroda	BoB is expected to post a below industry average loan growth at 2% YoY levels as Q1 usually is modest in terms of business growth while lockdowns due to second wave also keep growth subdued. Deposits are expected to grow 6.6% YoY while CASA should be steady sequentially. NII is expected to grow 6.1% YoY despite modest credit growth on account of sequential expansion of NIMs by 7 bps. Credit cost is expected to remain at an elevated 45 bps. On the asset quality front, some weakness in MSME book (~15% of domestic loans) is expected due to impact of pandemic
State Bank of India	Loan growth of 5.5% YoY to ₹ 25140 billion, 11% YoY for deposits is expected. NII may grow 4% YoY to ₹ 276 bn, led by lower interest reversals QoQ. Non interest income is seen at ₹ 99 bn. With cost of deposits stabilising, NIMs are seen to be stable. We factor in moderate slippages due to partial lockdowns and overall provisions at ₹ 8200 crore vs. ₹ 11000 crore QoQ. Hence, PAT is likely to grow to ₹ 5589 crore, up 33% YoY. Subsidiaries performance is expected to be strong across the board
Axis Bank	For Axis Bank, net interest income is expected to grow 14% at ₹ 7958 crore driven by 4 bps expansion in NIM as impact of interest reversals due to relief would not be seen. Loan growth for the bank is expected to come in at 10.5% YoY while sequentially it is seen to be flat. Growth should be driven by retail segments like home loans. Deposits are expected to rise 12% YoY to ₹ 7.03 lakh crore with steady CASA levels of ~45% sequentially. Credit cost should be elevated at 50 bps for the quarter with near term asset quality especially in MSME segment to see some deterioration. GNPA ratio overall is expected to rise marginally by 10 bps QoQ to 1.17%
DCB Bank	Asset quality performance would be key to watch for DCB Bank as the company has meaningful exposure towards loans that could come under stress (mortgage + SME). We believe GNPA ratio for the bank should increase by around 25 bps to 4.34% led by slippages in MSME and mortgage business loans. Overall loan growth should be flattish (up 1% QoQ) at ₹ 26218 crore while deposits are expected to rise 3.4% YoY. NII growth trajectory is expected to rise to 5.3% YoY due to slight expansion in NIMs. Credit cost is expected to be high at ~40 bps considering stress on book. Cost to income is expected to remain steady sequentially at 54% levels
HDFC Bank	Strong credit growth of 14.4% YoY to ₹ 1147500 crore stayed way higher than system growth at 5.5% YoY. Deposit grew 13% YoY with CASA ratio at 46%. NII may grow 9.7% YoY to ₹ 17191 crore with margins expected to be stable at 4.3%. Other income is expected to moderate QoQ due to partial lockdowns with PAT growth expected at 27 % YoY to ₹ 8511 crore. Asset quality is expected to be stable with GNPA ratio seen at 1.35%, NNPA at 0.42%. We expect provision to moderate to ₹ 3902 crore
CSB Bank	CSB Bank is expected to post healthy NII growth of 54% YoY aided by healthy 23.7% loan growth and stable margins at around 5.6% levels. Lower treasury income is expected to keep overall other income growth limited but a slight reduction in operating expenses is expected to keep overall C/I ratio largely stable. Asset quality performance would be key monitorable as exposure to SME and gold (mostly small business loan) is meaningful. Credit cost is expected to be at 50 bps for the quarter while net profit is expected to rise 26% YoY to ₹67.6 crore. Deposit growth as per provisional figure is 14% YoY for the quarter driven by CASA growth of 29.2% YoY

Source: Company, ICICI Direct Research

Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q1FY22E (₹ crore)	GNPA	QoQ %	NNPA	QoQ%
PSU coverage				
Bank of Baroda	68441	2.7	22585	3.6
SBI	131886	4.3	38010	3.3
Private coverage				
Axis Bank	26327	4.0	7273	4.0
DCB Bank	1138	5.0	624	5.0
IndusInd Bank	6027	4.0	1521	3.0
Federal Bank	4786	4.0	1632	4.0
HDFC Bank	15586	3.3	4805	5.5

Exhibit 3: Bank Specific views continued…

Banks	Remarks
Federal Bank	Key provisional figures indicate sequential decline in loan book by 1.6% (up 8% YoY) to 1.32 lakh crore as Q1 is generally a slow quarter while impact of lockdowns due to pandemic could add to sluggishness. NII is expected to grow 12.4% YoY to ₹ 1457 crore helped by 6 bps QoQ NIM expansion to 3.42%. Other income is expected to decline ~9.7% YoY due to lower treasury profits. C/I ratio may remain steady at 53.8% with credit cost remaining elevated at 20 bps. Asset quality performance, especially in the business banking segment, would be key to watch
Kotak Mahindra Bank	Given partial lockdowns and seasonally weak quarter, Kotak Bank is expected to witness sequential de-growth in absolute advances to ₹ 218278 crore. However, YoY growth is expected to increase to 7%, due to de-growth in last Q1FY21. Deposit growth is seen at 7% YoY to ₹ 279830 crore with CASA in 59-60% band. Likewise, NII is seen remaining muted at 2.3% YoY growth aided by steady NIMs. Partial lockdowns are expected to impact other income trajectory. Credit cost is expected to come in at 30 bps for the quarter. Thus, PAT is expected at ₹ 1744 crore. Given the portfolio mix and under-writing standards, marginal impact is seen on asset quality with GNPA ratios expected at 3.4-3.5%
IndusInd Bank	In line with leading industry trends, provisional figures for IndusInd Bank, ahead of results, suggest subdued business activity on a sequential basis with loan growth showing modest decline of 1% QoQ to ₹ 2.11 lakh crore. Deposit growth was at 4% QoQ and 26% YoY to ₹ 2.67 lakh crore with improvement in CASA ratio to 42.1% vs. 40.1% a year ago. NII is expected to grow 10.7% YoY to ₹ 3662 crore with stable margins. Cost to income is expected to remain steady at ~42.5%. Credit cost should be elevated at 90 bps while total PAT is estimated at ₹ 856 crore. IndusInd Bank has ~12% exposure to MFI segment, which could see some stress in the quarter as this segment has been impacted the most due to lockdowns
Bandhan Bank	For Bandhan Bank, NII is expected to grow 14% YoY to ₹ 2067 crore with meaningful improvement in NIMs at 7.2% as impact of interest reversals due to heavy NPA accretion and relief due to waiver had impacted NIMs in the previous quarter. Cost to income should come in at ~28% mark with lower business (on ground collections, etc). Credit cost is expected to remain elevated at 1.5% given high exposure to micro finance loans. We believe recent Assam government's announcement on supporting stress for microfinance borrowers bodes well for the bank. However, 67% exposure to MFI segment along with challenges in the key state of West Bengal would call for a cautious approach on asset quality front
IDFC First Bank	IDFC First Bank is estimated to post NII growth of 20.5% YoY to ₹ 1959 crore on the back of 9% YoY growth in gross funded assets at ₹1.13 lakh crore and 9 bps sequential expansion in NIMs at 5.19%. C/I ratio is expected at 75% with credit cost elevated around 50 bps for the quarter as provision buffer was utilised in Q4. Net profit for the bank is expected at ₹ 99.5 crore. Growth in funded assets is largely driven by retail assets, which now comprises 68% of total. Customer deposit growth (provisional figure) is at 35.5% YoY to ₹ 84583 crore, mainly driven by 97.7% surge in CASA. Asset quality performance would be key to watch considering impact on small borrowers during lockdown

Source: Company, ICICI Direct Research

Exhibit 4: NBFC Specific views

NBFC	Remarks
HDFC Ltd	Loan growth is expected to surge to ~12% YoY to ₹ 507800 crore, led by strong real estate sales. Hence, growth in NII is seen at 19.5% YoY to ₹ 4055 crore. NIM is expected to be flat at ~3.2%. Dividend income of ₹ 160 crore and lower profit from sale of investments at ₹ 263 crore led by HDFC Ergo stake sale are expected to lead to overall other income at ₹ 1065 crore. Provisions are seen at ₹ 600 crore after higher provisions in Q1FY21 and Q4FY21. Accordingly, standalone profit is seen flat at ~₹ 3055 crore on YoY basis. Restructuring in wholesale loan portfolio to be watched. Subsidiaries are expected to continue their strong performance
HDFC AMC	Keeping in perspective steep correction in equities in Q4FY20, sequential growth is preferred to gauge performance. AUM is expected to increase 6% QoQ to ₹ 4.2 lakh crore, primarily contributed by debt schemes. A steady equity market is seen keeping sequential traction in equity AUM muted while YoY growth optically looks impressive. Moderation in market share is expected to continue in Q1FY22. Steady AUM mix is seen keeping revenue at ₹ 524 crore i.e. ~50 bps of AUM (up 27% YoY, 4% QoQ). Steady other income and controlled expense trajectory is seen leading PBT to ₹ 440 crore, i.e. 42 bps of AUM. PAT is seen witnessing single digit growth at 5% to ₹ 330 crore, ~31 bps of closing AUM
Bajaj Finance	Despite partial lockdowns, growth has been relatively better with credit growth reported at 15% YoY, up 4% QoQ to ₹ 159000 crore. New loan addition was at 46 lakh from 54 lakh QoQ. NII is expected to grow 21% YoY to ₹ 5050 crore. Gradual utilisation of liquidity buffer is expected to enable NIM stability. Provisions may stay elevated at ₹ 1520 crore as the management raised Q1 credit cost guidance. Asset quality is expected to report some surge due to lockdowns but strong provisions, write-off would keep headline GNPA stable. PAT is estimated to rise 46% YoY to ₹ 1409 crore
Bajaj Finserv	Consolidated revenue is expected to remain steady at ₹ 13846 crore, led by a pick-up in all business - lending, life, general insurance, though absence of elevated investment gains in Q1FY21 may keep optical revenue stable. Finance business may see ~7% YoY increase in topline at ₹ 7103 crore, led by traction in AUM. Focus on individual regular business and improvement in renewals would aid life insurance premium growth at ~50% YoY while healthy auto volumes, health insurance are expected to support general insurance business with premium growth at ~9% YoY. However, higher provision in lending business, absence of elevated investment gains in Q1FY21 are expected to keep consolidated earnings at ₹ 1043 crore, down 14% YoY. QoQ, it may see a revival in all businesses with marginal improvement in profitability
SBI Life Insurance	Continued revival in individual business, focus on single premium is expected to get partially offset by partial lockdowns keeping new business premium (NBP) at ~5% YoY to ₹ 3197 crore. Accretion of regular premium is seen keeping annualised premium equivalent (APE) growth higher at 19.4% YoY to ₹ 1535 crore. Pick up in regular premium, offset by lower traction in single premium business, may keep overall premium growth at 4% YoY to ₹ 7867 crore. Given yields, equities being in narrow range, investment income is seen staying steady QoQ. Opex continues to remain a focus area, though claims are seen remaining higher led by second wave, resulting in surplus at ₹ 367 crore. Subsequently, earning is expected at ₹ 403 crore, up 3% YoY. Management commentary on growth, amount of claim to remain in focus
HDFC Life Insurance	Premium growth is expected to continue at a healthy pace of 20% YoY to ₹ 6845 crore, led by healthy persistency and ~24% YoY growth in NBP. Focus on non participating individual business and group premium (led by gradual pick up in credit off-take) is seen leading to healthy traction in NBP. Consequently, the business mix is expected to remain steady. Opex ratio is expected to remain steady while claims are seen remaining high led by second wave. Consequently, surplus is expected at ₹ 313 crore, up 24% YoY. Overall, steady pick up in business, focus on product mix and base effect are seen favouring earnings at ₹ 470 crore, up 4% YoY
MCX	In Q1FY22E, YoY performance is expected to look optically better due to national lockdown last year though QoQ decline in volume, led by incremental margin requirement, is seen keeping operating performance moderate. Anticipation of economic revival led to rise in commodity prices, which is seen being offset by a fall in volumes. Consequently, turnover is reported to decline 8% QoQ to ₹ 19.2 lakh crore. With revenue yield staying broadly steady, operating revenue is seen at ₹ 89 crore, down 8% QoQ but up 22% YoY. Opex is expected to remain steady though a sequential decline in topline is expected to keep EBITDA at ₹ 38 crore, down 15% QoQ. With other income expected at ₹ 23 crore, earnings is expected to grow 12% QoQ to ₹ 43 crore

Source: Company, ICICI Direct Research

Exhibit 5: ICICI Direct Research coverage universe (BFSI)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
BoB (BANBAR)	87	100	Buy	449	1.6	9.5	14.1	54.3	9.1	6.1	0.8	0.7	0.7	0.1	0.4	0.6	1.1	6.2	8.6
SBI (STABAN)	434	500	Buy	3872	21.2	29.9	32.7	20.5	14.5	13.3	1.8	1.6	1.5	0.4	0.6	0.6	7.8	10.0	10.0
Axis Bank (AXIBAN)	766	900	Buy	2347	25.2	47.7	58.7	30.4	16.1	13.1	2.7	2.3	2.0	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	166	200	Buy	123	8.4	10.0	12.0	19.8	16.5	13.8	2.5	2.1	1.9	1.2	1.3	1.4	11.2	11.9	12.6
DCB Bank (DCB)	104	110	Buy	32	10.8	12.3	15.6	9.6	8.5	6.7	1.1	0.9	0.8	0.9	0.9	1.1	10.2	10.5	11.8
Federal Bank (FEDBAN)	87	95	Buy	174	8.0	11.2	13.7	10.9	7.8	6.3	1.2	1.1	1.0	0.8	1.0	1.1	10.4	13.2	14.7
HDFC Bank (HDFBAN)	1,534	1,700	Buy	8479	56.4	66.4	77.8	27.2	23.1	19.7	4.2	3.8	3.5	1.9	1.9	2.0	16.6	17.0	17.9
IndusInd Bank (INDBA)	1,054	1,100	Buy	815	36.7	63.6	76.3	28.7	16.6	13.8	2.0	1.7	1.5	0.8	1.3	1.4	7.3	10.6	11.3
Kotak Bank (KOTMAH)	1,760	2,040	Buy	3488	35.1	43.2	51.4	50.1	40.8	34.2	5.7	5.0	4.4	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	323	330	Hold	520	14.7	24.7	31.4	21.9	13.0	10.3	3.7	2.9	2.3	2.3	3.2	3.3	15.0	21.9	22.2
IDFC First (IDFBAN)	54	65	Buy	335	0.8	1.6	2.9	67.8	34.1	18.7	1.9	1.5	1.4	0.3	0.6	0.9	2.7	4.6	7.1
CSB Bank (CSBAN)	355	330	Buy	6,167	12.6	19.2	26.0	28.2	18.5	13.7	3.3	2.9	2.4	1.0	1.3	1.4	10.5	14.2	16.6
HDFC (HDFC)	2,523	3,100	Buy	4,555	59.8	75.6	87.7	42.2	33.4	28.8	4.2	4.0	3.8	2.0	2.3	2.3	11.1	12.3	13.5
Bajaj Finserv (BAFINS)	12,357	11,500	Hold	1,967	253.3	305.6	405.3	48.8	40.4	30.5	5.4	4.8	4.1	1.4	1.4	1.6	11.8	12.6	14.6
Bajaj Finance (BAJFI)	6,194	5,900	Buy	3,738	73.5	102.9	131.7	84.3	60.2	47.0	10.4	9.1	7.0	2.2	3.3	3.5	12.1	15.6	16.3
HDFC AMC (HDFAMC)	2,912	3,000	Hold	620	62.2	68.7	77.1	46.8	42.4	37.8	13.0	11.3	9.8	0.3	0.3	0.3	27.8	26.6	26.0
Nippon AMC (RELNIP)	378	360	Hold	234	11.1	11.2	12.7	34.1	33.8	29.8	7.5	7.0	6.6	0.3	0.3	0.3	18.7	15.9	15.3
SBI Life Insurance	1,013	1,100	Buy	1,013	14.6	20.2	23.5	69.6	50.2	43.1	3.3	2.8	2.5	0.8	0.9	0.9	2.8	18.2	18.6
HDFC Life	686	820	Buy	1,387	6.7	7.9	8.1	101.8	87.2	84.8	5.2	4.5	3.9	0.9	0.9	0.8	17.6	17.4	16.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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