

## BFSI - Banks

Refer to important disclosures at the end of this report

# Q3 preview: Sustained growth, improving asset quality to pump-up earnings

- **Sustained healthy credit growth in Q3, but deposit growth drags:** Systemic credit growth has slightly moderated from the Oct highs of 18%, but remains at healthy levels of 17.4%, as on 16-Dec-2022. For our coverage universe, credit growth stays strong at 19% YoY in 3Q. Overall growth remains broad-based, with corporate backing up the already-healthy retail growth. That said, some moderation is expected in the near term, with the rate effect beginning to play out on certain retail products like mortgages and car loans. Among banks that have provided business updates, HDFCB has disappointed on growth mainly due to deceleration in corporate credit growth, while RBL, IIB, Equitas SFB, AU SFB and Federal Bank reported in-line to slightly better than expected growth. We expect ICICI Bank, SBI and BOB to also report healthy credit growth. However, overall deposit growth for most banks has been weak, thus leading to deposit rate hikes. Reportedly, banks have also resorted to bulk deposits to fund the strong credit growth.
- **NPAs likely to continue declining, aided by contained slippages/better recoveries:** For our coverage universe, we expect overall GNPA ratio to further moderate by 54bps QoQ (33bps QoQ ex-Yes Bank that has transferred Rs480bn of NPA to an ARC) to 4.1%, led by lower slippages, better recoveries and accelerated write-offs. Given this, coupled with healthy provision buffers being in place, we expect overall credit cost to moderate and thus support profitability. The long-awaited NARCL transfer for PSBs is picking up, while corporate (including Reliance Home Finance, Reliance Infratel, Reliance Capital, SKS Power, SREI Group, Religare Finvest and McLeod Russel) resolutions (NCLT/non-NCLT) too are showing signs of pick-up; these should materialize in the next 6-9 months and thus pump-up the recovery from w-off a/cs. ILFS, Future Retail and some more power/infra accounts, too, should see resolution in due course.
- **Margin performance to be a mixed bag in 3Q, while lower LLP to mainly boost profitability:** Unlike 2Q, when most banks reported healthy margin uptick due to faster asset re-pricing and better LDR, we expect 3Q to see a mixed performance, as cost pressure begins to build-up. With largely-flat G-Sec yields, MTM losses would remain contained for most banks, while opex is expected to stay largely elevated in H2 due to investment in franchisees/technology by private banks and wage revision provision by PSBs, leading to a moderate 15% YoY PPOP growth. However, provisions will continue to moderate due to deceleration in NPAs and healthy provision buffers at banks, leading to 31% YoY profit growth for our coverage universe. Among large PVBs, ICICI Bank and Axis Bank would report healthy profitability, while HDFCB/KMB would be relatively weaker. Among small/mid-size banks, RBL, KVB and Equitas SFB would report a healthy earnings trajectory, while Bandhan Bank may see lower earnings due to higher provisions. Among PSBs, BOB, Indian Bank and SBI are likely to show strong earnings growth.
- **Subsequent to margin performance, the accelerating stress resolution would emerge as a new catalyst for Banking:** The banking sector has been a clear outperformer, on the back of strong credit growth and margin delivery aided by asset re-pricing. After a long time, PSBs too joined the party due to a sharp margin uptick. We believe the margin-improvement story has still some steam left, but accelerating asset quality resolutions are set to emerge as a key catalyst for the banking sector which would lead to further valuation uptick. Thus, we retain our positive stance on the sector. Among large PVBs, ICICI Bank, Axis Bank and IIB remain our preferred picks, while we favor Federal Bank and KVB among small-to-mid size banks. Banks may remain under pressure amid weak earnings, but hope remains abundant as the NPA formation moderates and business growth picks-up. Among PSBs, we still prefer SBI, BOB and Indian Bank.

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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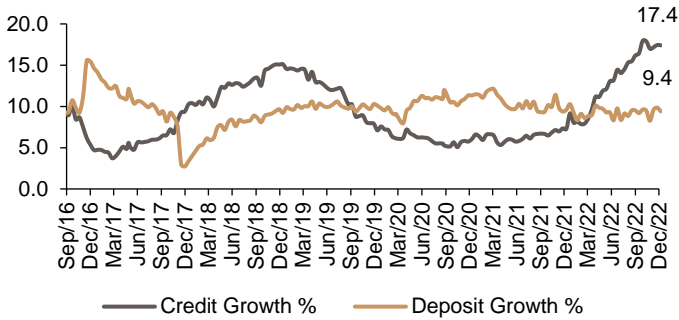
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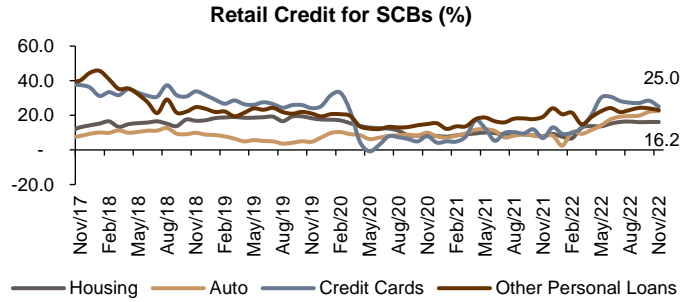
# Story in Charts

**Exhibit 1: Credit growth continues to accelerate, while deposit growth lags**



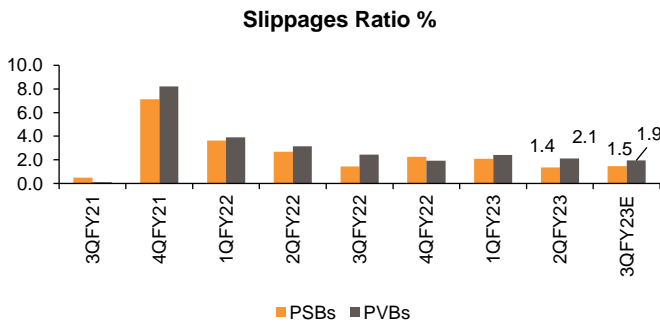
Source: RBI, Emkay Research

**Exhibit 2: Retail credit growth remains robust amid growth across segments**



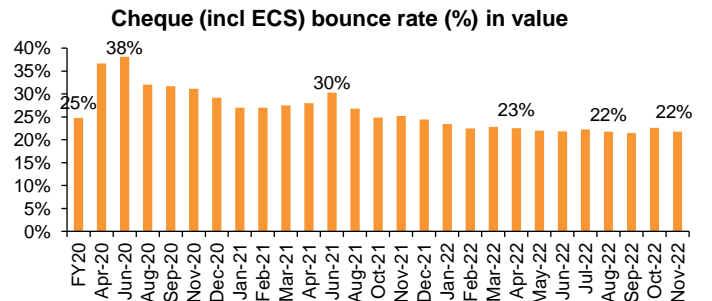
Source: RBI, Emkay Research

**Exhibit 3: Fresh NPA formation to remain contained**



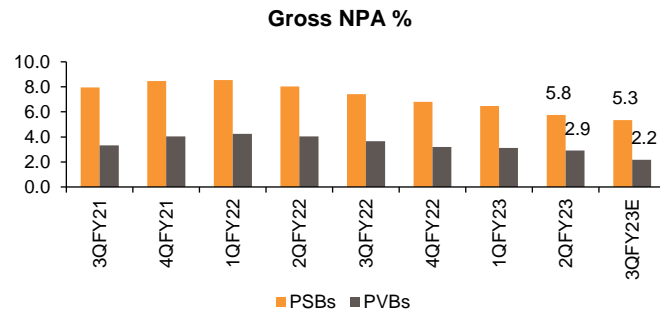
Source: Company, Emkay Research

**Exhibit 4: Cheque bounce rate remains stable at 22% indicating no fresh signs of stress**



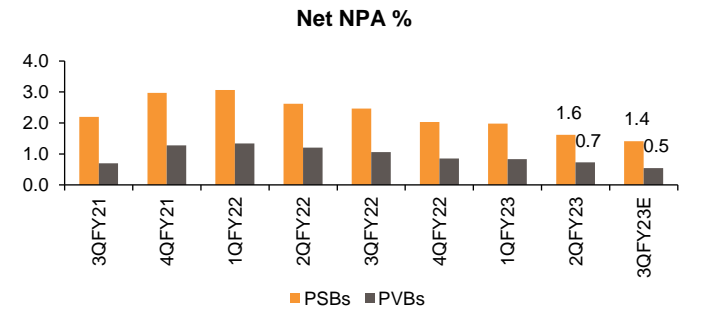
Source: NPCI, Emkay Research

**Exhibit 5: GNPA to moderate due to lower slippages and better recoveries/w-offs**



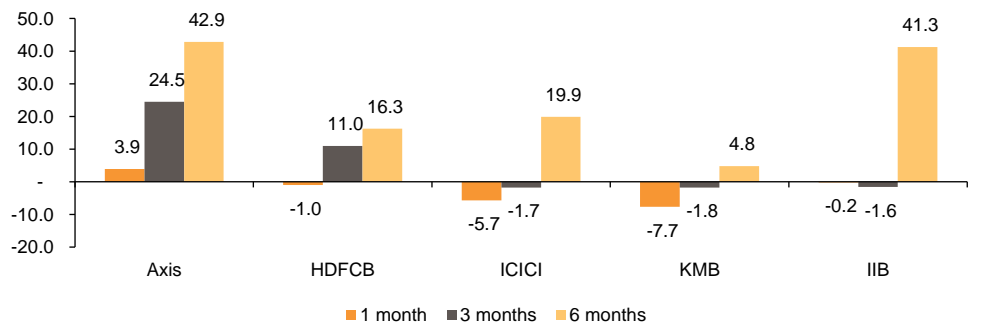
Source: Company, Emkay Research

**Exhibit 6: Moderating GNPA ratio with better growth along with strong PCR should lead to lower NNPA**



Source: Company, Emkay Research

**Exhibit 7: Banking stocks performed well recently, thus erasing any sector-related macro-concerns**



Source: Company, Emkay Research

## Exhibit 8: Valuation summary of banks under our coverage

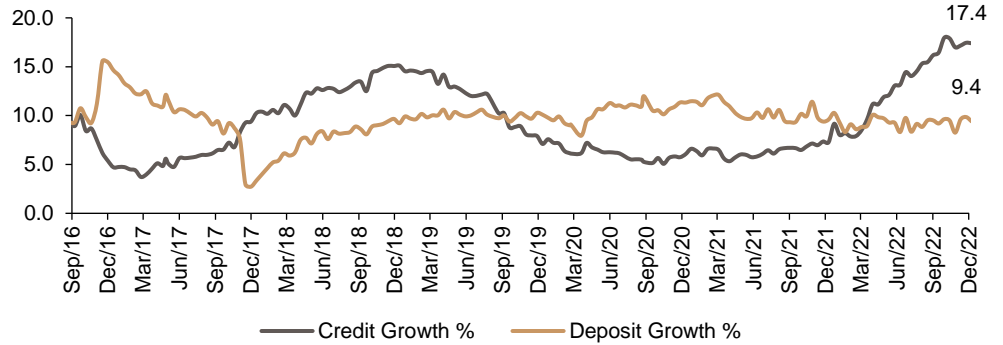
Companies (Rs mn)	Reco	CMP (Rs/Sh)	Market Cap Rs bn	RoA (%)			RoE (%)			P/ABV (x)			ABV (Rs)			EPS (Rs)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
<b>Large PVBs</b>																		
AXIS BANK	Buy	941	2,894	1.6	1.7	1.7	16.1	16.7	17.0	2.0	1.7	1.4	427.1	504.3	599.3	65.4	79.7	96.0
HDFCB	Buy	1,594	8,890	1.9	1.9	1.9	17.0	17.3	17.4	3.0	2.6	2.2	497.7	580.6	677.4	79.5	94.6	111.4
ICICI BANK	Buy	871	6,073	2.0	2.0	2.0	16.9	17.6	17.9	2.4	2.1	1.8	269.7	314.0	365.9	43.6	52.5	62.2
INDUSIND	Buy	1,182	917	1.7	1.8	1.8	14.3	16.0	16.6	1.8	1.6	1.4	659.5	755.9	870.7	93.1	118.0	141.3
KOTAK MAH BANK	Buy	1,789	3,553	2.1	2.1	2.1	12.9	13.3	14.0	2.9	2.6	2.4	399.2	443.2	494.3	49.7	57.0	66.9
YES BANK	Sell	21	605	0.4	0.6	0.8	3.4	4.9	6.7	1.4	1.5	1.4	15.3	14.5	15.5	0.5	0.7	1.0
<b>Small-to-Mid PVBs</b>																		
CUB	Buy	175	130	1.6	1.6	1.6	14.5	14.8	15.4	2.0	1.7	1.5	89.5	103.3	119.4	13.7	15.7	18.4
DCB	Sell	128	40	0.9	0.9	0.9	10.4	11.0	12.0	1.0	0.9	0.8	124.2	140.7	158.8	13.4	15.6	18.8
FB	Buy	135	285	1.2	1.2	1.2	14.1	15.0	15.8	1.4	1.2	1.0	93.6	106.6	122.3	13.1	15.7	18.8
KVB	Buy	110	88	1.2	1.3	1.3	12.5	14.5	15.3	1.1	1.0	0.8	99.4	113.9	131.6	12.5	16.3	19.6
RBL	Buy	185	111	0.8	1.0	1.2	6.8	9.1	11.6	0.9	0.8	0.7	215.2	234.6	261.1	14.8	21.2	29.8
<b>New-Age PVBs/SFBs</b>																		
AU SFB	Hold	626	417	1.7	1.7	1.7	15.2	15.3	16.8	4.0	3.7	3.2	157.9	170.4	196.1	20.9	25.2	31.7
BANDHAN BANK	Buy	243	392	1.5	2.2	2.6	12.7	19.0	22.1	2.1	1.8	1.4	116.9	138.8	170.1	14.5	25.2	35.3
EQUITAS SFB	Buy	58	73	1.6	1.8	2.0	10.4	13.2	15.7	1.7	1.4	1.2	35.2	40.8	48.2	3.7	5.3	7.3
UJJIVAN SFB	Hold	29	57	3.1	2.5	2.1	26.0	20.2	18.9	1.5	1.3	1.2	19.6	22.6	25.2	4.5	4.3	4.6
<b>PSBs</b>																		
BOB	Buy	184	949	0.9	0.9	1.0	12.9	14.4	14.9	1.0	0.9	0.8	169.9	194.6	223.5	22.7	28.5	33.6
CANARA BANK	Buy	320	580	0.6	0.7	0.7	13.2	14.1	15.1	1.0	0.8	0.7	304.9	353.8	413.2	44.8	54.3	66.6
INDIAN BANK	Buy	294	367	0.8	0.9	1.0	13.1	14.3	14.9	0.9	0.8	0.7	310.7	371.3	447.8	42.7	55.2	68.1
PNB	Sell	56	620	0.3	0.4	0.5	4.2	5.9	8.7	0.8	0.7	0.7	64.6	71.1	78.0	3.4	5.0	7.8
SBI	Buy	601	5,364	0.8	0.9	1.0	15.3	16.8	17.8	1.3	1.1	0.9	307.1	357.8	418.5	47.0	59.1	72.6
UBI	Sell	80	548	0.6	0.7	0.7	11.5	12.3	12.7	0.9	0.8	0.7	87.4	98.9	110.7	11.6	13.6	15.6
<b>Card Company</b>																		
SBI Cards	Buy	775	733	5.5	5.3	5.0	26.0	26.1	25.4	7.6	6.1	4.9	101.3	127.2	158.6	24.2	30.4	37.0

Source: Emkay Research

## Credit growth remains healthy, but deposits continue to lag

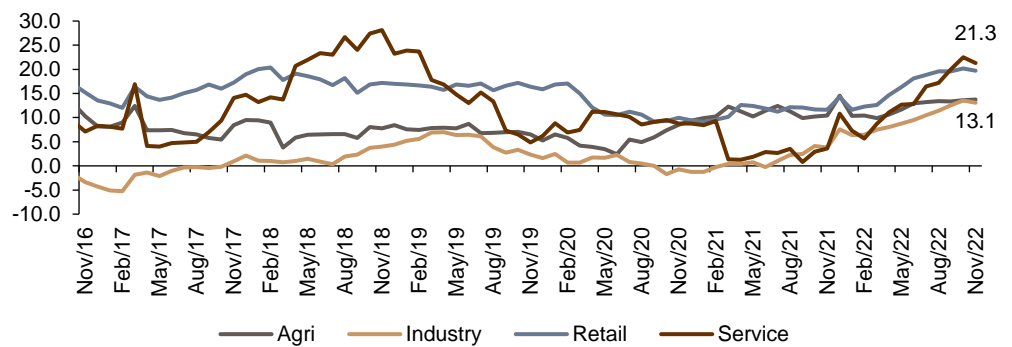
Systemic credit growth has slightly moderated from the October highs of 18%, but remains at healthy levels of 17.4% as on 16-Dec-2022. Overall growth remains broad-based, with corporate backing up the already-healthy retail growth. That said, some moderation is expected in the near term, with the rate effect beginning to play out for certain retail products like mortgages and car loans. However, overall deposit growth for most banks should remain weak, thus leading to deposit rate hikes by banks to accelerate deposit growth before the seasonal corporate credit demand picks-up in 4Q. Reportedly, banks have also resorted to bulk deposits, to fund the strong credit growth and should thus contain the margin expansion, as seen in 2Q.

**Exhibit 9: Credit growth maintains its momentum at 17.5%, and is the strongest in recent years**



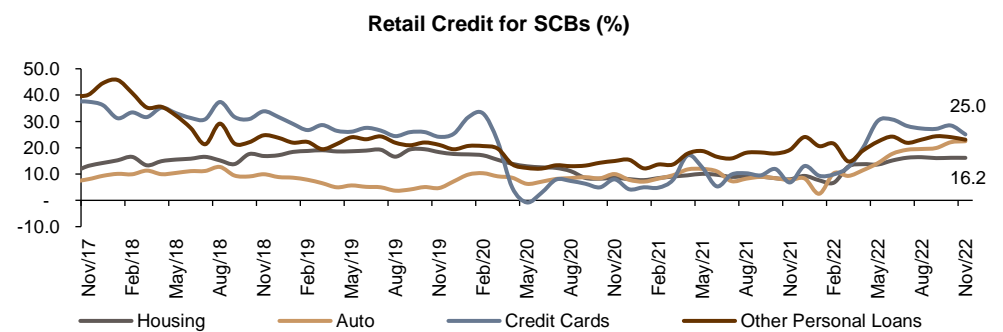
Source: RBI, Emkay Research

**Exhibit 10: Retail and Service credit continues to grow at a faster pace, while Agri and Industry not far behind (%)**



Source: RBI, Emkay Research

**Exhibit 11: Growth (%) in retail being broad-based, with unsecured credit, i.e. CC/PL driving the pack**



Source: RBI, Emkay Research

**HDFCB, Yes Bank and KVB disappoint a bit on growth; RBL, Equitas SFB surprise positively:**

Among banks that have provided business updates, HDFCB has disappointed on growth mainly due to deceleration in corporate credit growth, while RBL, IIB, Equitas SFB, AU SFB and Federal Bank reported in-line to slightly better than expected growth. We expect ICICI Bank, SBI and BOB to also report healthy credit growth.

**Exhibit 12: Provisional Credit numbers for banks under our coverage**

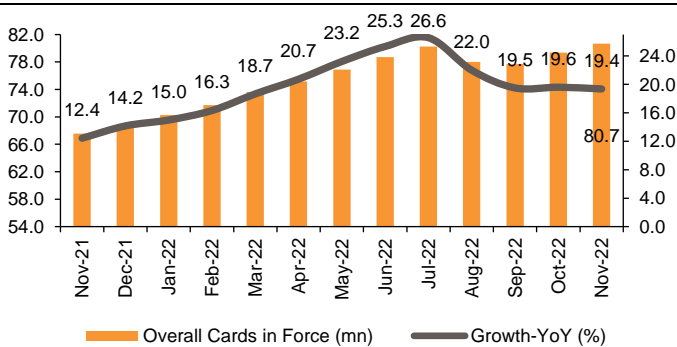
Bank (Rs bn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
HDFCB	15,070	12,609	19.5	14,799	1.8
IIB	2,720	2,286	19.0	2,601	4.6
YES BANK	1,968	1,762	11.7	1,923	2.4
AU SFB	563	407	38.4	525	7.4
RBL	684	600	14.0	646	5.8
Federal Bank	1,710	1,436	19.1	1,640	4.3
KVB	636	558	14.1	618	3.0
Ujjivan SFB	219	165	33.0	209	4.6
Equitas SFB	249	197	26.6	228	9.4
Bandhan Bank	1,005	880	14.2	958	4.9

Source: Company, Emkay Research; Credit numbers for HDFCB, IIB, Yes Bank as Net; AU SFB, RBL, Federal Bank, KVB as Gross; Ujjivan SFB, Bandhan bank and Equitas SFB as AUM

**Credit cards witness moderation, post the festive season; SBIC continues to impress with its CIF market-share gain**

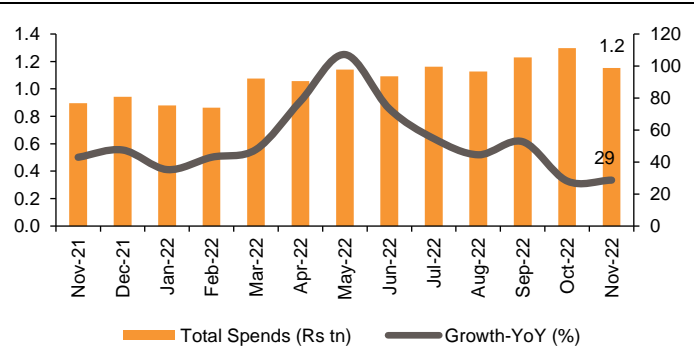
The overall CIF base stood at 81mn in Nov-22; it has continued to pick-up pace from the dip in Aug which was due to the RBI's mandate of inclusion of active cards. Spending growth moderated in Nov-22 at Rs1.2trn which is due to the after-effects of festive demand. SBI Cards continued to gain market share from Jul-2022 due to better card activation rate; apart from Axis Bank, all other players have seen decline in market share. That said, ICICI Bank, Axis Bank and SBI had better AUM growth in Q2 among peers, thanks to the festive season.

**Exhibit 13: CIF growth now being sticky at 19%, and seems more sustainable...**



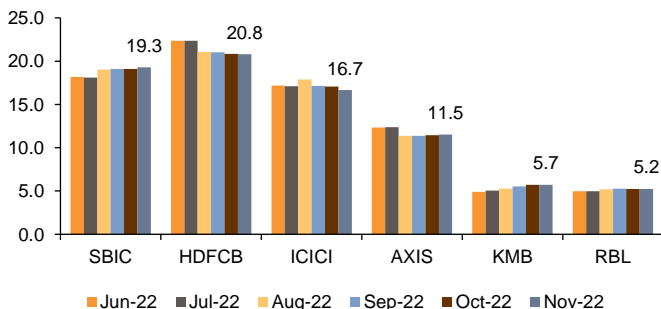
Source: RBI, Emkay Research

**Exhibit 14: ...while spends see a slight dip in Nov-22**



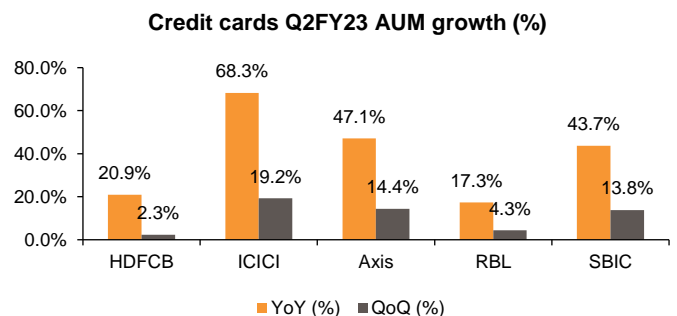
Source: RBI, Emkay Research

**Exhibit 15: SBIC and KMB continue to gain market share, while HDFCB, ICICI Bank and Axis Bank see some moderation (%)**



Source: RBI, Emkay Research

**Exhibit 16: Credit cards' AUM growth has been strong across banks, and is expected to further rise**

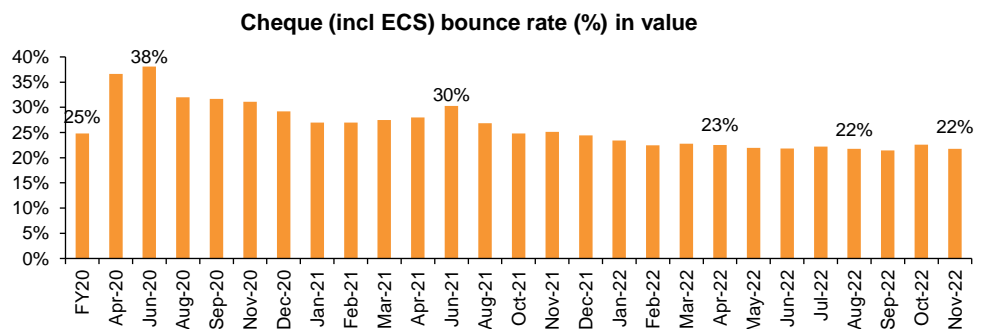


Source: Company, Emkay Research

## NPAs to decline, thanks to contained slippages/better recoveries, further aided by accelerated growth

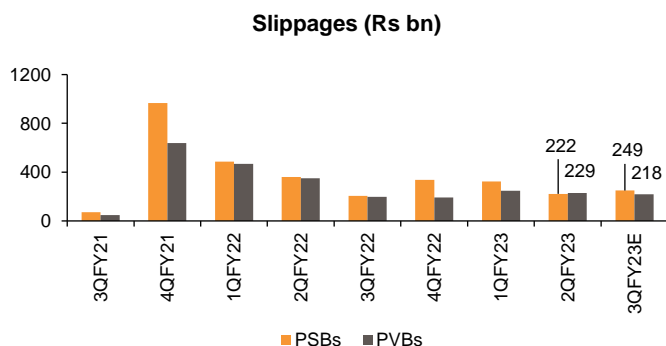
For our coverage universe, we expect overall GNPA ratio to further moderate by 54bps QoQ (33bps QoQ ex-Yes Bank, which has transferred Rs480bn of NPA to an ARC) to 4.1%, led by lower slippages, better recoveries and accelerated write-offs. Given this, coupled with healthy provision buffers being in place, we expect overall credit cost to moderate and thus support profitability. The long-awaited NARCL transfer for PSBs is picking up, while corporate resolutions (NCLT/non-NCLT) too are showing signs of pick-up, including those of Reliance Home Finance, Reliance Infratel, Reliance Capital, SKS Power, SREI Group, Religare Finvest and McLeod Russel; this should materialize in the next 6-9 months and thus pump-up recovery from written-off accounts. ILFS, Future Retail and some more power/infra accounts should also see resolution in due course.

**Exhibit 17: Cheque bounce rate stable at 22% and is now the best since the past 3 years**



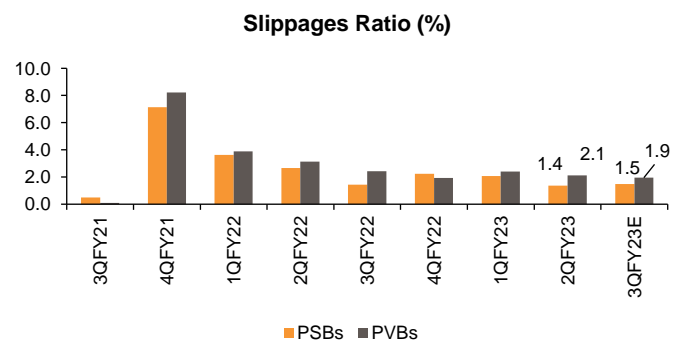
Source: NPCI, Emkay Research

**Exhibit 18: Fresh slippages expected to marginally increase for PSBs and decline for PVBs...**



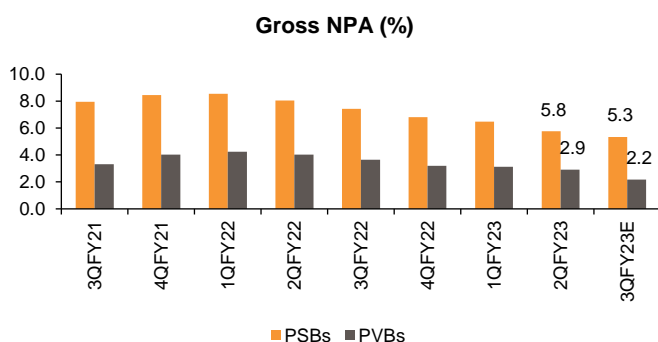
Source: Company, Emkay Research

**Exhibit 19: ...leading to slight increase of slippage ratio for PSBs and decline among PVBs**



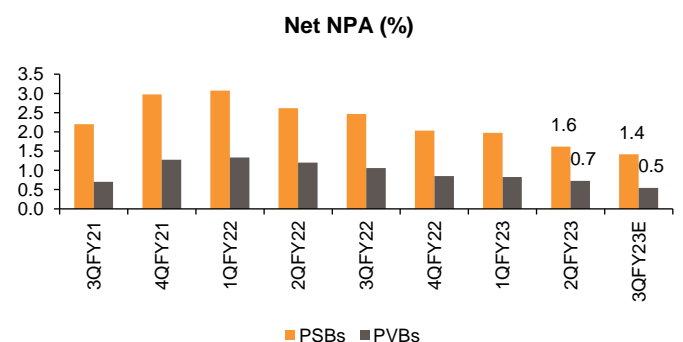
Source: Company, Emkay Research

**Exhibit 20: Moderate slippages coupled with better recoveries and growth should bring down the overall GNPA**



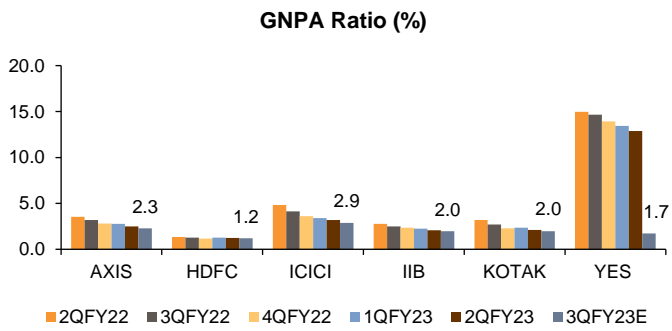
Source: Company, Emkay Research

**Exhibit 21: Better PCR should lead to a lower NNPA**



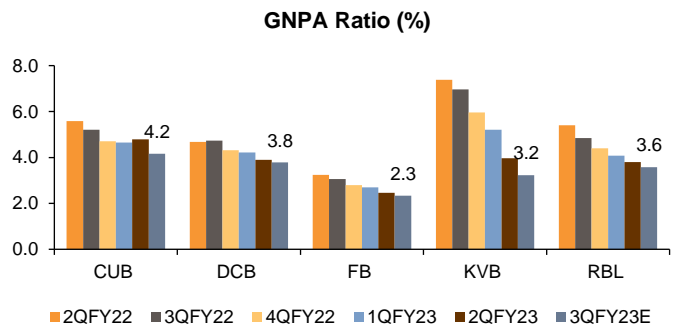
Source: Company, Emkay Research

**Exhibit 22: We expect GNPA to trend down for large banks, mainly due to lower slippages and better recoveries...**



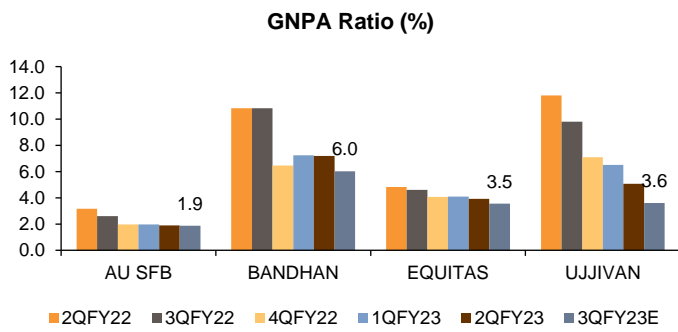
Source: Company, Emkay Research

**Exhibit 23: ...with mid-size PVBs also set to clock a similar trend**



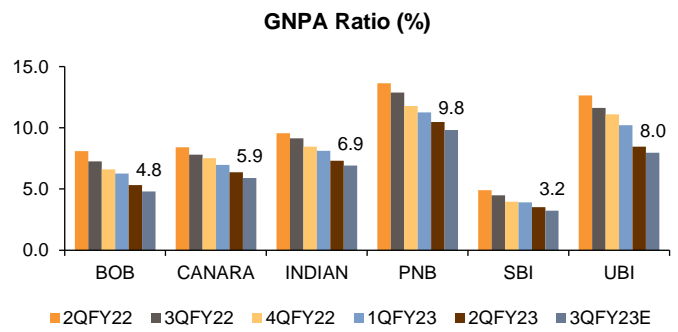
Source: Company, Emkay Research

**Exhibit 24: Bandhan Bank and Ujjivan SFB to witness a sharp drop in GNPA ratio**



Source: Company, Emkay Research

**Exhibit 25: GNPA should moderate across PSBs, with PNB and Union Bank to likely see better improvement**



Source: Company, Emkay Research

## Margin performance should be a mixed bag in 3Q, while lower LLP to mainly boost profitability

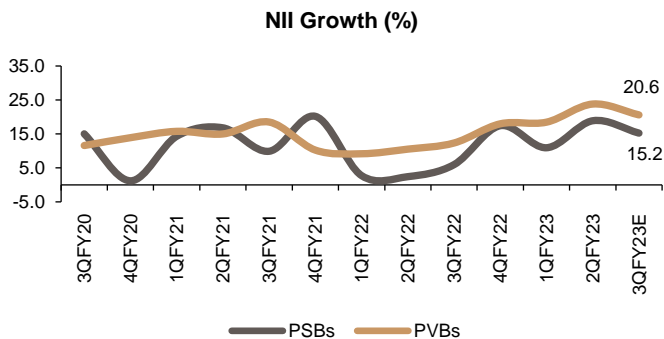
Unlike 2Q, when most banks reported healthy margin uptick due to faster asset re-pricing and better LDR, we expect 3Q to see a mixed performance, as cost pressure begins to build-up. With largely-flat G-Sec yields, MTM losses are likely to remain contained for most banks, while opex is expected to stay largely elevated in H2 due to investment in franchisee/tech by private banks and wage revision provision by PSBs, leading to moderate 15% YoY PPOP growth. However, provisions will continue to moderate due to deceleration in NPAs and healthy provision buffers at banks, leading to 31% YoY profit growth for our coverage universe. Among large PVBs, ICICI Bank and Axis Bank would report healthy profitability, while HDFCB/KMB would be relatively weaker. Among small/mid-size banks, RBL, KVB and Equitas SFB would report a healthy earnings trajectory, while Bandhan Bank may see lower earnings due to higher provisions. Among PSBs, BOB, Indian Bank and SBI are likely to show strong earnings growth.

**Exhibit 26: Higher NII, due to better growth offset by lower other income, should lead to healthy PPOP; moderation in LLP should aid better profitability**

(Rs bn)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23E	YoY %	QoQ %
NII	1,162	1,228	1,246	1,282	1,408	1,446	17.7	2.7
Non interest Income	481	454	504	359	477	282	-37.9	-40.9
Total Net Income	1,643	1,682	1,749	1,641	1,885	1,727	2.7	-8.3
PPOP	787	870	917	820	1,001	1,001	15.0	0.0
LLP	342	305	330	278	289	282	-7.6	-2.6
<b>PAT</b>	<b>336</b>	<b>412</b>	<b>447</b>	<b>404</b>	<b>531</b>	<b>538</b>	<b>30.7</b>	<b>1.3</b>
<b>PAT - PVBs</b>	<b>188</b>	<b>262</b>	<b>295</b>	<b>270</b>	<b>305</b>	<b>326</b>	<b>24.6</b>	<b>6.7</b>
<b>PAT - PSBs</b>	<b>148</b>	<b>150</b>	<b>152</b>	<b>133</b>	<b>226</b>	<b>212</b>	<b>40.9</b>	<b>-6.2</b>

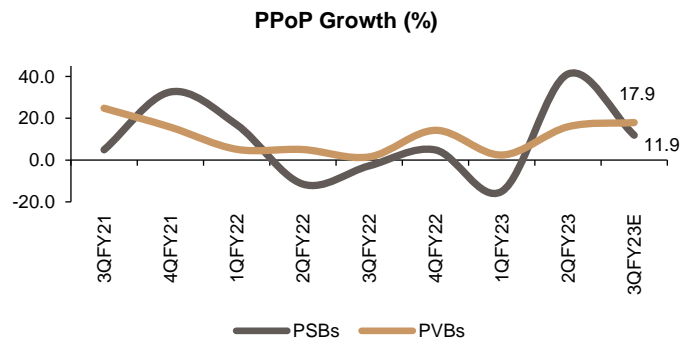
Source: Company, Emkay Research

**Exhibit 27: We expect NII growth to slightly decline as cost may see some pressure**



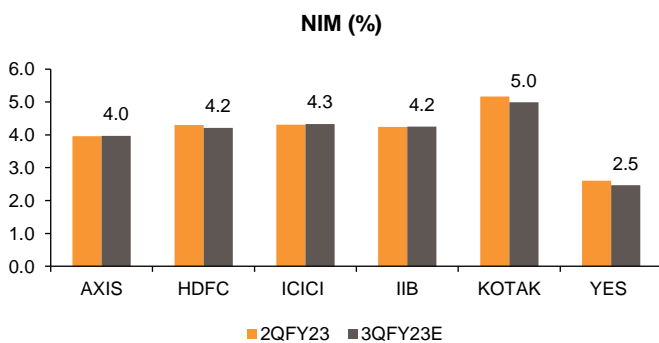
Source: Company, Emkay Research

**Exhibit 28: PPOP growth for PSBs to moderate due to wage revision, while that for PVBs set to improve**



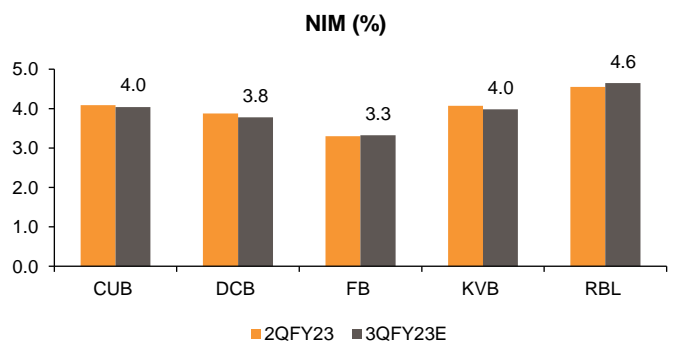
Source: Company, Emkay Research

**Exhibit 29: Margins to remain flattish across players, except for IIB, which may see a slight uptick**



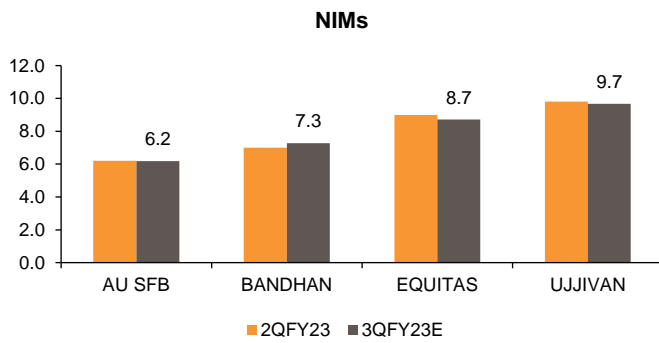
Source: Company, Emkay Research

**Exhibit 30: Margins of small-/mid-cap banks too may see a flattish trend**

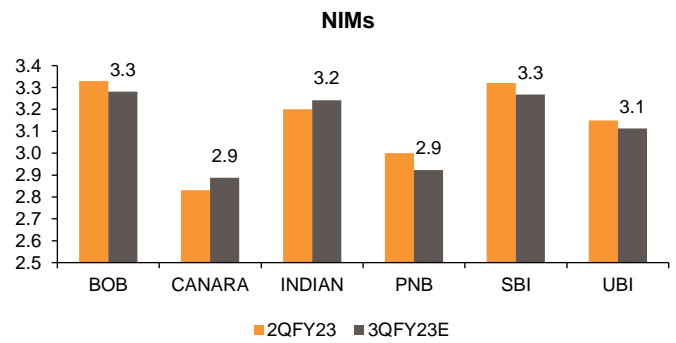


Source: Company, Emkay Research



**Exhibit 31: Margins of new-age banks too may be flattish, with slight uptick in Bandhan Bank**

Source: Company, Emkay Research

**Exhibit 32: PSUs may see moderation in margins, barring Canara Bank and Indian Bank, which may see margin uptick**

Source: Company, Emkay Research

**Exhibit 33: Summary of financial estimates (Q3FY23E)**

Banks (Rs mn)	NII			PPoP			PAT		
	Q3FY23E	YoY %	QoQ %	Q3FY23E	YoY %	QoQ %	Q3FY23E	YoY %	QoQ %
<b>Large Private</b>									
Axis Bank	107,960	24.8	4.2	80,388	30.5	4.2	53,699	48.6	0.8
HDFC	213,739	15.9	1.7	185,188	10.4	6.5	116,056	12.2	9.4
ICICI Bank	156,770	28.1	6.0	125,732	23.9	7.6	80,799	30.5	6.9
IndusInd Bank	44,678	17.8	3.9	36,451	10.1	2.8	18,728	50.9	3.7
Kotak Mah Bank	51,402	18.6	0.8	35,201	30.3	-1.3	25,003	17.3	-3.1
Yes Bank	19,541	10.8	-1.9	7,061	-3.4	-10.7	2,896	8.7	89.5
<b>Sub Total</b>	<b>594,090</b>	<b>20.7</b>	<b>3.2</b>	<b>470,021</b>	<b>18.0</b>	<b>5.2</b>	<b>297,180</b>	<b>24.9</b>	<b>6.0</b>
<b>Small-Mid Private</b>									
City Union Bank	5,712	16.6	0.6	4,560	23.4	-0.1	2,485	26.7	-10.1
DCB	4,158	20.5	1.1	1,975	-0.7	8.2	1,122	48.9	-0.1
Federal Bank	18,560	20.6	5.3	11,950	30.7	-1.4	7,162	37.3	1.8
Karur Vysya Bank	8,271	20.3	0.7	5,243	30.6	-8.4	2,556	37.8	2.1
RBL	11,060	9.5	3.9	5,381	-14.7	5.0	2,211	41.9	9.8
<b>Sub Total</b>	<b>47,760</b>	<b>17.3</b>	<b>3.2</b>	<b>29,110</b>	<b>15.7</b>	<b>-0.8</b>	<b>15,537</b>	<b>36.9</b>	<b>0.6</b>
<b>New Age/SFBs</b>									
AU SFB	11,707	42.7	8.1	5,834	27.3	17.0	4,288	42.0	25.2
Bandhan Bank	23,274	9.5	6.1	20,891	7.1	34.5	5,777	-32.8	176.0
Equitas SFB	6,314	16.7	3.6	2,548	13.4	5.2	1,220	12.9	4.8
Ujjivan SFB	6,967	53.5	5.0	3,547	151.0	-7.9	1,906	NA	-35.2
<b>Sub Total</b>	<b>48,261</b>	<b>22.5</b>	<b>6.1</b>	<b>32,820</b>	<b>18.3</b>	<b>22.5</b>	<b>13,191</b>	<b>6.8</b>	<b>37.0</b>
<b>PSBs</b>									
BOB	104,753	22.5	3.0	61,564	12.3	2.1	31,203	42.0	-5.8
Canara Bank	75,777	9.1	1.9	58,808	32.2	-14.8	20,221	34.6	-19.9
Indian Bank	48,369	10.1	3.3	35,960	9.4	-0.9	14,456	109.7	18.0
PNB	82,836	6.2	0.2	51,705	1.9	-7.1	10,778	-4.4	162.1
SBI	357,877	16.6	1.7	200,154	8.1	-5.2	113,713	34.9	-14.3
UBI	85,891	19.7	3.4	60,840	19.3	-7.5	21,433	97.5	16.0
<b>Sub Total</b>	<b>755,503</b>	<b>15.2</b>	<b>2.0</b>	<b>469,031</b>	<b>11.9</b>	<b>-5.9</b>	<b>211,805</b>	<b>40.9</b>	<b>-6.2</b>
<b>Card Player</b>									
SBI Cards	12,092	21.3	8.3	13,059	14.1	4.3	5,481	42.1	4.3
<b>Sub Total</b>	<b>12,092</b>	<b>21.3</b>	<b>8.3</b>	<b>13,059</b>	<b>14.1</b>	<b>4.3</b>	<b>5,481</b>	<b>42.1</b>	<b>4.3</b>
<b>Total</b>	<b>1,457,705</b>	<b>17.8</b>	<b>2.7</b>	<b>1,014,042</b>	<b>15.0</b>	<b>0.0</b>	<b>543,194</b>	<b>30.6</b>	<b>1.2</b>

Source: Company, Emkay Research

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## Exhibit 34: 3QFY23E Result Preview for coverage banks...

Company			Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>Axis Bank</b>								
CMP (Rs)	941	NII (Rs mn)	107,960	103,603	86,525	24.8%	4.2%	Healthy growth, margins and contained provisions to drive-up profitability. Slippages to remain flattish QoQ, while recoveries could moderate a tad.
Mkt Cap (Rs bn)	2894	Op. Profit (Rs mn)	80,388	77,162	61,615	30.5%	4.2%	
Reco	Buy	NIM (%)	4.0	4.0	3.5	44bps	1bps	
		PAT (Rs mn)	53,576	53,298	36,142	48.2%	0.5%	
		EPS (Rs)	17.4	17.3	11.8	48.2%	0.5%	
<b>HDFC Bank</b>								
CMP (Rs)	1594	NII (Rs mn)	213,739	210,212	184,435	15.9%	1.7%	Strong credit growth should drive-up NII growth and thus support profitability. Slippages to remain elevated due to Agri stress.
Mkt Cap (Rs bn)	8890	Op. Profit (Rs mn)	185,188	173,922	167,760	10.4%	6.5%	
Reco	Buy	NIM (%)	4.2	4.3	4.1	11bps	-9bps	
		PAT (Rs mn)	116,056	106,058	103,422	12.2%	9.4%	
		EPS (Rs)	20.8	19.0	18.5	12.2%	9.4%	
<b>ICICI Bank</b>								
CMP (Rs)	871	NII (Rs mn)	156,770	147,868	122,360	28.1%	6.0%	Better growth and asset re-pricing should keep margins in the healthy zone, thereby supporting core profitability. With stronger provision cover including contingent, we expect the bank to accelerate w-offs.
Mkt Cap (Rs bn)	6073	Op. Profit (Rs mn)	125,732	116,803	101,483	23.9%	7.6%	
Reco	Buy	NIM (%)	4.3	4.3	4.0	37bps	2bps	
		PAT (Rs mn)	80,799	75,578	61,938	30.5%	6.9%	
		EPS (Rs)	11.6	10.8	8.9	30.5%	6.9%	

Source: Company, Emkay Research

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## Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>IndusInd Bank</b>								
CMP (Rs)	1182	NII (Rs mn)	44,678	43,021	37,936	17.8%	3.9%	Healthy growth coupled with stable margins and contained provisions to support profitability. Slippages to remain elevated, given residual stress recognition in CV, MFI book
Mkt Cap (Rs bn)	917	Op. Profit (Rs mn)	36,451	35,444	33,121	10.1%	2.8%	
Reco	Buy	NIM (%)	4.2	4.2	4.1	15bps	1bps	
		PAT (Rs mn)	18,728	18,052	12,414	50.9%	3.7%	
		EPS (Rs)	24.2	23.3	16.0	50.9%	3.7%	
<b>Kotak Bank</b>								
CMP (Rs)	1789	NII (Rs mn)	51,402	50,994	43,343	18.6%	0.8%	We expect margins to come-off QoQ, but strong credit growth and lower other income base due to heavy treasury loss last year should boost PPOp growth. Slippages to remain similar to that in 2Q.
Mkt Cap (Rs bn)	3553	Op. Profit (Rs mn)	35,201	35,675	27,010	30.3%	-1.3%	
Reco	Buy	NIM (%)	5.0	5.2	4.6	38bps	-17bps	
		PAT (Rs mn)	25,003	25,807	21,314	17.3%	-3.1%	
		EPS (Rs)	12.6	13.0	10.7	17.3%	-3.1%	
<b>Yes Bank</b>								
CMP (Rs)	21	NII (Rs mn)	19,541	19,914	17,640	10.8%	-1.9%	Gross loan growth could appear subdued due to NPA transfer to ARC; lower LLP should aid profitability. Slippages to remain elevated, but NPA transfer to ARC should meaningfully reduce NPAs.
Mkt Cap (Rs bn)	605	Op. Profit (Rs mn)	7,061	7,904	7,307	-3.4%	-10.7%	
Reco	Sell	NIM (%)	2.5	2.6	2.4	7bps	-13bps	
		PAT (Rs mn)	2,896	1,528	2,664	8.7%	89.5%	
		EPS (Rs)	0.1	0.1	0.1	8.7%	89.5%	

Source: Company, Emkay Research

Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	% Chg YoY	% Chg QoQ	Comments
<b>City Union Bank</b>								
CMP (Rs)	175	NII (Rs mn)	5,712	5,679	4,900	16.6%	0.6%	Loan growth to improve, but some margin moderation and higher provisions to weigh on earnings. Slippages could remain elevated with some relapse in the restructured book and recognition of NPA divergence.
Mkt Cap (Rs bn)	130	Op. Profit (Rs mn)	4,560	4,565	3,696	23.4%	-0.1%	
Reco	Buy	NIM (%)	4.0	4.1	4.0	4bps	-5bps	
		PAT (Rs mn)	2,485	2,765	1,961	26.7%	-10.1%	
		EPS (Rs)	3.4	3.7	2.6	26.7%	-10.1%	
<b>DCB Bank</b>								
CMP (Rs)	128	NII (Rs mn)	4,158	4,111	3,450	20.5%	1.1%	Growth may moderate a bit from the higher 2Q levels, while NIMs will stay largely flattish. Slippages to remain elevated due to stress flow from the restructured pool.
Mkt Cap (Rs bn)	40	Op. Profit (Rs mn)	1,975	1,826	1,988	-0.7%	8.2%	
Reco	Sell	NIM (%)	3.8	3.9	3.6	17bps	-10bps	
		PAT (Rs mn)	1,122	1,124	754	48.9%	-0.1%	
		EPS (Rs)	3.6	3.6	2.4	48.9%	-0.1%	
<b>Federal Bank</b>								
CMP (Rs)	135	NII (Rs mn)	18,560	17,618	15,389	20.6%	5.3%	Better growth, margins and contained LLP to help the bank deliver >1% RoA. Healthy recoveries and credit growth to drive-down NPA ratio.
Mkt Cap (Rs bn)	285	Op. Profit (Rs mn)	11,950	12,122	9,143	30.7%	-1.4%	
Reco	Buy	NIM (%)	3.3	3.3	3.3	6bps	3bps	
		PAT (Rs mn)	7,162	7,037	5,217	37.3%	1.8%	
		EPS (Rs)	3.4	3.3	2.5	37.3%	1.8%	

Source: Company, Emkay Research

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Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>Karur Vysya Bank</b>								
CMP (Rs)	110	NII (Rs mn)	8,271	8,214	6,872	20.3%	0.7%	Better growth/margins to help operating profitability. This, coupled with contained LLP, to drive up profitability. Slippages could inch up QoQ from a low base due to NPAs in the SME/restructured pool.
Mkt Cap (Rs bn)	88	Op. Profit (Rs mn)	5,243	5,723	4,016	30.6%	-8.4%	
Reco	Buy	NIM (%)	4.0	4.1	3.7	31bps	-8bps	
		PAT (Rs mn)	2,556	2,502	1,855	37.8%	2.1%	
		EPS (Rs)	3.2	3.1	2.3	37.8%	2.1%	
<b>RBL Bank</b>								
CMP (Rs)	185	NII (Rs mn)	11,060	10,644	10,104	9.5%	3.9%	Improving loan growth coupled with better margins and contained credit cost to drive up profitability. Slippages to remain elevated due to recognition of residual stress in the MFI/restructured book, but some recovery in CCD to contain NPA ratios.
Mkt Cap (Rs bn)	111	Op. Profit (Rs mn)	5,381	5,124	6,308	-14.7%	5.0%	
Reco	Buy	NIM (%)	4.6	4.6	4.3	34bps	9bps	
		PAT (Rs mn)	2,211	2,014	1,558	41.9%	9.8%	
		EPS (Rs)	3.7	3.4	2.6	41.9%	9.8%	

Source: Company, Emkay Research

Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>AU SFB</b>								
CMP (Rs)	626	NII (Rs mn)	11,707	10,833	8,204	42.7%	8.1%	Margins set to moderate due to recent deposit rate hikes, but contained provisions to support healthy profitability. Slippages to remain flat QoQ, while better growth and recovery/w-offs to improve NPA ratio.
Mkt Cap (Rs bn)	417	Op. Profit (Rs mn)	5,834	4,988	4,584	27.3%	17.0%	
Reco	Hold	NIM (%)	6.2	6.2	6.3	-11bps	-1bps	
		PAT (Rs mn)	4,288	3,426	3,020	42.0%	25.2%	
		EPS (Rs)	6.4	5.1	4.5	42.0%	25.2%	
<b>Bandhan Bank</b>								
CMP (Rs)	243	NII (Rs mn)	23,274	21,930	21,247	9.5%	6.1%	Decent growth and recovery from sale of NPAs to ARC to support PPOp. However, higher LLP should contain net profitability. Slippages to remain elevated, but CGMFU recovery of Rs9.6bn to help reduce NPAs.
Mkt Cap (Rs bn)	392	Op. Profit (Rs mn)	20,891	15,529	19,501	7.1%	34.5%	
Reco	Buy	NIM (%)	7.3	7.0	7.4	-13bps	27bps	
		PAT (Rs mn)	5,777	2,093	8,590	-32.8%	176.0%	
		EPS (Rs)	3.6	1.3	5.3	-32.8%	176.0%	
<b>Equitas SFB</b>								
CMP (Rs)	58	NII (Rs mn)	6,314	6,097	5,408	16.7%	3.6%	Moderate growth coupled with elevated provisions to keep profit growth in check. Slippages to remain elevated mainly flowing from the restructured portfolio.
Mkt Cap (Rs bn)	73	Op. Profit (Rs mn)	2,548	2,423	2,247	13.4%	5.2%	
Reco	Buy	NIM (%)	8.7	9.0	9.1	-37bps	-28bps	
		PAT (Rs mn)	1,220	1,164	1,081	12.9%	4.8%	
		EPS (Rs)	1.0	0.9	0.9	12.9%	4.8%	

Source: Company, Emkay Research

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## Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Name		Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>Ujjivan SFB</b>							
CMP (Rs)	29	NII (Rs mn)	6,985	6,632	4,539	53.9%	5.3%
Mkt Cap (Rs bn)	57	Op. Profit (Rs mn)	3,566	3,850	1,413	152.3%	-7.4%
Reco	Hold	NIM (%)	9.7	9.8	9.1	59bps	-11bps
		PAT (Rs mn)	1,917	2,943	-338	NA	-34.9%
		EPS (Rs)	1.0	1.5	(0.2)	NA	-34.9%

Source: Company, Emkay Research

Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	% Chg YoY	% Chg QoQ	Comments
<b>Bank of Baroda</b>								
CMP (Rs)	184	NII (Rs mn)	104,753	101,745	85,520	22.5%	3.0%	Healthy growth, margins to support profitability. Slippages to remain largely flat QoQ, but better recoveries/write-offs to drive down NPAs.
Mkt Cap (Rs bn)	949	Op. Profit (Rs mn)	61,564	60,310	54,833	12.3%	2.1%	
Reco	Buy	NIM (%)	3.3	3.3	3.1	15bps	-5bps	
		PAT (Rs mn)	31,203	33,134	21,970	42.0%	-5.8%	
		EPS (Rs)	6.0	6.4	4.2	42.0%	-5.8%	
<b>Canara Bank</b>								
CMP (Rs)	320	NII (Rs mn)	75,777	74,338	69,450	9.1%	1.9%	We expect overall profitability to remain healthy, but moderate QoQ due to lower recovery from NPA, unlike in 2Q. Slippages to remain largely flat QoQ, but better recoveries/write-offs to drive down NPAs.
Mkt Cap (Rs bn)	580	Op. Profit (Rs mn)	58,808	69,055	44,476	32.2%	-14.8%	
Reco	Buy	NIM (%)	2.9	2.8	2.8	10bps	6bps	
		PAT (Rs mn)	20,221	25,255	15,021	34.6%	-19.9%	
		EPS (Rs)	11.1	13.9	8.3	34.6%	-19.9%	
<b>Indian Bank</b>								
CMP (Rs)	294	NII (Rs mn)	48,369	46,840	43,947	10.1%	3.3%	Improving growth, margins and lower credit cost to drive-up profitability. Slippages to remain elevated, but better recoveries/write-offs to bring down NPA ratio.
Mkt Cap (Rs bn)	367	Op. Profit (Rs mn)	35,960	36,293	32,875	9.4%	-0.9%	
Reco	Buy	NIM (%)	3.2	3.2	3.0	21bps	4bps	
		PAT (Rs mn)	14,456	12,252	6,893	109.7%	18.0%	
		EPS (Rs)	11.6	9.8	5.5	109.7%	18.0%	

Source: Company, Emkay Research

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Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>Punjab National Bank</b>								
CMP (Rs)	56	NII (Rs mn)	82,836	82,707	78,032	6.2%	0.2%	Better growth and lower LLP to support profit bounce v/s 2Q. Slippages to remain elevated due to recognition from the restructured pool and Agri/SME stress.
Mkt Cap (Rs bn)	620	Op. Profit (Rs mn)	51,705	55,672	50,763	1.9%	-7.1%	
Reco	Sell	NIM (%)	2.9	3.0	2.9	-1bps	-8bps	
		PAT (Rs mn)	10,778	4,113	11,268	-4.4%	162.1%	
		EPS (Rs)	1.0	0.4	1.0	-4.4%	162.1%	
<b>State Bank of India</b>								
CMP (Rs)	601	NII (Rs mn)	357,877	351,834	306,874	16.6%	1.7%	Healthy growth/margin trajectory to continue, but slightly-higher opex due to pension provision to contain PPop growth. Moderate slippages and better recoveries to drive down NPAs.
Mkt Cap (Rs bn)	5,364	Op. Profit (Rs mn)	200,154	211,200	185,216	8.1%	-5.2%	
Reco	Buy	NIM (%)	3.3	3.3	3.1	16bps	-5bps	
		PAT (Rs mn)	113,713	132,645	84,319	34.9%	-14.3%	
		EPS (Rs)	12.7	14.9	9.4	34.9%	-14.3%	
<b>Union Bank of India</b>								
CMP (Rs)	80	NII (Rs mn)	85,891	83,050	71,744	19.7%	3.4%	Earnings to improve QoQ due to better growth and contained LLP. Slippages could inch-up QoQ from the low in 1Q, given stress in SME and the restructured portfolio.
Mkt Cap (Rs bn)	548	Op. Profit (Rs mn)	60,840	65,771	50,982	19.3%	-7.5%	
Reco	Sell	NIM (%)	3.1	3.2	3.1	3bps	-4bps	
		PAT (Rs mn)	21,433	18,477	10,854	97.5%	16.0%	
		EPS (Rs)	3.1	2.7	1.6	97.5%	16.0%	

Source: Company, Emkay Research

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## Exhibit 34: ...3QFY23E Result Preview for coverage banks (contd.)

Company			Q3FY23E	Q2FY23	Q3FY22	Chg YoY	Chg QoQ	Comments
<b>SBI Cards</b>								
CMP (Rs)	775	NII (Rs mn)	12,092	11,168	9,965	21.3%	8.3%	Healthy growth trajectory to continue with share of revolver likely to move up, however slightly-higher opex due to festive season could contain PPop growth.
Mkt Cap (Rs bn)	733	Op. Profit (Rs mn)	13,059	12,517	11,447	14.1%	4.3%	
Reco	Buy	NIM (%)	12.1	12.3	14.0	-189bps	-19bps	
		PAT (Rs mn)	5,481	5,257	3,858	42.1%	4.3%	
		EPS (Rs)	5.8	5.6	4.1	42.1%	4.3%	

Source: Company, Emkay Research

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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