

Oct-Dec'22 Earnings Preview

NIM expansion QoQ to be lower compared to Q2

Banks in our coverage universe are expected to see lower growth in core earnings (+3.2% QoQ) compared to previous quarter (+12.7% QoQ) driven by slower NIM expansion and rise in provisions. Coverage banks could report softer loan growth at 3.3% QoQ (vs 5% in Q2FY23), while deposit accretion could be +3.4% QoQ. Incremental deposit cost has risen sharply in Q3FY23; hence we expect NIM for banks to grow at a slower pace by 12bps QoQ to 4.0% compared to +22bps in previous quarter. AXSB, CUB and DCB could be outliers on NIM expansion. Opex to remain elevated (+6.1% QoQ), though intensity could slightly reduce. Healthy NII accretion would see core PPOp at Rs753bn (+4.5% QoQ/22.1% YoY). Slippage ratio might rise QoQ to 1.5% from 1.3% due to movement of accounts to NPA from OTR/ECLGS pool. Hence, provisions may rise by 6bps QoQ to 0.7%. Banks' core PAT is expected to be Rs445bn (+3.2% QoQ). FY23E earnings upgrade for PSU and mid-cap banks is healthier to large private banks. Our preference is towards AXSB, BoB, DCB and FB considering the scope for further FY23E earnings upgrade. Key monitorable would be guidance on deposits and NIM.

For coverage HFCs, AuM may uptick by 2.9% QoQ compared to NII rise of 10.4%, as LICHF should see interest income normalize. As a result, NIM may improve by 21bps to 3.16%. Adjusting for NII of LICHF, NIM is expected to see higher uptick this quarter (+8bps QoQ to 3.5%), as asset repricing is catching up with liabilities. Opex (ex-LICHF) could rise by 2.7% QoQ and PPOp could increase by 7.6% QoQ to Rs51bn. Asset quality may improve QoQ with Stage-3 at 2.65% (-7bps QoQ), while provisions may slightly reduce. We see overall PAT at Rs454bn (+2.8% QoQ). We like Canfin among HFCs.

- **Systemic loan growth sustaining; deposit accretion slows** System growth in Nov'22 slightly moderated to +17.4% YoY (18% YoY in Oct'22), due to higher base in Q3FY22. Of major segments, retail remains a key driver, while services continue to see strong growth due to higher offtake from NBFCs. Momentum in agri continues, while industrial credit growth trajectory continues with 13% YoY growth. Within retail; unsecured credit, home loans and credit card loans enhanced, while within services NBFC leads the pack. Growth in industries was largely been driven by MSME, while corporates see +10% growth. Coverage banks are expected to grow by 18.4% YoY and 3.3% QoQ compared to 17.4% for the system (16th Dec'22 over 16th Dec'21). As at 16th Dec'22, system deposit growth slowed, but further grew at 9.1% YoY while TD growth (+6% YTD) is outpacing that of CASA (-2% YTD). Deposit growth will gather momentum towards the last fortnight of Q3FY23, also given the sharp deposit rate hikes taken by banks in the said quarter.
- **Pace of margin expansion to be slower:** A sharp rise in systemic rates and transmission of the same would lead to further increase in NIM this quarter albeit at a slower pace, as deposit rate hikes are catching up. Margin expansion in Q3FY23 for coverage banks is expected at 12bps QoQ to 4.0% (lower to Q2FY22 at 22bps). With sustained credit offtake cushion on NII, opex is expected to remain elevated (+6.1% QoQ/17.6% YoY). Core PPOp would come in at Rs753bn, growing by 4.5% QoQ and 22.1% YoY.

January 5, 2023

Top Picks

Axis Bank

Bank of Baroda

DCB Bank

Can Fin Homes

Gaurav Jani

gauravjani@plindia.com | 91-22-66322235

Palak Shah

palakshah@plindia.com | 91-22-66322257

- **Asset quality might see a blip:** Asset quality is expected to see a slight blip as slippage ratio could rise from 1.3% to 1.5%, driven by retail/MSME slippages that may emanate from OTR/ECLGS pool. However, recoveries and upgrades are expected to remain healthy that would keep GNPA ratio controlled for coverage banks at 2.9% (last quarter 3.1%). Provisions for our banks could rise by 6bps QoQ basis to 0.71%. Despite of a rise in provisions, core PAT would still improve by 3.2% QoQ to Rs447bn led by NII improvement.
- **Large private banks –** While system could see credit growth of 16-17% YoY, our coverage banks would witness loan growth of 18.5% YoY. For private banks, we expect a decent NII growth of 6.4% QoQ and 24.7% YoY, as credit growth and NIM could see further uptick QoQ. However, NIM accretion would be lower this quarter at 12bps to 4.77% compared to 20bps in the previous quarter, given deposit rates hikes across banks were much steeper in Q3FY23. With cushion on revenue, opex could remain higher (+6.6% QoQ to Rs344bn) although core PPoP may be Rs456bn (+3.8% QoQ). Provisions would largely be stable QoQ at 0.8%; core PAT could be Rs287bn (+2.8% QoQ/30% YoY).
- **Public Sector Banks –** Coverage PSU banks might see loan growth in-line with the system at 3.5% QoQ/18.4% YoY, while NII growth may be higher at 6.6% QoQ/21.6% YoY. We expect NIMs to improve by 11bps QoQ to 3.37% (increase similar to last quarter). Driven by healthy NII growth, core PPoP might grow by 21% YoY. Asset quality may witness a slight blip due to higher slippages which may lead to a slight rise in provision costs QoQ from 52bps to 61bps. Core PAT is expected at Rs165bn (+4.7% QoQ).
- **Mid-cap Banks –** Our coverage mid-cap banks could see loan growth of ~18.5% YoY (in-line with large banks), while NII growth would be 21.8% YoY similar to large banks. Loan growth would be largely led by FB (+19.6% YoY). NIM might enhance by 10bps QoQ to 3.86%, again largely driven by CUBK and DCB. Mid-cap bank's asset quality might see a slight blip; slippage ratio might rise to 2.4% resulting in higher provisions at 79bps (vs 73bps last quarter). Core PAT is expected to be flattish QoQ at Rs10bn.
- **Increase in earnings/TP –** PSU banks to see further earning upgrades
 - **BOB –** We upgrade earnings by 8% for FY23E owing to better NII growth and lower provisions as asset quality continues to improve. We raise multiple from 1.0x to 1.2x Sep-24E and reiterate 'Buy' with TP of Rs 220.
 - **SBI –** We increase earnings by 6.5% FY23E, driven lower provisions. We reiterate 'Buy' and raise TP to Rs 730 from Rs 700, while we maintain multiple at 1.6x Sep-24E.
- **Top Picks:**
 - **AXSB –** Higher share of EBLR linked portfolio to result in superior margin expansion of 18bps QoQ vs 12bps for private peers. We lower provision costs, as asset quality environment continues to be benign. Hence we raise FY23E earnings by 5%. **AXSB remains a top pick with BUY rating and TP is maintained at Rs1,100.**

- **DCB** – We expect NII to improve led by sustained credit growth at 18%+ YoY. With asset quality risks abating, we remain positive on the stock. **Valuation remains attractive at 0.9x/0.8x FY24E/FY25E. Retain BUY at TP of Rs150.**
- **CanFin** – AUM growth/RoE would sustain at ~17%, coupled with best in class asset quality. Valuation at 1.8x/1.5x FY24E/FY25E is attractive and we continue to remain optimistic on the stock. **Maintain BUY at TP of Rs700.**

Exhibit 1: Recommendation for PL coverage universe

Coverage Universe	CMP (Rs)	MCap (Rs B)	New Rating	Old Rating	New PT (Rs)	Old PT (Rs)	Upside (%)	P/ABV (x)				RoE (%)			
								FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Axis Bank	949	2,916	BUY	BUY	1,100	1,100	15.9%	2.7	2.2	2.1	1.8	12.0	16.6	15.2	16.2
HDFC Bank	1,600	8,910	BUY	BUY	1,800	1,800	12.5%	3.8	3.3	2.9	2.6	16.7	16.4	16.2	16.5
ICICI Bank	879	6,127	BUY	BUY	1,090	1,090	24.0%	3.9	3.3	3.0	2.6	15.0	17.0	16.2	16.5
IndusInd Bank	1,216	943	BUY	BUY	1,450	1,450	19.3%	2.1	1.8	1.6	1.4	10.2	13.5	15.2	16.2
Kotak Mahindra Bank	1,820	3,615	ACC	Acc	2,100	2,100	15.4%	5.3	4.5	3.8	3.4	12.6	12.6	11.8	12.5
Federal Bank	137	288	BUY	BUY	165	165	20.7%	1.6	1.4	1.3	1.2	10.8	13.6	14.2	15.1
IDFC First Bank	60	1,876	UR	UR	NA	NA	NA	9.8	NA	NA	NA	0.7	NA	NA	NA
DCB Bank	130	40	BUY	BUY	150	150	15.6%	1.1	0.9	0.9	0.8	7.8	11.2	11.8	13.9
City Union Bank	178	132	BUY	BUY	220	220	23.7%	2.4	2.1	1.8	1.5	12.2	14.4	14.5	14.8
Bank of Baroda	184	953	BUY	BUY	220	190	19.5%	1.4	1.2	1.1	0.9	9.6	14.7	14.3	14.7
Punjab National Bank	57	625	UR	UR	NA	NA	NA	1.0	NA	NA	NA	3.7	NA	NA	NA
State Bank of India	605	5,400	BUY	BUY	730	700	20.6%	2.4	1.9	1.8	1.5	10.7	16.7	15.7	15.7
HDFC	2,622	4,753	BUY	BUY	3,000	3,000	14.4%	4.2	3.7	3.3	2.9	12.0	12.4	12.7	13.0
AAVAS Financiers	1,750	138	ACC	ACC	2,250	2,250	28.6%	5.1	4.4	3.8	3.3	13.7	14.0	13.8	14.4
Can Fin Homes	545	73	BUY	BUY	700	700	28.3%	2.4	2.1	1.8	1.5	16.6	17.4	16.5	16.9
LIC Housing Finance	420	231	ACC	ACC	410	410	-2.4%	1.3	1.2	1.0	0.9	10.1	11.4	13.0	13.3

Source: Company, PL

ACC=Accumulate / UR=Under Review

Note – *Kotak & SBI valuation on S'one book

Exhibit 2: Q3FY23 Banks Results Preview – Margin expansion to be slower, credit cost may see uptick

Rs Million	NII	YoY	QoQ	PPOP	YoY	QoQ	PAT	YoY	QoQ
HDFC Bank	2,21,934	20.3%	5.6%	1,81,183	8.0%	4.2%	1,10,387	6.7%	4.1%
ICICI Bank	1,58,790	29.8%	7.4%	1,22,704	20.9%	5.1%	80,028	29.2%	5.9%
Axis Bank	1,13,202	30.8%	9.3%	84,578	37.3%	9.6%	56,305	55.8%	5.6%
Kotak	53,669	23.8%	5.2%	35,147	30.1%	-1.5%	25,236	18.4%	-2.2%
IndusInd	44,091	16.2%	2.5%	34,983	9.1%	-0.6%	16,817	44.8%	-5.9%
Federal	18,361	19.3%	4.2%	11,990	31.1%	-1.1%	7,060	35.3%	0.3%
IDFC First Bank	30,742	19.2%	2.4%	12,203	58.5%	4.4%	6,119	117.7%	10.1%
DCB Bank	4,375	26.8%	6.4%	1,973	-0.8%	8.1%	1,125	49.3%	0.2%
City Union Bank	5,982	22.1%	5.3%	4,746	28.4%	4.0%	2,423	23.5%	-12.4%
SBI	3,68,888	20.2%	6.6%	2,16,874	17.1%	5.6%	1,35,144	60.3%	6.6%
PNB	87,092	11.6%	5.3%	58,706	15.6%	5.4%	4,529	-59.8%	10.1%
BOB	1,08,309	26.6%	6.5%	67,645	23.4%	12.2%	33,930	54.4%	2.4%
Total Banks	12,15,436	22.2%	6.3%	8,32,731	18.4%	5.4%	4,79,104	32.1%	4.4%
Total Private Banks	6,51,147	24.2%	6.2%	4,89,506	18.7%	4.4%	3,05,501	24.6%	3.5%
Total Public Banks	5,64,290	20.0%	6.4%	3,43,225	18.0%	6.8%	1,73,603	47.7%	5.9%
Rs Billion	Loans	YoY	QoQ	Margins	YoY	QoQ	Credit Cost	YoY	QoQ
HDFC Bank	15,070	19.5%	1.8%	4.73%	0.13%	0.11%	0.90%	-0.05%	0.03%
ICICI Bank	9,714	19.3%	3.5%	4.91%	0.66%	0.15%	0.66%	-0.33%	-0.04%
Axis Bank	7,565	13.8%	3.5%	4.49%	0.49%	0.18%	0.48%	-0.33%	0.18%
Kotak	3,093	22.3%	5.2%	5.20%	0.58%	0.03%	0.19%	0.40%	0.01%
IndusInd	2,720	19.0%	4.6%	4.70%	0.14%	0.01%	1.84%	-1.06%	0.08%
Federal	1,683	19.6%	4.4%	3.66%	0.27%	0.06%	0.59%	-0.01%	-0.07%
IDFC First Bank	1,402	31.8%	4.0%	6.94%	-0.12%	0.05%	1.14%	-0.33%	-0.12%
DCB Bank	329	18.8%	5.0%	4.29%	0.47%	0.17%	0.55%	-0.85%	0.15%
City Union Bank	430	14.2%	2.5%	4.29%	0.36%	0.17%	1.49%	0.18%	0.49%
SBI	30,546	18.5%	3.5%	3.29%	0.28%	0.11%	0.45%	-0.64%	0.03%
PNB	7,966	15.0%	3.0%	2.93%	0.00%	0.14%	2.59%	0.65%	0.05%
BOB	8,659	18.3%	3.5%	3.02%	-0.11%	-0.31%	1.06%	-0.31%	0.28%
Total Banks	89,175	18.3%	3.3%	4.37%	0.26%	0.07%	0.85%	-0.11%	-0.06%
Total Private Banks	42,004	18.9%	3.1%	4.80%	0.33%	-0.02%	0.78%	-0.21%	0.04%
Total Public Banks	47,171	17.8%	3.4%	3.08%	0.06%	0.02%	0.92%	-0.36%	0.08%

Source: Company, PL

Exhibit 3: Q3FY23 HFCs Results Preview – Large/mid HFCs to see higher loan growth

Rs Million	NII	QoQ	YoY	PPOP	QoQ	YoY	PAT	QoQ	YoY
HDFC	49,451	6.6%	15.4%	50,499	-14.2%	13.7%	36,993	-16.9%	13.5%
LIC Housing	15,124	29.3%	3.6%	12,964	37.2%	-1.6%	8,371	174.5%	9.1%
AAVAS	1,953	4.1%	23.7%	1,431	2.6%	12.8%	1,072	0.3%	20.3%
CANFIN Homes	2,433	-3.1%	18.2%	2,062	-4.6%	19.9%	1,423	0.4%	23.0%
Total HFCs	68,961	10.4%	12.9%	66,956	-6.8%	10.5%	47,858	-4.4%	13.1%
Rs Billion	Loans	QoQ	YoY	Margins	QoQ	YoY	Credit Cost	QoQ	YoY
HDFC	6,146	3.0%	14.0%	3.43%	0.1%	0.1%	0.27%	0.0%	0.0%
LIC Housing	2,687	2.4%	10.4%	2.36%	0.6%	-0.1%	0.37%	-0.5%	-0.2%
AAVAS	132	5.5%	24.7%	6.72%	0.0%	-1.4%	0.17%	0.1%	-0.3%
CANFIN Homes	301	4.3%	19.8%	3.53%	0.0%	0.0%	0.19%	0.0%	-0.1%
Total HFCs	9,266	2.9%	13.2%	4.01%	0.2%	-0.3%	0.25%	-0.1%	-0.1%

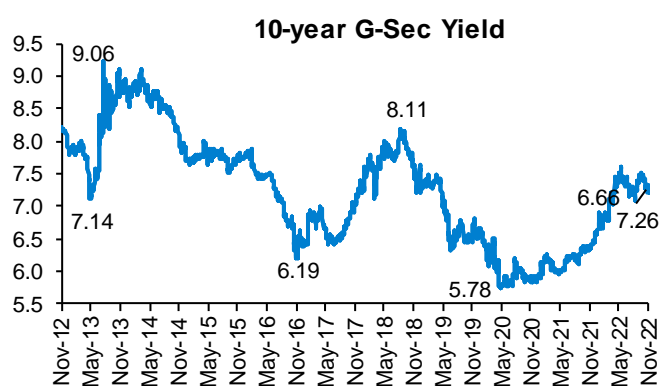
Source: Company, PL

Exhibit 4: Asset quality to be sequentially steady

	Q2FY23			Q3FY23E		
	GNPA	NNPA	PCR	GNPA	NNPA	PCR
HDFCB	1.23%	0.33%	73.32%	1.23%	0.34%	73.00%
ICICIB	3.24%	0.62%	81.27%	3.13%	0.61%	81.00%
Axis	2.50%	0.51%	79.92%	2.45%	0.50%	80.00%
KMB	2.08%	0.55%	73.75%	2.01%	0.53%	74.00%
IIB	2.11%	0.61%	71.55%	2.06%	0.59%	72.00%
SBI	3.52%	0.80%	77.93%	3.26%	0.74%	78.00%
BOB	5.31%	1.16%	79.14%	5.11%	1.07%	80.00%
PNB	10.48%	3.80%	66.28%	9.75%	3.67%	67.05%
Federal	2.46%	0.78%	68.68%	2.33%	0.73%	69.00%
IDFCB	3.19%	1.10%	66.34%	3.01%	0.98%	68.00%
DCB	3.90%	1.54%	61.34%	3.89%	1.55%	61.00%
CUBK	4.37%	2.69%	39.38%	4.23%	2.58%	40.00%
HDFC	1.59%	0.82%	0.48%	1.48%	0.82%	44.76%
LIC HF	4.91%	2.83%	43.65%	4.80%	2.70%	45.00%
CANFIN	0.62%	0.35%	43.39%	0.59%	0.32%	46.33%
AAVAS	1.10%	0.84%	23.78%	1.10%	0.82%	25.71%

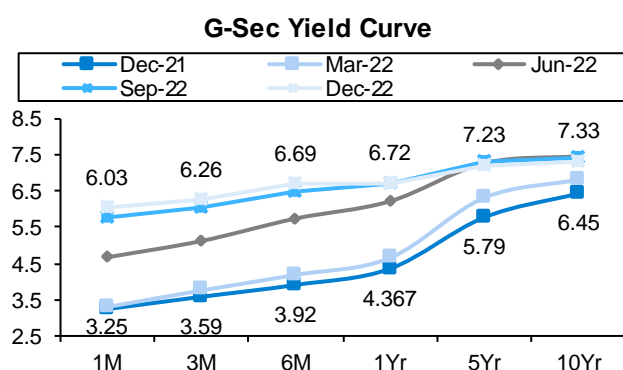
Source: Company, PL

Exhibit 5: G-Sec yields stabilised



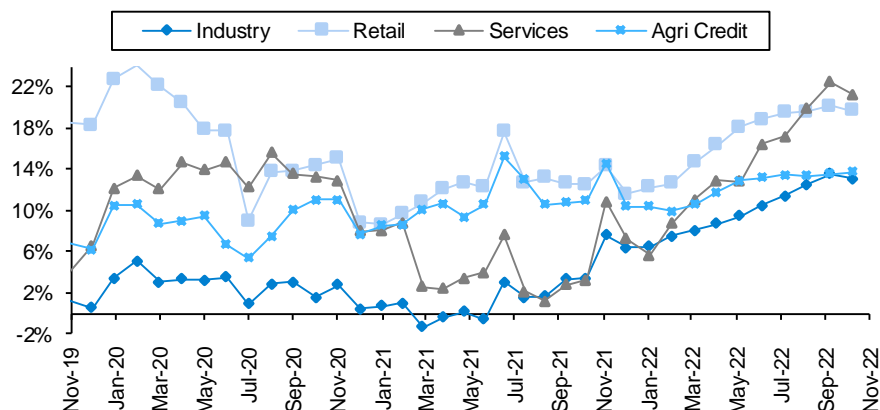
Source: Bloomberg, PL

Exhibit 6: Short-term curve moving up, long term steady



Source: Bloomberg, PL

Exhibit 7: Retail continues to be mainstay, services moderate



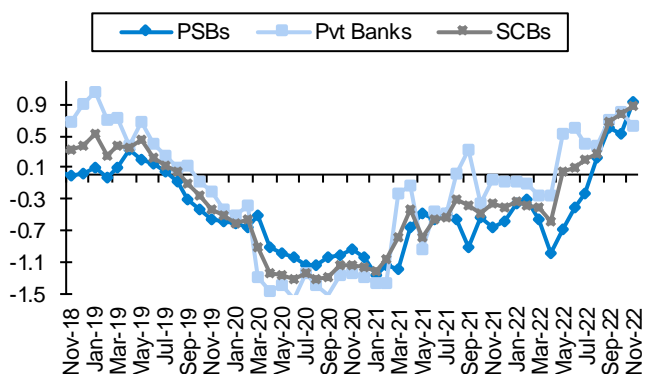
Source: RBI, PL

Exhibit 8: Across banks rates have been hiked in-line with the system

Banks MCLR Profile	MCLR 1YR			% Change	
	Jun-22	Sep-22	Dec-22	3Months	6Months
HDFC Bank	7.85%	8.20%	8.60%	0.40%	0.75%
Axis Bank	7.95%	8.10%	8.75%	0.65%	0.80%
ICICI Bank	7.55%	8.00%	8.40%	0.40%	0.85%
KMB	7.85%	8.20%	8.65%	0.45%	0.80%
IndusInd Bank	9.00%	9.40%	9.95%	0.55%	0.95%
SBI	7.20%	7.70%	8.30%	0.60%	1.10%
Bank of Baroda	7.50%	7.70%	8.30%	0.60%	0.80%
Punjab National Bank	7.40%	7.70%	8.10%	0.40%	0.70%
Federal	8.30%	8.50%	9.00%	0.50%	0.70%
PSBs – Median	7.43%	7.70%	8.15%	0.80%	0.80%
Pvt – Median	8.35%	8.75%	9.05%	0.77%	0.77%

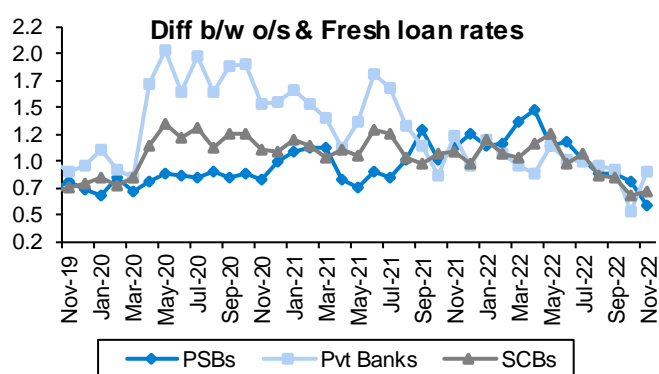
Source: Company, PL

Exhibit 9: Lending rates continue to rise



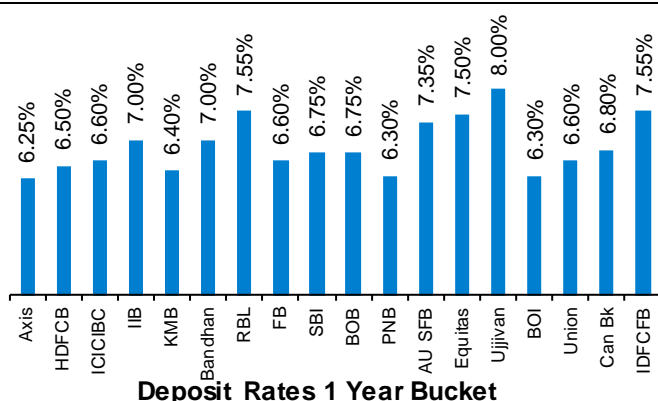
Source: Company, PL

Exhibit 10: PSBs gap reduce while PVBs increase



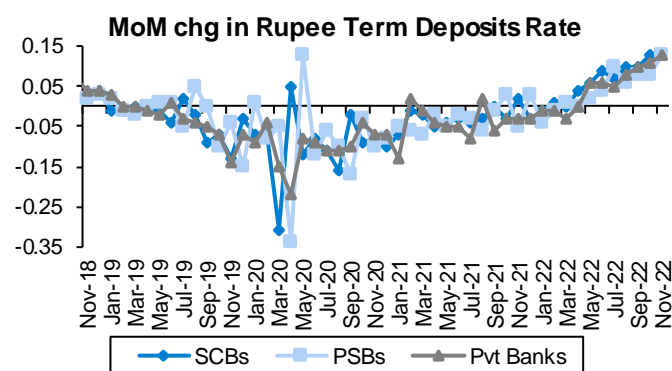
Source: RBI, PL

Exhibit 11: Deposit rates increased across banks



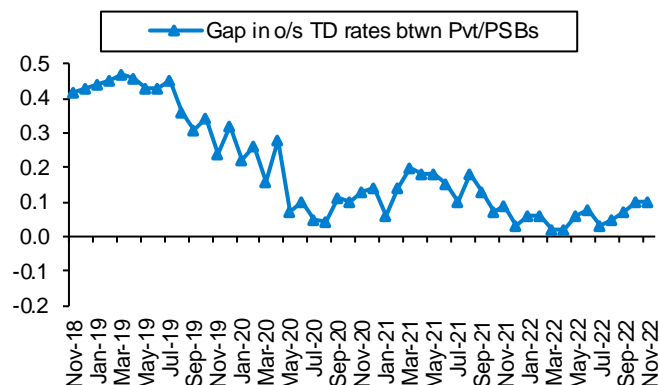
Source: Company, PL

Exhibit 12: TD rates go up in-line with repo rate hikes



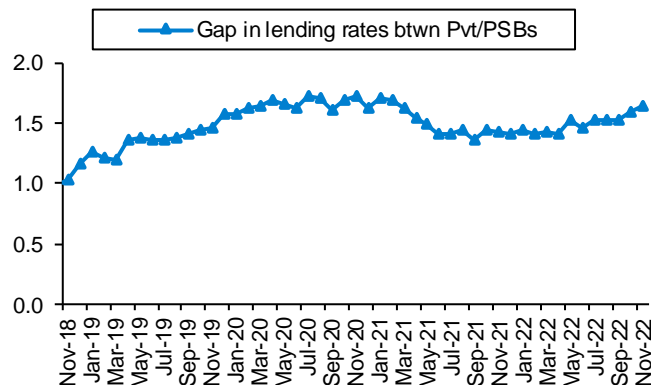
Source: Company, PL

Exhibit 13: Pvt/PSBs TD rates gap steady



Source: RBI, PL

Exhibit 14: Gap in lending rates for Pvt/PSB steady



Source: RBI, PL

Exhibit 15: Q3FY23 Result Preview (Private Banks)

Company Name		Q3FY23E	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	Remark
Axis Bank	NII (Rs mn)	1,13,202	86,525	30.8	1,03,603	9.3	
	PPOP (Rs mn)	84,578	61,615	37.3	77,162	9.6	We expect NII growth of 30.8% YoY and 9.3% QoQ as rate transmission takes place
	Provisions (Rs mn)	9,000	13,348	(32.6)	5,498	63.7	
	PAT (Rs mn)	56,305	36,142	55.8	53,298	5.6	
	Loans (Rs bn)	7,565	6,649	13.8	7,309	3.5	Credit Costs to inch up further
	Margin (%)	4.49	4.00	49	4.31	18	Margins expected to improve however cost of funds to start catching up
	GNPA (%)	2.45	3.17	(72)	2.50	(5)	
	Credit Cost (%)	0.48	0.80	(33)	0.30	18	
HDFC Bank	NII (Rs mn)	2,21,934	1,84,435	20.3	2,10,212	5.6	
	PPOP (Rs mn)	1,81,183	1,67,760	8.0	1,73,922	4.2	We expect a NII growth of 20.3% YoY /5.6% QoQ led by decent loan growth of 19.5% YoY, while margin would see improvement led by loan mix changes
	Provisions (Rs mn)	34,000	29,940	13.6	32,401	4.9	
	PAT (Rs mn)	1,10,387	1,03,423	6.7	1,06,058	4.1	
	Loans (Rs bn)	15,070	12,609	19.5	14,799	1.8	Bank may continue to build in buffer provisions which would lead to steady earnings.
	Margin (%)	4.73	4.60	13	4.62	11	
	GNPA (%)	1.23	1.26	(3)	1.23	0	
	Credit Cost (%)	0.90	0.95	(5)	0.88	3	
ICICI Bank	NII (Rs mn)	1,58,790	1,22,360	29.8	1,47,868	7.4	We expect NII to grow at 29.8% YoY higher than industry aided stable loan growth of ~19% mainly from retail portfolio.
	PPOP (Rs mn)	1,22,704	1,01,483	20.9	1,16,803	5.1	
	Provisions (Rs mn)	16,000	20,073	(20.3)	16,445	(2.7)	
	PAT (Rs mn)	80,028	61,938	29.2	75,578	5.9	Margins would continue to expand however at a slower rate, as CoF goes up
	Loans (Rs bn)	9,714	8,140	19.3	9,386	3.5	
	Margin (%)	4.91	4.25	66	4.76	15	Asset quality would continue to improve as recoveries would be higher than slippages
	GNPA (%)	3.13	4.13	(100)	3.24	(11)	
	Credit Cost (%)	0.66	0.99	(33)	0.70	(4)	
IndusInd Bank	NII (Rs mn)	44,091	37,936	16.2	43,021	2.5	
	PPOP (Rs mn)	34,983	32,051	9.1	35,197	(0.6)	We expect earnings driven by decent loan growth of 16% YoY.
	Provisions (Rs mn)	12,500	16,541	(24.4)	11,411	9.5	
	PAT (Rs mn)	16,817	11,613	44.8	17,867	(5.9)	We expect margins to be stable sequentially at 4.70%
	Loans (Rs bn)	2,720	2,286	19.0	2,601	4.6	
	Margin (%)	4.70	4.56	14	4.69	1	With asset quality improving we expect, provisions to remain range bound.
	GNPA (%)	2.06	2.48	(42)	2.107864	(4)	
	Credit Cost (%)	1.84	2.89	(106)	1.75	8	

Company Name		Q3FY23E	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	Remark
Kotak Mahindra Bank	NII (Rs mn)	53,669	43,343	23.8	50,994	5.2	Kotak's loan traction has been strong and we expect the momentum to continue and build-in 23.8% YoY & 5.2% QoQ growth.
	PPOP (Rs mn)	35,147	27,010	30.1	35,675	(1.5)	
	Provisions (Rs mn)	1,500	(1,317)	(213.9)	1,370	9.5	
	PAT (Rs mn)	25,236	21,314	18.4	25,807	(2.2)	Credit cost would remain in the same range with PCR at near to 70%.
	Loans (Rs bn)	3,093	2,529	22.3	2,940	5.2	
	Margin (%)	5.20	4.62	58	5.17	3	CASA accretion to slow down further, hence margins would see only marginal improvement.
	GNPA (%)	2.01	2.71	(70)	2.08	(7)	
	Credit Cost (%)	0.19	(0.21)	40	0.19	1	
Federal Bank	NII (Rs mn)	18,361	15,389	19.3	17,618	4.2	With better than industry average loan growth of 20% YoY & 6% QoQ, NII is expected to grow at 17% YoY.
	PPOP (Rs mn)	11,990	9,143	31.1	12,122	(1.1)	
	Provisions (Rs mn)	2,500	2,140	16.8	2,679	(6.7)	
	PAT (Rs mn)	7,060	5,217	35.3	7,037	0.3	Margins may inch up towards 3.60% as yields go up faster
	Loans (Rs bn)	1,683	1,407	19.6	1,612	4.4	
	Margin (%)	3.66	3.39	27	3.60	6	We build in lower slippages
	GNPA (%)	2.33	3.06	(74)	2.46	(13)	
	Credit Cost (%)	0.59	0.61	(1)	0.66	(7)	
Kotak Mahindra Bank	NII (Rs mn)	53,669	43,343	23.8	50,994	5.2	Kotak's loan traction has been strong and we expect the momentum to continue and build-in 23.8% YoY & 5.2% QoQ growth.
	PPOP (Rs mn)	35,147	27,010	30.1	35,675	(1.5)	
	Provisions (Rs mn)	1,500	(1,317)	(213.9)	1,370	9.5	
	PAT (Rs mn)	25,236	21,314	18.4	25,807	(2.2)	Credit cost would remain in the same range with PCR at near to 70%.
	Loans (Rs bn)	3,093	2,529	22.3	2,940	5.2	
	Margin (%)	5.20	4.62	58	5.17	3	CASA accretion to slow down further, hence margins would see only marginal improvement.
	GNPA (%)	2.01	2.71	(70)	2.08	(7)	
	Credit Cost (%)	0.19	(0.21)	40	0.19	1	
Federal Bank	NII (Rs mn)	18,361	15,389	19.3	17,618	4.2	With better than industry average loan growth of 20% YoY & 6% QoQ, NII is expected to grow at 17% YoY.
	PPOP (Rs mn)	11,990	9,143	31.1	12,122	(1.1)	
	Provisions (Rs mn)	2,500	2,140	16.8	2,679	(6.7)	
	PAT (Rs mn)	7,060	5,217	35.3	7,037	0.3	Margins may inch up towards 3.60% as yields go up faster
	Loans (Rs bn)	1,683	1,407	19.6	1,612	4.4	
	Margin (%)	3.66	3.39	27	3.60	6	We build in lower slippages
	GNPA (%)	2.33	3.06	(74)	2.46	(13)	
	Credit Cost (%)	0.59	0.61	(1)	0.66	(7)	
IDFC First Bank	NII (Rs mn)	30,742	25,800	19.2	30,022	2.4	NII should be strong at 19.2% YoY led by lending growth in retail remains robust although on low base.
	PPOP (Rs mn)	12,203	7,697	58.5	11,687	4.4	
	Provisions (Rs mn)	4,000	3,919	2.1	4,242	(5.7)	
	PAT (Rs mn)	6,119	2,811	117.7	5,556	10.1	Opex would continue to remain elevated due to thrust on retail
	Loans (Rs bn)	1,402	1,063	31.8	1,348	4.0	
	Margin (%)	6.94	7.07	(12)	6.89	5	We remain watchful on asset quality surprises especially from legacy book
	GNPA (%)	3.01	4.09	(108)	3.19	(18)	
	Credit Cost (%)	1.14	1.47	(33)	1.26	(12)	
DCB Bank	NII (Rs mn)	4,375	3,450	26.8	4,111	6.4	We expect earnings to be flat sequentially despite NII growing as opex & provisions may be elevated.
	PPOP (Rs mn)	1,973	1,988	(0.8)	1,826	8.1	
	Provisions (Rs mn)	450	970	(53.6)	310	45.2	
	PAT (Rs mn)	1,125	754	49.3	1,124	0.2	Asset quality is expected to slightly improve QoQ with trend in healthy recoveries continuing; however we are watchful on slippages from the OTR pool.
	Loans (Rs bn)	329	277	18.8	313	5.0	
	Margin (%)	4.29	3.81	47	4.12	17	
	GNPA (%)	3.89	4.73	(84)	3.90	(0)	
	Credit Cost (%)	0.55	1.40	(85)	0.40	15	

Company Name		Q3FY23E	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	Remark
City Union Bank	NII (Rs mn)	5,982	4,900	22.1	5,679	5.3	
	PPOP (Rs mn)	4,746	3,696	28.4	4,565	4.0	
	Provisions (Rs mn)	1,600	1,235	29.6	1,050	52.4	Competitive pressure is easing off which would help in pricing
	PAT (Rs mn)	2,423	1,961	23.5	2,765	(12.4)	
	Loans (Rs bn)	430	376	14.2	419	2.5	Slippages are expected to reduce sequentially, which would help in controlling credit costs and hence improve earnings
	Margin (%)	4.29	3.93	36	4.13	17	
	GNPA (%)	4.23	5.21	(99)	4.37	(14)	
	Credit Cost (%)	1.49	1.31	18	1.00	49	

Source: Company, PL

Exhibit 16: Q3FY23 Result Preview (PSU Banks)

Company Name		Q3FY23E	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	Remark
State Bank of India	NII (Rs mn)	3,68,888	3,06,874	20.2	3,45,934	6.6	
	PPOP (Rs mn)	2,16,874	1,85,216	17.1	2,05,300	5.6	
	Provisions (Rs mn)	34,000	69,740	(51.2)	30,387	11.9	SBI should continue to report better NII growth of 20.2% YoY & 6.6%, while loan growth would be in-line with industry at 3.5% QoQ.
	PAT (Rs mn)	1,35,144	84,319	60.3	1,26,745	6.6	
	Loans (Rs bn)	30,546	25,784	18.5	29,513	3.5	We expect slippages to go up, however credit cost below 1%
	Margin (%)	3.29	3.00	28	3.18	11	
	GNPA (%)	3.26	4.51	(125)	3.52	(26)	Margin may improve 10bps sequentially
	Credit Cost (%)	0.45	1.08	(64)	0.41	3	
Punjab National Bank	NII (Rs mn)	87,092	78,032	11.6	82,707	5.3	
	PPOP (Rs mn)	58,706	50,763	15.6	55,672	5.4	
	Provisions (Rs mn)	51,517	33,536	53.6	49,064	5.0	NII & Operating profit should improve sequentially, however opex & provisions would remain elevated.
	PAT (Rs mn)	4,529	11,268	(59.8)	4,113	10.1	
	Loans (Rs bn)	7,966	6,928	15.0	7,734	3.0	Asset quality should come down due to recoveries/w.offts keeping GNPA's rise limited.
	Margin (%)	2.93	2.93	-	2.79	14	
	GNPA (%)	9.75	12.88	(313)	10.48	(73)	
	Credit Cost (%)	2.59	1.94	65	2.54	5	
Bank of Baroda	NII (Rs mn)	1,08,309	85,520	26.6	1,01,745	6.5	
	PPOP (Rs mn)	67,645	54,833	23.4	60,310	12.2	
	Provisions (Rs mn)	23,000	25,070	(8.3)	16,275	41.3	Core earnings should continue to improve with 29% YoY & 4% QoQ growth.
	PAT (Rs mn)	33,930	21,970	54.4	33,134	2.4	
	Loans (Rs bn)	8,659	7,322	18.3	8,366	3.5	Margins to expand to 3.6%
	Margin (%)	3.02	3.13	(11)	3.33	(31)	Slippages to remain under control and so will the credit cost.
	GNPA (%)	51,102.19	72,563.29	(21,46,110)	53,102.92	(2,00,073)	
	Credit Cost (%)	2.59	1.94	65	2.54	5	

Source: Company, PL

Exhibit 17: Q3FY23 Result Preview (HFCs)

Company Name		Q3FY23E	Q3FY22	YoY gr. (%)	Q2FY23	QoQ gr. (%)	Remark
HDFC Ltd	NII (Rs mn)	49,451	42,838	15.4	46,392	6.6	
	PPOP (Rs mn)	50,499	44,412	13.7	58,871	(14.2)	
	Provisions (Rs mn)	4,200	3,930	6.9	4,730	(11.2)	HDFC Ltd. Is expected to see a stable quarter on earnings.
	PAT (Rs mn)	36,993	32,607	13.5	44,542	(16.9)	
	Loans (Rs bn)	6,146	5,392	14.0	5,967	3.0	Asset quality metrics would remain steady.
	Margin (%)	3.43	3.35	8	3.32	11	
	GNPA (%)	1.48	2.32	(84)	1.59	(11)	
	Credit Cost (%)	0.27	0.29	(2)	0.32	(4)	
LIC Housing	NII (Rs mn)	15,124	14,604	3.6	11,698	29.3	
	PPOP (Rs mn)	12,964	13,174	(1.6)	9,447	37.2	
	Provisions (Rs mn)	2,500	3,556	(29.7)	5,658	(55.8)	LIC Housing may see decent loan growth of 10% YoY largely in-line with the system.
	PAT (Rs mn)	8,371	7,673	9.1	3,050	174.5	
	Loans (Rs bn)	2,687	2,434	10.4	2,623	2.4	Asset quality is expected to see gradual improvement and recoveries remain key monitorable
	Margin (%)	2.36	2.42	(6)	1.80	56	
	GNPA (%)	4.80	5.04	(24)	4.91	(11)	
	Credit Cost (%)	0.37	0.58	(21)	0.86	(49)	
Aavas	NII (Rs mn)	1,953	1,579	23.7	1,877	4.1	
	PPOP (Rs mn)	1,431	1,268	12.8	1,394	2.6	
	Provisions (Rs mn)	55	113	(51.3)	16	241.0	Aavas would continue AuM growth of +20% YoY that would lead to maintaining NII/PPoP growth at steady levels.
	PAT (Rs mn)	1,072	891	20.3	1,068	0.3	
	Loans (Rs bn)	132	106	24.7	125	5.5	
	Margin (%)	6.72	8.11	(139)	6.76	(4)	Asset quality may remain flat QoQ
	GNPA (%)	1.10	1.72	(62)	1.10	-	
	Credit Cost (%)	0.17	0.43	(26)	0.05	11	
Canfin Homes	NII (Rs mn)	2,433	2,059	18.2	2,512	(3.1)	
	PPOP (Rs mn)	2,062	1,720	19.9	2,161	(4.6)	Disbursal momentum to continue and we envisage a 20% YoY & 4.3% QoQ loan growth.
	Provisions (Rs mn)	140	164	(14.4)	132	5.8	
	PAT (Rs mn)	1,423	1,157	23.0	1,417	0.4	
	Loans (Rs bn)	301	251	19.8	288	4.3	Earnings are expected to be flattish QoQ
	Margin (%)	3.53	3.48	5	3.55	(2)	Commentary to be watched out for management induction.
	GNPA (%)	0.59	0.71	(12)	0.62	(3)	
	Credit Cost (%)	0.19	0.26	(7)	0.18	0	

Source: Company, PL

Exhibit 18: Change in Estimates

	Rating		Target Price			NII (Rs bn)						PPoP (Rs bn)						PAT (Rs bn)					
						FY23E			FY24E			FY23E			FY24E			FY23E			FY24E		
	C	P	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.	C	P	% Chng.
Axis Bank	BUY	BUY	1,100	1,100	0.0%	430.6	426.8	0.9%	458.5	461.4	-0.6%	308.4	299.1	3.1%	340.7	341.2	-0.1%	209.2	199.6	4.8%	213.1	211.3	0.9%
HDFC Bank	BUY	BUY	1,800	1,800	0.0%	862.2	871.8	-1.1%	977.1	998.8	-2.2%	699.4	703.9	-0.6%	795.2	814.8	-2.4%	425.1	424.1	0.2%	477.8	484.1	-1.3%
ICICI Bank	BUY	BUY	1,090	1,090	0.0%	607.5	607.6	0.0%	664.9	672.4	-1.1%	470.1	467.6	0.5%	529.2	534.7	-1.0%	308.3	307.9	0.1%	336.3	336.5	-0.1%
IndusInd Bank	BUY	BUY	1,450	1,450	0.0%	174.5	171.8	1.6%	197.2	197.3	0.0%	140.2	137.5	1.9%	166.4	165.2	0.7%	68.4	67.9	0.7%	87.0	84.9	2.5%
Kotak Mahindra Bank	Acc	Acc	2,100	2,100	0.0%	206.6	206.5	0.1%	235.9	235.6	0.1%	133.9	133.8	0.1%	159.4	160.0	-0.3%	97.1	97.0	0.1%	106.7	107.1	-0.4%
Federal Bank	BUY	BUY	165	165	0.0%	71.4	70.3	1.5%	83.2	81.9	1.6%	45.9	44.6	2.9%	53.1	51.6	2.8%	27.2	26.2	3.7%	31.7	30.7	3.5%
DCB Bank	BUY	BUY	150	150	0.0%	16.9	16.5	2.3%	19.0	18.9	0.9%	7.7	7.3	4.8%	9.7	9.5	1.2%	4.5	4.3	6.1%	5.3	5.2	1.7%
City Union Bank	BUY	BUY	220	220	0.0%	23.1	22.8	1.4%	24.8	25.0	-0.9%	18.1	17.6	2.6%	20.4	20.5	-0.3%	9.7	9.7	0.4%	11.7	11.6	0.2%
Bank of Baroda	BUY	BUY	220	190	15.8%	413.2	400.9	3.1%	429.9	432.8	-0.7%	244.7	232.9	5.1%	278.1	280.7	-0.9%	125.6	116.3	8.0%	136.3	138.2	-1.3%
State Bank of India	BUY	BUY	730	700	4.3%	1,413.9	1,410.2	0.3%	1,516.4	1,504.9	0.8%	781.9	766.9	2.0%	937.4	914.6	2.5%	472.7	443.9	6.5%	503.2	486.9	3.3%
HDFC	BUY	BUY	3,000	3,000	0.0%	194.2	196.0	-0.9%	229.3	229.4	0.0%	215.4	217.2	-0.8%	251.2	251.2	0.0%	158.8	160.2	-0.9%	182.4	182.5	0.0%
AAVAS Financiers	Acc	Acc	2,250	2,250	0.0%	8.3	8.3	0.0%	9.8	9.8	0.0%	5.7	5.7	0.0%	6.6	6.6	0.0%	4.3	4.3	0.0%	4.8	4.8	0.0%
Can Fin Homes	BUY	BUY	700	700	0.0%	9.9	9.7	2.2%	11.5	11.5	0.1%	8.3	8.1	2.6%	9.7	9.7	0.1%	5.8	5.7	2.8%	6.5	6.4	0.1%
LIC Housing Finance*	Acc	Acc	410	410	0.0%	58.4	58.4	0.0%	66.8	66.8	0.1%	50.2	50.2	0.0%	57.8	57.8	0.1%	29.5	28.8	2.5%	37.2	37.2	0.1%

Source: Company, PL * Y/e Dec / # Y/e Sep C=Current / P=Previous / Acc=Accumulate

*Due to sharp run-up in the stock, rating & target price may not match.

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	AAVAS Financiers	Accumulate	2,250	1,990
2	Axis Bank	BUY	1,100	888
3	Bank of Baroda	BUY	190	145
4	Can Fin Homes	BUY	700	524
5	City Union Bank	BUY	220	190
6	DCB Bank	BUY	150	120
7	Federal Bank	BUY	165	130
8	HDFC	BUY	3,000	2,489
9	HDFC Bank	BUY	1,800	1,439
10	ICICI Bank	BUY	1,090	931
11	IDFC First Bank	UR	-	53
12	IndusInd Bank	BUY	1,450	1,218
13	Kotak Mahindra Bank	Accumulate	2,100	1,903
14	LIC Housing Finance	Accumulate	410	367
15	Punjab National Bank	UR	-	58
16	State Bank of India	BUY	700	594

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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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