

Banks and NBFC's

1QFY24 Result Preview

July 9, 2023

Earnings growth of banks to remain strong; Management commentary on outlook for loan growth and NIMs will be key

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Key Points

- Despite 1Q generally being a seasonally weak quarter, as per latest RBI data as of June 16, 2023, system loan growth stood healthy at 15.4% YoY and 2.5% on a quarter to date basis, which indicates better topline growth for banks. The sectoral credit deployment data shows continued double-digit growth in Retail and Services segments but moderation in Industrial segment credit growth.
- We expect our coverage banks to report strong earnings growth of 52.2% YoY on the back of 17.1% YoY credit growth, 25bps YoY margin expansion, 35.2% YoY growth in operating profit and further improvement in credit costs. However, considering the dip in low-cost deposit ratios of banks as per 1QFY24 provisional numbers, we have built in 10bps QoQ compression in NIMs for our coverage banks.
- In the NBFC/HFC space, we expect our coverage universe to clock 17.9% YoY earnings growth, led by continued growth momentum in Housing, Consumer and Vehicle Finance and collection efficiencies (CE) coming back to normal rate of 95-98%. For SFBs, we estimate 48.8% YoY earnings growth, driven by 31.3% YoY loan growth and improvement in credit costs.
- In our view, following will be the key monitorables from 1QFY24 results of Banks – (1) Growth guidance, considering that interest rates continue to be high. (2) As the higher cost term deposits continue to grow faster than overall deposit growth, NIM outlook will be key (3) While asset quality of banks remains best in a decade, faster increase in unsecured loans can be a cause of concern in future if macro cycle reverses. So, it will be important to understand the credit quality filters banks have in place when it comes to their unsecured books.

System credit growth remains healthy despite 1Q generally being a seasonally weak quarter: Although we expect some moderation in credit growth in FY24 (due to interest rates remaining high), as per latest RBI data as of June 16, 2023, system loan growth stood healthy at 15.4% YoY and 2.5% on a quarter to date basis. As per the latest sectoral deployment data, following are the key trends that have emerged: (1) Lending to NBFCs grew by 27.6% YoY, supporting overall growth in the Services segment at 21.4% YoY. (2) Retail credit grew by 19.2% YoY with strong growth momentum in unsecured loans and continued double-digit growth in two key sub-segments - Housing and Vehicle loans. (3) Growth in the Industrial segment continued to moderate, with growth in Large Enterprises segment standing at a 7-month low of 3.9% YoY. While we are yet to see a meaningful pick-up in credit growth to large corporates, banks generally have been making positive comments with respect to capex revival and resultant corporate term loan demand.

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As per the provisional numbers, we have observed that mid-size banks like Federal Bank and RBL Bank have gained momentum, with their loan book growing by 5.2% QoQ and 4.8% QoQ, respectively. In case of large banks like HDFC Bank, growth remained flat at 0.9% QoQ. We expect our coverage banks to report 17.1% YoY and 2% QoQ loan growth.

For NBFCs (ex-Vehicle Finance), we expect growth momentum in our coverage HFCs to continue, with 18.9% YoY and 7% QoQ growth. Gold Financiers are expected to see a decline of 0.6% QoQ. In diversified NBFCs, Bajaj Finance has shown better-than-expected AUM growth of 32% YoY in 1QFY24.

NIMs to moderate: As per the latest RBI data, deposit growth picked up from ~10% YoY in 4QFY23 to 12.1% YoY in June 2023. Despite this, it continues to lag credit growth of 15.4% YoY. While deposit mobilization is key to sustaining credit growth, as per the 1QFY24 provisional numbers of banks, we have observed that a good part of current deposit growth is coming from term deposits, resulting in a dip in low-cost deposit ratios. As a result, we expect moderation in NIMs on a sequential basis and have built in 10bps QoQ compression in NIMs for our coverage banks.

Vehicle Financiers: As per provisional numbers, Poonawalla Fincorp has clocked robust disbursement growth of 143% YoY and 10% QoQ in 1QFY24. In case of MMFS also, disbursements grew at a healthy pace of 28% YoY. We estimate 24.2% YoY and 3.1% QoQ growth for our coverage Auto NBFCs. Considering the rise in cost of funding, we have built in 8bps QoQ decline in NIMs. Credit cost is expected to stay under control. We expect earnings to grow by 21.3% YoY and 6.9% QoQ on the back of healthy asset growth and decline in credit costs.

Small Finance Banks: The two SFBs under our coverage universe, AU Small Finance Bank and Equitas Small Finance Bank, have reported YoY/QoQ growth of 28.9%/7.6% and 36.5%/6.3%, respectively in their 1QFY24 gross advances. Cost of funds is expected to rise sequentially, but since the same is being passed on to customers and credit growth remains strong, average NII of the two banks is expected to grow by 29.3% YoY and 4.8% QoQ. The opex ratios, which are one of the key monitorables for SFBs, are expected to see a seasonal uptick. We expect the two SFBs to report average earnings growth of 48.8% YoY.

1QFY24 Earnings Estimates

(Rsmn) Banks	Net interest income			Pre-provision profit			PAT		
	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Axis Bank	1,18,235	26.0%	0.7%	87,351	48.4%	-4.7%	57,462	39.3%	NA
Bandhan Bank	25,203	0.2%	2.0%	17,806	-2.2%	-0.8%	7,453	-15.9%	-7.8%
HDFC Bank	2,36,898	21.6%	1.4%	1,79,862	17.0%	-3.4%	1,14,272	24.3%	-5.1%
ICICI Bank	1,77,401	34.3%	0.4%	1,30,427	26.5%	-5.7%	86,549	25.3%	-5.1%
IndusInd Bank	48,453	17.5%	3.8%	38,558	13.6%	2.7%	21,040	31.2%	3.1%
Federal Bank	19,527	21.7%	2.3%	12,567	29.1%	-5.8%	8,581	42.9%	-4.9%
DCB Bank	4,791	28.1%	-1.4%	2,038	22.7%	-16.4%	1,229	26.5%	-13.6%
City Union Bank	5,067	-3.5%	-1.5%	4,060	-9.2%	-2.7%	2,125	-5.6%	-2.5%
RBL Bank	13,258	29.0%	9.5%	6,332	19.7%	6.6%	2,578	28.2%	-4.9%
Kotak Mahindra Bank	61,341	30.6%	0.5%	41,312	48.4%	-11.1%	29,484	42.4%	-15.7%
Private banks	7,10,174	24.7%	1.3%	5,20,312	24.8%	-4.4%	3,30,772	27.7%	41.8%
Bank of Baroda	1,16,703	32.0%	1.3%	72,498	60.1%	-10.2%	44,692	106.1%	-6.4%
Punjab National Bank	95,545	26.7%	0.6%	56,007	4.1%	-4.5%	13,850	349.0%	19.5%
State Bank of India	4,00,975	28.5%	-0.7%	2,20,712	73.1%	-10.4%	1,35,208	122.8%	-19.0%
Govt. banks	6,13,222	28.9%	-0.2%	3,49,217	54.1%	-9.4%	1,93,749	126.7%	-14.4%
Grand total (banks)	13,23,397	26.6%	0.6%	8,69,530	35.2%	-6.5%	5,24,521	52.2%	14.2%
NBFCs									
Manappuram Finance	8,913	19.1%	15.2%	4,861	22.0%	16.5%	3,389	16.8%	9.6%
Muthoot Finance	18,428	19.7%	-0.6%	12,836	25.3%	-0.6%	9,590	19.6%	6.2%
CanFin Homes	2,885	15.2%	10.4%	2,475	15.1%	11.6%	1,769	9.0%	6.7%
PNB Housing Finance	5,449	50.1%	-4.8%	4,660	28.8%	-5.1%	2,500	5.0%	-11.6%
Repcos Home Finance	1,446	5.5%	-1.9%	1,181	9.5%	-1.9%	772	24.4%	-5.9%
Aavas Financiers	2,513	24.0%	-0.2%	1,630	41.0%	-1.2%	1,202	34.7%	-5.2%
Bajaj Finance	77,217	22.8%	4.1%	52,016	22.2%	1.6%	31,419	21.0%	-0.5%
LIC Housing Finance	17,009	5.6%	-14.5%	14,963	3.3%	-14.6%	9,229	-0.3%	-21.8%
Total (NBFCs)	1,33,860	20.2%	0.9%	94,622	19.3%	-1.2%	59,870	15.9%	-3.6%

(Rsmn) Company	Net interest income			Pre-provision profit			PAT		
	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Cholamandalam	18,754	26.6%	6.3%	12,953	22.2%	1.7%	8,395	48.4%	-1.6%
Shriram Finance	43,179	8.4%	3.3%	32,695	10.2%	6.1%	16,379	-9.4%	25.2%
Mahindra & Mahindra Financial Services	16,314	8.4%	1.9%	10,071	6.5%	6.7%	6,419	188.0%	-6.2%
Sundaram Finance	4,418	8.1%	2.5%	4,126	18.0%	-2.2%	2,868	27.0%	-9.4%
Poonawalla Fincorp	4,248	59.1%	11.9%	2,145	82.1%	6.4%	1,684	36.2%	-6.8%

(Rsmn) Small Finance Banks	Net interest income			Pre-provision profit			PAT		
	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Au Small Finance Bank	12,720	30.3%	4.8%	5,419	37.5%	-5.1%	3,779	41.1%	-11.0%
Equitas Small Finance Bank	7,406	27.6%	4.8%	3,452	28.7%	-10.7%	1,651	70.2%	-13.1%

Source: Respective banks and NBFCs, Nirmal Bang Institutional Equities Research

1QFY24 Loans and Deposits/Borrowings Estimates

(Rsmn)	Loans & advances (Rsmn)			Deposits (Rsmn)		
Company	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Banks						
Axis Bank	85,37,559	21.8%	1.0%	95,16,799	18.4%	0.5%
Bandhan Bank	10,31,690	6.7%	-5.5%	10,84,790	16.6%	0.4%
HDFC Bank	1,61,55,000	15.8%	0.9%	1,91,30,000	19.2%	1.6%
ICICI Bank	1,04,10,551	16.2%	2.1%	1,16,90,323	11.3%	-1.0%
IndusInd Bank	30,10,410	21.4%	3.8%	34,73,560	14.6%	3.2%
Federal Bank	18,35,106	21.0%	5.2%	22,25,130	21.4%	4.3%
DCB Bank	3,44,495	15.5%	0.2%	4,02,961	14.9%	-2.3%
City Union Bank	4,28,408	6.6%	-0.5%	5,29,218	8.5%	1.0%
RBL Bank	7,30,739	21.2%	4.1%	8,56,380	8.1%	0.9%
Kotak Mahindra Bank	32,62,584	16.4%	2.0%	36,85,425	16.4%	1.5%
Bank of Baroda	4,57,46,542	17.3%	1.5%	5,25,94,587	16.4%	0.9%
Punjab National Bank	95,98,182	20.0%	2.0%	1,19,16,509	15.4%	-1.0%
State Bank of India	85,16,048	14.7%	2.5%	1,29,39,747	13.8%	1.0%
	Loans & advances (Rsmn)			Borrowings (Rsmn)		
NBFCs	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Manappuram Finance	2,58,954	11.0%	5.4%	1,93,255	6.6%	0.5%
Muthoot Finance	6,23,940	8.1%	-2.9%	4,87,396	7.4%	-2.0%
CanFin Homes	3,67,723	33.5%	17.9%	3,04,896	20.0%	4.9%
PNB Housing Finance	5,99,858	6.5%	3.6%	5,51,869	6.4%	2.9%
Repco Home Finance	1,22,307	3.1%	2.2%	1,01,923	9.5%	2.7%
Aavas Financiers	1,19,694	24.8%	4.3%	1,03,524	24.9%	4.7%
Bajaj Finance	27,00,500	32.4%	9.2%	23,50,537	36.6%	8.5%
LIC Housing Finance	28,05,529	9.7%	4.7%	25,04,937	10.9%	2.3%

(Rsmn)	Loans & advances/AUM (Rsmn)			Borrowings (Rsmn)		
Company	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Cholamandalam	10,82,825	36.2%	3.4%	10,02,615	35.6%	3.0%
Shriram Finance	17,54,243	15.5%	2.0%	15,94,854	4.5%	1.0%
Mahindra & Mahindra Financial Services	8,18,370	29.7%	3.0%	7,69,675	30.3%	2.7%
Sundaram Finance	3,60,329	17.9%	4.3%	3,14,515	12.3%	-4.0%
Poonawalla Fincorp	1,77,700	41.0%	10.1%	1,14,470	54.5%	2.9%

(Rsmn)	Loans & advances (Rsmn)			Deposits (Rsmn)		
Small Finance Banks	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Au Small Finance Bank	6,36,350	28.9%	7.6%	6,93,150	26.9%	-0.1%
Equitas Small Finance Bank	2,96,030	36.5%	6.3%	2,77,090	35.9%	9.2%

Source: Respective banks and NBFCs, Nirmal Bang Institutional Equities Research

1QFY24 Profitability Parameters

(Rsmn) Company	NIM (%)			Cost-to-income ratio (%)			Credit cost (%)		
	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Banks									
Axis Bank	3.8	28 bps	-19 bps	46.9	-559 bps	197 bps	0.5	6 bps	37 bps
Bandhan Bank	6.9	-66 bps	-18 bps	42.6	665 bps	55 bps	1.5	8 bps	-2 bps
HDFC Bank	4.1	17 bps	-10 bps	44.0	341 bps	205 bps	0.7	23 bps	-2 bps
ICICI Bank	4.7	74 bps	-12 bps	41.2	-117 bps	193 bps	0.5	0 bps	-13 bps
IndusInd Bank	4.4	11 bps	2 bps	44.5	60 bps	-43 bps	1.5	-97 bps	5 bps
Federal Bank	3.2	7 bps	-6 bps	50.5	-214 bps	104 bps	0.2	-23 bps	0 bps
DCB Bank	3.9	42 bps	-10 bps	65.8	138 bps	586 bps	0.4	-12 bps	-13 bps
City Union Bank	3.1	-33 bps	-11 bps	43.6	378 bps	236 bps	1.3	-10 bps	-37 bps
RBL Bank	4.6	55 bps	1 bps	68.5	74 bps	0 bps	1.5	-18 bps	10 bps
Kotak Mahindra Bank	5.2	62 bps	-11 bps	48.1	-501 bps	421 bps	0.2	12 bps	6 bps
Bank of Baroda	3.4	53 bps	5 bps	48.8	-598 bps	269 bps	0.4	-41 bps	26 bps
Punjab National Bank	3.1	35 bps	-8 bps	56.8	1016 bps	220 bps	1.7	-8 bps	38 bps
State Bank of India	3.1	42 bps	-12 bps	55.8	-611 bps	113 bps	0.5	-17 bps	29 bps
NBFCs									
Manappuram Finance	14.1	114 bps	107 bps	46.4	-117 bps	-256 bps	0.5	38 bps	46 bps
Muthoot Finance	10.4	126 bps	-40 bps	31.5	-319 bps	-135 bps	0.0	42 bps	-46 bps
CanFin Homes	3.2	-42 bps	-3 bps	18.2	236 bps	-69 bps	0.1	18 bps	-19 bps
PNB Housing Finance	3.5	115 bps	-3 bps	21.0	-287 bps	25 bps	0.9	55 bps	-10 bps
Repco Home Finance	4.8	5 bps	-10 bps	24.0	9 bps	8 bps	0.5	-32 bps	24 bps
Aavas Financiers	7.3	5 bps	-49 bps	42.3	-413 bps	16 bps	0.3	25 bps	6 bps
Bajaj Finance	10.1	-37 bps	-32 bps	36.4	51 bps	225 bps	1.6	6 bps	13 bps
LIC Housing Finance	2.5	-3 bps	-45 bps	14.0	171 bps	39 bps	0.5	2 bps	4 bps

(Rsmn) Company	NIM (%)			Cost-to-income ratio (%)			Credit cost (%)		
	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Cholamandalam	7.0	-67 bps	-8 bps	39.5	415 bps	130 bps	0.7	-85 bps	21 bps
Shriram Finance	9.3	-58 bps	7 bps	30.0	389 bps	-194 bps	2.5	-95 bps	-31 bps
Mahindra & Mahindra Financial Services	8.1	-166 bps	-28 bps	43.0	337 bps	-220 bps	0.8	-343 bps	75 bps
Sundaram Finance	5.0	-43 bps	-5 bps	32.0	-296 bps	57 bps	0.4	-35 bps	20 bps
Poonawalla Fincorp	10.0	126 bps	-8 bps	52.0	-995 bps	266 bps	-0.3	34 bps	74 bps

(Rsmn) Small Finance Banks	NIM (%)			Cost-to-income ratio (%)			Credit cost (%)		
	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)	Q1FY24E	YoY (Δ)	QoQ (Δ)
Au Small Finance Bank	5.8	5 bps	-5 bps	65.5	23 bps	244 bps	0.3	-7 bps	-64 bps
Equitas Small Finance Bank	8.5	-18 bps	-25 bps	63.0	55 bps	384 bps	2.0	-145 bps	0 bps

Source: Respective banks and NBFCs, Nirmal Bang Institutional Equities Research

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