October 8, 2022

Continued resilience in business traction & earnings…

In Q2FY23, we expect earnings momentum to continue to remain strong led by 1) robust credit offtake, 2) improvement in margins led by yield repricing and rising CD ratio, 3) absence of treasury losses and 4) steady slippages leading to stable credit cost. Expect strong commentary in terms of resilience in credit demand and, thus, outlook on business momentum. While operational performance is expected to remain positive across lenders, given steadier yields, robust recovery in earnings is expected in PSU banks.

The upcoming festive season is expected to give a further boost to retail credit demand. In addition, corporates (especially MSMEs) are turning to banks for working capital limits. Bank credit to the industry segment should show a gradual improvement, going ahead. Hence, we expect bank credit growth for FY23E to be in early double digits, which remains a positive phenomenon for the industry.

For banks and NBFCs, following are key expected highlights:

- For our coverage universe, credit growth is expected to be above industry at 16.7% YoY to ₹ 68.2 lakh crore, driven by retail (home, auto & credit card) and MSME segment. Latest RBI fortnightly data has indicated growth of 16.2% YoY for the overall banking sector compared to 15.5% mark in the previous quarter, indicating continuous improvement in credit offtake. PVBs advances are expected to grow 21.3% YoY vs. 13% for PSBs. Thus, NII is expected to grow 13.6% YoY aided by healthy business growth and improvement in margins
- Deposit traction is expected to remain at ~9% YoY. Due to liquidity pressures, CASA deposits may see some moderation on a QoQ basis
- Banks have been gradually increasing their MCLR, EBLR followed by 190 bps hike in repo rate in the last few months. Increased CD ratio, faster transmission of rate hikes and gradual utilisation of excess SLR is expected to lead to ~8-10 bps improvement in margins
- With moderation in yields, we may see treasury gains/reversal of treasury losses especially for PSU banks in Q2FY23. Thus, other income should witness a meaningful jump on a sequential basis
- We believe NPAs have largely bottomed out and trend of lower credit cost should continue in Q2FY23 as well. Improvement in asset quality is expected to be led by healthy recoveries and steady incremental slippages. Slippages from restructured book need to be watched. For our coverage universe, we believe GNPA should fall ~5-8 bps QoQ to 3.45%
- With adequate provision buffer already in place, improvement in asset quality and lower slippages, we believe there will not be a material increase in credit cost on a sequential basis. Hence, we expect PAT to report healthy growth of 47.8% YoY and 22% QoQ to ₹ 32840 crore aided by strong business traction, margins uptick and lower credit cost

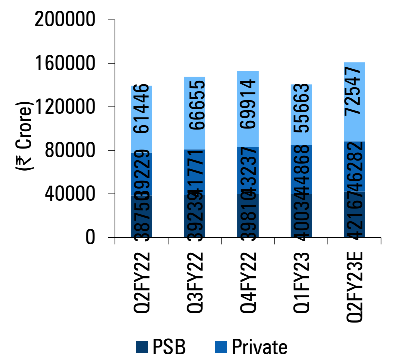
Commentary on business growth to be watched

We believe the growth aspect for the current quarter has largely been factored in with announcement of pre-results update. However, management commentary on business growth for FY23E, especially in the wake of interest rate hikes, would be key as this would indicate growth sustainability. In addition, commentary on liabilities trend and utilisation of SLR to shore up business to be seen.

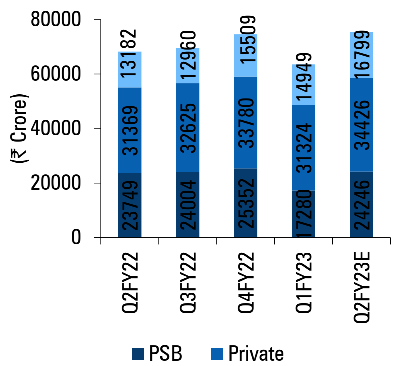
Result Preview

ICICI Securities – Retail Equity Research

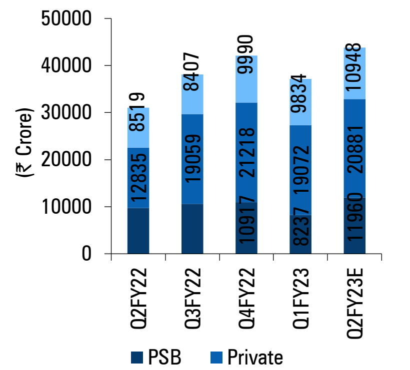
NII



PPP



PAT



Top Picks

State Bank of India

Axis Bank

IndusInd Bank

Research Analysts

Kajal Gandhi
kajal.gandhi@icicisecurities.com

Vishal Narnolia
vishal.narnoliai@icicisecurities.com

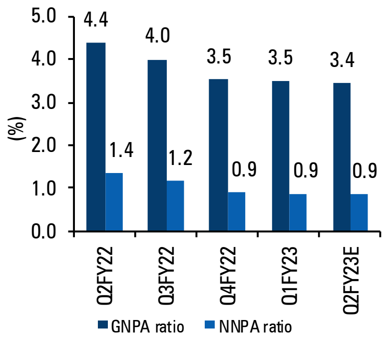
Pravin Mule
pravin.mule@icicisecurities.com

Exhibit 1: Estimates for Q2FY23E (₹ crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ	Q2FY23E	YoY	QoQ
Public Sector Banks									
Bank of Baroda	9060.9	19.8%	2.5%	5200.7	-8.3%	14.9%	2687.7	28.7%	24.0%
SBI	33106.6	6.2%	6.1%	19045.5	5.3%	49.3%	9271.9	21.6%	52.8%
Total	**42167.5**	**8.8%**	**5.3%**	**24246.2**	**2.1%**	**40.3%**	**11959.6**	**23.1%**	**45.2%**
Private Banks									
Axis Bank	8966.6	13.5%	-4.4%	6131.2	3.4%	4.1%	4196.2	33.9%	1.7%
Federal Bank	1801.5	21.8%	12.3%	1011.4	10.9%	3.9%	647.9	40.8%	7.9%
HDFC Bank	20565.9	16.3%	5.6%	17180.2	8.7%	11.8%	10443.2	18.2%	13.6%
IDFC Bank	2895.7	27.4%	5.3%	1067.1	54.1%	13.1%	504.0	232.2%	6.3%
Indusind Bank	4264.5	16.6%	3.4%	3520.3	10.9%	3.7%	1759.2	58.0%	9.7%
Kotak Bank	4846.7	20.5%	3.2%	3178.7	1.9%	14.2%	2362.4	16.3%	14.1%
Bandhan Bank	2592.7	34.0%	3.1%	2152.1	35.8%	18.2%	832.4	-	-6.1%
CSB Bank	348.4	25.1%	12.1%	184.7	23.7%	19.4%	135.9	14.6%	18.7%
Total	46282.0	18.0%	3.2%	34425.8	9.7%	9.9%	20881.2	62.7%	9.5%
Total Banks	**88449.5**	**13.4%**	**4.2%**	**58672.0**	**6.4%**	**20.7%**	**32840.8**	**45.6%**	**20.3%**
HDFC	4781.2	16%	7.5%	5981.9	16.8%	17.2%	4225.9	11.8%	15.2%
Bajaj Finance	7212.2	35.2%	8.7%	4609.5	39.5%	8.3%	2815.6	90.1%	8.4%
Bajaj Finserv	21426.8	19.0%	34.9%	4032.3	44.4%	12.2%	1538.7	37.1%	17.5%
SBI Life Insurance	16538.3	12.8%	49.9%	244.7	-4.5%	-16.2%	284.5	15.4%	8.2%
HDFC Life Insurance	12323.4	7.7%	32.9%	248.8	51.8%	0.6%	288.1	5.1%	-21.1%
HDFC AMC	584.5	-3.9%	9.7%	443.7	-3.8%	15.2%	335.0	-2.7%	6.6%
Muthoot Finance	1848.6	2.0%	20.0%	1311.7	-7.2%	28.1%	932.5	-6.2%	16.3%
Star Health	3156.1	30.6%	17.5%	195.5	-184.0%	-18.2%	141.5	-	-14.7%
ICICI Lombard	4675.5	53.2%	29.0%	-269.4	167.4%	39.4%	386.5	-13.5%	10.7%
Total	**72546.7**	**18.1%**	**30.3%**	**16798.6**	**27.4%**	**12.4%**	**10948.4**	**28.5%**	**11.3%**

Source: Company, ICICI Direct Research

Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q2FY23E (₹ crore)	GNPA	QoQ (%)	NNPA	QoQ (%)
PSB				
Bank of Baroda	51976	-1.2	12385	-2.1
SBI	115772	2.2	29858	5.7
Private Banks				
Axis Bank	21492	2.2	4320	-9.6
Bandhan Bank	7839	12.5	2091	19.5
Federal Bank	3998	-3.8	1402	-1.3
HDFC Bank	18214	1.0	4937	1.0
Indusind Bank	5992	1.0	1678	1.0
Kotak Mahindra Bank	6203	-2.8	1675	-4.3
IDFC First Bank	4279	-1.7	1604	-3.0
CSB Bank	279	-4.8	94	-2.3

Exhibit 2: Bank Specific Views

Banks	Remarks
Bank of Baroda	Bank of Baroda is expected to report credit growth of ~19% to ₹ 8.25 lakh crore for Q2FY23 as credit on YoY basis continues to gather pace. Deposit growth is estimated to be 12% YoY at ₹ 10.72 lakh crore driven by CASA. NII is projected to grow at ~20% YoY to ₹ 9061 crore as NIMs (calc) should inch up marginally on QoQ basis to 3.1%. On a sequential basis, non-interest income may witness healthy growth as there will be no treasury losses in Q2FY23. C/I should see some moderation sequentially. Credit cost may remain <0.2% due to better asset quality show. Thus, we expect PAT to grow ~28.7% YoY at ₹ 2687 crore. GNPA ratio should decline ~10 bps QoQ to ~6% levels
State Bank of India	Strong loan growth of ~17-18% YoY expected in this quarter; one of the highest in last five years and estimated deposit growth at 10% YoY, is seen lagging for SBI as well the system. Overall, NII growth is seen at ~7% YoY due to high base in Q2FY22. We expect slippages at ~₹ 8000-9000 crore, overall NPA provisions are seen moderating to ₹ 6600 crore. Investment provisions write-back can lead to reduced overall provisions. Expect strong profit growth both QoQ to ~₹ 9270 crore
Axis Bank	Axis Bank is projected to post better sequential credit growth, in-line with industry growth. NII is expected to grow at 13.5% YoY at ₹8967 crore with positive margin performance QoQ. Treasury income should improve QoQ as interest rates are eased slightly from its peak. Opex should inch up due to tech spends, but overall C/I should be steady at ~52% with better topline. Credit cost should fall with 12 bps QoQ decline in GNPA levels. Thus, PAT is estimated to post a 34% YoY growth at ₹4196 crore. Asset quality should witness an improvement with controlled slippages and better recoveries during the quarter
HDFC Bank	Credit growth remained strong at 23.5% YoY to ₹1480000 crore, up 6% QoQ with corporate segment growing faster. Retail book grew 21.5% YoY. Deposit growth came at 19% YoY and CASA grew 15.4% YoY. NII growth is seen at 16.5% YoY to ₹ 20566 crore and expect margins stable to moderating at 4.2%. Other income may see improvement QoQ and asset quality expected to be stable. Hence, we expect provision at ₹ 3256 crore with PAT growth expected to be ~14% YoY to ₹ 10441 crore
CSB Bank	As per provisional data, overall credit growth for CSB Bank is strong at 23.6% YoY and 8.1% QoQ to ₹ 17661 crore. NII is expected to grow 25% YoY at ₹ 348 crore with ~13 bps NIM improvement QoQ. Non-interest income to come in at ~ ₹ 56 crore. C/I ratio to decline from 57.7% to ~54% QoQ led by better performance at income levels. Credit cost is expected to be on lower side aided by healthy recoveries. Thus, we expect PAT to be at ₹ 136 crore registering growth of 14.6% YoY and 18.7% QoQ. GNPA to decline ~20 bps QoQ to 1.6%. Management outlook on gold loans segment needs to be watched

Source: Company, ICICI Direct Research

Exhibit 3: Bank Specific views continued…

Federal Bank	Federal Bank's provisional numbers indicate robust advances growth expected at 6.2% QoQ (up 19.4% YoY) to ₹ 1.63 lakh crore. Deposits growth of 3.2% QoQ (10% YoY) to ₹ 1.89 lakh crore with CASA ratio 36.4%. NII is expected to grow ~22% YoY and 12.3% QoQ to ₹ 1802 crore. Margins are expected to be better QoQ by ~10 bps. Other income is expected to be better on a QoQ basis. Credit cost on a YoY basis to improve leading to PAT growth of ~41% YoY (8% QoQ) at ₹ 648 crore. Management commentary on business banking segment needs to be watched
Kotak Mahindra Bank	During Q2FY23, we expect Kotak Mahindra Bank to report healthy growth in advances at 26.5% YoY and 6.1% QoQ to ₹ 2.97 lakh crore while deposits are expected to grow 13.0% YoY and 4.2% QoQ to ₹ 3.29 lakh crore. CASA ratio is likely to moderate by 10-15 bps on QoQ basis to ~58% of deposits. NII is estimated to grow 20.5% YoY to ₹ 4846 crore while NIMs are expected inch up marginally at ~5.0% levels. Marginal moderation in C/I ratio and flattish credit cost is expected to result in ~16% YoY growth in PAT to ₹ 2362 crore. GNPA expected to dip ~15 bps QoQ to 2.1%, led by healthy recoveries
IndusInd Bank	IndusInd Bank has continued to report robust business growth with 18% YoY and 5% QoQ growth in advances to ₹ 2.59 lakh crore. Healthy disbursement is expected to enable steady margins and NII at ₹ 4265 crore, up 16.6% YoY, while non-interest income is seen to grow 11.1% YoY. Building of business capabilities to keep CI higher at 44.2% but lower credit cost at ~45 bps (non annualised) to boost earnings at ₹ 1760 crore; up 10% QoQ and 58% YoY. Asset quality is expected to remain steady with GNPA ratio at 2.3%
Bandhan Bank	Bandhan Bank is expected to report growth of 34% YoY in NII, with margins at around 8%. C/I expected to decline to ~33.3% vs 35.6% in Q2FY22 mainly on account of higher income levels. Credit cost is expected to be slightly higher at ~1% of loans. We expect Bandhan Bank to report a PAT of ₹ 832 crore vs a loss of ₹ 3008 crore in Q2FY22. As impact of Assam floods is easing, bank can witness some improvement in collections. Thus, GNPA to decline from 7.25% in Q1FY23 to ~7.05% in Q2FY23. We would remain watchful on recoveries
IDFC First Bank	The bank is expected to post NII growth of 27.4% YoY and 5.3% QoQ primarily driven by growth in retail assets. NIMs to increase by ~20 bps on QoQ basis. Other income at ₹ 975 crore to report growth of 25% YoY. Provisions are expected to remain in a tight range at ~28 bps of advances. The bank is expected to post profit of ₹ 504 crore vs ₹ 151.7 crore in Q2FY22. Overall asset quality is expected to remain stable, though slippages from restructured portfolio cannot be ruled out, leading to marginal uptick in GNPA ratio at ~7.5%. Management commentary on business growth outlook would need to be watched

Source: Company, ICICI Direct Research

Exhibit 4: NBFC Specific views

HDFC Ltd	Loan growth is expected to surge to ~17% YoY to ₹ 593733 crore, led by pick up in home loan demand. Hence, growth in NII is seen at 16.4% YoY to ₹ 4781 crore. Pressure on NIM due to bank competition may be witnessed. Dividend income of ₹ 1360 crore was high and nil profit from sale of investments lead to overall other income at ₹ 1839 crore. Provisions are seen at ₹ 564 crore after higher provisions done. Accordingly, standalone profit is seen flat at ~₹ 4225 crore on a YoY basis. Subsidiaries are expected to continue to report strong performance
HDFC AMC	In Q2FY23, AUM of HDFC AMC is expected to grow sequentially by ~4.3% to ₹ 4.13 lakh crore, primarily led by revival in equities market and continued steady traction in SIP inflows. Proportion of equity AUM is expected to increase, thus providing support to yields at ~52 bps. Consequently, operational revenue is seen at ₹ 533 crore. Other income, which impacted earnings in Q1FY23, is seen to remain steady at ₹ 52 crore in Q2FY23E. Overall, healthy AUM growth, steady yields and revival in other income to result in 7% QoQ increase in PAT at ₹ 335 crore (~32 bps as % of AUM)
Bajaj Finance	Bajaj Finance reported better than expected AUM growth at 31% YoY and 3.4% QoQ to ₹ 218350 crore. New loan additions came to 68 lakh vs 74 lakh QoQ. Number of customer additions was also lower QoQ to 26 lakh vs. 27.2 lakh. Higher ticket size boosted AUM. Accordingly, NII growth to surge at 35% YoY to ₹ 7212 crore. NIMs are expected to remain stable with pressure of cost of funds set off by rising yields. Provisions are expected to witness marginal uptick to ₹ 830 crore. With C/I ratio under control, PAT estimated to increase 90% YoY and 8% QoQ to ₹ 2815 crore
Bajaj Finserv	Bajaj Finserv's consolidated revenue is expected to grow at 19% YoY to ₹ 21427 crore, led by pick up in lending business, healthy traction in premium accretion in insurance businesses and steady yields. Client acquisition and healthy AUM growth is expected to boost operational performance. Focus on individual business in life insurance & healthy motor & individual health business in general insurance to support premium accretion. Steady opex and moderate slippages (in lending business), business mix and steady claims (in insurance business) to result in 37% YoY growth in earnings at ₹ 1539 crore
SBI Life Insurance	SBI Life Insurance is expected to report 13% YoY growth in premium accretion to ₹ 16538 crore, led by moderation in individual and group business. Renewal business is expected to remain steady at 86%. Normalisation of claims and steadier yields is expected to lead to surplus of ₹ 245 crore. Thus, moderation in premium accretion partially offset by steady efficiency and normalisation of claims to lead to earnings growth at 15% YoY to ₹ 285 crore
HDFC Life Insurance	For HDFC Life, individual business traction is expected to remain healthy led by non-par individual business. However, moderation in individual protection and group business is seen to keep overall premium accretion slower at ~7% YoY to ₹ 12448 crore. Normalisation of claims and steadier yields is expected to lead to surplus of ₹ 249 crore; up 52% YoY due to base effect. Thus, moderation in premium accretion partially offset by steady efficiency and normalization of claims to lead to earnings growth at 5% YoY to ₹ 288 crore
MCX	For MCX, turnover in option segment has surpassed futures segment from June 2022 onwards. Thus, continued strong momentum in options is expected to bring down yields, however, higher volume is expected to propel top-line growth. Sequentially, futures turnover is seen to decline in single digit, while options turnover is expected to witness 50%+ growth. Aided by options, revenue is expected to increase 43% YoY and 10% QoQ to ₹ 119 crore. Inching up of interest rates is to keep other income subdued. Opex is seen to increase, though higher topline growth is expected to lead to 52% YoY and 20% QoQ growth in earnings at ₹ 49.7 crore
Muthoot Finance	Muthoot Finance is expected to deliver better credit growth compared with previous quarter. We have estimated a loan growth of 10% YoY at ₹ 62325 crore for Q1FY23. Gold loans should do better supported by steady gold prices. NII is expected to grow 2% YoY and ~20% QoQ at ₹ 1849 crore aided by improvement in margins due to better yields. As migration from teaser rates to higher rates is already done, we believe NIMs to inch up from here on. Opex could slightly be higher but overall C/I should largely remain steady. With provision reversals coming to an end in Q2FY23, PAT is seen at ₹ 932 crore

Source: Company, ICICI Direct Research

Exhibit 5: NBFC Specific views (Continued)

ICICI Lombard	We expect ICICI Lombard to post healthy growth of ~40% YoY in gross written premium (GWP) at ₹ 6312 crore, partly due to merger of Bharti Axa. In motor insurance, robust auto sales is expected to boost growth in motor premium while investment in health business is seen to start delivering business traction from Q2FY23E onwards. Commissions to come in at ~4% while claims to remain steady at ~69%. The insurer is expected to post underwriting loss of ₹ 269 crore and with investment income (shareholder + policyholder) of ₹ 815 crore, PAT is estimated at ₹ 386 crore for Q2FY23E
Star Health Insurance	Star Health premium accretion is expected at 18% YoY to ₹ 3220 crore, led by introduction of new products and variants. With claims ratio expected to normalise at ~61% and non-claim expense remaining steady at ~30% (commission ratio at ~13% and opex at ~17%), underwriting performance is seen to be in minimal profit compared to losses reported in previous year. Further, investment income of ₹ 1500 crore should help the insurer to post a net profit of ₹ 141 crore against a loss of ₹ 170 crore YoY

Source: Company, ICICI Direct Research

Exhibit 6: ICICI Direct Research coverage universe (BFSI)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Bn)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
BoB (BANBAR)	135	160	Buy	699	14.0	18.1	21.4	9.6	7.5	6.3	1.0	0.8	0.7	8.9	10.2	10.6
SBI (STABAN)	530	650	Buy	4733	35.5	38.6	44.1	14.9	13.7	12.0	1.9	1.7	1.5	11.9	11.6	11.9
Axis Bank (AXIBAN)	756	970	Buy	2322	42.4	53.2	65.4	17.8	14.2	11.5	2.2	1.9	1.8	12.0	13.3	15.1
Federal Bank (FEDBAN)	123	135	Hold	259	9.0	10.8	12.4	13.7	11.4	9.9	1.5	1.4	1.3	10.8	11.5	12.0
HDFC Bank (HDFBAN)	1430	1650	Buy	7969	66.7	77.1	93.7	21.5	18.5	15.3	3.4	3.0	2.7	16.7	16.6	17.9
IndusInd Bank (INDBA)	1213	1330	Buy	940	59.5	91.7	117.1	20.4	13.2	10.4	2.0	1.8	1.6	10.1	14.0	15.7
Kotak Bank (KOTMAH)	1826	2200	Buy	3625	43.0	50.7	58.8	42.4	36.0	31.0	5.1	4.4	3.9	12.6	13.0	13.2
CSB Bank (CSBBAN)	243	250	Buy	42	26.4	25.4	28.6	9.2	9.5	8.5	1.8	1.5	1.3	19.0	15.4	14.9
Bandhan (BANBAN)	276	330	Buy	443	0.8	24.7	30.3	352.8	11.1	9.1	2.8	2.3	1.8	0.8	20.7	20.9
IDFC First (IDFBAN)	53	60	Buy	330	0.2	2.6	3.9	226.7	20.5	13.7	1.7	1.5	1.4	0.8	7.4	10.1
HDFC (HDFC)	2327	2800	Buy	4228	75.8	84.3	101.0	30.7	27.6	23.0	3.5	3.5	3.2	12.0	12.6	14.5
Bajaj Finserv (BAFINS)	1699	1850	Hold	2707	52.7	43.1	56.5	32.2	39.4	30.1	3.4	5.7	4.8	11.1	15.7	17.4
Bajaj Finance (BAJFI)	7342	8500	Buy	4445	116.7	168.5	221.7	62.9	43.6	33.1	10.3	8.8	6.5	17.4	21.0	21.6
Muthoot Finance (MUTFIN)	1059	1300	Hold	425	98.5	106.2	134.0	10.7	10.0	7.9	2.5	2.1	1.8	23.5	21.5	23.2
HDFC AMC (HDFAMC)	1917	2200	Buy	409	66.4	69.0	80.0	28.8	27.8	24.0	7.3	6.6	6.0	25.2	23.9	25.1
SBI Life Insurance	1243	1500	Buy	1244	15.1	17.6	21.5	82.6	70.7	57.7	3.1	2.8	2.4	8.5	12.0	14.0
HDFC Life	527	635	Buy	1133	5.7	7.4	8.9	92.2	71.2	59.2	3.7	3.0	2.4	18.0	18.1	18.2
Star Health	720	860	Buy	416	-20.5	12.0	14.1	-35.1	60.2	51.0	9.8	8.0	6.6	-27.8	13.4	13.0
ICICI Lombard	1145	1550	Buy	562	-20.1	21.3	19.3	-57.0	53.7	59.4	6.2	5.4	4.7	14.5	14.8	15.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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