ICICI direct Research

April 7, 2021

Quarter of stabilisation…

Q4FY21 is expected to be a normalised quarter with the performance mirroring the previous quarter on business parameters. With events like Supreme Court ruling out moratorium extension, waiver of interest, standstill norms, we believe a realistic reflection of lender's performance shall be seen this quarter. The quarter is expected to bring low treasury income or even MTM losses in some cases with yields rising ~40 bps. Overall credit cost is expected to remain elevated with some QoQ decline. Earnings are expected to show sharp spike on yearly basis on account of low base in the previous year.

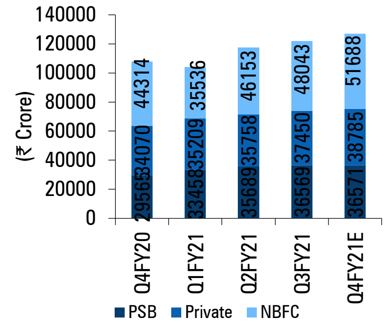
For banks and NBFCs, following are key expected highlights:

- Credit growth is expected to show a gradual pick-up, in line with industry at ~6% YoY mark with segments like retail (led by healthy auto & housing demand), agriculture and gold leading the way with sluggish demand from the industry segment owing to continued deleveraging and muted capex activity. MSME segment to show some improvement with continuance of ECLGS scheme. Private banks, with healthy capitalisation, may grow ~10-12%, gaining market share from PSU banks
- On the deposit front, traction is expected to remain healthy at ~12% mark, with largely stable CASA to be maintained by most banks
- On the asset quality front, with standstill asset classification and extension of moratorium coming to an end, we believe most pro-forma GNPA reported in the previous quarter would trickle down in reported NPA numbers, Thus, reported NPA is expected to optically show a sharp spike in the broad range of 0.5-2%, though an equivalent impact on the bottomline may not be reflected as most lenders have proactively provided for same. Restructuring request as indicated was in the range of 0.5-3% of which we expect minimal proposals to be accepted
- Banks have created healthy provision buffer. However, we believe credit cost would continue to remain elevated as banks would continue to shore up PCR level, though sequentially provision is seen to be lower for select lenders
- Substantial divergence is expected in margins among lenders with banks that have not absorbed income de-recognition expected to witness a sequential decline. Steady MCLR and deposit rates, gradual deployment of deposits and resolution of large stressed account would act as catalyst offsetting any pressure from incremental slippages during the quarter
- Hardening of yields to impact treasury income with PSU banks experiencing higher impact. Sequential uptick in disbursement, cross sell and recovery from written off accounts to propel non-interest income

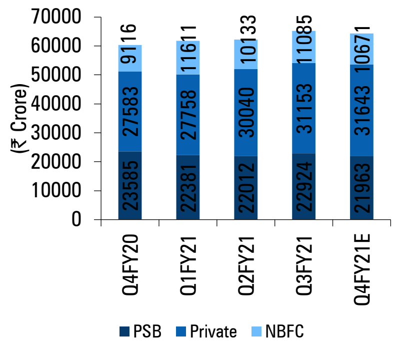
Outlook on business growth, asset quality to be key to watch

This quarter could be a defining quarter for most banks as they would like to start the new fiscal while keeping demons of last fiscal aside and focus on business growth. However, since there has been a resurgence in the pandemic and partial lockdowns, there is a likelihood of a delayed recovery in credit offtake. Hence, the growth outlook presented by the management would be key to watch. In addition, preliminary assessment of impact of partial lockdown, especially on MSME and micro finance segment will remain in focus as it would lay the foundation for future earnings trajectory.

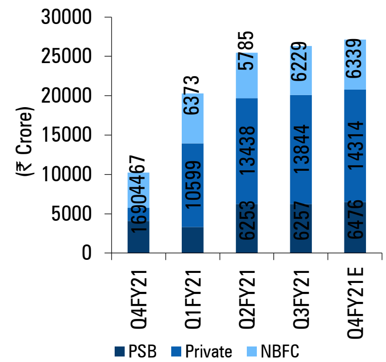
NII



PPP



PAT



Top Picks

HDFC Bank

SBI Life

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Credit offtake to be watched

Recent RBI data suggests that credit growth has shown a gradual improvement since unlocking of the economy and has reached ~6.5% by February 2021 from ~5.6% in October 2020. Large private banks, HDFC Bank and Axis Bank, may report relatively better credit growth. Disbursement to corporate sector would stay muted, though outlook for loan growth in this segment is improving with the government's focus on infra sector. Retail advances are expected to see a gradual pick-up with incremental disbursement in secured retail segment including home and auto loans. **For our coverage, credit offtake is expected at ~7.2% YoY to ₹ 48 lakh crore**.

Divergence related to portfolio in asset quality expected

In Q4FY21E, a slew of levers were at play to define the asset quality trajectory. Lifting of asset classification standstill is expected to lead to a spike in headline NPA numbers. For our coverage, GNPA ratio is to increase ~40 bps QoQ to 5.2% in Q4FY21. Incremental slippages in Q4FY21 are seen to be offset by recovery from accounts slipped in Q3FY21. Recovery from resolution of large stressed account is seen being utilised to shore up provision buffer. Divergence in asset quality is expected among lenders based on their respective portfolios. Banks with corporate and secured retail exposure are expected to remain resilient while lenders with exposure to MSME and MFI segments may witness incremental pressure.

Gradual recovery in performance; earnings to jump optically

For our coverage, NII is expected to increase at a healthy pace of 18.5% YoY to ₹ 75356 crore. Fee income is expected to increase sequentially in line with credit growth; treasury income is expected to decline owing to rising yields especially for PSUs. Movement of field staff, normalisation of branch operation is expected to add to increase in opex, though the same is expected to remain lower YoY. **In our coverage, PPP is seen remaining flat sequentially at ₹ 53606 crore. However, a steep jump in PAT is estimated for our coverage universe at ~3.5x to ₹ 20790 crore, on account of base effect and decline in provisions compared to last year.**

NBFCs are expected to see an improvement on disbursement especially those serving retail segment including home, auto, gold loans. Reduction in borrowing rates and reduction in liquidity buffer are expected to act as respite for margins. We believe for most lenders collections should have improved but on a segmental basis unsecured loans and MFI need a watchful approach.

Banks with higher contingent provision, adequate capital buffer and secured retail portfolio including HDFC Bank and Axis Bank are expected to report a steady performance. Premium accretion is expected to continue for life and general insurance, SBI Life should show improved business traction.

Exhibit 1: Estimate for Q4FY21E (₹ crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ	Q4FY21E	YoY	QoQ
Public Sector Banks									
SBI	28810.4	26.5%	0.0%	16370.1	-11.3%	-5.6%	4969.2	38.8%	-4.4%
Total	**36571.2**	**23.7%**	**0.0%**	**21963.5**	**-6.9%**	**-4.2%**	**6476.2**	**58.5%**	**3.5%**
Private Banks									
Axis Bank	7713.3	13.3%	4.6%	6421.8	9.8%	5.4%	1585.0	NA	41.9%
DCB	355.2	9.7%	6.1%	252.8	19.2%	-8.8%	95.2	38.4%	-1.1%
Federal Bank	1520.6	25.0%	5.8%	976.9	1.8%	1.5%	425.3	41.2%	5.3%
HDFC Bank	16901.0	11.2%	3.6%	15106.1	16.6%	-0.5%	8700.6	25.6%	-0.7%
Indusind Bank	3485.7	7.9%	2.3%	3097.4	9.2%	4.2%	881.4	192.0%	3.4%
Kotak Bank	4140.4	16.3%	3.3%	3190.8	17.1%	3.5%	1888.8	49.1%	1.9%
Bandhan Bank	2061.7	22.7%	-0.5%	1861.0	22.4%	-2.8%	596.9	15.4%	-5.6%
Total	38785.2	13.8%	3.6%	31643.2	14.7%	1.6%	14314.3	747.2%	3.4%
Total Banks	**75356.4**	**18.4%**	**1.8%**	**53606.6**	**4.8%**	**-0.9%**	**20790.5**	**259.9%**	**3.4%**
NBFCs									
HDFC	3940.8	10.6%	0.0%	4023.8	1.4%	-7.4%	2805.7	25.7%	-4.1%
Bajaj Finance	4533.6	-3.1%	5.6%	3132.6	-3.1%	7.8%	1134.4	19.7%	-1.0%
Bajaj Finserv	15910.5	19.7%	-0.3%	2333.9	194.3%	-16.0%	1102.7	467.2%	-14.5%
SBI Life Insurance	14255.9	20.2%	3.6%	361.5	-45.2%	21.9%	536.1	1.0%	130.2%
HDFC Life Insurance	12470.7	19.2%	31.4%	328.2	141.2%	19.7%	391.6	25.6%	47.8%
HDFC AMC	605.4	34.6%	1.8%	490.8	48.9%	1.7%	368.1	47.3%	-0.3%
Total	**51716.8**	**16.7%**	**7.6%**	**10670.7**	**17.1%**	**-3.7%**	**6338.7**	**41.9%**	**1.8%**

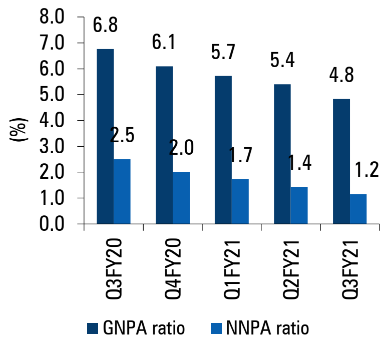
Source: Company, ICICI Direct Research

Exhibit 2: Bank Specific Views

Banks	Remarks
State Bank of India	Expect loan growth of 5.5% YoY to ₹ 23160 billion and 11% YoY for deposits to keep NII flat at ₹ 288 billion. Non interest income is seen at ₹ 85 billion. With cost of deposits stabilising and loan yields also seen moderating, NIMs are seen to be stable. Slippages are expected to surge due to standstill status and loan loss provisions to be moderated by Bhushan Power recovery. Expect overall provisions at ₹ 9700 crore vs. ₹ 10300 crore QoQ. Hence, PAT is likely to grow to ₹ 4969 crore, rising 38% YoY, led by low base last year. The management guidance remaining for Covid related stress under ₹ 60000 crore, expect slippages to be contained
Axis Bank	Axis Bank is expected to post advances growth of ~7% YoY to ₹ 611423 crore, slightly above industry, adhering to selective lending, tightening underwriting standards and cautious approach in commercial lending. Deposit are expected to rise by 15% YoY with stable CASA at 44.4%. We expect NII to rise ~14% YoY on the back of sequential improvement in NIMs. Cost to income is likely to go down sequentially by ~90-100 bps as previous quarter had increased employee social security provisions. Credit cost to remain elevated at ~70 bps as management had indicated they would not like to spill over Covid related burden to next fiscal. Reported GNPA is expected to rise to ~4.5% due to lifting of standstill norms. Net profit for the quarter is estimated at ₹ 1449 crore
DCB Bank	Net interest income is projected to grow at 9.7% YoY to ₹ 355 crore. Other income to decline sequentially owing to lesser treasury income. Cost to income should witness QoQ increase to ~47% as previous quarter saw large benefit from healthy treasury gains thus aiding the denominator. Exposure to self-employed segment is expected to keep credit cost elevated at ~50 bps. Net profit to come in at ₹ 95.6 crore. Gradual improvement in MSME segment and cautious approach is seen to keep credit offtake muted at ~3% levels
HDFC Bank	Credit growth of 13.9% YoY to ₹ 1132000 crore was lower than expected and moderated QoQ. Retail growth came at 7.5% YoY while corporate book grew 21% YoY. Deposit growth came at 16.3% YoY. NII growth is seen at 11% YoY to ₹ 16901 crore, and expect margins moderating to 4.1-4.2% led by higher corporate book growth. Other income may remain stable QoQ. Asset quality is expected to slip as recognition post standstill to lead to mild increase in GNPA. Proforma GNPA and restructuring numbers were lower under 2%. Expect provision to stay stable at ₹ 3396 crore with PAT growth expected to be at 25% YoY to ₹ 8700 crore due to lower base in Q4FY20

Source: Company, ICICI Direct Research

Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q4FY21E (₹ crore)	GNPA	QoQ %	NNPA	QoQ%
PSU coverage				
SBI	117244	6.8	30232	4.1
Indian Bank	35237	16.2	12281	43.8
Private coverage				
Axis Bank	21998	25.1	6879	49.2
Bandhan Bank	859	279.9	979	386.4
DCB	502	92.0	289	93.2
Federal Bank	3470	26.7	1099	45.2
HDFC Bank	8826	7.4	1416	39.4
Indusind Bank	3651	69.2	1483	218.1
Kotak Bank	4928	41.4	2230	109.6

Exhibit 3: Bank Specific views continued…

Federal Bank	Healthy credit growth reported at ~9% YoY is expected to be driven by retail, agri and gold loans. Deposits outpaced advances and were up 13% YoY to ₹ 172655 crore. NII is expected to post decent growth of 25% YoY to ₹ 1520 crore. NIMs to remain steady on a QoQ basis at ~3.2% levels. Cost to income can slightly inch up with increase in branch level activity to ~50%. Restructuring during the quarter to be at ~₹ 1500 crore. Lifting of standstill norm may lead to spike in GNPA (reported) to ~3.3% level
Kotak Mahindra Bank	Kotak Bank is expected to better its growth momentum than previous quarter from 4.5% to 5.0% QoQ at ₹ 224802 crore, which should be driven by agri, home loans, CV segment while corporate book can also contribute in a similar fashion as last quarter. Deposit growth is expected to be at 12.5% YoY at ₹ 295673 crore with CASA contributing to ~59% to total deposits. NII is expected to show healthy 16.7% YoY growth aided by pick up in loan traction and ~10 bps sequential improvement in NIMs. Credit cost is expected to come in at 30 bps for the quarter. Thus, PAT is expected at ₹ 1893 crore. We expect minimal levels of restructuring during the quarter with reported GNPAs expected to rise to 3.2% with standstill norms out of the picture now
IndusInd Bank	IndusInd Bank has reported modest growth in advances at 3% YoY to ₹ 213049 crore while deposits growth was healthy at 27% YoY and 7% QoQ to ₹ 256158 crore. Disbursements had neared pre-Covid levels, though management commentary on growth outlook would be key to be watched. NII is expected to grow at 7.9% YoY to ₹ 3485 crore, while non-interest income may be up 4.5% QoQ to ₹ 1781 crore. Cost-to-income levels may remain at 41% levels. Credit cost is expected to remain elevated at ~90 bps, with PAT expected at ₹ 881 crore. On asset quality front, restructuring could be at ~1% with reported GNPA coming in at 2.9%
Bandhan Bank	Bandhan Bank is expected to post NII growth of 22.7% YoY to ₹ 2061 crore, on the bank of 22.5% YoY uptick in advances and largely stable margins. Cost-to-income ratio is expected to slightly pick up by ~90 to 100 bps with pick up in business activity and ground staff movement. Credit cost may increase from 3.5% to 5% as per management guidance. Consequently, net profit is expected to come in at ₹ 596 crore. Anticipate improvement in collection though lifting of standstill will lead to spike in GNPA level. Given challenges in West Bengal and Assam and resurgence of partial lockdowns, management commentary is to be keenly watched

Source: Company, ICICI Direct Research

Exhibit 4: NBFC Specific views

NBFC	Remarks
HDFC Ltd	Loan growth is expected to surge to ~12% YoY to ₹ 505000 crore, led by strong real estate sales. Hence, growth in NII is seen at 9.8% YoY to ₹ 3911 crore. Expect flat NIM at ~3.2%. Dividend income of ₹ 110 crore and lower profit from sale of investments at ₹ 157 crore is expected to lead to overall other income at ₹ 737 crore. Accordingly, standalone profit is seen at ~₹ 2805 crore, up 26% YoY, due to low base. Slippages are expected to surge with GNPA ratio seen at 1.8-1.9% led by removal of standstill status. Restructuring in wholesale loan portfolio would be keenly watched. Subsidiaries are expected to continue their strong performance
HDFC AMC	Steady level of equity & debt market coupled with accretion through SIP is expected to offset redemption pressure, thereby leading to sequential improvement in AUM at ₹ 4.2 lakh crore. However, moderation in market share is expected to continue further. Marginal improvement in AUM mix and base effect is seen leading to 9% YoY growth in revenue from operation to ₹ 521 crore i.e. ~49 bps of closing AUM. Steady other income and controlled expense trajectory is seen leading to PBT at ₹ 491 crore, i.e. 47 bps of AUM. PAT is seen remaining QoQ flat at ₹ 368 crore,~35 bps of closing AUM
Bajaj Finance	Loan growth has picked up as per guidance to 4% YoY and 7% QoQ to ₹ 153000 crore. However, new loan addition came in at 55 lakh vs. 60 lakh QoQ. NII is seen declining 3% YoY to ₹ 4533 crore but improving 5% QoQ. NIM stability is expected to continue. Provisions are expected to remain elevated at ₹ 1620 crore, citing recent lockdowns and full recognition of NPA's from proforma slippages. PAT is estimated to grow at 20% YoY and flat QoQ to ₹ 1134 crore
Bajaj Finserv	Consolidated revenue is expected to grow at a healthy pace of 19.7% YoY to ₹ 15910 crore, led by pick-up in life (~10% YoY) and general (~30% YoY) insurance premium. Finance business, contributing ~46% of topline, is expected to remain flat at ₹ 7297 crore. Focus on individual regular business and improvement in renewals is expected to aid life insurance premium while healthy auto volumes and health insurance may support general insurance business. Consolidated earnings is expected at ₹ 1103 crore, up 4x YoY, led by base effect due to loss in insurance and elevated credit cost. Sequentially, PAT seems to remain flattish in anticipation of elevated provision in finance business
SBI Life Insurance	Continued revival in individual business, focus on single premium and base effect is seen keeping new business premium (NBP) elevated at ~46% YoY to ₹ 5541 crore. Accretion of single premium is seen keeping Annualised Premium Equivalent (APE) flat QoQ at ₹ 3471 crore. Pick-up in NBP coupled with healthy persistency is seen keeping overall premium growth at 20% YoY to ₹ 14256 crore. Given rise in yields and equities being in narrow range, investment income is seen moderating sequentially. Opex is expected continue to remain a focus area though claims are seen remaining higher, resulting in surplus at ₹ 361 crore. Subsequently, earning is expected at ₹ 536 crore, flat YoY
HDFC Life Insurance	Premium growth is expected to continue at a healthy pace of 20% YoY to ₹ 12725 crore, led by healthy persistency and ~27% YoY growth in NBP. Focus on non participating individual business and group premium (led by gradual pick up in credit offtake) is seen leading to healthy traction of 27% YoY in NBP. Consequently, the business mix is expected to remain steady. Steady opex and marginal increase in claims is seen leading to surplus at ₹ 328 crore, up 20% QoQ. Overall, steady pick up in business, focus on product mix and base effect is seen favouring earnings at ₹ 392 crore, up 26% YoY
MCX	In Q4FY21E, impact of decline in gold prices is expected to be offset by increase in price and volume of crude oil. Economic revival coupled with increase in commodity prices is seen partially being offset by decline in volumes. Consequently, turnover is expected to remain flat sequentially at ₹ 22 lakh crore. Operating revenue is seen remaining flattish at ₹ 105 crore but control on opex is seen to lead to EBITDA at ₹ 52 crore, up 28% YoY. Earnings is expected at ₹ 57 crore, lower YoY and QoQ, led by tax write-backs in Q4FY20 and Q3FY21

Source: Company, ICICI Direct Research

Exhibit 5: ICICI Direct Research coverage universe (BFSI)

Sector / Company	CMP			M Cap		EPS			P/E			P/BV			RoA%			RoE%	
	(₹)	TP(₹)	Rating	(₹ Bn)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
SBI (STABAN)	360	410	Buy	3154.9	20.0	28.1	30.5	18.0	12.8	11.8	1.6	1.4	1.3	0.4	0.6	0.6	7.4	9.6	9.5
Indian Bank (INDIBA)	115	180	Buy	173.5	16.9	29.1	45.5	6.8	4.0	2.5	0.7	0.6	0.6	0.4	0.5	0.7	6.1	8.5	12.5
Axis Bank (AXIBAN)	690	800	Buy	2113.9	25.2	47.7	58.7	27.4	14.5	11.8	2.4	2.1	1.8	0.8	1.3	1.4	8.1	13.8	15.2
City Union (CITUNI)	162	200	Buy	115.7	10.0	10.0	10.0	16.2	16.2	16.2	2.4	2.1	2.1	1.2	1.3	1.3	11.2	11.9	11.9
DCB Bank (DCB)	101	130	Hold	31.3	11.0	14.0	16.0	9.1	7.2	6.3	1.0	0.9	0.8	0.9	1.1	1.1	10.4	11.8	12.0
Federal Bank (FEDBAN)	79	90	Buy	152.4	7.7	7.9	10.0	10.2	10.0	7.9	1.2	1.1	1.1	0.9	0.8	0.9	11.1	10.4	12.0
HDFC Bank (HDFBAN)	1449	1700	Buy	7987.7	55.9	65.6	76.5	25.9	22.1	18.9	4.2	3.6	3.2	1.9	1.9	1.9	16.7	17.1	17.6
IndusInd Bank (INDBA)	938	1050	Buy	725.8	36.8	56.5	66.5	25.5	16.6	14.1	1.9	1.8	1.7	0.8	1.1	1.2	7.4	10.3	11.7
J&K (JAMKAS)	26	25	Hold	21.9	7.5	10.4		3.5	2.5		0.4	0.3		0.5	0.6		8.1	10.6	
Kotak Bank (KOTMAH)	1795	2040	Buy	3470.9	23.5	27.2	33.7	76.5	65.9	53.3	8.9	8.0	7.0	1.8	1.9	2.0	12.4	12.0	13.1
Bandhan (BANBAN)	351	370	Hold	561.6	14.7	24.7	31.4	23.8	14.2	11.2	4.1	3.2	2.5	2.3	3.2	3.3	15.0	21.9	22.2
LIC Housing (LICHF)	423	475	Hold	213.4	58.9	65.3	76.0	7.2	6.5	5.6	1.3	1.1	1.0	1.2	1.2	1.2	15.4	15.1	15.9
HDFC (HDFC)	2497	3100	Buy	4505.8	58.5	75.0	84.4	42.7	33.3	29.6	4.3	4.1	3.9	1.9	2.2	2.2	1.9	2.2	2.2
Bajaj Finserv (BAFINS)	9580	10500	Buy	1524.5	253.3	305.6	405.3	37.8	31.3	23.6	4.2	3.7	3.2	1.4	1.6	0.0	12.6	14.6	0.0
Bajaj Finance (BAJFI)	5037	5900	Buy	3035.8	68.7	96.9	124.5	73.3	52.0	40.5	8.9	7.9	6.1	1.8	2.2	2.4	12.1	15.1	15.9
HDFC AMC (HDFAMC)	2918	3000	Hold	621.5	64.1	69.0	78.2	45.5	42.3	37.3	13.2	11.4	9.9	0.3	0.3	0.3	29.0	27.0	26.5
Nippon AMC (RELNIP)	337	300	Hold	207.9	9.6	11.1		35.2	30.3		7.5	7.0		0.3	0.3		16.6	16.1	
SBI Life Insurance	916	1000	Buy	916.6	15.8	19.5	23.4	58.1	47.0	39.1	3.0	2.7	2.4	0.8	0.9	0.9	15.2	14.6	14.3
HDFC Life	700	820	Buy	1415.0	7.0	7.8	8.3	131.7	117.3	110.3	22.5	20.1	17.8	1.0	0.9	0.8	18.7	18.1	17.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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