

October 1, 2021

## Covid wave left behind, fintech wave ahead...

The banking sector had seen a sharp decline in business activity owing to lockdowns, especially in April, May 2021. However, trends from July 2021 onwards show faster return towards normalisation, especially on the asset quality front. Most lenders have indicated at an improvement in collections with unlocking of the economy. However, loan growth has not seen a meaningful improvement and has been hovering in the ~6-6.5% range. This is mainly on account of large industries remaining a drag (owing to deleveraging and subdued capex) while retail and agri loans have shown continued better traction.

As markets have been focusing on fintechs as the future of the Indian financial industry, Bajaj Finance, with focus on digital offering, has witnessed a favourable run up recently. We believe that increasing advent of fintech players is expected to broaden the market size by targeting unserved and under-served population through digital means. Large-cap incumbents (large banks, NBFCs), capable of either investing in developing technology or collaboration and having advantage of scale, seem to remain resilient. In addition, leaders catering to niche segments are expected to continue to grab market share. However, mid and small players without any niche offering are seen at risk of moderation in business growth and market share.

Account aggregator could be another game changer in enhancing financial inclusion. Customer data interchange with their permission, is expected to enable better and faster underwriting through overall assessment of prospective borrower. This will also help in tapping the untapped eligible population as well as cater to demands of the MSME segment of which only 10% is served by formal source of financing.

### Banking sector outlook:

- Credit offtake remained modest in H1FY22 on an overall basis, led by partial lockdowns induced, by second wave. Incremental credit offtake may be seen in agriculture, retail and MSME segment; followed by demand for working capital credit and lastly capex. We expect industry growth at ~6-8% for FY22E, led by improved demand for housing loans, consumer durables and unsecured credit amid festive season. Bumper kharif crop is expected to boost rural income and, thus, have positive impact on business growth
- Operational performance is seen remaining steady with increase in CI ratio (as operations revive to normal) to be offset by a rise in fee based income and ~5-10 bps improvement in margin in H2FY22
- Asset quality is expected to improve as collections have started to improve meaningfully with operations of on-field staff getting back to normal. Utilisation of recovery from resolution of one large home financier and improvement in collections is seen keeping credit cost sequentially lower though we believe banks will continue to maintain provisions buffer created earlier.

With lower number of infections, increasing vaccinations and faster unlocking, we believe an economic revival could take place at a faster pace as pent up demand kicks in amid festive season.

**We recommend Axis Bank, HDFC Ltd and Kotak Mahindra Bank among large lenders, CSB Bank & IDFC First Bank in the midcap domain and HDFC Life & SBI Life among non-lenders. Among PSU banks, the legacy asset quality issues are behind and retail NPAs, if any, are not expected to be lumpy keeping scope for provisions under check and earnings improvement. We remain positive on SBI among PSU banks.**

### Sector View

*Banks / HFCs – Overweight*

*Insurance / Brokerage - Overweight*

*NBFCs / AMC – Neutral*

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## Signs of reduction in stress remain positive

Q1FY22 witnessed increasing levels of stress formation, especially in the MFI and retail lending space with the pandemic forcing another round of lockdowns. On-field collections, especially in the NBFC space, contribute around 35-40% share. The same became one of the key reasons asset quality got impacted as field staff faced restricted movements. However, with faster pace of vaccination, unlocking has gathered pace and from July 2021 onwards the scenario seems to be improving rapidly. Collection efficiencies for most large lenders have reached ~95% levels, as indicated in various management commentary.

Further, business updates from likes of Mahindra Finance, a key player in the rural space, have shown a meaningful improvement in collections from 72% in April 2021 to ~95% in July 2021 and 97% in August 2021, indicating a reduction of asset quality stress. HDFC Bank expects a positive surprise on the recovery front from the rural segment. From the small finance space, Ujjivan SFB has disclosed that collections have improved meaningfully from 78% in June 2021 to 95% in August 2021. These parameters indicate signs of reducing stress, especially in the small loan segment, which was impacted the most in the second wave.

Exhibit 1: Asset quality of Indian banking system as of June 2021

|                       | Q1FY20 | Q2FY20 | Q3FY20 | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 |
|-----------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GNPA                  | 786344 | 816786 | 876824 | 816786 | 786344 | 770186 | 786344 | 816786 | 876824 |
| NNPA                  | 241870 | 264357 | 325188 | 264357 | 241870 | 205823 | 241870 | 264357 | 325188 |
| GNPA ratio            | 8.0    | 8.4    | 8.4    | 7.6    | 7.4    | 7.3    | 7.3    | 7.5    | 8.1    |
| NNPA ratio            | 2.5    | 2.7    | 3.1    | 2.5    | 2.3    | 1.9    | 2.3    | 2.4    | 3.0    |
| GNPA of PSU banks     | 665587 | 668666 | 742420 | 668666 | 665587 | 632735 | 665587 | 668666 | 742420 |
| GNPA of Private banks | 120757 | 148121 | 134403 | 148121 | 120757 | 137451 | 120757 | 148121 | 134403 |

Source: Company, Capitaline, ICICI Direct Research

Exhibit 2: Stressed assets scenario in various banks

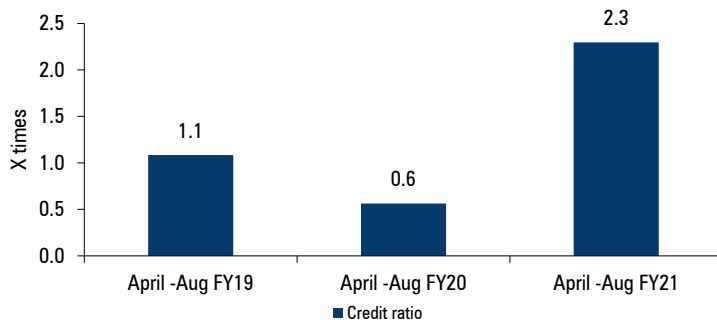
| Bank/NBFC                    | GNPA %<br>Q1FY22 | NNPA %<br>Q1FY22 | Collection Eff (%)<br>Q1FY22 | Restructured %<br>Q1FY22 | Total stressed<br>Q1FY22 | O/S provisions<br>Q1FY22 |
|------------------------------|------------------|------------------|------------------------------|--------------------------|--------------------------|--------------------------|
| <b>PSU Banks</b>             |                  |                  |                              |                          |                          |                          |
| SBI                          | 5.3%             | 1.8%             | 92.0%                        | 0.8%                     | 5.6%                     | 3.9%                     |
| Bank of Baroda               | 8.9%             | 9.3%             | 93.0%                        | 3.0%                     | 10.1%                    | 5.8%                     |
| Indian Bank                  | 9.7%             | 3.5%             | 87.0%                        | 1.4%                     | 10.3%                    | 7.4%                     |
| Canara Bank                  | 8.5%             | 3.5%             | 91.0%                        | 3.0%                     | 9.7%                     | 5.2%                     |
| <b>Large Private Banks</b>   |                  |                  |                              |                          |                          |                          |
| HDFC Bank                    | 1.5%             | 0.5%             |                              | 0.7%                     | 1.8%                     | 1.7%                     |
| Kotak Bank                   | 3.6%             | 1.3%             |                              | 0.3%                     | 3.7%                     | 2.9%                     |
| Axis Bank                    | 3.9%             | 1.2%             | 97.5%                        | 0.3%                     | 4.0%                     | 3.5%                     |
| IndusInd Bank                | 2.9%             | 0.8%             |                              | 2.7%                     | 4.0%                     | 3.5%                     |
| <b>Mid Size Private Bank</b> |                  |                  |                              |                          |                          |                          |
| Federal Bank                 | 3.5%             | 1.3%             | 95.0%                        | 2.3%                     | 4.4%                     | 2.3%                     |
| DCB Bank                     | 4.9%             | 2.8%             |                              | 5.4%                     | 7.0%                     | 4.9%                     |
| Bandhan Bank                 | 8.2%             | 3.3%             |                              | 6.2%                     | 10.7%                    | 8.2%                     |
| IDFC First Bank              | 4.6%             | 2.3%             |                              | 1.8%                     | 5.3%                     | 4.6%                     |
| City Union Bank              | 5.6%             | 3.5%             |                              | 5.5%                     | 7.8%                     | 5.6%                     |
| CSB Bank                     | 4.9%             | 3.2%             | 93.0%                        | 0.5%                     | 5.1%                     | 2.4%                     |

Total Stressed is calculated as GNPA % + 40% of Restructured %

Source: Company, Media Articles, ICICI Direct Research

Credit quality in corporate segment is also showing signs of improvement as credit ratio (ratio of upgrades to downgrades) has improved to 2.3x for April-August 2021 compared to 0.56x for a similar time frame in FY20 and 1.08x in FY19. Various steps taken by the RBI and measures like extension of ECLGS has enabled corporates to tide over the second Covid wave.

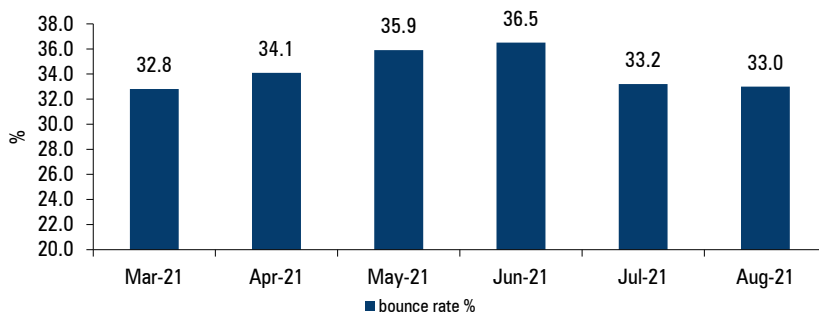
**Exhibit 3: Improving credit ratio indicates better corporate health**



Source: NCPI, ICICI Direct Research

Check bounce rate in April and May 2021 increased as lockdowns came into force, to around 36.5% levels compared to ~33% in March 2021. However, a sharp decline was seen in July-2021 to 33.2% and reached near March levels at 33%, indicating a faster improvement in the stress scenario.

**Exhibit 4: Check bounce rates show meaningful decline from July 2021 onwards**



Source: NCPI, ICICI Direct Research

## Fintech to increase market size; large incumbents resilient

Fintech companies are driving the development of new business models in the financial sector through platforms and ecosystems. Regulatory norms required in the banking industry are redefining boundaries and also widening the scope of products and services. However, on account of strict regulations, banks are facing more barriers to innovation, whereas fintechs are typically highly agile technology players that usually operate outside of the regulation domain. The Covid-19 pandemic has further triggered digitisation in the financial sector. Physical transactions have reduced and customers are increasingly seeking fast, convenient and specialised services, which can be met through digital adoption.

Fintech companies are eager to cooperate with banks for four reasons. 1) Well-defined and stable client base, 2) Bigger investment budgets that can provide a flow of capital to further develop fintech services, 3) Cooperation or collaboration with a bank confirms the credibility of the fintech services to customers, 4) Banks have expertise and knowledge in areas that fintech can benefit from, like regulatory compliance, legal and risk management.

Banks, on the other hand, are leveraging the collaboration with two main drivers, 1) Customers becoming increasingly used to flawless digital experience, 2) Advantage from just being a single service provider to

providing a whole suite of services. Strategic partnerships between banks and fintech firms have led to growth of banking as a service (BaaS) market.

**In the initial phase, we believe that fintech, through collaboration with incumbents, will act as an intermediary by offering credit to new to credit customers. In addition, some players will offer small ticket loans to a large section of new customers thereby creating their credit background. However, ability to service increasing requirements of repeat customers needs to be seen.**

Thus, we believe that increasing advent of fintech players is expected to broaden the market size by targeting unserved and under-served population through digital means. Further, large incumbents (large banks and NBFCs) capable of either investing in developing technology or collaboration seem to remain resilient. In addition, leaders catering to niche segments are expected to continue to grab market share and business growth. However, mid and small players without any niche offering are seen remaining at risk of moderation in business growth and loss in market share.

**Exhibit 5: Large incumbents to remain resilient**

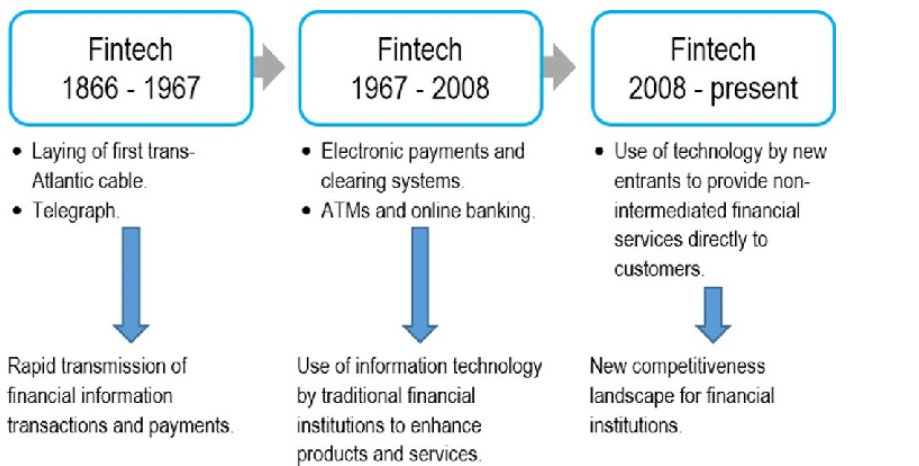
| Large         | Mid             | FinTech     |
|---------------|-----------------|-------------|
| HDFC Bank     | DCB Bank        | Mobiqwik    |
| IndusInd Bank | Federal Bank    | Paytm       |
| Kotak Bank    | CSB Bank        | AmazonPay   |
| Bajaj Finance | City Union Bank | ZestMoney   |
| Axis Bank     |                 | LendingKart |
| SBI           |                 | Bankbazaar  |
| HDFC          |                 |             |

Source: ICICI Direct Research

**BNPL impact on lending sector of banks**

Buy now pay later (BNPL) has been gaining popularity as a more convenient payment method. In India, the demand for BNPL has seen growth traction in the past two to three years. The impact of the pandemic has further led to growth in the BNPL segment of consumer lending.

**Exhibit 6: Moving towards digital future**



Source: Media articles, Website

BNPL has evolved over the years, from a small ticket size offered by fintech firms on marketplaces and online shopping platform. Further, the consumption and consumer credit has seen disruptions with different variants offered by companies.

The BNPL segment has seen growth in the consumer durables segment, which has driven retail consumption. Consumer BNPL has proven to be a good alternative to erstwhile credit products, especially for the population that is relatively new to credit or who do not have a credit history.

Similar to credit cards, which come with an interest-free credit period, most BNPL lenders have followed in the footsteps of credit free period on schemes. Large incumbent banks have started offering BNPL services with more interest free credit period in order to on board new to credit customers as credit history offers higher ticket size lending.

#### Exhibit 7: Credit free period offered

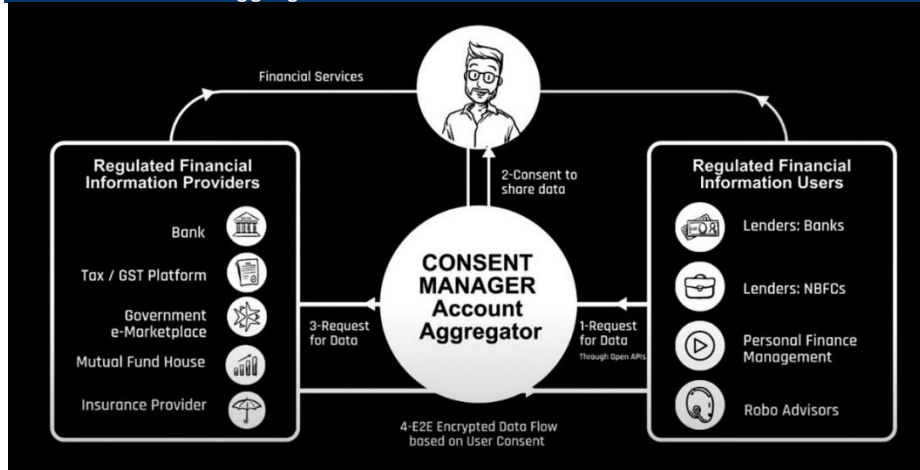
| BNPL Lender        | Interest Free Period |
|--------------------|----------------------|
| Flipkart Pay Later | up to 35 days        |
| Amamzon Pay Later  | up to 45 days        |
| HDFC Bank Flexipay | up to 15 days        |
| Lazypay Pay Later  | up to 15 days        |
| Mobikwik Zip       | up to 15 days        |

Source: Media articles, websites, ICICI Direct Research

### Account Aggregator - Connected financial ecosystem: New framework to share financial data

- Account Aggregator Framework was launched by the Reserve Bank of India on September 2, 2021. The framework is aimed at making financial data more easily accessible
- Under the framework, a number of entities, including fintech, have been granted licences to operate as account aggregators. Touted to be a game changer in expanding financial inclusion, it witnessed eight large banks that have agreed to share various financial data about their customers with account aggregators
- The RBI has allowed a number of companies like PhonePe to act as account aggregator to facilitate this process. The account aggregator will act as an intermediary who will collect the data from one financial entity and exchange it with another
- The new system makes it possible for financial entities to get better understanding of their potential customers, make informed decisions and ensure smoother exchange between the holders and users of the data

## Exhibit 8: Account Aggregator Framework



Source: Media articles, Website

- From the above illustration, we can understand that a lender which is processing a loan application from a potential borrower needs to access a variety of financial data about the borrower. In this case, the lender can access the details of the borrower's past loan repayment record, savings, insurance, mutual fund holdings, past tax record through an account aggregator. The borrower, however, will have to grant the consent for sharing his/her data with lender
- The Government of India and central bank have been working towards improving accessibility of financial products to unserved/underserved population. As per estimates, only a third, or ~7.2 crore of the eligible population of 22 crore, are "credit active" i.e. having a live account with a bank or lending body. Further, of ~14.7 crore adults aged 18-24, only 6% are credit active, leaving huge prospective customer base untapped. In MSME segment, only 10% of ~6.4 crore units have access to formal source of debt catering to only ~16% of requirement (10.9 lakh crore out of ₹ 69.3 lakh crore)
- Account aggregator, with all-round assessment of the customer (details on loans, investments, tax, GST, etc.), could be an answer to meet the financial needs of a huge prospective customer base in a timely and cost efficient manner. Breaking huge data in proprietary silos to make a centralised API-based repository could dramatically increase the addressable market for not only lenders but also insurers, wealth managers and other non-financial sectors

## Credit offtake to pick up in H2FY22E

Resembling trends similar to the previous year, credit growth was marred in Q1FY22 owing to partial lockdowns enforced due to the second Covid-19 wave. Credit growth, as per RBI's sectoral deployment data, shows some rise in loan traction from around 5.7% in April 2021 to 6.1% in July 2021, and has reached 6.7% levels by September 10, 2021 fortnight. However, a noticeable point in these trends is overall credit growth has failed to garner momentum beyond a certain limit of ~6.5% post unlocking. This was also observed in the previous year's unlocking. This is mainly on account of sluggish growth in large industry credit, which has been showing flattish to negative growth as lenders are cautious towards this segment while better rated corporates are raising money from bond issuances, if needed, or deleveraging their balance sheet. We also witnessed subdued 2% growth in services sector wherein lending towards NBFC by banks remained tepid at 0.5% as on July 2021 due to risk aversion while AAA rated NBFCs are opting for other means of funding. Thus, ~45% of lending segment (large industries + services) have remained a drag on total credit growth.

## Exhibit 9: Credit growth range-bound at 5.5-6.5% levels

| ₹ crores                        | Mar-21      | Apr-21      | May-21      | Jun-21      | Jul-21      |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Non-Food Credit                 | 1,08,88,255 | 1,08,02,090 | 1,07,42,926 | 1,07,54,953 | 1,08,32,938 |
| Agriculture & Allied Activities | 13,04,301   | 12,91,299   | 12,84,756   | 12,84,399   | 13,18,024   |
| Industry                        | 29,18,028   | 28,95,875   | 28,83,797   | 28,67,304   | 28,24,855   |
| Large                           | 23,75,613   | 23,80,760   | 23,67,530   | 23,44,313   | 22,75,362   |
| Services                        | 26,03,373   | 25,92,346   | 25,71,093   | 26,00,627   | 25,97,736   |
| NBFCs                           | 9,45,383    | 9,23,756    | 8,99,502    | 8,83,851    | 8,92,226    |
| Personal Loans                  | 28,56,528   | 28,10,419   | 27,87,265   | 27,86,519   | 28,58,741   |
| Housing (Including Priority Se  | 14,59,346   | 14,61,491   | 14,62,029   | 14,64,645   | 14,66,762   |
| Credit Card Outstanding         | 1,16,537    | 1,13,566    | 1,04,475    | 1,02,757    | 1,11,323    |
| Vehicle Loans                   | 2,77,748    | 2,42,443    | 2,40,170    | 2,38,214    | 2,65,951    |

| YOY growth (%)                  | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 |
|---------------------------------|--------|--------|--------|--------|--------|
| Non-Food Credit                 | 5.5%   | 5.7%   | 5.9%   | 5.9%   | 6.2%   |
| Agriculture & Allied Activities | 12.2%  | 11.3%  | 10.3%  | 11.4%  | 12.4%  |
| Industry                        | 0.4%   | 0.4%   | 0.8%   | -0.3%  | 1.0%   |
| Large                           | -1.3%  | -1.9%  | -1.7%  | -3.4%  | -2.9%  |
| Services                        | 1.3%   | 1.2%   | 1.9%   | 2.9%   | 2.7%   |
| NBFCs                           | 1.0%   | 3.4%   | 2.2%   | -2.2%  | 0.5%   |
| Retail                          | 10.0%  | 12.6%  | 12.4%  | 11.9%  | 11.2%  |
| Housing (Including Priority Se  | 9.2%   | 9.5%   | 10.1%  | 9.7%   | 8.9%   |
| Credit Card Outstanding         | 7.8%   | 17.1%  | 12.5%  | 5.3%   | 9.8%   |
| Vehicle Loans                   | 6.9%   | 11.7%  | 11.9%  | 11.0%  | 7.3%   |

| Proportion (%)                  | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 |
|---------------------------------|--------|--------|--------|--------|--------|
| Agriculture & Allied Activities | 15.1%  | 14.9%  | 14.8%  | 14.8%  | 15.2%  |
| Industry                        | 33.7%  | 33.4%  | 33.3%  | 33.1%  | 32.6%  |
| Large                           | 21.8%  | 22.0%  | 22.0%  | 21.8%  | 21.0%  |
| Services                        | 30.0%  | 29.9%  | 29.7%  | 30.0%  | 30.0%  |
| NBFCs                           | 8.7%   | 8.6%   | 8.4%   | 8.2%   | 8.2%   |
| Retail                          | 33.0%  | 32.4%  | 32.2%  | 32.2%  | 33.0%  |
| Housing (Including Priority Se  | 13.4%  | 13.5%  | 13.6%  | 13.6%  | 13.5%  |
| Credit Card Outstanding         | 1.1%   | 1.1%   | 1.0%   | 1.0%   | 1.0%   |
| Vehicle Loans                   | 2.6%   | 2.2%   | 2.2%   | 2.2%   | 2.5%   |

Source: RBI, ICICI Direct Research

The retail segment has maintained its healthy growth trajectory as loans in this segment were up 11.2% YoY vs. 10.2% growth in March 2021. This was boosted by 17.9% YoY growth in consumer durables, ~9% growth in housing loans, 9.8% uptick in credit card loans and 77.4% growth in gold loans (due to small base). Vehicle loans also showed decent growth of 7.3% YoY.

MSME segment (medium + micro & small) grew 21.3% YoY, in which credit in medium industries increased sharply by 71.6% YoY. This was supported by extension of ECLGS scheme in terms of time frame till September 2021, removal of ceiling of ₹ 500 crore outstanding loans and increasing sectoral scope by including additional sectors.

Apart from these segments, agri & allied loans have seen strong credit offtake at ~12.4% YoY as on July 2021. We believe it would continue to be a key driver of overall banking credit growth due to resumption of normalcy with unlocking, better incomes due to bumper kharif crop and hike in MSPs (estimated boost of ~₹ 11000 crore in rural demand). Management commentaries and business updates from various corporates like HDFC Bank, Mahindra & Mahindra Finance indicate a swift recovery in rural parts in terms of asset quality and new business traction. Mahindra Finance has shown disbursements increasing to ~₹ 4500 crore for the first two months of Q2FY22 compared to ₹ 3872 crore in the previous quarter, indicating a pick-up in advances in the rural space.

## Exhibit 6: Industry wise credit deployment data

| ₹ crores                      | Feb-21    | Mar-21      | Apr-21      | May-21      | Jun-21      | Jul-21      |
|-------------------------------|-----------|-------------|-------------|-------------|-------------|-------------|
| Food Processing               | 1,52,568  | 1,65,669    | 1,66,085    | 1,65,331    | 1,64,730    | 1,51,626    |
| Textiles                      | 2,03,029  | 2,01,250    | 2,04,700    | 2,04,709    | 2,02,771    | 2,01,145    |
| Chemicals & Chemical Products | 1,79,163  | 1,86,911    | 1,88,929    | 1,81,091    | 1,79,134    | 1,82,266    |
| Basic Metal & Metal Product   | 3,29,889  | 3,28,663    | 3,11,702    | 3,07,723    | 2,99,116    | 2,93,065    |
| All Engineering               | 1,43,925  | 1,47,312    | 1,47,546    | 1,48,011    | 1,45,635    | 1,44,818    |
| Infrastructure                | 10,03,000 | 10,91,624   | 10,91,207   | 10,84,963   | 10,92,381   | 10,81,228   |
| Power                         | 5,53,216  | 5,66,455    | 5,66,660    | 5,59,500    | 5,64,092    | 5,68,103    |
| Telecommunications            | 89,972    | 1,13,080    | 1,14,553    | 1,13,926    | 1,16,239    | 1,14,138    |
| Roads                         | 2,01,052  | 2,36,947    | 2,39,136    | 2,32,489    | 2,33,219    | 2,37,505    |
| Industry                      | 27,86,202 | 29,18,028   | 28,95,875   | 28,83,797   | 28,67,304   | 28,24,855   |
| Non-Food Credit               | 94,94,225 | 1,08,88,255 | 1,08,02,090 | 1,07,42,926 | 1,07,54,953 | 1,08,32,938 |

| YoY growth (%)                | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Food Processing               | 2.1%   | 4.9%   | 12.0%  | 6.5%   | 11.0%  | 5.2%   |
| Textiles                      | 7.3%   | 6.3%   | 8.7%   | 8.8%   | 7.3%   | 8.2%   |
| Chemicals & Chemical Products | -1.7%  | 3.8%   | 7.2%   | 4.1%   | 2.3%   | 6.3%   |
| Basic Metal & Metal Product   | -6.9%  | -6.2%  | -8.0%  | -10.5% | -12.8% | -13.2% |
| All Engineering               | -7.3%  | 0.0%   | 4.2%   | 6.2%   | 3.8%   | 5.4%   |
| Infrastructure                | -5.0%  | 2.1%   | 3.3%   | 6.0%   | 7.6%   | 8.2%   |
| Power                         | -2.6%  | -0.4%  | -0.2%  | 1.9%   | 2.2%   | 2.8%   |
| Telecommunications            | -34.9% | -22.6% | -13.2% | -9.1%  | 1.2%   | 13.0%  |
| Roads                         | 12.2%  | 30.2%  | 30.6%  | 18.1%  | 17.6%  | 20.3%  |
| Industry                      | -2.6%  | 1.5%   | 3.6%   | 3.8%   | 3.3%   | 3.1%   |
| Non-Food Credit               | -6.4%  | 7.2%   | 5.9%   | 18.8%  | 18.0%  | 18.4%  |

| Proportion of non-food credit(%) | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| Infrastructure                   | 10.6%  | 10.0%  | 10.1%  | 10.1%  | 10.2%  | 10.0%  |
| Power                            | 5.8%   | 5.2%   | 5.2%   | 5.2%   | 5.2%   | 5.2%   |
| Telecommunications               | 0.9%   | 1.0%   | 1.1%   | 1.1%   | 1.1%   | 1.1%   |
| Roads                            | 2.1%   | 2.2%   | 2.2%   | 2.2%   | 2.2%   | 2.2%   |
| Industry                         | 29.3%  | 26.8%  | 26.8%  | 26.8%  | 26.7%  | 26.1%  |
| Non-Food Credit                  | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: RBI, ICICI Direct Research



## Annexure

Exhibit 10: Asset quality scenario

| Asset quality trend     | GNPA (₹ crore) |         |         |         |         | NNPA (₹ crore) |        |        |        |        |
|-------------------------|----------------|---------|---------|---------|---------|----------------|--------|--------|--------|--------|
|                         | Q1FY21         | Q2FY21  | Q3FY21  | Q4FY21  | Q1FY22  | Q1FY21         | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 |
| <b>PSU coverage</b>     |                |         |         |         |         |                |        |        |        |        |
| Bank of Baroda          | 69,132         | 65,698  | 63,182  | 66,671  | 63,029  | 19,450         | 16,795 | 16,668 | 21,800 | 20,260 |
| SBI                     | 129,661        | 125,863 | 117,244 | 126,389 | 131,886 | 42,704         | 36,451 | 29,032 | 36,810 | 38,010 |
| <b>Private coverage</b> |                |         |         |         |         |                |        |        |        |        |
| Axis Bank               | 29,560         | 26,832  | 21,998  | 25,315  | 26,327  | 7,448          | 6,108  | 4,610  | 6,994  | 7,273  |
| City Union Bank         | 1,346          | 1,221   | 1,072   | 1,026   | 1,026   | 716            | 631    | 527    | 621    | 621    |
| Development Credit Bank | 622            | 574     | 502     | 1,083   | 1,138   | 249            | 206    | 150    | 594    | 624    |
| IndusInd Bank           | 5,099          | 4,532   | 3,651   | 5,795   | 6,186   | 1,703          | 1,056  | 466    | 1,477  | 1,760  |
| Federal Bank            | 3,656          | 3,552   | 3,470   | 4,602   | 4,786   | 1,477          | 1,218  | 757    | 1,569  | 1,632  |
| HDFC Bank               | 13,773         | 11,305  | 8,826   | 15,086  | 15,586  | 3,280          | 1,756  | 1,016  | 4,555  | 4,805  |

Source: Company, ICICI Direct Research

Exhibit 11: Quarterly margin trend

| NIM (%)                 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 |
|-------------------------|--------|--------|--------|--------|--------|
| <b>PSU coverage</b>     |        |        |        |        |        |
| Bank of Baroda          | 2.5    | 2.8    | 2.8    | 2.7    | 3.0    |
| SBI                     | 3.0    | 3.1    | 3.1    | 3.0    | 3.2    |
| Indian Bank             | 2.8    | 3.1    | 3.1    | 2.3    | 2.9    |
| <b>Private coverage</b> |        |        |        |        |        |
| Axis Bank               | 3.4    | 3.6    | 3.6    | 3.6    | 3.7    |
| City Union Bank         | 4.0    | 4.1    | 4.2    | 3.7    | 3.9    |
| Development Credit Bank | 3.4    | 3.7    | 3.8    | 3.5    | 3.3    |
| Federal Bank            | 3.1    | 3.1    | 3.2    | 3.2    | 3.4    |
| HDFC Bank               | 4.3    | 4.1    | 4.2    | 4.2    | 4.1    |
| Kotak Mahindra Bank     | 4.4    | 4.5    | 4.6    | 4.4    | 4.6    |
| IndusInd Bank           | 4.3    | 4.2    | 4.1    | 4.1    | 4.1    |
| Bandhan Bank            | 8.2    | 8.0    | 8.3    | 6.8    | 8.5    |

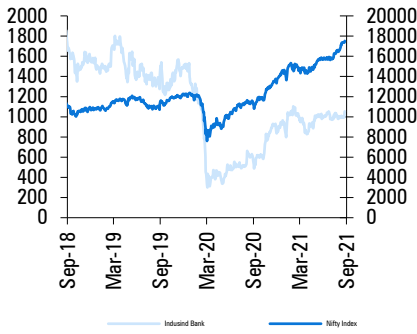
Source: Company, ICICI Direct Research

Exhibit 12: Key financials of industry as of Q1FY22

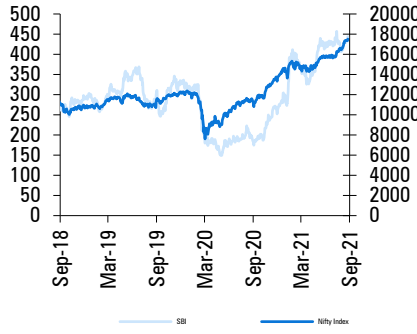
| (₹ crore)            | Q1FY22      | Q4FY21      | Q3FY21       | Q2FY21       | Q1FY21       |
|----------------------|-------------|-------------|--------------|--------------|--------------|
| NII                  | 122837      | 116593      | 123255       | 120370       | 122012       |
| <b>Growth YoY</b>    | <b>0.7</b>  | <b>3.6</b>  | <b>12.4</b>  | <b>18.3</b>  | <b>28.6</b>  |
| Other income         | 56086       | 67562       | 52808        | 45551        | 44323        |
| Growth YoY           | 26.5        | 15.8        | 2.6          | -7.1         | 12.2         |
| Total operating exp. | 81547       | 88673       | 82233        | 77191        | 73457        |
| Staff cost           | 43003       | 42350       | 42477        | 40206        | 42355        |
| Operating profit     | 97376       | 95482       | 93830        | 88730        | 92878        |
| Growth YoY           | 4.8         | 14.7        | 10.3         | 10.7         | 34.6         |
| Provision            | 54621       | 61563       | 58073        | 51721        | 62308        |
| PBT                  | 42756       | 33920       | 35757        | 37010        | 30570        |
| PAT                  | 31329       | 24909       | 26296        | 26810        | 21492        |
| <b>Growth YoY</b>    | <b>45.8</b> | <b>NM</b>   | <b>NM</b>    | <b>191.0</b> | <b>89.0</b>  |
| GNPA                 | 787771      | 785467      | 717790       | 770186       | 786344       |
| <b>Growth YoY</b>    | <b>0.2</b>  | <b>-3.8</b> | <b>-18.1</b> | <b>-12.7</b> | <b>-1.4</b>  |
| NNPA                 | 245727      | 241576      | 167641       | 205823       | 241870       |
| <b>Growth YoY</b>    | <b>1.6</b>  | <b>-8.6</b> | <b>-48.4</b> | <b>-36.6</b> | <b>-20.5</b> |

Source: Capital-line, Company, ICICI Direct Research

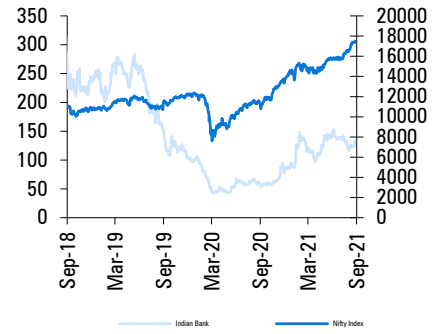
**IndusInd Price Performance**



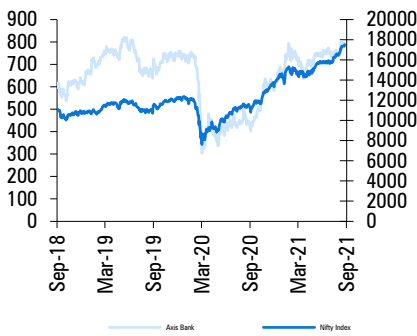
**State Bank of India Price Performance**



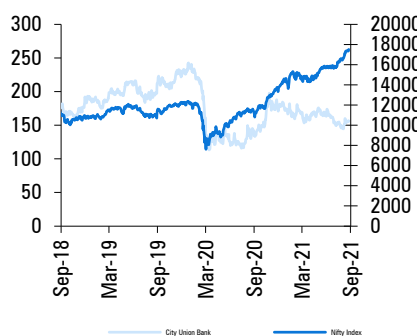
**Indian Bank Price Performance**



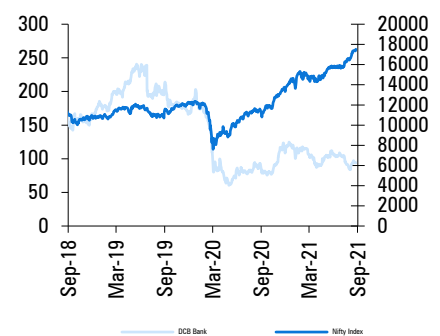
**Axis Bank Price Performance**



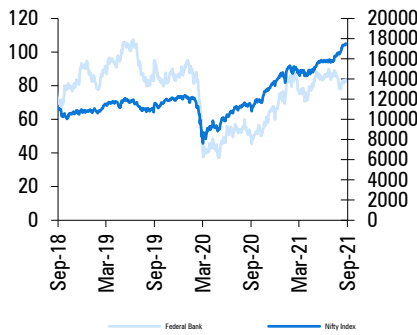
**City Union Price Performance**



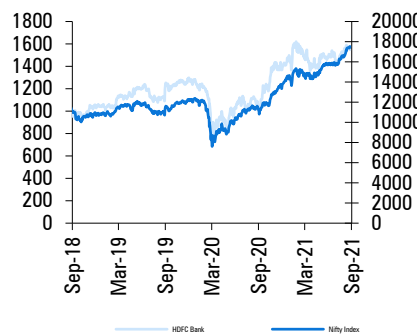
**DCB Bank Price Performance**



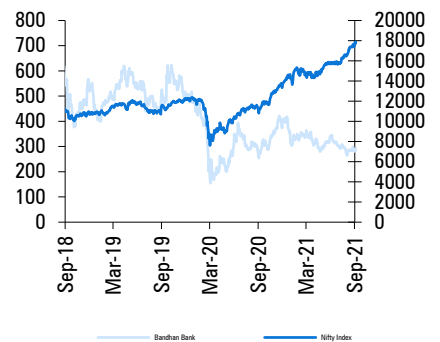
**Federal Bank Price Performance**



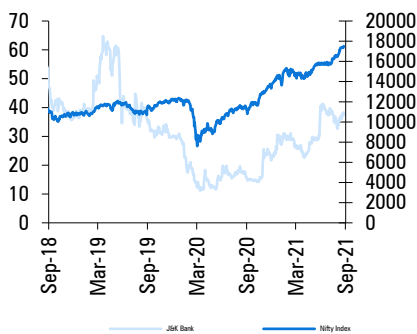
**HDFC Bank Price Performance**



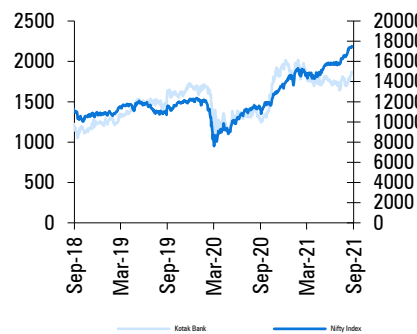
**Bandhan Bank Price Performance**



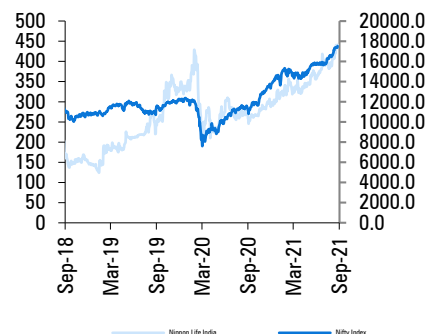
**Jammu & Kashmir Bank Price Performance**



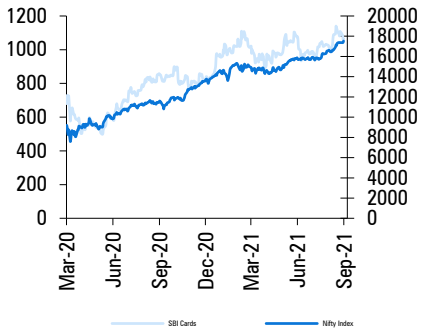
**Kotak Mahindra Bank Price Performance**



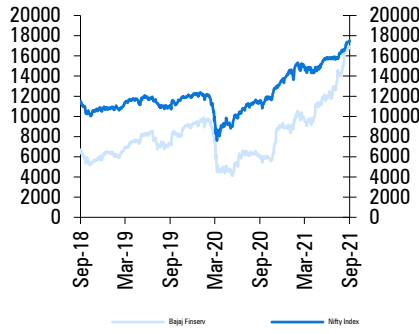
**Nippon Life Price Performance**



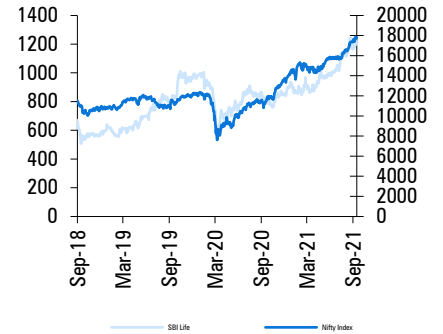
**SBI Cards Price Performance**



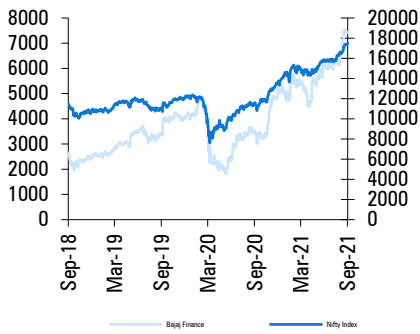
**Bajaj Finserv Price Performance**



**SBI Life Price Performance**



**Bajaj Finance Price Performance**



**HDFC AMC Price Performance**

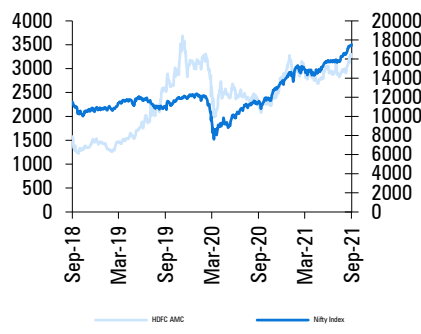


Exhibit 13: ICICI Direct coverage universe (BFSI)

| Sector / Company      | CMP   |       | Rating | M Cap<br>(₹ Bn) | EPS (₹) |       |       | P/E (x) |       |       | P/ABV (x) |       |       | RoA (%) |       |       | RoE (%) |       |       |
|-----------------------|-------|-------|--------|-----------------|---------|-------|-------|---------|-------|-------|-----------|-------|-------|---------|-------|-------|---------|-------|-------|
|                       | (₹)   | TP(₹) |        |                 | FY21    | FY22E | FY23E | FY21    | FY22E | FY23E | FY21      | FY22E | FY23E | FY21    | FY22E | FY23E | FY21    | FY22E | FY23E |
| BoB (BANBAR)          | 82    | 100   | Buy    | 422             | 2.5     | 8.9   | 13.4  | 32.8    | 9.2   | 6.1   | 0.8       | 0.7   | 0.6   | 0.1     | 0.4   | 0.5   | 1.7     | 5.8   | 8.2   |
| SBI (STABAN)          | 460   | 540   | Buy    | 4106            | 22.9    | 30.5  | 35.8  | 20      | 15.1  | 12.9  | 1.9       | 1.8   | 1.6   | 0.5     | 0.6   | 0.6   | 8.4     | 10.2  | 10.8  |
| Indian Bank (INDIBA)  | 134   | 180   | Buy    | 167             | 26.6    | 32.9  | 46.7  | 5.0     | 4.1   | 2.9   | 0.6       | 0.7   | 0.5   | 0.6     | 0.6   | 0.8   | 9.9     | 10.4  | 13.5  |
| Axis Bank (AXIBAN)    | 781   | 900   | Buy    | 2396            | 21.5    | 46.0  | 58.2  | 36.3    | 17.0  | 13.4  | 2.5       | 2.2   | 1.9   | 0.7     | 1.4   | 1.6   | 7.1     | 13.0  | 14.5  |
| City Union (CITUNI)   | 160   | 200   | Buy    | 118             | 8.8     | 9.3   | 11.7  | 18.1    | 17.1  | 13.7  | 2.5       | 2.2   | 1.8   | 1.3     | 1.2   | 1.4   | 11.9    | 11.3  | 12.4  |
| DCB Bank (DCB)        | 92    | 100   | Hold   | 29              | 10.8    | 9.9   | 14.1  | 8.5     | 9.3   | 6.5   | 1.0       | 0.8   | 0.7   | 0.9     | 0.8   | 1.0   | 10.2    | 8.3   | 10.4  |
| Federal Bank (FEDBAN) | 81    | 100   | Buy    | 171             | 8.0     | 9.5   | 12.0  | 10.2    | 8.5   | 6.8   | 1.1       | 1.1   | 1.0   | 0.8     | 0.9   | 1.0   | 10.4    | 11.8  | 13.4  |
| HDFC Bank (HDFBAN)    | 1,593 | 1,800 | Buy    | 8822            | 47.9    | 56.4  | 65.5  | 33.3    | 28.2  | 24.3  | 5.2       | 4.4   | 3.9   | 1.9     | 1.9   | 1.9   | 16.4    | 16.6  | 16.5  |
| IndusInd Bank (INDBA) | 1,124 | 1,150 | Buy    | 870             | 36.7    | 69.1  | 76.1  | 30.6    | 16.3  | 14.8  | 2.1       | 2.0   | 1.9   | 0.8     | 1.4   | 1.4   | 7.3     | 12.1  | 12.8  |
| Kotak Bank (KOTMAH)   | 2,031 | 2,040 | Buy    | 4027            | 35.1    | 43.9  | 55.7  | 57.8    | 46.3  | 36.4  | 6.6       | 5.8   | 5.0   | 1.9     | 2.1   | 2.4   | 12.4    | 12.8  | 14.2  |
| CSB Bank (CSBBAN)     | 319   | 380   | Buy    | 55              | 12.6    | 18.3  | 25.5  | 25.4    | 17.5  | 12.5  | 3.0       | 2.6   | 2.2   | 0.1     | 1.0   | 1.2   | 10.5    | 13.6  | 16.4  |
| Bandhan (BANBAN)      | 284   | 310   | Hold   | 458             | 13.7    | 19.0  | 29.5  | 20.8    | 14.9  | 9.7   | 3.1       | 2.7   | 2.2   | 2.1     | 2.5   | 3.2   | 13.5    | 16.3  | 21.1  |
| IDFC First (IDFBAN)   | 48    | 60    | Buy    | 300             | 0.8     | 0.6   | 2.9   | 60.6    | 81.8  | 16.6  | 1.5       | 1.3   | 1.2   | 0.3     | 0.2   | 0.9   | 2.7     | 1.8   | 7.3   |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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