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Robust Q4FY23; PSU lenders report record earnings...

The banking industry witnessed its best performance in FY23 led by robust credit offtake, strong margins and lower credit cost (driven by improvement in asset quality). Private sector banks continued to deliver a robust performance with 25.8% YoY growth in earnings while PSU banks reported 42.1% YoY growth in earnings driven by improvement in NIMs as well as moderation in provisioning, which has been impacting their performance in previous fiscals.

- Business momentum continued to remain robust in Q4FY23, led by retail & MSME segment. Within retail, the high yielding unsecured retail segment (which includes personal loans, credit cards & MFI loans) continue to drive the growth. Thus, share of unsecured book for selected private banks in our coverage (Kotak Bank, HDFC Bank, Axis Bank, IndusInd Bank, IDFC First Bank) increased ~150 bps from Q4FY22 to Q3FY23
- Banks' loan growth (at industry level) remained healthy at 15.4% YoY at ₹ 137 lakh crore (as March 2023 RBI data); though credit growth has been trending lower in last two-three months (16.7% YoY in January 2023 and 17.1% YoY in October 2022) primarily due to base effect
- Deposit has been lagging behind, with higher growth in term deposit driven by increase in deposit rates. Gap between credit growth and deposit growth seems to be narrowing down though deposit mobilisation at competitive rates is expected to remain one of the key focus area in near future. Further, recent government decision to withdraw ₹ 2000 notes is expected to aid deposit mobilisation in the banking system
- NII grew at a strong pace of 30.4% YoY and 4.1% QoQ in Q4FY23 mainly driven by healthy business momentum and margin expansion for select banks. All banks in our coverage universe have reported a margin expansion QoQ except Axis Bank, CSB Bank & Federal Bank. Other income grew 17.6% QoQ, 26.2% YoY partly aided by fee & commission income and healthy recovery from written off accounts
- C/I ratio increased 242 bps QoQ to 48.8% and was steady YoY. Despite strong topline, increase in CI ratio is attributable to investment in expansion of distribution capabilities (branch, employee) and focus on improving tech abilities
- Credit cost improved on sequential basis due to better asset quality performance and controlled slippages. Thus, growth trajectory in earnings remain strong. Led by a strong topline and controlled credit cost, PAT grew 27.8% YoY at ₹ 59647 crore. However, on a QoQ basis, earnings reported de-growth of 4.4%. During Q4FY23, Axis Bank reported a loss of ₹ 5728 crore (due to integration of Citi assets), denting the combined earnings of banks. PSU banks continued to put up relatively superior performance in Q4FY23 compared to private peers
- Asset quality trend continued to improve with GNPA ratio at industry level declining ~66 bps QoQ at ~3.9%. Even on an absolute basis, GNPA declined 7% QoQ, 23% YoY. Slippages for the sector declined ~9% QoQ (PSBs up ~10% QoQ, Private banks down 25% QoQ). Restructured book (average) declined by ~32 bps QoQ with no substantial downfall

As per management commentaries, momentum in credit growth is expected to remain buoyant. We expect the same to be in the range of 12-14% YoY for FY24E. Repricing of liabilities at faster rate is expected to put pressure on margins though repricing of MCLR loans provide some cushion to lenders. Opex is expected to remain elevated as banks continue to focus on building distribution capabilities while provision is seen to remain benign. Overall, we expect earnings to improve in FY24E, albeit at a slower pace as compared to FY23. Thus, sustainable credit growth coupled with healthy return ratios is expected to drive valuation, though we remain selective on stocks.

Top Picks	TP	Upside (%)	Rating
State Bank of India	725	23.5	BUY
Axis Bank	1,100	15.8	BUY

Banking credit growth robust at 15.4% YoY

PAT growth highest at 27.8% YoY to ₹ 59647 crore. Best quarter for PSU banks in terms of earnings growth at 89.5% YoY in Q4FY23. PSU banks surpassing PAT of ₹1 lakh crore in FY23

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Exhibit 1: Financial summary of banking industry (private + public)

(₹ crore)	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22
NII	178483	171387	156870	140266	136872
Growth YoY	30.4	26.1	21.7	13.4	17.9
Other income	70115	59634	53994	43566	55551
Growth YoY	26.2	16.1	0.3	-23.2	#N/A
Total operating exp.	121251	107084	99779	93236	94140
Staff cost	60922	53224	47592	44562	42645
Operating profit	127346	123938	111086	90597	98283
Growth YoY	29.6	30.9	28.0	-7.7	3.1
Provision	31740	36938	33492	34679	36831
PBT	83118	86999	77594	55918	61452
PAT	59647	62407	57380	42192	46688
Growth YoY	27.8	40.1	29.7	32.4	88.7
GNPA	538098	580346	637226	695344	700276
Growth YoY	-23.2	-19.7	-15.4	-12.0	-9.8
NNPA	127723	142452	160320	189243	193252
Growth YoY	-33.9	-32.3	-29.7	-23.3	-19.2
Advances (Lakh crore)	136.7	126.1	121.8	116.2	113.6
Deposits (Lakh crore)	181.3	166.0	162.1	147.1	157.3

Source: Capitaline, ICICI Direct Research

NII growth driven by healthy credit traction and steady margin

Exhibit 2: Financial summary of banking industry (Public)

(₹ Crore)	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22
NII	1,00,267	96,530	88,277	77,687	76,653
Growth YoY (%)	30.8	24.7	20.0	10.1	16.3
Other income	40,478	32,003	28,174	21,313	30,553
Growth YoY (%)	32.5	20.7	-5.5	-37.4	-29.0
Total operating exp.	72,164	61,289	56,640	52,666	54,932
Staff cost	43,546	36,752	32,160	29,873	29,194
Operating profit	68,580	67,244	59,811	46,334	52,273
Growth YoY (%)	31.2	35.8	39.0	-14.9	-2.8
Provision	22,796	26,124	24,137	26,292	27,962
PBT	46,379	41,672	35,867	20,490	24,617
PAT	34,966	27,955	26,012	15,321	18,455
Growth YoY	89.5	48.9	19.1	7.2	87.2
GNPA	4,25,095	4,67,712	5,01,370	5,56,804	5,62,214
Growth YoY	-24.4	-19.1	-16.6	-11.9	-11.7
NNPA	1,00,761	1,13,028	1,26,391	1,50,910	1,53,664
Growth YoY	-34.4	-32.3	-30.4	-22.9	-21.0
Advances (Lakh crore)	85.8	79.2	75.9	72.8	71.1
Deposits (Lakh crore)	122.7	111.8	109.4	106.7	106.8

Source: Capitaline, ICICI Direct Research

Robust performance by PSU banks led by elevated margins and lower credit cost

Exhibit 3: Financial summary of banking industry (Private)

(₹ Crore)	Q4FY23	Q3FY23	Q2FY23	Q1FY23	Q4FY22
NII	75,940	72,984	66,719	61,050	58,727
Growth YoY	29.3	27.9	24.1	18.1	17.1
Other income	28,207	26,570	24,760	20,823	23,887
Growth YoY	18.1	11.9	7.8	-3.9	-1.2
Total operating exp.	47,262	44,360	41,704	39,230	38,137
Staff cost	16,277	15,506	14,465	13,816	12,778
Operating profit	56,884	55,193	49,774	42,643	44,477
Growth YoY	27.9	26.5	17.7	0.4	7.1
Provision	7,948	10,218	8,757	7,763	8,195
PBT	36,446	44,976	41,017	34,879	36,281
PAT	24,488	33,927	30,748	26,268	27,683
Growth YoY	-11.5	34.5	40.8	54.2	83.9
GNPA	1,04,579	1,08,470	1,32,321	1,35,869	1,36,334
Growth YoY	-23.3	-24.1	-12.0	-12.8	-8.5
NNPA	25,108	27,691	32,256	37,197	38,721
Growth YoY	-35.2	-35.1	-29.9	-25.4	-17.9
Advances (Lakh crore)	49.7	46.1	45.1	42.8	41.9
Deposits (Lakh crore)	57.1	52.8	51.4	39.0	49.3

Source: Capitaline, ICICI Direct Research

Continued improvement in RoA driven by steady elevated margins, increase in unsecured retail loans and continued lower credit cost

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Sell: < -15%



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