

Leveraged Financials

The liquidity conundrum

Given the rising competitive intensity for low-cost and granular deposits facing the banking system, loan-deposit ratios at historical highs, and expected rate cuts towards the back-end of FY25, we believe banks are faced with the challenge of quality deposit mobilisation, elevated funding costs (lagged deposit re-pricing) and softer incremental spreads. As banks and NBFCs navigate the growth-margin trade-off, we argue that the combination of lower growth and lower spreads is likely to keep valuations under check, especially of mid-sized, high-growth franchises. While we expect system-wide growth to decelerate by 90-100 bps from FY24 levels, we are conservative on incremental spreads across our coverage universe, pencilling in 50bps of rate cuts starting Q4FY25 (blended FY25 NIMs at 12-15bps below FY24). Our hypothesis remains anchored around strong retail deposit franchises and declining spreads over the next 12 months, coupled with the normalisation of credit costs. Our top picks are ICICIBC (BUY, TP: INR 1,325), SBIN (BUY, TP: INR 1,040), and KMB (BUY, TP: INR 2,025) among large banks.

- Banks - envisaging rate cut impact starting H2FY25:** With the share of EBLR-linked loans in total outstanding floating rate loans at ~60% as of Mar-24, banks are likely to witness sharp monetary transmission on the lending side once the rate cycle turns. However, given the typical maturity profile of contracted term deposits at 1-3 years, deposit re-pricing is likely to lag, as was observed during the rate upcycle (when loans re-priced faster than deposits). We opine this re-pricing mismatch is likely to reflect in incrementally declining spreads for banks. Also, with the likely upward normalisation in credit costs and the sustained pressure on opex intensity, we expect blended RoAs to decline by 5-10 bps in FY25/26 for our coverage universe.
- NBFCs - the tug of war on funding costs:** NBFCs had benefitted from credit substitution (away from bonds towards bank lending) during the early part of FY24, given that a large proportion of the bank borrowing was anchored to MCLR pricing. Compared to the steep rise in 1y, 3y and 5y spreads over the corresponding G-sec tenor paper, banks have hiked their 1y MCLR only by 167bps between May-22 and Feb-24. However, given the RBI's repeated nudge to NBFCs to reduce incremental dependence on bank borrowings, the bank channel for funding is relatively less active. Also, given relatively softer accretion in the debt mutual fund AUM, bond spreads across maturity and rating buckets have widened relative to the Mar-24 quarter.
- Key changes to our operating variable assumptions:** Given the historically high loan-to-deposit ratio (across the banking system) and the RBI's frequent flagging of growth in unsecured consumer credit, we envisage deceleration in system-wide loan growth trends from current levels. Assuming a rate cut of 50 bps (impact spreading over 2-3 quarters) starting in Q4FY25, the real-time pass-through on lending rates will have implications for margins with deposit re-pricing happening with a lag. NIMs are likely to drift incrementally lower during FY25 (NIMs for FY25 at 12-15bps below FY24).
- Investment implications:** We reiterate our conviction on banks with a strong balance sheet and formidable retail deposit franchise, which are likely to continue gaining market share, with ICICIBC (BUY, TP: INR 1,325), SBIN (BUY, TP: INR 1,040), and KMB (BUY, TP: INR 2,025) being our top picks amongst large banks.

Banks

Company	CMP (INR)	RECO	New TP (INR)	Old TP (INR)
AUBANK	636	REDUCE	590	590
AXSB	1,306	ADD	1,310	1,190
BANDHAN	198	ADD	185	185
CUBK	160	BUY	180	175
DCBB	135	ADD	155	165
FB	194	BUY	210	195
ICICIBC	1,239	BUY	1,325	1,270
IIB	1,441	REDUCE	1,400	1,420
KMB	1,807	ADD	2,025	2,025
KVB	202	ADD	210	210
RBK	244	REDUCE	240	240
SBIN	882	BUY	1,040	1,040
UJJIVAN	45	BUY	65	65

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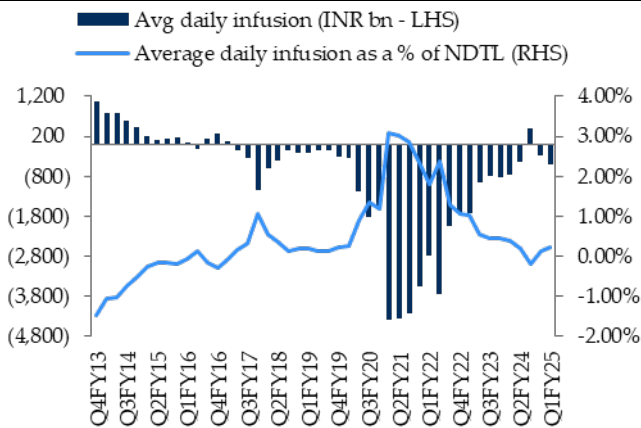
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How much to read into the marginal easing of liquidity?

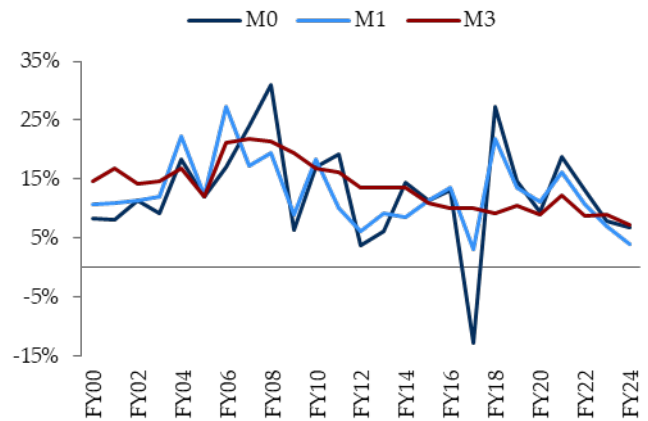
To manage inflationary pressures, the RBI maintained a tight liquidity regime during FY24, with the maximum tightness evident during Oct-Dec 2023. However, liquidity conditions eased out post-Feb-24 with increased pre-election government spending and maturity of government securities, thus supporting deposit growth in Q4FY24 and Q1FY25. Over the past decade, aside from a few months during FY18 and through the pandemic period, the RBI has generally maintained tight liquidity conditions. Lower growth in reserve money (M0) during the past two years is also reflective of the RBI's relentless stance on liquidity. Although overall system-wide deposit growth trends were affected by the liquidity scenario, there was also intense competition for low-cost deposits, thereby adversely impacting incremental cost and quality of deposits.

Exhibit 1: Average daily infusion/absorption by RBI



Source: RBI, HSIE Research, Columns above zero indicate liquidity deficit and hence, liquidity infusion by RBI while the columns below zero indicate liquidity surplus and hence, liquidity absorption by RBI

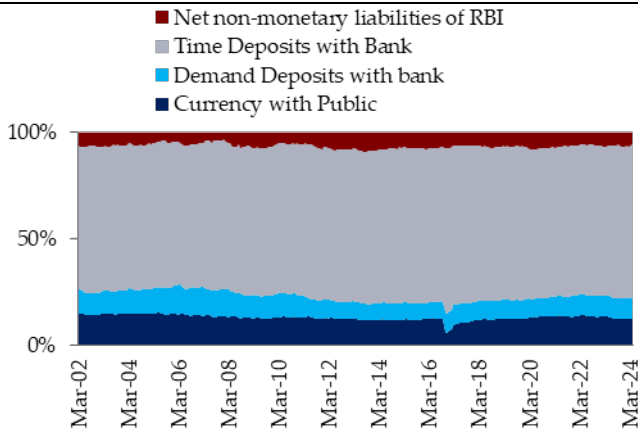
Exhibit 2: Money aggregates – Comparison of YoY growth trajectories



Source: RBI, HSIE Research

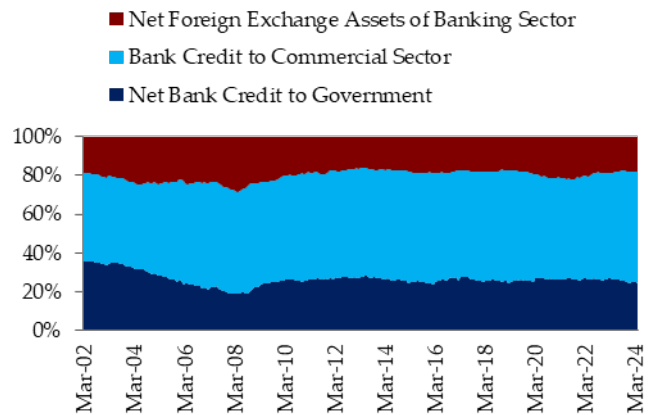
- Sources and deployment of money supply:** Banks' time deposits account for an increasingly higher proportion of the money supply (71%). In terms of deployment of money supply, bank credit to the commercial sector (57%) has been increasing over the years whereas the proportion of net bank credit to the government sector (investment in central and state government securities) has reduced considerably.

Exhibit 3: Changes in sources of money supply



Source: RBI, HSIE Research, Net non-monetary liabilities, although conventionally captured on the asset side of the balance sheet, has been captured on the liabilities side for the purpose of this area chart

Exhibit 4: Changes in deployment of money supply

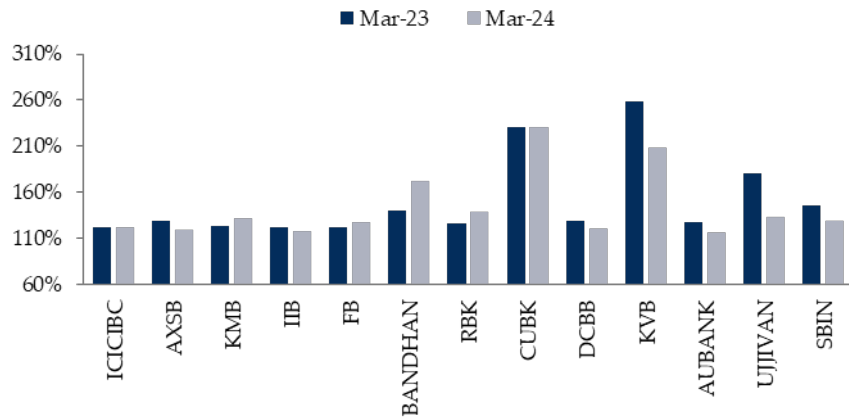


Source: RBI, HSIE Research

Quality of deposits as critical as the quantum of deposits

While Indian banks continue to maintain their LCR above the mandated minimum of 100%, many banks saw a considerable YoY decline in the liquidity ratios over Mar-23. The tight liquidity scenario led to intense competition for low-cost deposits amongst banks, thus having an impact on the overall quality of deposits. Most PSBs remain relatively immune to liquidity pressures, given the combination of higher LCR and lower loan-to-deposit ratios. However, banks that are closer to the regulatory minimum threshold of 100% will likely need to ramp up deposits in the near-to-medium term, posing a growth-margin trade-off.

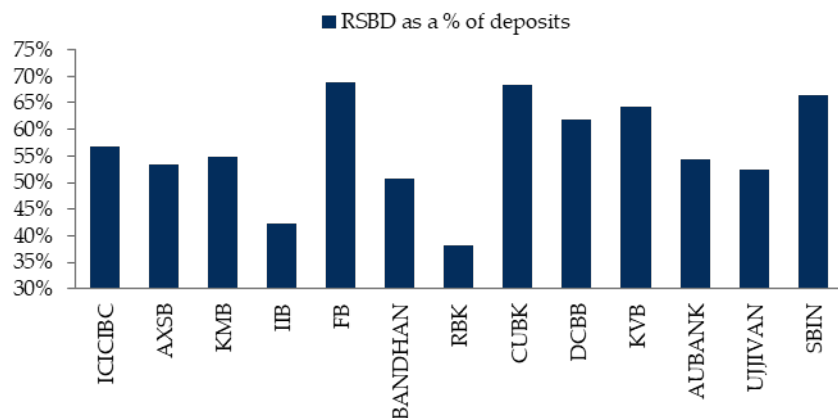
Exhibit 5: Bank-wise LCR



Source: Company data, HSIE Research

- Granularity of deposits key monitorable:** Given the elevated interest rates during FY24, most banks witnessed a shift from CASA towards term deposits, resulting in meaningful erosion in the proportion of CASA deposits during the year. This invariably led to banks increasingly shopping for bulk deposits to maintain the desired pace of credit growth, thus impacting the quality of deposits. Within our coverage universe, IIB and RBK continue to suffer from sub-optimal retail deposits (as per LCR disclosure) to total deposits, implying significant ground to be covered in terms of the quality of the deposit franchise.

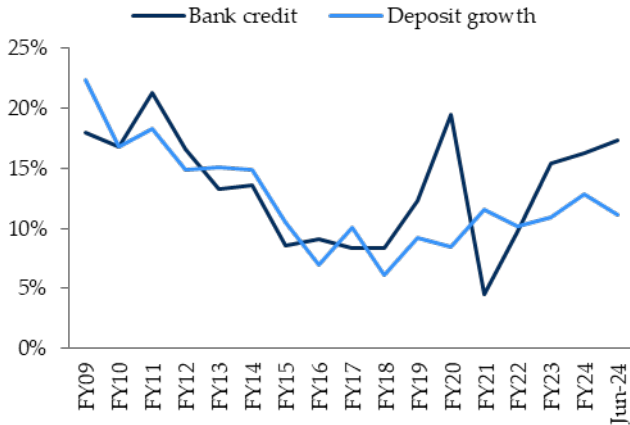
Exhibit 6: RSBD as a % of Deposits



Source: Company, HSIE Research

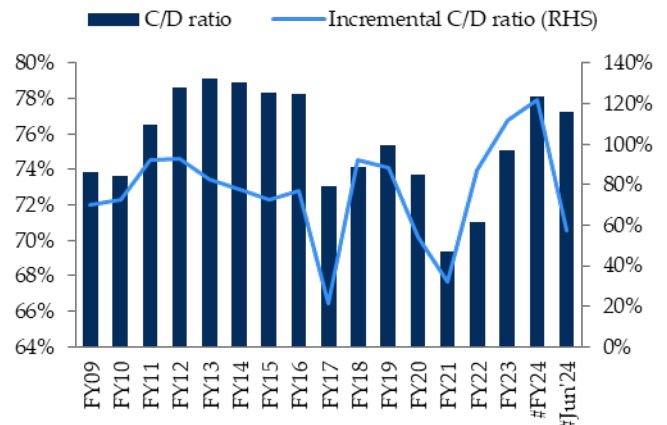
- Loan-to-deposit ratio at all-time high:** The RBI's most recent fortnightly print on banking business indicates YoY system-wide loan growth at 17.4% (including merger impact 13.9%), concomitant with YoY deposit growth at 11.1% (including merger impact 10.6%). Given the all-time high loan-to-deposit ratio (~80% including the merger impact), the spike in the incremental loan-to-deposit ratio in the past three years, and the RBI's actions to narrow the wedge between deposit and credit growth, we expect system-wide growth to trend lower during FY25 and FY26.

Exhibit 7: Loan growth vs. deposit growth



Source: RBI, HSIE Research, FY24 & Jun-24 exclude the impact of merger of HDFCB and HDFC Ltd.

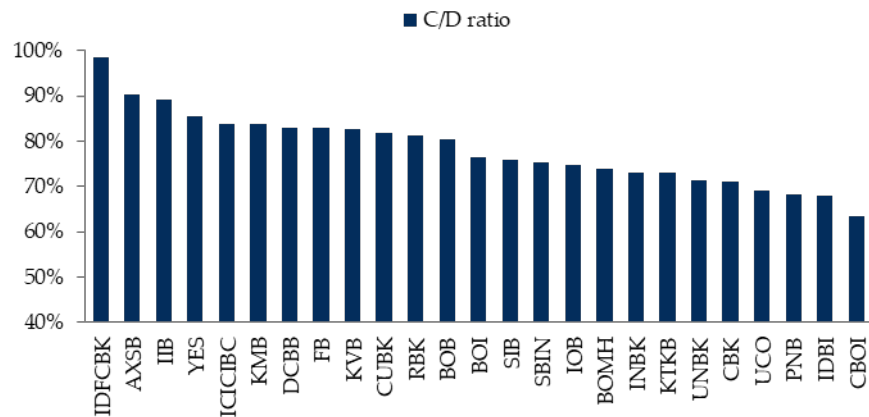
Exhibit 8: Loan to deposit ratio at historical high



Source: RBI, HSIE Research, # FY24 & Jun-24 numbers exclude the impact of merger of HDFCB and HDFC Ltd.

- PSBs placed more comfortably on LDR:** While credit growth remained higher for private sector banks at 19.3% (excluding merger impact) vs. PSBs at 14.7%, the latter emerged as the major driver of incremental credit extended by the banking system, supported by their relatively comfortable loan-deposit ratios.

Exhibit 9: Loan-to-deposit ratio: PSBs more comfortably placed than PVBs



Source: Company, HSIE Research

Reflecting on the RBI's 'Pause and Effect' move

EBLR-linked retail loans have acted as a critical channel of monetary transmission on the lending side of the balance sheet, resulting in significant first-order benefits (at the NII level) evident in banks' P&L from FY22 to FY24. As the RBI held its policy rates over the past year, we expected the banking system to face a combination of higher funding costs (lagged deposit re-pricing) and softer incremental spreads. Even as some of these factors continued to play out, growth was surprisingly strong throughout FY24, despite sluggish deposit mobilisation, with margins softening on account of lagged deposit re-pricing. The share of EBLR-linked loans increased significantly between Mar-23 and Mar-24, offset by a corresponding decline in the share of MCLR-linked loans. A rising share of EBLR-linked loans has reflected in immediate transmission on outstanding loans during the current tightening cycle.

Exhibit 10: Outstanding mix - floating rate rupee loans of SCBs across interest rate benchmarks

	Mar-20	Mar-21	Mar-22	Mar-23	Sep-23	Dec-23
MCLR regime	78.3%	62.3%	48.6%	45.4%	40.1%	39.4%
External benchmark regime	9.1%	29.5%	44.0%	49.6%	55.5%	56.2%
Others	12.6%	8.2%	7.4%	5.0%	4.4%	4.4%

Source: RBI, HSIE Research

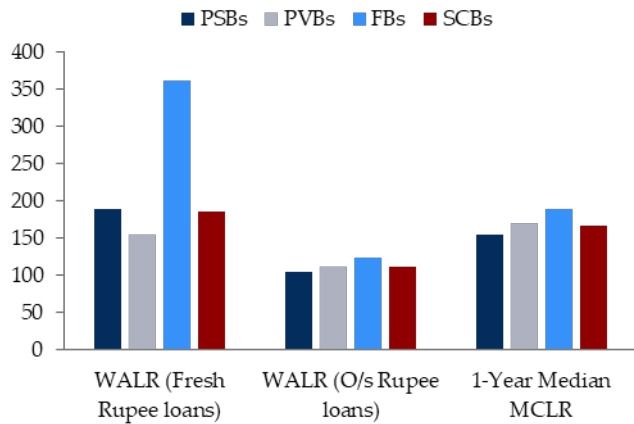
- Deposit pricing caught up in FY24:** The accelerated transmission that banks witnessed on the lending side (95 bps spike in WALR) between Apr-22 to Mar-23 slowed down significantly with only a 10-bps spike between Apr-23 and Feb-24. Deposit re-pricing caught up in the same period with a ~70bps spike in a hyper-competitive environment where banks were desperately scrambling for deposits eventually leading to margins shrinking in this period. As we move towards a downward interest rate cycle, lending rates will reprice immediately and deposit repricing will catch up much later leading to more compression in the margins.

Exhibit 11: Monetary policy transmission – Lagged deposit pricing catching up

Period	Repo Rate	Term Deposit Rates			Lending Rates			
		WADTDR (Fresh Deposits)		WADTDR (Outstanding Deposits)	EBLR	1 - Year MCLR (Median)	WALR (Fresh Rupee Loans)	WALR (Outstanding Rupee Loans)
		Retail Deposits	Retail and Bulk Deposits	Retail and Bulk Deposits				
Easing Period Feb-2019 to Mar-2022	(250)	(209)	(259)	(188)	(250)	(155)	(232)	(150)
Tightening Period May-2022 to Feb 2024	250	162	241	183	250*	167*	185	111
Of which								
Apr 2023 to Sep 2023	0		(16)	54	0	15	6	9
Oct 2023 to Feb 2024	0	(2)	12	17	0	15*	(2)	1

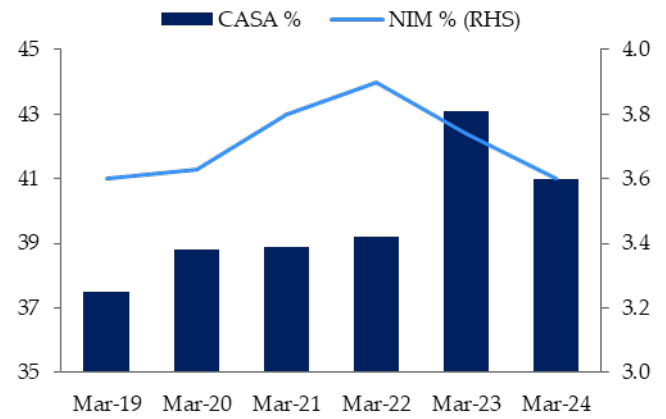
Source: RBI, HSIE Research, * Latest data on EBLR and MCLR pertain to March 2024

Exhibit 12: Transmission during May-22 to Feb-24



Source: RBI, HSIE Research

Exhibit 13: NIM and CASA declining for SCBs



Source: RBI, HSIE Research

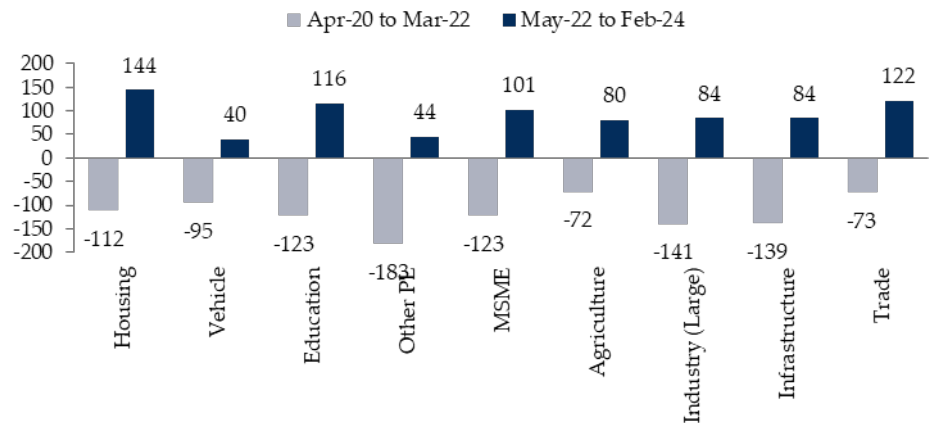
- Spread over repo declining across asset classes:** As can be seen from Exhibit 14, banks are increasingly facing “pricing fatigue”, as evidenced by the declining spread of the WALR over the repo across multiple asset classes. The spread has narrowed by 80-100 bps across asset classes with housing loan yields deflating the most. Private banks saw their yields across asset classes coming down far more significantly compared to PSBs. Sectors such as vehicle loans have witnessed disproportionately lower transmission, largely on account of the competitive intensity and the mix of fixed-rate loans.

Exhibit 14: Loans linked to external benchmark - Spread of WALR (Fresh Loans) over the Repo Rate (%) - SCBs

Sectors	Apr-22 (Repo rate – 4%)			Feb-24 (Repo rate - 4.5%)		
	PSBs	PVBs	Domestic Banks	PSBs	PVBs	Domestic Banks
MSME loans	4.27	3.93	4.04	3.36	3.15	3.20
Personal loans						
Housing	2.91	3.32	3.21	2.12	2.09	2.10
Vehicle	3.37	4.39	3.55	2.63	3.05	2.71
Education	4.42	5.71	4.71	3.77	3.64	3.71
Other PL	3.54	7.35	4.01	3.22	2.80	3.14

Source: RBI, HSIE Research

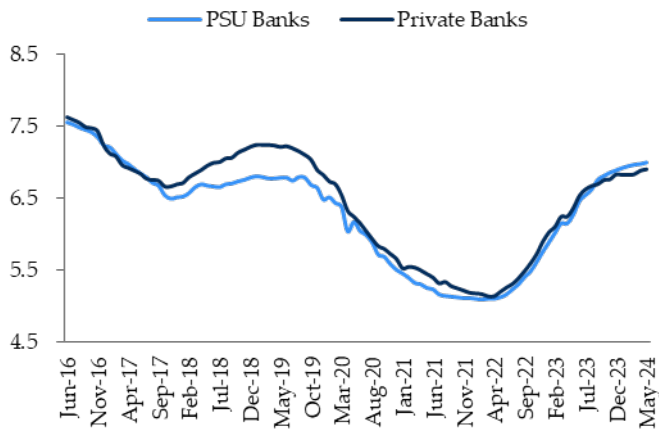
Exhibit 15: Sector-wise transmission to WALR - outstanding loans - May'22-Feb'24



Source: RBI, HSIE Research

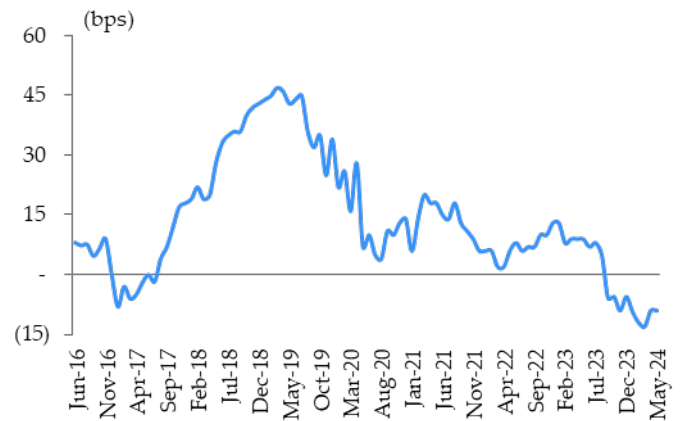
- PSBs competitive in TD rates:** Although PSBs have historically offered lower TD rates compared to private banks, have gradually started to be more competitive in their pricing post the consolidation in Mar-20. PSBs are now even offering higher WADTDR, especially in lower buckets (1-12 months), leading to higher competitive intensity in the market. Despite competitive pricing, private banks have been gaining market share in term deposits (Mar-24: 35% v/s Mar-23: 32%) compared to PSBs (Mar-24: 57% v/s Mar-23: 60%).

Exhibit 16: Term Deposit WADTDR



Source: RBI, HSIE Research

Exhibit 17: Private bank TD spread over PSBs



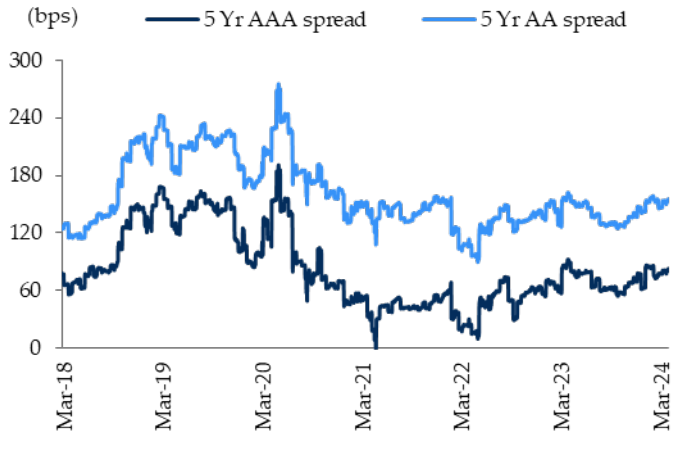
Source: RBI, HSIE Research

Exhibit 18: TD rate comparison of large banks bucket wise

TD rates (< INR 30 mn)	SBIN (15-Jun-24)	#HDFCB (12-Jun-24)	ICICIBC (10-Jul-24)	AXSB (1-Jul-24)	#HDFCB vs SBIN	ICICIBC vs SBIN	AXSB vs SBI
7-29 days	3.50	3.00	3.00	3.00	-0.5	-0.5	-0.5
30-45 days	3.50	3.50	3.50	3.50	0.0	0.0	0.0
46-60 days	5.50	4.50	4.25	4.25	-1.0	-1.3	-1.3
61-89 days	5.50	4.50	4.50	4.50	-1.0	-1.0	-1.0
90-179 days	5.50	4.50	4.75	4.75	-1.0	-0.8	-0.8
181-210 days	6.25	5.75	5.75	5.75	-0.5	-0.5	-0.5
211-285 days	6.50	5.75	5.75	5.75	-0.8	-0.8	-0.8
286 days to < 1 year	6.50	6.00	6.00	6.00	-0.5	-0.5	-0.5
1 year < 15 months	6.80	6.60	6.70	6.70	-0.2	-0.1	-0.1
15 to < 17 months	6.80	7.10	7.20	7.10	0.3	0.4	0.3
17 to < 18 months	6.80	7.10	7.20	7.20	0.3	0.4	0.4
18 to < 21 months	6.80	7.25	7.20	7.10	0.5	0.4	0.3
21 to < 2 years	6.80	7.00	7.20	7.10	0.2	0.4	0.3
2 years to < 2 year 11 months	7.00	7.15	7.00	7.10	0.2	0.0	0.1
2 year 11 months to < 3 years	7.00	7.00	7.00	7.10	0.0	0.0	0.1
3 to < 4 years 7 months	6.75	7.00	7.00	7.10	0.3	0.3	0.4
4 years 7 months - 55 months	6.75	7.20	7.00	7.10	0.5	0.3	0.4
4 years 7 months < 5 years	6.75	7.00	7.00	7.10	0.3	0.3	0.4
5- 10 years	6.50	7.00	6.90	7.00	0.5	0.4	0.5

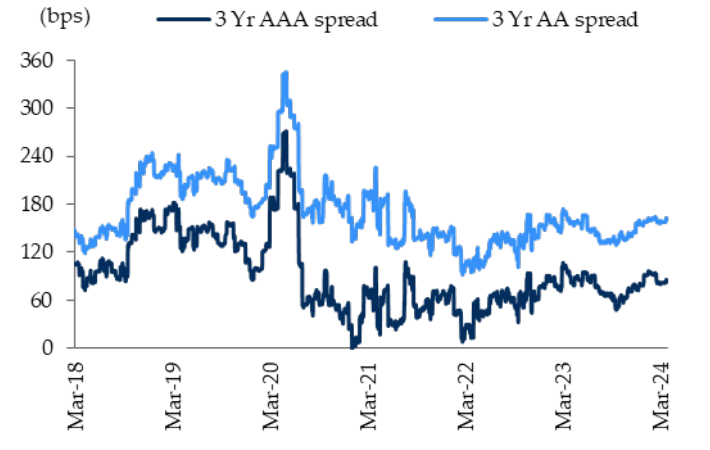
Source: RBI, HSIE Research, #HDFC securities is a subsidiary of HDFC Bank

Exhibit 19: NBFCs 5-year spreads widening



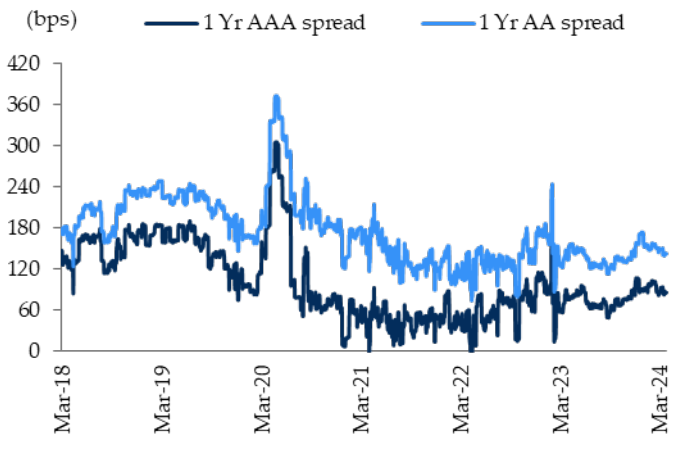
Source: Bloomberg, HSIE Research

Exhibit 20: NBFCs 3-year spreads widening



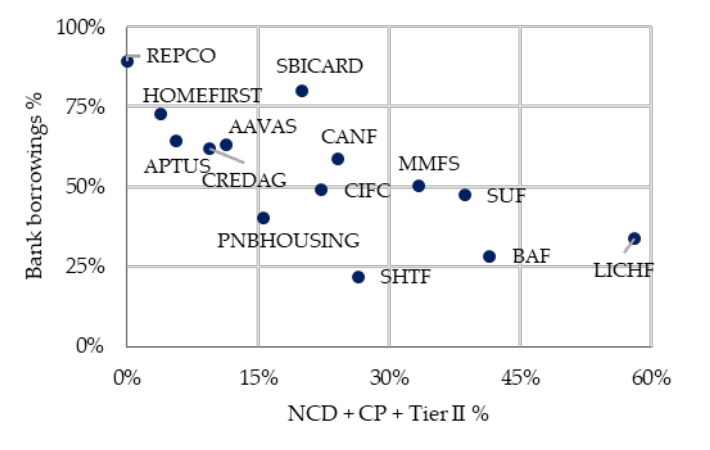
Source: Bloomberg, HSIE Research

Exhibit 21: NBFCs 1-year spreads



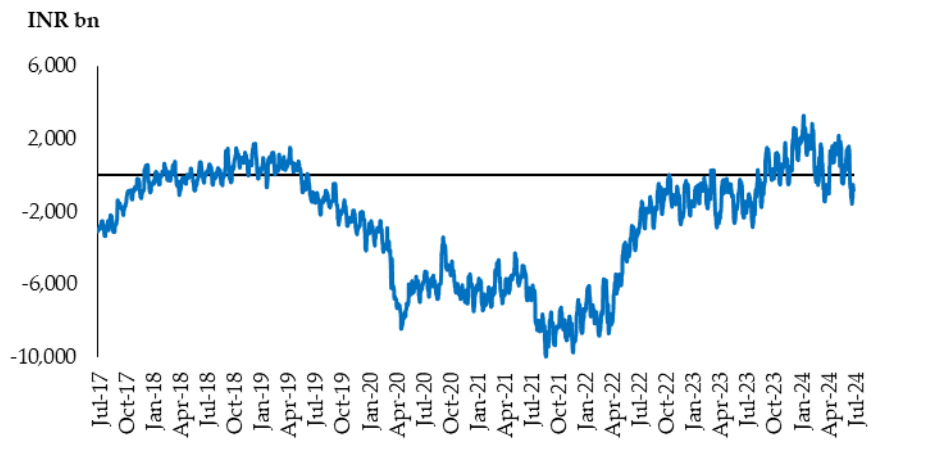
Source: Bloomberg, HSIE Research

Exhibit 22: NBFC: Banks and NCDs + CP+ Tier II as % of Total Borrowings (Mar-24)



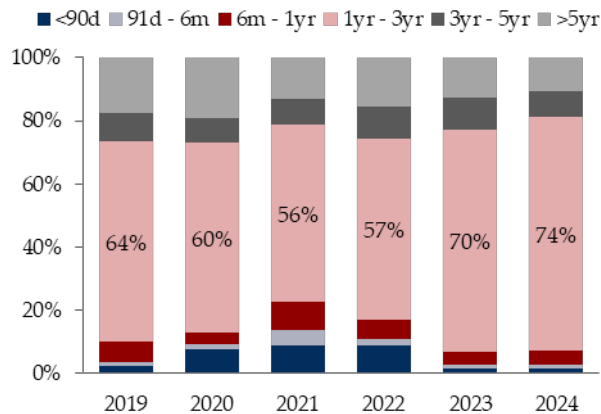
Source: RBI, HSIE Research

Exhibit 23: Banking system liquidity – Entered surplus liquidity in last 2 months



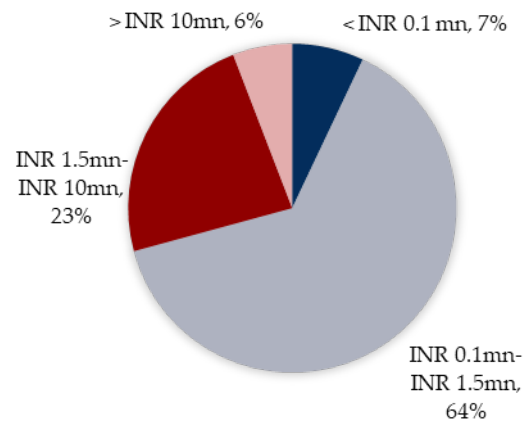
Source: Bloomberg, HSIE Research

Exhibit 24: Maturity pattern of Individual TDs – majority of TDs lie in 1-3 year bucket



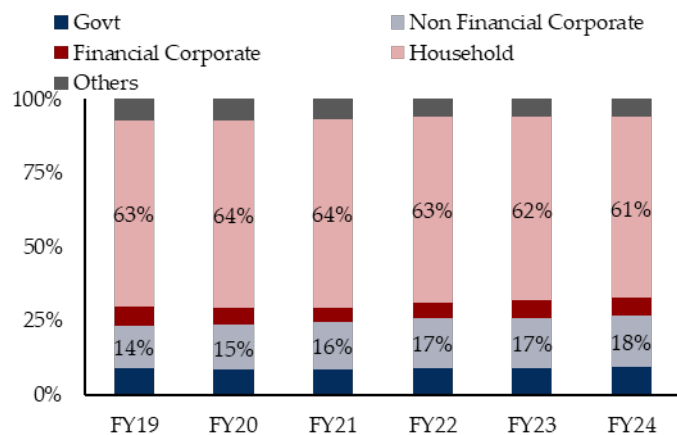
Source: RBI, HSIE Research

Exhibit 25: Individual TDs – majority in ticket size of INR 0.1mn – 1.5 mn



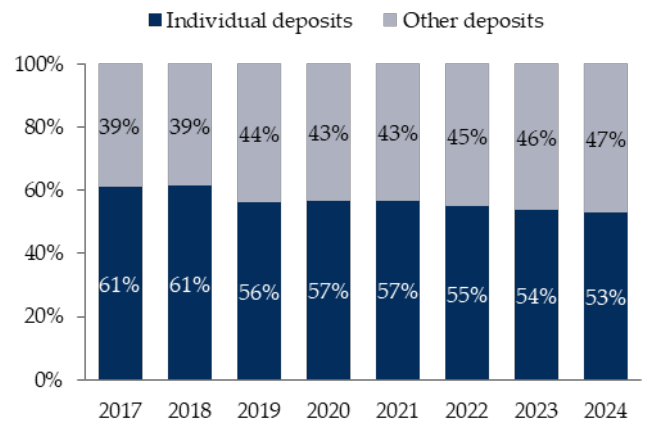
Source: RBI, HSIE Research

Exhibit 26: Banks' Deposit ownership pattern – deposits getting institutionalised



Source: RBI, HSIE Research

Exhibit 27: Share of individual deposits on a declining trend



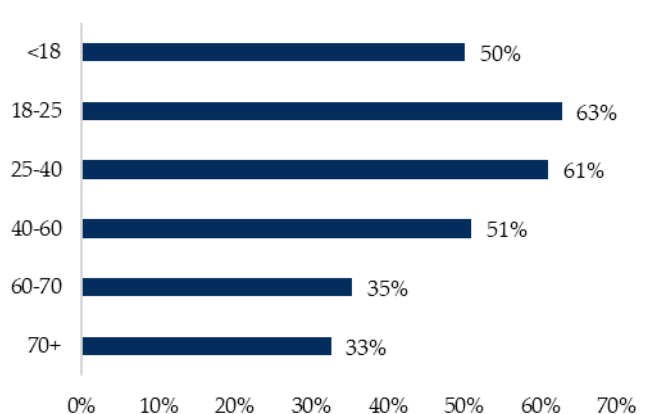
Source: RBI, HSIE Research

Exhibit 28: Deposit mix across age buckets (Mar-24) – Maximum deposits residing with 40-60 year bucket

Mar-24	CA	SA	TD	Deposits
< 18 years	0%	1%	1%	1%
18-25 years	4%	5%	2%	3%
25 - 40 years	23%	26%	15%	20%
40 - 60 years	51%	40%	34%	37%
60-70 years	12%	16%	26%	21%
70+	10%	12%	22%	17%

Source: RBI, HSIE Research

Exhibit 29: CASA ratio across age buckets (Mar-24) – Senior citizen carrying higher proportion of CASA

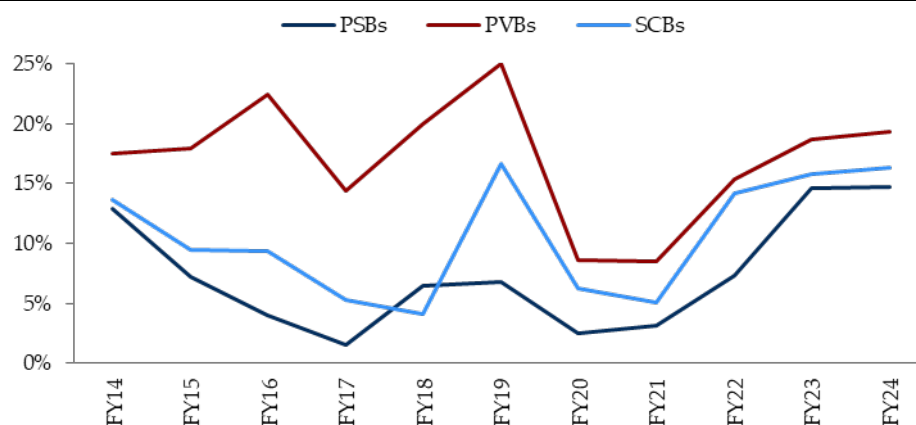


Source: RBI, HSIE Research

Visible moderation in unsecured lending

In Nov-23, the RBI increased risk weights for **unsecured consumer loans** (personal and credit card loans) on account of significantly higher credit growth in these asset classes and early evidence of higher delinquencies in small-ticket personal loans. RBI also flagged instances of overleveraging in this space, highlighting that 43% of the customers availing consumption loans already had 3 live loans at the time of origination and 30% of customers had availed more than 3 loans in the last 6 months. While the growth in unsecured segments moderated after the sharp increase in risk weights, aggregate sector-wide credit growth has remained benign.

Exhibit 30: Credit growth bank category wise



Source: RBI, HSIE Research

- Robust growth across sectors:** From a sectoral perspective, credit growth in FY24 was driven by retail and services sectors. Credit growth in agriculture gained momentum since H2FY25 and continues to grow over 20%. Industrial credit growth, which was tepid during H1FY24 picked up in the second half with growth picking up in sectors like textiles, chemicals, construction and infrastructure. Growth in the service sector continued to be healthy with credit to NBFCs being the largest contributor to growth, though the pace moderated during the year post-RBI's increasing risk-weights for loans to NBFCs by 25 bps, making bank borrowing more expensive for NBFCs.

Credit growth to commercial real estate and transport operators improved during the year, while bank credit to trade remained resilient. Within retail loans, personal loans and credit card growth moderated since Q3FY24, post an increase in risk-weights. Vehicle loan growth moderated since Q3FY24, while housing loans remained range-bound. As far as asset quality is concerned, it has improved across all major sectors apart from the rise in delinquencies in small-ticket personal loans and a slight uptick in credit card portfolios. We build in moderation in growth across sectors for FY25/26, given higher caution by RBI on elevated LDRs and pressure on margins.

Exhibit 31: Credit growth bank category-wise

Growth - YoY (%)	Mar-20	Mar-21	Mar-22	Mar-23	Sep-23	Mar-24	Apr-24	May-24	May-24 Mix %
Non-food Credit	6.7	4.5	9.7	15.4	20.0	20.2	19.1	19.8	100.0
<i>Excluding merger impact</i>						16.3	15.3	16.1	
Agriculture & Allied Activities	4.2	15.2	9.5	15.5	16.8	20.1	19.7	21.6	12.8
Industries	0.7	2.0	7.1	5.2	7.1	9.0	7.4	9.4	22.1
Textiles	(5.5)	6.3	10.1	1.2	12.5	11.1	8.3	9.4	1.5
Food Processing	(1.9)	1.5	10.9	5.4	8.2	14.9	17.9	14.5	1.2
Chemicals & chemical products	6.0	(3.0)	8.7	1.1	2.6	11.5	13.4	13.6	1.5
Metals & Metal Products	(5.7)	(6.9)	(9.2)	15.9	19.0	11.8	11.9	13.9	2.3
Construction	4.8	(3.7)	4.3	17.4	5.2	9.3	6.8	8.8	0.8
Infrastructure	(0.2)	4.4	9.3	(1.4)	2.9	6.5	4.9	7.2	8.0
Power	(1.6)	1.7	7.2	(0.8)	(0.2)	3.9	3.0	6.5	3.9
Telecommunications	24.4	(19.4)	18.6	(19.0)	3.0	27.5	7.1	5.2	0.8
Roads	2.0	21.4	17.0	5.2	8.5	6.1	7.0	9.8	2.0
Other Infrastructure	(13.4)	(4.1)	3.6	(1.4)	6.1	4.1	6.5	7.1	1.1
Other Industries	18.5	9.5	5.3	(6.8)	11.4	22.3	13.1	10.9	1.5
Personal Loans	15.0	17.5	12.8	20.7	30.4	27.6	27.1	28.7	32.6
<i>Excluding merger impact</i>						17.7	17.4	17.8	
Housing	15.4	11.6	12.8	15.0	37.2	36.9	36.9	38.7	16.6
<i>(Excluding merger impact)</i>						17.4	17.7	16.9	
Education	(3.3)	(4.7)	32.1	17.1	22.6	23.3	22.8	24.2	0.7
Vehicle loans	9.1	36.6	33.6	24.9	20.6	17.3	16.9	17.9	3.6
Credit Card Outstanding	22.5	21.4	12.6	31.5	29.9	25.6	23.0	26.2	1.6
Other personal loans	19.7	18.5	2.3	25.0	27.7	20.8	19.2	19.3	8.5
Services	7.4	7.5	8.2	19.6	25.1	22.9	21.7	23.2	27.8
Transport operators	4.3	(1.1)	8.7	13.4	21.6	19.9	19.6	23.7	1.4
Trade	4.6	13.7	10.8	17.7	16.2	17.4	15.1	17.7	6.2
Wholesale Trade	5.1	21.0	10.2	12.9	11.1	21.4	16.4	18.3	3.3
Retail trade	4.1	7.2	11.5	22.6	21.4	13.2	13.7	17.1	3.0
Commercial Real Estate	13.6	25.8	0.7	8.0	37.8	38.9	35.3	45.3	2.7
NBFCs	25.9	18.3	12.9	23.4	21.2	15.3	14.6	16.0	9.4

Source: RBI, HSIE Research

Bringing it all together

- System-wide growth to decelerate:** With loan-to-deposit ratios at an all-time high, the ongoing scramble for granular and low-cost deposits, and regular monitoring of growth by the RBI, especially in retail unsecured segments, we expect system-wide growth to decelerate to 15% (excluding merger impact) (FY24: 16%). While our coverage universe comprises banks that are predominantly gaining market share (driven by large private banks), we build in lower growth across our coverage universe.

Exhibit 32: Loan growth estimates

Banks	FY24	FY25E	FY26E
#AUBANK	25.2%	45.0%	22.7%
AXSB	14.2%	14.3%	14.7%
BANDHAN	15.6%	15.7%	16.6%
CUBK	5.7%	12.3%	13.5%
DCBB	19.0%	13.7%	15.1%
FB	20.0%	18.5%	18.7%
ICICIBC	16.2%	15.7%	15.8%
IIB	18.4%	15.5%	16.8%
KMB	17.6%	16.0%	15.1%
KVB	16.7%	14.7%	15.1%
RBK	19.6%	16.3%	15.1%
SBIN	15.8%	14.4%	14.3%
UJJIVAN	26.3%	20.1%	21.0%
TOTAL	16.1%	15.2%	15.1%

Source: Company, HSIE Research, #AUBANK includes impact of merger with Fincare SFB

- Immediate asset repricing expected once rate cut cycle starts:** Given that EBLR-linked loans are ~60% of the total floating loans, banks will witness accelerated monetary transmission on the lending side once the rate cut commences, which is assumed to be at fag end of FY25 and first half of FY26. The deposit repricing will come with a lag given average duration of the term deposit book is 1-3 years. The banks will thus see the margins compress further in FY25 & FY26.

Exhibit 33: NIMs to compress assuming rate cuts starting latter half of FY25; Credit cost to normalize upwards

	NIM (Calculated)			Credit costs (Calculated)		
	FY24	FY25E	FY26E	FY24	FY25E	FY25E
#AUBANK	5.5%	5.7%	5.7%	0.8%	1.1%	1.1%
AXSB	4.0%	3.8%	3.8%	0.7%	0.7%	0.8%
BANDHAN	7.1%	6.9%	6.8%	4.4%	2.4%	2.5%
CUBK	3.4%	3.3%	3.3%	0.6%	0.6%	0.6%
DCBB	3.7%	3.6%	3.5%	0.5%	0.6%	0.6%
FB	3.3%	3.2%	3.2%	0.2%	0.3%	0.4%
ICICIBC	4.8%	4.6%	4.6%	0.3%	0.3%	0.4%
IIB	4.5%	4.5%	4.4%	1.2%	1.3%	1.3%
KMB	5.2%	5.1%	5.0%	0.4%	0.4%	0.5%
KVB	4.3%	4.1%	4.1%	0.7%	0.8%	0.8%
RBK	5.6%	5.4%	5.3%	1.8%	2.0%	2.1%
SBIN	3.1%	3.0%	3.0%	0.3%	0.4%	0.4%
UJJIVAN	10.2%	10.0%	10.0%	0.8%	1.5%	1.5%

Source: Company, HSIE Research, #AUBANK includes impact of merger with Fincare SFB

- Investment thesis:** With margins shrinking, opex ratios staying elevated owing to investments in distribution and technology and credit costs normalizing upwards, we envisage RoAs declining by 5-10 bps in FY25 over our coverage universe. We stick to our conviction on banks with a strong balance sheet and formidable retail deposit franchise, which is likely to continue gaining market share, with ICICIBC (BUY, TP: INR 1,325), SBIN (BUY, TP: INR 1,040), and KMB (BUY, TP: INR 2,025) being our top picks amongst large banks.

Exhibit 34: Changes in FY25E, FY26E estimates

%	FY25E			FY26E		
	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)	Δ NII (%)	Δ PPOP (%)	Δ PAT (%)
Banks						
AUBANK#	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AXSB	0.0%	0.0%	2.3%	0.0%	0.0%	0.0%
BANDHAN	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CUBK	-0.7%	0.0%	1.5%	-0.6%	0.7%	3.3%
DCBB	-0.5%	-1.0%	-7.2%	-1.9%	-3.6%	-6.5%
FB	-2.3%	0.2%	3.6%	-0.6%	0.7%	2.7%
ICICIBC	-0.2%	0.2%	1.7%	-0.5%	4.0%	4.6%
IIB	-1.4%	-0.5%	-3.7%	-1.6%	-0.3%	-2.5%
KMB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
KVB	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
RBK	1.9%	0.0%	0.0%	2.0%	0.0%	0.0%
SBIN	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
UJJIVAN	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Aggregate	-0.1%	0.0%	0.6%	-0.2%	0.0%	1.0%

Source: Company, HSIE Research, #AUBANK includes impact of merger with Fincare SFB

Exhibit 35: Banking coverage universe: Valuation summary

INR	CMP (INR)	Avg RoAE (% FY25E-26E)	Avg RoAA (% FY25E-26E)	Mar-26 ABVPS (INR)	Derived Multiple – P/ABVPS (x)	Target Price (INR)
AUBANK	636	13.2%	1.4%	259	2.3	590
AXSB#	1,306	16.3%	1.7%	648	1.9	1,310
BANDHAN	198	13.1%	1.6%	161	1.1	185
CUBK	160	12.2%	1.5%	130	1.4	180
DCBB	135	11.3%	0.9%	180	0.9	155
FB	194	14.2%	1.3%	149	1.4	210
ICICIBC#	1,239	18.0%	2.3%	424	2.7	1,325
IIB	1,441	14.7%	1.8%	1020	1.4	1,400
KMB#	1,807	14.4%	2.3%	616	2.3	2,025
KVB	202	16.6%	1.6%	151	1.4	210
RBK	244	9.5%	1.0%	280	0.9	240
SBIN#	882	17.4%	1.1%	517	1.6	1,040
UJJIVAN	45	22.4%	3.2%	41	1.6	65

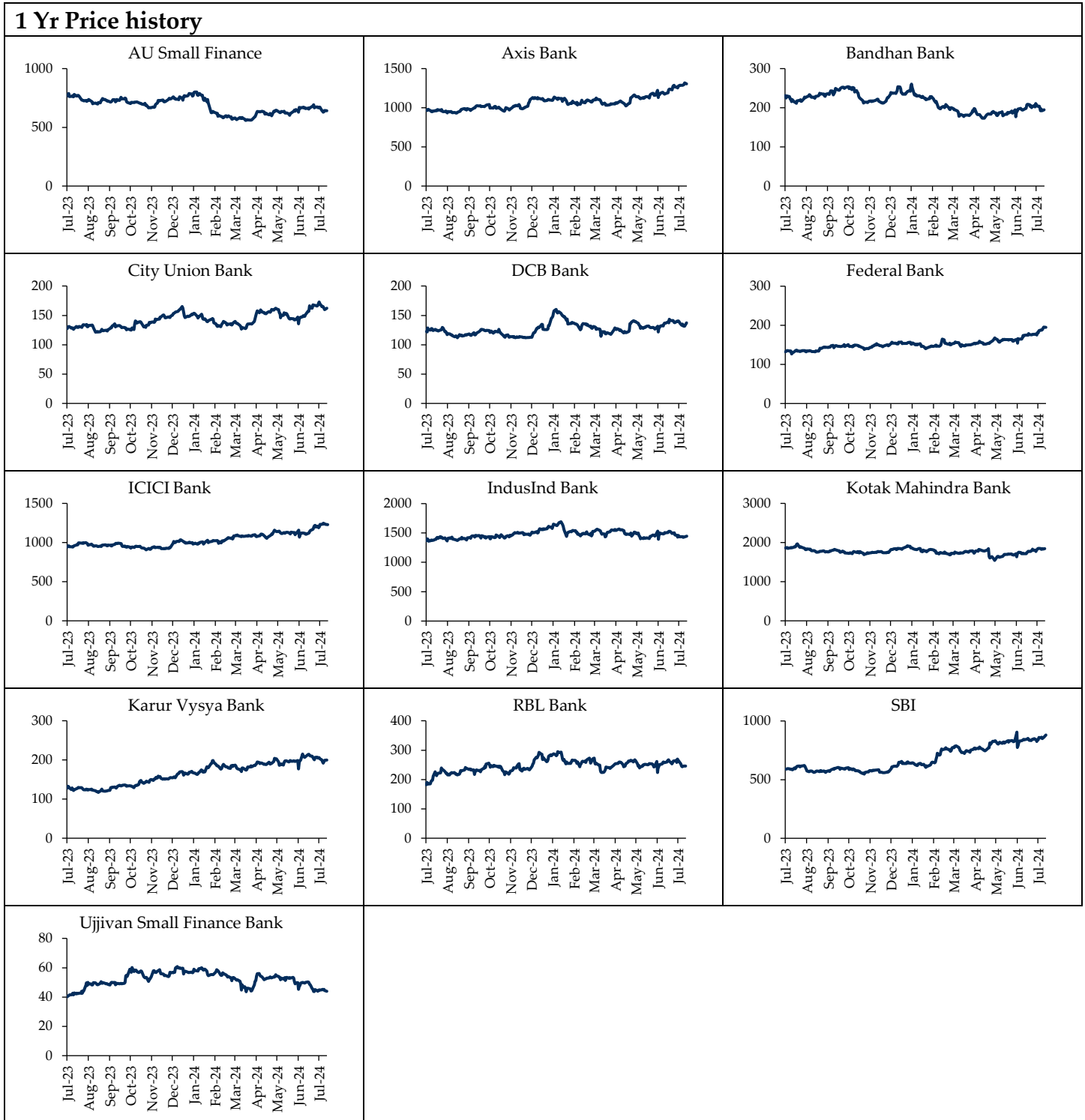
Source: Company, HSIE Research | Note: # Valuation multiple adjusted for subsidiaries

- Q1FY25E preview:** The first quarter of the financial year is expected to witness moderation in credit and deposit growth. While the liquidity has eased, we continue to witness declining CASA% given the scramble for low-cost deposits. Margins are expected to be range-bound with marginal decline owing to the incremental cost of funds. Opex intensity is expected to be elevated at similar levels with continued investment in technology and distribution. The gradual normalization of credit cost upwards is expected starting this quarter with lower inorganic recoveries and a marginal uptick in slippages. Overall RoAs are expected to remain range-bound with slight decelerating trends.

Exhibit 36: Q1FY25E: Earnings estimates

INR bn	NII			PPOP			PAT		
	Q1 FY25E	YoY (%)	QoQ (%)	Q1 FY25E	YoY (%)	QoQ (%)	Q1 FY25E	YoY (%)	QoQ (%)
#AUBANK	15.7	26%	17%	7.9	45%	19%	4.4	14%	19%
AXSB	128.9	8%	-2%	98.1	11%	-7%	64.8	12%	-9%
BANDHAN	28.1	13%	-2%	18.3	17%	-1%	7.8	8%	NM
CUBK	5.6	8%	3%	4.1	-1%	16%	2.7	19%	6%
DCBB	4.6	-2%	-9%	2.3	11%	-1%	1.3	3%	-16%
FB	22.7	18%	4%	14.5	11%	30%	9.5	12%	5%
ICICIBC	186.9	3%	-2%	152.4	8%	1%	106.7	11%	0%
IIB	54.1	11%	1%	41.8	9%	2%	23.0	8%	-2%
KMB	67.8	9%	-2%	51.8	5%	-5%	35.9	4%	-13%
KVB	10.1	12%	1%	7.1	10%	-18%	4.2	17%	-8%
RBK	16.4	32%	3%	8.5	32%	-4%	3.1	8%	-11%
SBIN	418.2	7%	0%	261.1	3%	-9%	169.4	0%	-18%
UJJIVANS	9.1	14%	-3%	5.2	14%	1%	3.2	-2%	-4%
Aggregate	968.2	7.8%	-0.3%	673.1	7.1%	-4.3%	436.1	5.9%	-9.0%

Source: Company, HSIE Research, #AUBANK includes impact of merger with Fincare SFB



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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