

BFSI Q4FY23 Result Preview

Axis Securities Equity Research

BFSI Q4FY23 RESULTPREVIEW – YET ANOTHER STRONG QUARTER!

Banks – Yet another strong quarter; Focus remains on commentary for FY24!

We expect the banks under our coverage to mirror the strong systemic credit growth, thereby delivering a robust ~17% YoY credit growth in Q4FY23. On a segmental basis at a systemic level, consumer durables/personal loans/credit card outstanding have shown a robust growth of 39/21/30% YoY respectively. Banks that have so far reported their provisional numbers for the quarter have witnessed a pick-up deposit growth, led by TD growth outpacing CASA deposit growth. While most banks have so far been upbeat about sustaining their credit growth momentum, comments around deposit mobilization to support healthy credit growth will be watched out for.

NIMs during the quarter are expected to remain flattish QoQ, aided by MCLR rate hikes and repo-linked loan re-pricing. Thus, supported by healthy credit growth and stable NIMs, we expect banks under our coverage to register NII growth of 28/5% YoY/QoQ. However, management commentaries on margin contraction (quantum) as banks step into FY24 would be crucial.

In terms of asset quality, we believe Q4FY23 will be another uneventful quarter with healthy recoveries and moderating slippages driving asset quality improvement. Concerns around slippages from the restructured pool seem to have ebbed. Credit costs during the quarter will continue to remain benign. Thus, supported by stable NIMs and muted credit costs, we expect banks under our coverage to report strong earnings growth of 31/6% YoY/QoQ during Q4FY23.

NBFCs – Strong Growth, Divergent Performance on NIMs!

The disbursement momentum for **Affordable Housing Financiers** is likely to sustain, translating into healthy AUM growth. We expect CanFin Homes and Aptus' AUM to grow at ~20/31% YoY respectively. While CanFin is likely to report a marginal dip in NIMs, we expect Aptus to witness a marginal improvement in QoQ. While the NII/PPOP growth of Aptus is expected to remain healthy at 29/23% YoY, CanFin is likely to report growth of 9/12% YoY. We expect asset quality metric to continue their improvement trend and credit costs are expected to remain stable QoQ. The management commentary on the growth outlook and NIM trajectory going forward would be key monitorables.

Chola has reported strong disbursement growth across segments and we expect Sundaram Finance to report healthy disbursement growth as well. This should translate into an equally strong AUM growth of >30% for Chola and double-digit growth for Sundaram. However, rising interest rates are likely to weigh on the NIMs of **Vehicle Financiers** during the quarter. We do not expect any challenges on asset quality and credit costs should stay flat QoQ.

Gold Financiers under our coverage are expected to report tepid gold-loan growth. However, on a consolidated basis, AUM growth is likely to pick up. The impact of rising CoF would be visible on margins. We expect asset quality to remain largely stable QoQ.

Microfinance – Growth to remain strong, Asset Quality improvement to be aided by write-offs!

The focus in the **Microfinance** segment continues to remain on accelerating growth, driven by strong new customer acquisition and improving geographic footprint. Strong disbursement growth has translated into a robust GLP growth of ~27% YoY for **CAGrameen**. Margins are expected to move with a slight positive bias during the quarter. Asset quality stress does not appear to be a major challenge as the final leg of the write-off will continue to drive asset quality improvement. Credit costs are expected to remain flat QoQ.

Small Finance Banks – Growth Momentum Strong!

Disbursements growth momentum continued to remain strong, translating into healthy advances growth. For the SFBs under our coverage, the traction on liability franchise continued to remain strong with TDs outpacing CASA deposits growth. Shift in the portfolio mix along with increasing CoF is likely to put pressure on margins. With collections normalizing and asset quality stress receding, we expect SFBs to report asset quality improvement with credit costs remaining benign during the quarter.

Diversified Financials – Credit Cards and Broking

The new customer additions have been progressing well with **SBI Cards** adding ~300K+ customers (net) in both Jan-Feb'23 and we expect the company to maintain the pace in Mar'23. We expect a slight change in the receivables mix with the share of EMI balances inching up, while the revolvers mix is likely to remain steady QoQ. However, increasing interest rates and lower-than-normalized levels of revolver rates are likely to keep margins under pressure. Asset quality does not appear to be a cause of concern and credit costs are expected to remain largely steady. A key metric to watch out for would be the impact of any MDR cap/reduction as mentioned in the RBI's discussion paper and management comments on the scope for improvement in the receivables mix to support margins.

Broking revenues will continue to remain under pressure with cash market volumes remaining muted while F&O volumes continue to remain robust. We expect **ICICI Securities** to maintain its market share both in the cash and F&O segment QoQ. While distribution income is expected to lend some support to revenues led by strong insurance and loan disbursements, investment banking income is likely to take a hit owing to weak capital market activity.

The key result plays are as follows:

Positive Result Plays: Banks - **HDFC Bank, ICICI Bank, SBI, Federal Bank, Equitas Small Finance Bank**
NBFCs - **Cholamandalam Inv, MAS Financial**

Negative Result Plays: **ICICI Securities**

Banks

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
HDFC Bank						
NII	23,854	22,988	3.8%	18,873	26.4%	➔ NII to be supported by healthy loan growth and stable margins QoQ
Non-Interest Income	8,857	8,500	4.2%	7,637	16.0%	➔ Improved Fee income and steady cost ratios to support PPOP growth
PPOP	19,521	19,024	2.6%	16,357	19.3%	➔ Asset Quality to remain stable QoQ; Credit costs to remain flat
Provision	3,157	2,806	12.5%	3,312	-4.7%	➔ Key monitorables: (1) Management commentary on retail growth and (2) Comments on Merger progress
Net Profit	12,238	12,259	-0.2%	10,055	21.7%	
EPS	22.0	22.0	-0.1%	18.1	21.2%	
ICICI Bank						
NII	17,233	16,465	4.7%	12,605	36.7%	➔ Advances growth to sustain, expected to clock growth of ~20% YoY
Non-Interest Income	5,155	5,024	2.6%	4,737	8.8%	➔ Scope for margin expansion limited, Expect QoQ flat margins
PPOP	13,901	13,271	4.7%	10,293	35.1%	➔ Credit costs expected to remain flat QoQ, aiding profitability
Provision	2,250	2,257	-0.3%	1,069	110.5%	➔ Moderation in slippages along with higher recoveries to aid asset quality improvement
Net Profit	8,714	8,312	4.8%	7,019	24.2%	➔ Key monitorables: (1) NIM outlook (2) Comments on Deposit accretion
EPS	12.5	11.9	4.8%	10.1	23.7%	
Kotak Mahindra Bank						
NII	6,052	5,653	7.1%	4,521	33.9%	➔ Advances growth to remain strong, traction on unsecured products to remain healthy
Non-Interest Income	2,236	2,100	6.5%	1,826	22.4%	➔ NII growth expected to be healthy, and Margins likely to be maintained at ~5.5%
PPOP	4,217	3,850	9.5%	3,340	26.3%	➔ Cost ratios to remain flat QoQ, PPOP growth to be healthy
Provision	203	149	36.4%	-306	N.M	➔ Credit costs to be at normalized levels; Asset quality to remain stable
Net Profit	3,013	2,792	7.9%	2,767	8.9%	➔ Key monitorables: (1) Commentary on NIMs and (2) Growth outlook
EPS	15.2	14.1	7.9%	13.9	8.8%	

Banks

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
State Bank of India						
NII	39,845	38,069	4.7%	31,198	27.7%	→ Strong Advances growth of ~16/5% YoY/QoQ along with a marginal uptick (of ~5-7bps) in NIMs to support NII growth
Other Income	12,093	11,468	5.5%	11,880	1.8%	→ PPOP growth to remain healthy supported by flattish opex ratios
PPOP	26,453	25,220	4.9%	19,717	34.2%	→ Credit costs to remain stable sequentially thus aiding bottom-line
Provision	5,616	5,761	-2.5%	7,237	-22.4%	→ No chunky slippages expected during the quarter, Asset quality improvement to continue
Net Profit	15,212	14,206	7.1%	9,114	66.9%	→ Key monitorables: (1) Asset quality outlook and (2) Loan book traction
EPS	17.0	15.9	7.1%	10.2	66.9%	
Federal Bank						
NII	2,032	1,957	3.8%	1,525	33.2%	→ Advances growth healthy at 20% YoY, Deposit growth picks up to 17% YoY
Other Income	577	534	8.1%	465	24.1%	→ NIMs likely to be maintained on a QoQ basis, NII growth to remain healthy
PPOP	1,339	1,274	5.1%	798	67.8%	→ PPOP growth seen to be strongly supported by better cost ratios
Provision	218	199	9.7%	75	189.7%	→ Credit costs to remain stable, Asset Quality to remain stable
Net Profit	838	804	4.2%	541	55.0%	→ Key monitorables: (1) Growth and NIM outlook (2) Outlook on return ratios
EPS	4.0	3.8	4.2%	2.6	54.1%	
Karnataka Bank						
NII	822	835	-1.6%	656	25.2%	→ Advances growth muted at ~6% YoY
Other Income	267	205	30.6%	257	4.0%	→ NII growth to remain flat sequentially, NIMs likely to remain flat QoQ
PPOP	559	532	5.1%	380	47.0%	→ C-I expected to remain stable QoQ
Provision	164	165	-0.7%	96	70.7%	→ Credit costs to remain stable at ~105bps
Net Profit	296	301	-1.7%	130	126.7%	→ Key monitorables: (1) Quantum of Slippages and (2) Loan growth outlook
EPS	9.5	9.7	-1.9%	4.2	126.0%	

Banks

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
IDFC First Bank						
NII	3,486	3,286	6.1%	2,669	30.6%	→ Advances and deposit growth momentum to sustain, Margins to remain flattish QoQ
Other Income	1,182	1,152	2.5%	831	42.2%	→ Cost Ratios to continue to remain elevated denting PPOP growth
PPOP	1,325	1,277	3.8%	827	60.3%	→ No major slippages expected during the quarter; Asset Quality improvement to continue with normalized credit cost
Provision	478	450	6.1%	369	29.3%	→ Key monitorables: (1) NIM and Cost to income outlook; (2) Growth outlook
Net Profit	632	617	2.5%	343	84.4%	
EPS	1.0	1.0	-3.3%	0.6	73.4%	
City Union Bank						
NII	581	556	4.5%	501	16.0%	→ Loan growth muted at ~7% YoY, Deposit growth picks up to ~10% YoY
Other Income	218	224	-2.8%	203	7.5%	→ NIMs likely to improve marginally by ~10bps
PPOP	495	497	-0.4%	440	12.6%	→ Opex ratios expected to remain within the guided range
Provision	151	225	-32.7%	171	-11.6%	→ Provisions to moderate QoQ and gravitate towards normalized levels
Net Profit	259	218	19.0%	209	24.0%	→ Key monitorables: (1) Outlook of Credit Cost (2) Growth Outlook
EPS	3.5	2.9	19.0%	2.8	23.9%	
Bandhan Bank Ltd.						
NII	2,304	2,080	10.8%	2,540	-9.3%	→ Loan book growth stood at 10/12% YoY/QoQ, and EEB growth expected to remain muted
Other Income	675	1,033	-34.6%	965	-30.0%	→ Margins to improve QoQ led by sequentially lower slippages and effect of EEB portfolio rate revision visible
PPOP	1,720	1,922	-10.5%	2,522	-31.8%	→ Credit costs to taper on a QoQ basis; Slippages expected to moderate on a sequential basis, Asset quality improvement to be visible
Provision	646	1,541	-58.1%	5	13592.2%	→ Key Monitorables: (1) Commentary around asset quality improvement (2) Commentary on Growth especially in the EEB segment (positive commentary expected) and margins
Net Profit	820	291	182.1%	1,903	-56.9%	
EPS	5.1	1.8	182.1%	11.8	-56.9%	

Banks

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
DCB Bank Ltd.						
NII	468	446	4.9%	380	23.0%	→ Healthy advances growth of 20%+ YoY along with largely stable margins to support NII growth
Other Income	106	95	11.1%	115	-7.7%	→ Opex ratios likely to remain elevated keeping PPOP growth in check
PPOP	212	194	9.2%	221	-4.0%	→ Credit cost trend to remain benign, Asset quality improvement to continue aided by better recoveries
Provision	43	41	5.7%	68	-36.4%	→ Key Monitorables: (1) Growth and Margin Outlook (2) Commentary on Return Ratios
Net Profit	125	114	10.1%	113	10.5%	
EPS	4.0	3.7	10.1%	3.7	10.3%	

Small Finance Banks

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
AU Small Fin. Bank						
NII	1,191	1,153	3.3%	937	27.2%	→ Business growth momentum continues to remain strong
Other Income	342	295	16.1%	311	9.9%	→ Margin contraction of ~20bps on a sequential basis likely owing to rising Cost of Funds (CoF)
PPOP	570	556	2.5%	482	18.1%	→ Opex ratios to remain elevated weighing on operational profitability
Provision	44	33	34.8%	93	-52.8%	→ Asset quality likely to remain stable, and Credit costs to remain benign as the bank carries an adequate provision buffer
Net Profit	395	393	0.5%	346	14.1%	→ Key Monitorables: (1) Growth and Margins outlook, (2) Outlook on cost ratios
EPS	5.9	5.9	0.5%	5.5	7.8%	
Equitas Small Fin Ban						
NII	690	647	6.5%	552	24.8%	→ Advances growth robust at ~36% YoY, led by strong disbursement growth of 80% YoY; Healthy advances growth along with healthy margins of ~8.9% to support NII growth
Other Income	160	153	4.8%	148	8.0%	→ Fee Income growth to remain strong, supporting PPOP growth, Opex growth likely to remain flat QoQ
PPOP	310	279	11.1%	284	9.2%	→ Credit costs to expected to be flattish QoQ, and Asset quality improvement to continue
Provision	61	50	22.2%	123	-50.5%	→ Key Monitorables: (1) Growth and Margin Outlook and (2) Comments on improvement in cost ratios
Net Profit	185	170	8.7%	120	54.7%	
EPS	1.5	1.4	8.7%	1.0	54.4%	
Ujjivan Small Fin. Bank						
NII	733	697	5.2%	544	34.7%	→ Disbursement growth pickup aiding advances growth, Credit growth of 33% YoY driven by MFI, Housing and FIG segment
Other Income	140	139	0.8%	103	36.5%	→ NII growth to remain healthy, Margin pressures most likely to be visible
PPOP	402	389	3.4%	217	85.1%	→ Credit costs to remain benign aiding profitability
Provision	15	0	N.M	44	-65.7%	→ Asset quality to improve led by lower slippages and better recoveries
Net Profit	290	293	-1.3%	127	128.8%	→ Key Monitorable: (1) Commentary on Opex Ratio Movement and (2) Updates on the Reverse Merger
EPS	1.5	1.5	-1.3%	0.7	102.3%	

NBFCs

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
Bajaj Finance						<ul style="list-style-type: none"> → Operational parameters progressing well, AUM growth of 25% YoY healthy → Margin pressure likely to be seen owing to an inch-up in CoF, C-I Ratio remains range bound between 34-35% → Credit costs expected to remain flat sequentially, and Asset Quality to remain stable → Key monitorables: (1) Commentary on margin-growth trade-off and (2) Progress on the execution of Long Range strategy (LRS)
NII	6,253	5,922	5.6%	4,803	30.2%	
Other Income	1,578	1,513	4.3%	1,264	24.8%	
PPOP	5,142	4,853	6.0%	3,967	29.6%	
Provision	905	841	7.6%	702	29.0%	
Net Profit	3,140	2,973	5.6%	2,420	29.8%	
EPS	52.0	49.2	5.6%	40.1	29.6%	
CanFin Homes						<ul style="list-style-type: none"> → AUM growth expected at ~19-20% YoY, Impact of rising CoF likely to be seen on margins → Opex ratios to remain stable sequentially, Credit costs to remain benign → Asset quality to remain stable QoQ → Key monitorables: (1) Commentary on Growth and Margins outlook
NII	259	252	2.8%	237	9.1%	
Other Income	6	5	18.5%	5	9.9%	
Operating Profit	218	213	2.3%	195	11.9%	
Provision	8	8	-5.0%	30	-73.5%	
Net Profit	155	151	2.6%	123	26.4%	
EPS	11.7	11.4	2.6%	9.2	26.4%	
Aptus Value Hsg Fin.						<ul style="list-style-type: none"> → Disbursement momentum to pickup QoQ resulting in healthy AUM growth of ~31% YoY → NIMs expected to expand by ~8-10bps; Opex Ratios to remain flattish on a sequential basis → Credit costs to remain flat QoQ, Asset quality improvement to continue → Key Monitorables: (1) Quantum of write/offs and (2) Growth and Margins Outlook
NII	217	200	8.5%	168	29.2%	
Other Income	19	17	8.1%	17	10.6%	
Operating Profit	190	176	8.0%	155	22.9%	
Provision	8	8	5.4%	10	-21.7%	
Net Profit	136	126	8.5%	110	23.9%	
EPS	2.7	2.5	8.5%	2.2	23.9%	

NBFCs

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
Cholainvest.						➔ Strong disbursement growth has been broad-based, Will translate into an equally robust AUM growth of ~30+% YoY ➔ NIMs to be impacted by ~20bps QoQ with a rising interest rate ➔ Credit costs to remain flat QoQ supporting bottom-line growth; Asset quality improvement likely ➔ Key monitorables: (1) Management outlook on AUM growth and (2) Commentary on Margins
NII	1,714	1,598	7.2%	1,368	25.3%	
Other Income	262	233	12.4%	193	36.1%	
Operating Profit	1,137	1,080	5.3%	912	24.7%	
Provision	164	159	3.2%	-17	-1042.5%	
Net Profit	723	684	5.7%	690	4.9%	
EPS	8.8	8.3	5.7%	8.4	4.8%	
Manappuram Finance						➔ Gold loan growth likely to remain tepid, however, double-digit YoY growth expected on consol. AUM; Factoring in margin compression owing to rising CoF ➔ Opex ratios expected to remain flat QoQ ➔ Asset quality to be largely maintained, Credit costs largely attributable to MFI and Housing segment and to moderate QoQ ➔ Key monitorables: (1) Management commentary on Gold loan growth and Margins and (2) Asset quality of MFI/VF segment
NII	1,138	1,092	4.2%	898	26.6%	
Other Income	103	77	32.9%	98	5.0%	
Operating Profit	627	592	5.9%	505	24.1%	
Provision	54	51	5.3%	151	-64.6%	
Net Profit	422	393	7.2%	261	61.9%	
EPS	2.5	2.3	7.2%	1.5	61.9%	
Sundaram Finance						➔ Strong disbursement momentum to translate into high-teen AUM growth ➔ NIM compression likely on account of rising CoF ➔ Asset quality to be maintained on high-quality book ➔ Key monitorables: (1) Demand outlook (2) NIM Outlook
NII	451	440	2.5%	410	9.9%	
Other Income	160	114	40.1%	127	25.6%	
Operating Profit	400	356	12.2%	350	14.4%	
Provision	34	37	-8.9%	-28	-219.8%	
Net Profit	278	243	14.6%	299	-6.9%	
EPS	25.1	21.9	14.6%	26.9	-6.9%	

NBFCs

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result expectations
MAS Financial Service						
NII	104	96	8.7%	68	52.5%	→ Strong disbursements growth momentum to sustain; AUM growth expected at ~30% YoY
Other Income	31	28	10.2%	21	44.8%	→ NII growth is strong though margins likely to contract marginally QoQ
PPOP	90	82	9.0%	61	47.9%	→ Opex ratios to remain flat QoQ, inch-up YoY with a shift towards direct sourcing
Provision	14	14	-3.5%	4	262.8%	→ Credit costs to remain largely stable QoQ; Asset Quality to remain stable
Net Profit	57	51	11.6%	43	32.8%	→ Key Monitorables: (1) Branch expansion strategy (2) Outlook on cost ratios and credit costs
EPS	10.3	9.3	11.6%	7.8	32.8%	
CreditAccess Grameen						
NII	614	541	13.5%	461	33.0%	→ Healthy disbursement growth supports GLP growth of 27% YoY
Other Income	63	55	14.2%	96	-34.7%	→ Slight NIMs expansion to ~12% along with strong GLP growth to aid NII Growth
PPOP	449	379	18.4%	369	21.8%	→ Credit costs to remain flat QoQ
Provision	106	89	18.5%	151	-29.8%	→ Asset Quality improvement to continue aided by write-offs
Net Profit	257	212	21.0%	157	63.4%	→ Key Monitorables: (1) GLP growth outlook and (2) Management comments on scaling-up of Retail Finance Book
EPS	17.9	14.8	21.0%	10.1	77.3%	

Diversified Financials

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result Expectations
Nippon Life						→ AUM growth expected to remain flat QoQ with the asset mix expected to remain stable
Net revenue	359	354	1.4%	338	6.2%	→ Yields likely to remain stable QoQ
Operating Profit	216	213	1.1%	208	3.7%	→ Opex growth expected to remain lean
PAT	212	205	3.7%	175	21.3%	→ Key monitorables: (1) Outlook on AUM growth and improvement in share of Equity AUMs and (2) Sector outlook
EPS	3.4	3.3	3.7%	2.8	21.3%	
ICICI Securities Ltd.						→ Broking income will continue to remain impacted owing to weak cash market volumes, however F&O volumes to improve
Revenues	876	879	-0.3%	892	-1.8%	→ Investment banking vertical revenues to be impacted
EBITDA	530	549	-3.4%	563	-5.9%	→ MTF net interest income to be under pressure owing to higher interest rates
EBITDA Margin %	60.5%	62.4%		63.1%		→ Employee expenses growth to be higher, C-I ratio to appear inflated owing to weak top-line growth
PAT	268	281	-4.5%	340	-21.1%	→ Key Monitorables: (1) Market share improvement across segments
EPS	8.3	8.7	-4.5%	10.6	-21.1%	

Diversified Financials

Year-end March (Rs Cr)	Q4FY23E	Q3FY23	QoQ (%)	Q4FY22	YoY (%)	Result Expectations
SBI Cards and Payment Services						
NII	1,132	1,145	-1.1%	999	13.4%	→ New customer additions/Spends/CIF/Receivables growth to remain healthy
Other Income	2,067	2,047	1.0%	1,750	18.1%	→ Mix of EMI balances likely to improve marginally QoQ, Rising CoF to result in margin pressures
PPOP	1,377	1,217	13.1%	1,172	17.5%	→ Cost ratios to improve QoQ aided by lower festival-related expenses
Provision	588	533	10.3%	393	49.7%	→ Credit costs to inch up marginally QoQ, Asset quality expected to remain stable
Net Profit	587	509	15.2%	581	1.1%	→ Key Monitorables: (1) Directions on MDR charges cap/reduction and (2) Comments on improving market share on spends
EPS	6.2	5.4	15.2%	6.2	1.1%	

Disclosures:

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