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India | Equity Research | Sector Update

Banking

Q1FY24 banks review: Strong NII / PAT growth on YoY basis but sharp deceleration QoQ

Q1FY24 has been an interesting quarter with steady and strong balance sheet metrics, continued comfortable asset quality behaviour and strong growth in profitability metrics such as NII, PPOP and PAT on YoY basis. However, as re-pricing of deposits is now catching-up, there has been trend reversals on NIM front, which, along with rise in opex, resulted in sharp deceleration on NII / PPOP and PAT on QoQ basis. NII/PPOP/PAT for private banks grew strongly at ~26/32/36 % YoY. However, QoQ growth was muted at just -1 to 2% range, as NIMs have started reversing while opex is continuing at a higher pace. As asset quality remains comfortable, the outcomes on NIMs and growth are the key drivers for stock price movement, in our view.

We expect cost of deposits to stay firm in the near term, leading to further moderation in NIM for most banks, keeping earnings growth muted on QoQ basis. The bank-wise outcome is dependent on individual bank's loan mix, growth drivers, share of MCLR / EBLR book, liability mix, CASA, retail deposits, liquidity etc. Despite some softness in earnings (partly due to higher base as well), headline RoAs / RoEs are still strong and much better than historical 3/5/10 years average for most banks. Strong RoEs should translate to superior book value compounding without much incremental risks as systemic asset quality is likely to remain benign. Systemic loan growth is holding up reasonably well and much better vs pre-covid levels.

Loan growth, despite moderation, remains strong at ~17% YoY / 2.0% QoQ

Our bottom-up aggregate of over 30 banks, comprising over 90% of system credit, suggests credit growth stood at 16.7% YoY and 2.0% QoQ for Q1FY24. The QoQ growth at ~2.0% in Q1FY24 is the lowest in the last few quarters, though Q1 has always been a weak quarter due to seasonality. While system growth has moderated, it is still healthy vs pre-covid levels. Unlike the initial three quarters of FY23 wherein PSU banks' QoQ growth was higher, private banks have delivered faster growth QoQ for the second consecutive quarter, driven by continued strong growth in commercial while overseas growth in PSU banks has normalised sharply.

NIMs have peaked; trend reversal started in Q1FY24

Banks have enjoyed strong NIMs in FY23 as loan re-priced at a faster pace than deposits. With deposits re-pricing catching up, Q1FY24 saw trend reversals for most banks. Reported NIMs declined QoQ for Axis, KMB, FB, RBL, KVB, DCB, YES, SIB, etc. by 12-35 bps. Reported NIMs were flattish for HDFCB, IIB, Bandhan and CUBK though it is pertinent to note that these banks did not earlier see material rise either. Within PSU banks, Indian and Canara Bank saw flattish NIMs QoQ, Union Bank saw an uptick QoQ while SBI and BoB disappointed with 26-27bps QoQ decline. Select managements have hinted at continued rise in the cost of deposits going ahead though with calibrated pace. We see pressure on NIMs QoQ basis due to continued pressure on the cost of deposits, elevated LDR and calibrated Yields expansion.

NII growth strong YoY though flattish QoQ

NII growth for most banks remained strong on YoY basis (on strong loan growth and higher NIM) though it has moderated sharply on QoQ basis due to pressure on NIM. NII for both private and PSU banks grew strongly at 25-26% YoY though it was soft at 2% QoQ for private banks and a negative 1% QoQ for PSU banks.

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Seasonal rise in gross / net slippages but asset quality improvement continues

Gross slippages increased QoQ to ~1.5% annualised vs ~1.3% in Q4FY23, mainly due to seasonal pressure. On YoY basis, gross slippages improved sharply from 2.2% in Q1FY23, suggesting continued benign asset quality outlook. Interestingly, on an aggregate basis, gross slippages at PSU banks (1.3% annualised) remain lower than private peers (1.9% annualised). Recovery was softer QoQ on seasonality and thus net slippages increased QoQ. However, overall asset quality continues to improve with benign trends in corporate and retail segments. Overall net NPAs sustained improving trajectory at ~1.4% in Q1FY24 vs ~1.5% QoQ. While private banks' net NPAs have seen marginal rise, we do not read much as the rise is mainly due to usual seasonality. On YoY basis, private banks have seen sharp improvement in net NPAs from 0.9% to ~0.5%.

Similar trend on PPOP / PAT with strong growth YoY but flattish QoQ

Treasury contribution increased sharply for private banks to ~10 bps of average assets vs negligible QoQ. Axis, KMB, HDFCB saw treasury gains at 9-19bps of average assets. Staff expenses grew ~30% YoY for private banks on higher headcounts and wage inflation. Non-staff opex grew 26% YoY for private banks on rising distribution, rise in business volumes and continued IT spends. Mirroring the trends in NII, operating profits also grew sharply on YoY basis at 32% YoY for private banks but flattish QoQ on NIMs decline and continued rise in opex. Overall profit after tax grew 36% YoY for private banks on the back of NII/PPOP growth of 26/32%, respectively. However, as is the case with NII and PPOP, PAT is also flattish on QoQ basis. PSU banks also saw PAT rising to 132% YoY on the back of 25/50% rise in NII / PPOP. However, QoQ growth in NII / PPOP / PAT has decelerated sharply to around -1/2/3, respectively.

RoA / RoE steady and strong but aided by treasury; strong RoA / RoE suggests strong book value compounding

In Q1FY24, for private banks aggregate, we saw ~8bps decline in NII as % of average assets while there was positive contribution from treasury (up 9bps). Opex was up by ~8 bps and thus core PPOP declined by ~22 bps QoQ while due to healthy treasury, reported PPOP decline was contained at 13bps QoQ. Provisions were flattish QoQ. Adjusted for one-time goodwill charge at Axis Bank in Q4FY23, overall RoA for private banks declined ~10 bps QoQ but was still strong at 1.9% annualised. Despite lower NII and recovery from TWO, PSU banks' RoAs were flattish at 1.0% aided by better treasury, decline in opex and continued improvement in provisioning. Despite a sharp difference in calculated RoAs, calculated RoEs for both set of banks was similar at ~16% led by strong leverage at PSU banks (almost double of private peers). Despite some softness in earnings (partly due to higher base as well), headline RoAs / RoEs are still strong and much better than historical 3/5/10 years average for most banks. Strong RoEs should translate to superior book value compounding without much incremental risks as systemic asset quality is likely to remain benign.

Valuation summary

Exhibit 1: Valuation summary

Bank	Price (INR)	Market Cap (INR Bn)	Reco	RoAs (%)		RoE (%)		P/ABV (x)	
				FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Axis	953	2,934	BUY	1.6	1.6	17.2	17.1	1.9	1.6
Bandhan	231	371	ADD	2.2	2.3	17.7	18.7	1.7	1.4
CUB	122	91	HOLD	1.3	1.3	11.1	11.8	1.2	1.0
DCB	117	37	ADD	0.9	0.9	11.4	12.0	0.8	0.7
Federal	134	315	BUY	1.2	1.2	14.7	15.0	1.1	1.0
HDFCB	1,590	12,015	BUY	1.9	1.9	16.3	16.8	2.7	2.3
IDFCFB	90	595	ADD	1.2	1.3	11.9	13.3	2.1	1.9
IndusInd	1,398	1,085	BUY	1.9	1.9	15.6	15.9	1.8	1.6
KVB	121	96	BUY	1.5	1.4	15.4	15.4	1.0	0.9
Kotak	1,760	3,499	HOLD	2.2	1.9	12.9	11.5	2.8	2.4
RBL	219	131	REDUCE	0.9	0.9	8.0	8.7	0.9	0.9
SIB	22	47	BUY	0.6	0.7	11.0	12.1	0.8	0.7
YES	17	487	SELL	0.6	0.7	5.0	6.4	1.2	1.1
SBI	572	5,102	BUY	1.0	0.9	17.3	15.7	1.1	0.9

Source: Bloomberg, I-Sec research

Note: Closing price as of 21 August 2023

Exhibit 2: Current and historical valuations and RoAs

Banks	FY25E P/ABV (x)	Hist. 1Y fwd P/ABV avg (x)			RoAs (current and historical)			
		3Y	5Y	10Y	3 Year Avg	5 Year Avg	10 Year Avg	Avg for FY24E-25E
Axis	1.6	1.7	1.9	2.0	1.2	0.9	1.0	1.6
Bandhan	1.4	2.7	3.7	NA	1.2	2.3	2.5	2.2
CUB	1.0	1.9	2.3	2.2	1.3	1.3	1.4	1.3
DCB	0.7	0.8	1.2	1.4	0.8	0.9	1.0	0.9
Federal	1.0	0.9	0.9	1.2	1.0	0.9	0.9	1.2
HDFCB	2.3	2.9	3.0	3.2	1.9	1.9	1.9	1.9
IDFCFB	1.9	1.4	1.4	NA	0.5	-0.3	0.6	1.3
IndusInd	1.6	1.5	2.0	2.6	1.3	1.3	1.6	1.9
KVB	0.9	0.6	0.8	1.1	0.9	0.7	0.8	1.4
Kotak	2.4	3.4	3.7	3.7	2.1	2.0	1.8	2.0
RBL	0.9	0.8	1.4	NA	0.4	0.6	0.8	0.9
SIB	0.7	0.4	0.5	0.8	0.3	0.3	0.4	0.7
YES	1.1	1.2	3.3	2.8	-0.2	-1.1	0.3	0.6
SBI	0.9	0.9	0.9	1.1	0.7	0.5	0.4	0.9

Source: Bloomberg, I-Sec research

Strong growth in NII / PPOP / PAT YoY but sharp deceleration on QoQ basis

Q1FY24 has been an interesting quarter with steady and strong balance sheet metrics, continued comfortable asset quality behaviour and strong growth in profitability metrics such as NII, PPOP and PAT on YoY basis. However, as re-pricing of deposits is now catching-up, there has been trend reversals on NIM front, which, along with rise in opex, resulted in sharp deceleration on NII / PPOP and PAT on QoQ basis. NII/PPOP/PAT for private banks grew strongly at ~26/32/36 % YoY. However, QoQ growth was muted at just -1 to 2% range, as NIMs have started reversing while opex is continuing at a higher pace.

Exhibit 3: Private banks' aggregate summary income statement and RoA tree

P&L (INR bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Interest Income	1,054	1,076	1,121	1,154	1,208	1,311	1,433	1,537	1,644
Interest Expense	509	513	521	532	564	613	673	742	834
NII	544	563	599	622	645	698	760	795	810
Non-interest income	216	238	246	250	212	254	277	290	305
- Trading gains	29	20	13	0	-29	-2	6	2	20
Opex	321	359	387	397	410	437	463	494	525
Reported PPOP	439	442	459	475	447	515	575	591	590
Core PPOP	410	422	446	475	475	517	563	587	569
Provisioning	207	189	109	83	82	102	118	87	90
PBT	232	253	350	392	365	413	457	504	499
Tax	57	63	87	93	91	103	112	123	125
PAT	175	190	263	299	274	310	344	380	374

RoAs Tree (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Interest Income	7.1	7.1	7.1	6.9	7.0	7.4	7.8	8.0	8.3
Interest Expense	3.4	3.4	3.3	3.2	3.3	3.5	3.7	3.9	4.2
NII	3.7	3.7	3.8	3.7	3.8	4.0	4.2	4.2	4.1
Non-interest income	1.5	1.6	1.6	1.5	1.2	1.4	1.5	1.5	1.5
- Trading gains	0.2	0.1	0.1	0.0	-0.2	0.0	0.0	0.0	0.1
Net Revenue	5.1	5.3	5.3	5.2	5.0	5.4	5.7	5.7	5.6
Opex	2.2	2.4	2.4	2.4	2.4	2.5	2.5	2.6	2.6
Reported PPOP	3.0	2.9	2.9	2.9	2.6	2.9	3.1	3.1	3.0
Core PPOP	2.8	2.8	2.8	2.9	2.8	2.9	3.1	3.1	2.9
Provisioning	1.4	1.2	0.7	0.5	0.5	0.6	0.6	0.5	0.5
PBT	1.6	1.7	2.2	2.4	2.1	2.3	2.5	2.6	2.5
Tax	0.4	0.4	0.5	0.6	0.5	0.6	0.6	0.6	0.6
RoA	1.2	1.3	1.7	1.8	1.6	1.8	1.9	2.0	1.9
Leverage	8.5	8.4	8.6	8.7	8.6	8.5	8.5	8.6	8.6
RoEs	10.0	10.6	14.2	15.6	13.7	15.0	16.0	17.0	16.1

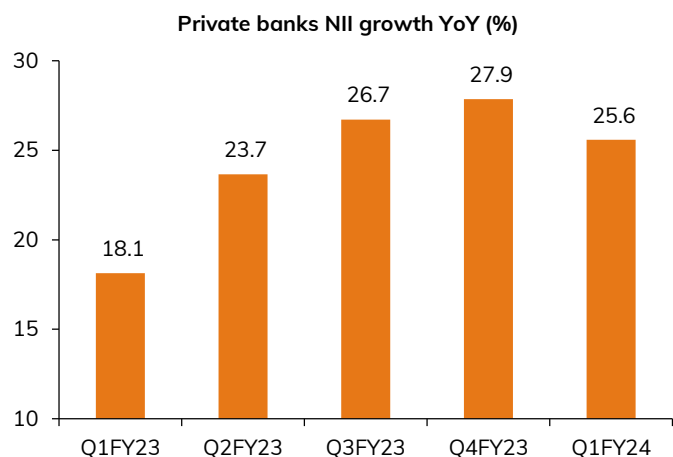
Source: Company data, I-Sec research

Note: Data pertains to over 15 private banks comprising over 90% of the private banks loan

Note: Axis Bank's reported Q4FY23 PAT has been adjusted for one-time hit.

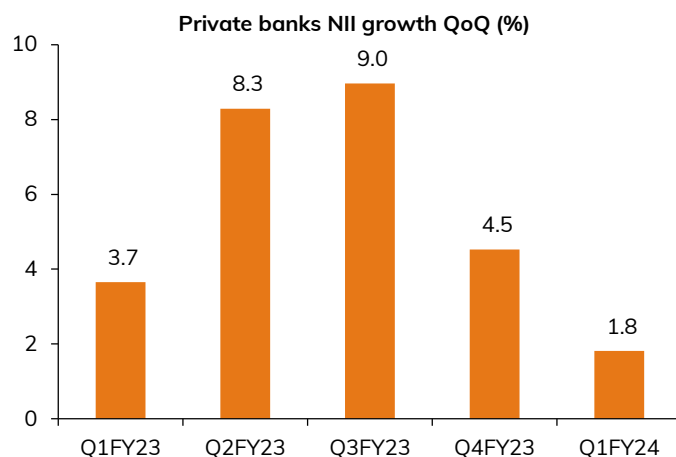
Strong growth in NII / PPOP / PAT YoY but sharp deceleration on QoQ basis

Exhibit 4: NII growth strong on YoY basis...



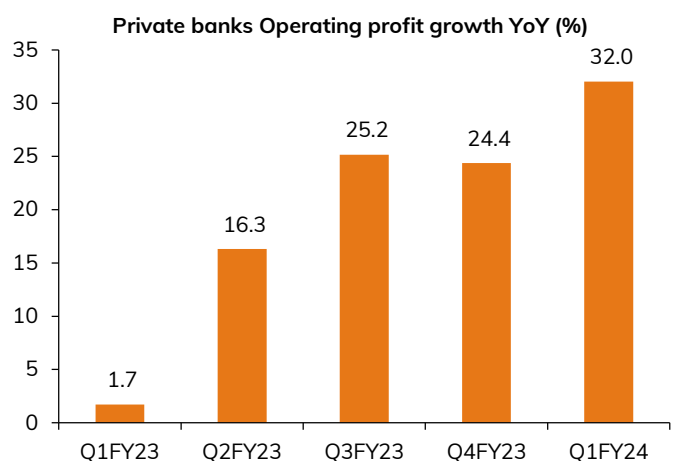
Source: Company data, I-Sec research

Exhibit 5: ...but moderated significantly on QoQ basis as margins have started declining



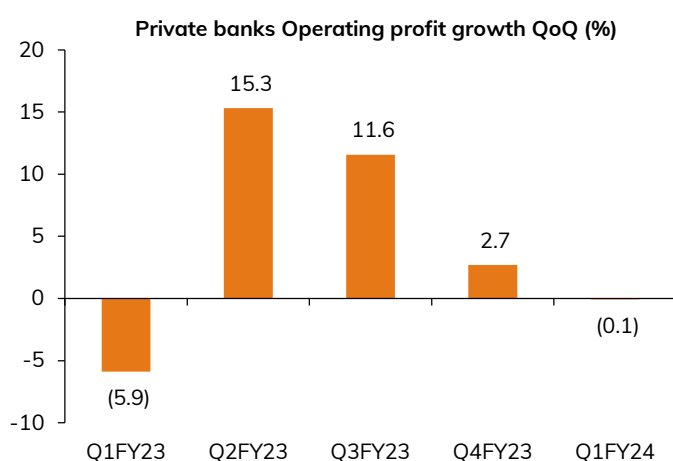
Source: Company data, I-Sec research

Exhibit 6: Operating profit growth has accelerated on YoY basis...



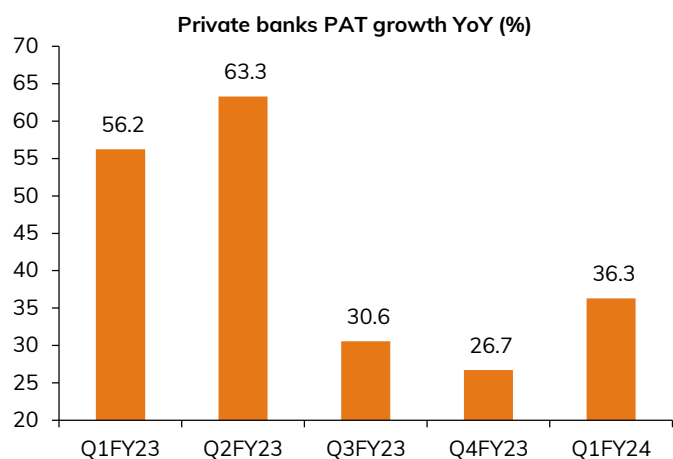
Source: Company data, I-Sec research

Exhibit 7: ...but flat QoQ weighed by lower NII and higher opex



Source: Company data, I-Sec research

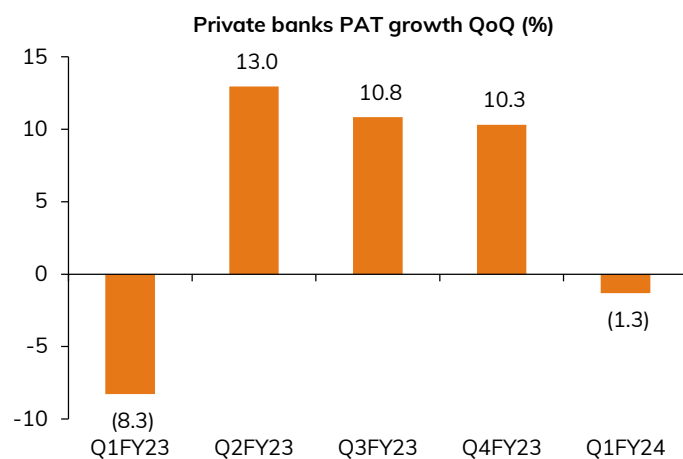
Exhibit 8: PAT growth is running strong, and has improved vs last two quarters on YoY basis...



Source: Company data, I-Sec research

Note: Axis bank reported Q4FY23 PAT has been adjusted for one-time hit.

Exhibit 9: ...but margins and opex pressure, as well as elevated base, weigh on QoQ growth



Source: Company data, I-Sec research.

Note: Axis bank reported Q4FY23 PAT has been adjusted for one-time hit.

RoA / RoE remains strong for both private and PSU banks

In Q1FY24, for private banks aggregate, we saw ~8bps decline in NII as % of average assets while there was positive contribution from treasury (up 9bps). Opex was up by ~8 bps and thus core PPOP declined by ~22 bps QoQ while due to healthy treasury, reported PPOP decline was contained at 13bps QoQ. Provisions were flattish QoQ. Adjusted for one-time goodwill charge at Axis Bank in Q4FY23, overall RoA for private banks declined ~10 bps QoQ but was still strong at 1.9% annualised.

Despite lower NII and recovery from TWO, PSU banks' RoAs were flattish at 1.0% aided by better treasury, decline in opex and continued improvement in provisioning. Despite a sharp difference in calculated RoAs, calculated RoEs for both set of banks was similar at ~16% led by strong leverage at PSU banks (almost double of private peers).

Despite some softness in earnings (partly due to higher base as well), headline RoAs / RoEs are still strong and much better than historical 3/5/10 years average for most banks. Strong RoEs should translate to superior book value compounding without much incremental risks as systemic asset quality is likely to remain benign.

Exhibit 10: RoA / RoE remains strong for both private and PSU banks

RoAs Tree (%)	PSU Banks					PSU + Private Banks				
	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Interest Income	5.8	6.3	6.7	6.9	7.1	6.3	6.7	7.1	7.3	7.5
Interest Expense	3.4	3.6	3.8	4.0	4.2	3.3	3.5	3.7	4.0	4.2
NII	2.5	2.7	2.9	2.9	2.9	3.0	3.2	3.4	3.4	3.3
Non-interest income	0.6	0.9	1.0	1.2	1.0	0.8	1.1	1.2	1.3	1.2
- Fee income	0.7	0.6	0.6	0.6	0.6	0.9	0.9	0.9	1.0	0.9
- Trading gains	(0.2)	0.1	0.2	0.1	0.2	(0.2)	0.0	0.1	0.1	0.2
- Recovery from TWO	0.2	0.2	0.2	0.4	0.1	0.1	0.1	0.2	0.3	0.1
Net Revenue	3.1	3.6	3.9	4.1	3.8	3.8	4.3	4.5	4.7	4.5
Opex	1.7	1.8	1.8	2.1	1.8	1.9	2.0	2.1	2.3	2.1
Reported PPOP	1.5	1.9	2.1	2.1	2.1	1.9	2.3	2.5	2.5	2.4
Core PPOP	1.6	1.7	1.7	1.5	1.7	2.0	2.1	2.2	2.1	2.1
Provisioning	0.8	0.7	0.8	0.6	0.5	0.7	0.7	0.7	0.6	0.5
PBT	0.7	1.1	1.2	1.4	1.5	1.2	1.6	1.7	1.8	1.9
Tax	0.2	0.3	0.4	0.3	0.4	0.3	0.4	0.5	0.4	0.5
RoAs	0.5	0.8	0.9	1.0	1.0	0.9	1.2	1.3	1.4	1.4
Leverage	15.6	15.5	15.4	15.4	15.3	12.0	11.9	11.8	11.9	11.8
RoEs	7.8	12.6	13.6	15.8	15.8	10.9	13.9	14.9	16.4	16.0

Source: Company data, I-Sec research

Note: Data pertains to over 23 banks comprising over 90% of the systemic credit.

Note: Axis bank reported Q4FY23 PAT has been adjusted for one-time hit.

Loan growth moderates, but remains healthy at ~17% YoY; QoQ growth a bit soft at 2.0%, though has embedded seasonality

Our bottom-up aggregate of over 30 banks, comprising over 90% of the system credit, suggests credit growth stood at 16.7% YoY and 2.0% QoQ in Q1FY24. Credit growth has moderated steadily from the top of 20.4% YoY in Q2FY23 to 18.8% / 17.8% in Q3FY23 / Q4FY23, respectively, and has now moderated further to 16.7% YoY. The QoQ growth at ~2.0% in Q1FY24 has been the lowest in the last few quarters though Q1 has always been a weak quarter due to seasonality. While system growth has moderated, it is still healthy vs pre-covid levels. Retail growth has been steady though industry growth is somewhat soft.

Exhibit 11: Despite moderation, loan growth has been healthy on YoY basis

Loans (INR bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	64,155	64,853	68,139	71,807	74,132	77,896	81,034	84,463	86,024
Private	38,430	39,743	41,998	44,727	45,838	48,082	49,789	52,827	54,019
Total	1,02,585	1,04,596	1,10,137	1,16,534	1,19,970	1,25,978	1,30,823	1,37,291	1,40,043

QoQ Growth %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	(0.9)	1.1	5.1	5.4	3.2	5.1	4.0	4.2	1.8
Private	0.0	3.4	5.7	6.5	2.5	4.9	3.5	6.1	2.3
Total	(0.6)	2.0	5.3	5.8	2.9	5.0	3.8	4.9	2.0

YoY Growth %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	3.5	5.0	7.3	10.9	15.6	20.1	18.9	17.6	16.0
Private	11.0	11.7	14.1	16.4	19.3	21.0	18.6	18.1	17.8
Total	6.2	7.5	9.8	12.9	16.9	20.4	18.8	17.8	16.7

Source: Company data, I-Sec research

Note: Data pertains to over 30 banks comprising over 90% of the systemic credit

Exhibit 12: Bank-wise loan book and growth

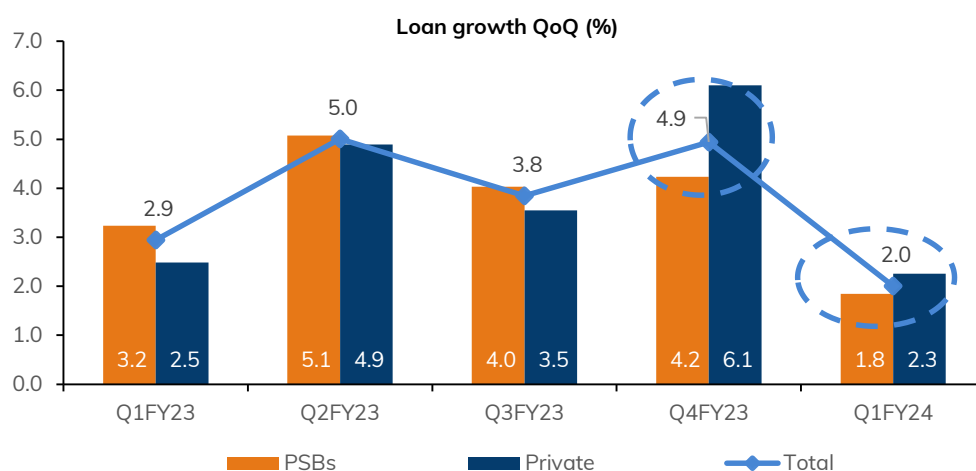
(INR bn)	Q1FY24	Q1FY23	Q4FY23	QoQ %	YoY (%)
Bank of Baroda	9,635	7,996	9,410	2.4	20.5
Bank of India	4,915	4,427	4,859	1.2	11.0
Canara	8,551	7,469	8,307	2.9	14.5
Indian	4,568	3,996	4,493	1.7	14.3
PNB	8,637	7,426	8,308	4.0	16.3
SBI	32,350	28,152	31,993	1.1	14.9
Union	7,705	6,764	7,618	1.1	13.9
Axis	8,585	7,013	8,453	1.6	22.4
Bandhan	982	909	1,048	-6.3	8.0
CUB	414	402	431	-3.9	3.0
DCB	355	298	344	3.2	19.0
Federal	1,835	1,517	1,744	5.2	21.0
HDFCB	16,157	13,951	16,006	0.9	15.8
IDFCFB	1,674	1,326	1,518	10.3	26.3
IndusInd	3,013	2,480	2,899	3.9	21.5
KVB	660	568	631	4.5	16.1
KMB	3,286	2,802	3,199	2.7	17.3
RBL	731	603	702	4.1	21.3
South Indian	717	628	698	2.8	14.3
Yes	2,002	1,864	2,033	-1.5	7.4

Source: Company data, I-Sec research

Private banks gain market share for the second consecutive quarter

For the initial three quarters of FY23, PSU banks grew at a faster pace than private peers and thus gained some market share as against losing it on consistent basis. The growth at PSU banks, in-part was attributed to: a) Strong overseas book growth while private banks were almost inactive in overseas book; b) healthy growth in corporate / NBFCs credit which is an advantage to PSU banks. However, Q4FY23 saw private banks gaining market share as aggregate growth was 6.1% QoQ (5.6% QoQ adjusted for Citi acquisition) vs 4.2% for PSU banks. Q1FY24 saw the repeat of Q4FY23 as private banks grew at 2.3% QoQ vs 1.8% QoQ growth for PSU banks. While we expect healthy growth (and thus higher competition) from PSU banks, we believe private banks should have an upper hand due to rising distribution, ecosystem banking approach, edge on digital and strong customer acquisition.

Exhibit 13: Private banks have delivered higher growth QoQ for the second consecutive quarter



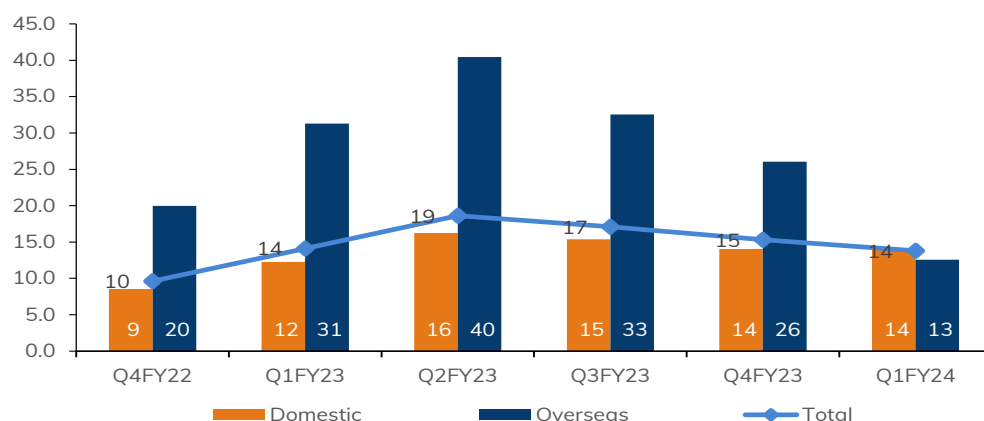
Source: Company data, I-Sec research

Note: Data pertains to over 30 banks comprising over 90% of the systemic credit

Sharp deceleration YoY / QoQ in overseas growth for PSU banks

There was a sharp deceleration in credit growth for PSU banks with respect to overseas loans. Overseas loans form around 11% of total loans for top 7 PSU banks. The YoY growth has decelerated from 40% YoY in Q2FY23 to ~13% YoY in Q1FY24. On QoQ basis, the growth was negative 1%. We believe overseas growth on YoY basis should lag domestic growth for PSU banks in the near term.

Exhibit 14: Sharp deceleration in overseas growth of PSU banks from 40% in Q2FY23 to 13% YoY



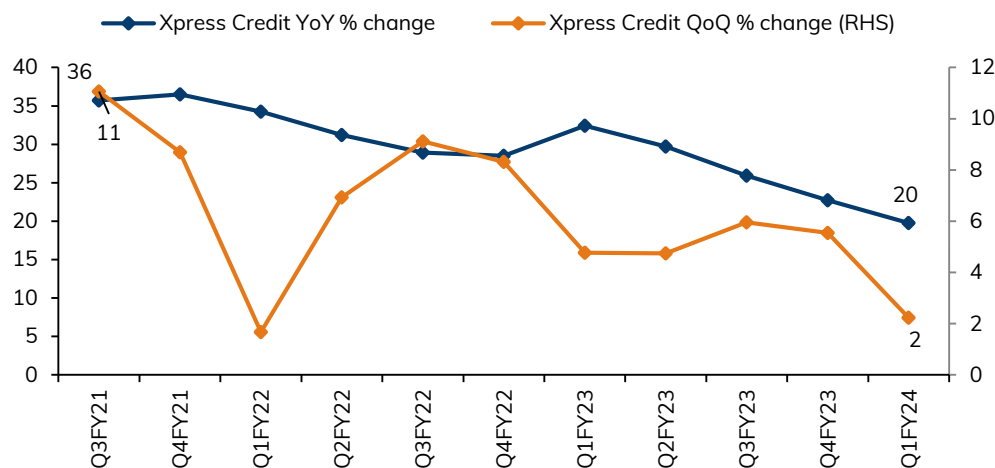
Source: Company data, I-Sec research

Note: The data above is aggregate of 7 leading PSU banks

Unsecured credit growth continues strong at private and non-SBI PSU banks; SBI sees some moderation

Unsecured personal credit growth continued to be strong (though pace has slightly moderated) and ahead of overall retail loans for private banks. Unsecured personal loan growth remained strong at ~25% YoY for PSU banks while SBI growth decelerated to 20% YoY vs 23-30% YoY run-rate in the last few quarters. BoB and PNB have seen strong growth in this book, off low base.

Exhibit 15: Marked deceleration in unsecured personal loans at SBI



Source: Company data, I-Sec research

SME loans – private banks accelerate market share gains

SME including commercial and business banking seems to be the key growth area for large private banks. Higher formalisation and ecosystem banking approach have enabled better credit assessment and delivery. These banks are also expanding distribution and headcounts to grow their commercial segment, which is also the key source of PSL generation. At the same time, PSU banks seem to be losing out in this space. Despite slightly improving growth at SBI, aggregate SME growth for top 7 PSU banks stands at 9-11% YoY for the last 4 quarters vs 20-30% YoY for large private banks. As per the RBI data, aggregate of micro & small, medium and trade segment (proxy for SME) for the banking system has grown at 15-25% YoY in the last 4 quarters.

Exhibit 16: SME growth (calculated) has been 14-15% YoY as per RBI data

YoY Growth (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Micro & Small	10.4	11.8	13.1	24.5	22.9	29.2	27.1	13.7	12.4	13.0
Medium	31.9	67.5	37.1	64.6	63	47.8	36.2	15.4	12.2	13.2
Trade	12.8	13.8	5.4	14.7	10.8	16.7	21.3	13.7	17.8	17.3
Sub Total	13.8	18.0	11.6	23.8	21.2	25.1	25.4	14.0	14.9	15.1

Source: RBI, I-Sec research

Deposits growth continues to lag credit growth; sharp growth in TD at the cost of CASA

Deposits growth continues to lag credit growth by a wide margin, primarily driven by contained deposits growth at PSU banks. Overall deposits for an aggregate of 30 banks entailing over 90% of the system deposits grew by 13.6% YoY and 1.8% QoQ. Within this, private banks grew at 18% YoY (and 2.5% QoQ), in line with their loan growth of 17.8% YoY. However, due to excess liquidity (lower LDR), PSU banks seem to be consciously slow in deposits mobilisation with growth at 9-11% YoY in the last 3-4 quarters.

Due to a sharp revival in term deposit rates, there seems some cannibalisation of SA balances to term deposits. Overall CASA growth for private banks has moderated sharply from 20-22% YoY in FY22 to 11% YoY as of Q1FY24. At the same time, TD growth has jumped sharply from 10-12% YoY to 24% YoY as of Q1FY24.

Exhibit 17: Deposits growth continues to lag credit growth, remains driven by term deposits

Deposits (INR bn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	1,01,255	1,03,034	1,04,328	1,09,505	1,09,018	1,12,589	1,14,488	1,19,651	1,21,487
Private	46,287	48,079	49,695	52,784	53,126	54,981	57,188	61,219	62,717
Total	1,47,542	1,51,112	1,54,022	1,62,289	1,62,144	1,67,570	1,71,676	1,80,869	1,84,204

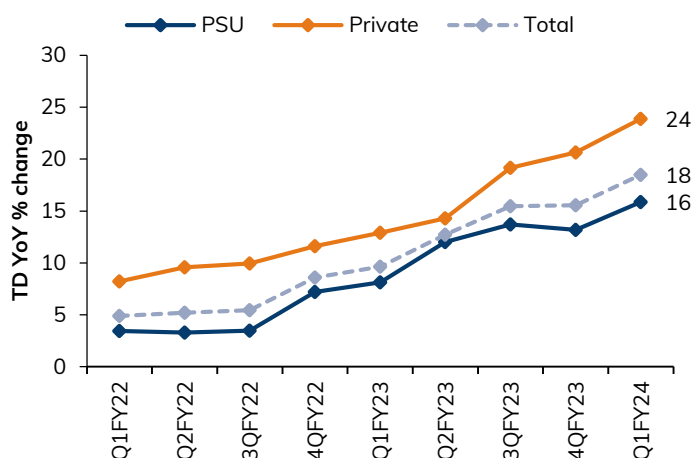
QoQ Growth %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	(0.1)	1.8	1.3	5.0	(0.4)	3.3	1.7	4.5	1.5
Private	0.9	3.9	3.4	6.2	0.6	3.5	4.0	7.0	2.4
Total	0.2	2.4	1.9	5.4	(0.1)	3.3	2.5	5.4	1.8

YoY Growth %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	6.4	6.7	10.1	8.1	7.7	9.3	9.7	9.3	11.4
Private	15.4	16.0	15.4	15.1	14.8	14.4	15.1	16.0	18.1
Total	9.1	9.5	11.8	10.3	9.9	10.9	11.5	11.4	13.6

Source: Company data, I-Sec research

Note: Data pertains to over 30 banks comprising over 90% of the systemic credit

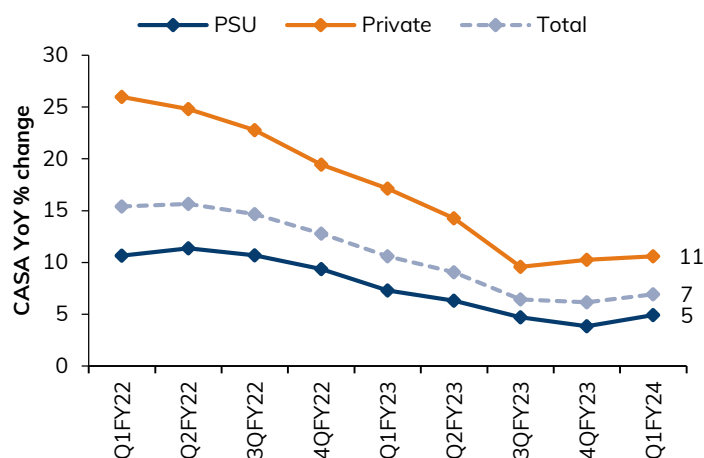
Exhibit 18: TD continues to be the key driver of deposits growth...



Source: Company data, I-Sec research

Note: Data pertains to over 30 banks comprising over 90% of the systemic credit

Exhibit 19: ...while CASA growth moderates sharply



Source: Company data, I-Sec research

Note: Data pertains to over 30 banks comprising over 90% of the systemic credit

Exhibit 20: Bank-wise deposit book and growth

(INR bn)	Q1FY24	Q1FY23	Q4FY23	QoQ %	YoY (%)
Bank of Baroda	11,999	10,327	12,037	-0.3	16.2
Bank of India	6,965	6,407	6,696	4.0	8.7
Canara	11,925	11,181	11,792	1.1	6.6
Indian	6,215	5,843	6,212	0.1	6.4
PNB	12,979	11,367	12,812	1.3	14.2
SBI	45,312	40,457	44,238	2.4	12.0
Union	11,281	9,928	11,177	0.9	13.6
Axis	9,417	8,037	9,469	-0.6	17.2
Bandhan	1,085	931	1,081	0.4	16.6
CUB	517	488	524	-1.4	5.9
DCB	430	351	412	4.3	22.6
Federal	2,225	1,834	2,134	4.3	21.3
HDFCB	19,131	16,048	18,834	1.6	19.2
IDFCB	1,544	1,133	1,446	6.8	36.2
IndusInd	3,470	3,027	3,364	3.2	14.6
KVB	807	712	766	5.3	13.4
KMB	3,863	3,165	3,631	6.4	22.0
RBL	856	792	849	0.9	8.1
South Indian	955	882	917	4.2	8.3
Yes	2,194	1,932	2,175	0.9	13.5

Source: Company data, I-Sec research

Loan to deposits ratio continues to rise; differential at PSU banks and private banks persists

Overall LDR has risen steadily from ~72% in FY22 to 76% as of Q1FY24. LDR for private banks has risen to 86% vs 84-85% earlier. While LDR for PSU banks has also risen steadily, at 71% it is much lesser than private banks. Incremental LDR, which had been running at >100% for the last 4 quarters, has softened slightly to 91% in Q1FY24, on healthy deposits mobilisation, aided by the withdrawal of INR 2,000 currency notes.

Exhibit 21: Loan to deposits ratio continues to rise; sharp differential at PSU banks and private banks

LDR %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	63.4	62.9	65.3	65.6	68.0	69.2	70.8	70.6	70.8
Private	83.0	82.7	84.5	84.7	86.3	87.5	87.1	86.3	86.1
Total	69.5	69.2	71.5	71.8	74.0	75.2	76.2	75.9	76.0

YoY Incremental LDR %	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
PSU banks	35.1	47.7	48.5	86.1	128.5	136.5	126.9	124.7	95.4
Private	61.6	63.0	78.6	91.1	108.3	120.8	104.0	96.0	85.3
Total	48.4	55.5	60.8	88.4	119.1	129.9	117.2	111.7	91.0

Source: Company data, I-Sec research

Note: Data pertains to over 30 banks comprising over 90% of the systemic credit

Yields continue to rise aided by mix change; steep rise in cost of deposits / funds on re-pricing

Calculated yields on advances continued to rise on QoQ basis for most banks aided by MCLR re-pricing and superior loan mix. However, cost of deposits / funding increased sharply QoQ due to: a) Growth in term deposits is much faster than low cost CASA and b) steep re-pricing on term deposits across banks. While most banks have not hiked deposits rates meaningfully since Feb,'23, the lagged effect of already announced rate would still translate to higher cost of deposits QoQ in the near term. Select managements have hinted at continued rise in the cost of deposits going ahead though with calibrated pace on incremental basis.

Exhibit 22: Yields continue to rise aided by mix change

Yield on advances % (calculated)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY change	QoQ change
HDFCB	8.10	7.88	7.93	8.46	9.01	9.18	9.45	152 bps	28 bps
AXIS	7.88	7.62	7.89	8.52	9.16	9.11	9.45	191 bps	24 bps
KMB	8.14	7.97	8.21	8.91	9.45	9.87	10.24	157 bps	34 bps
IIB	11.28	10.93	11.04	11.25	11.67	11.81	11.96	203 bps	37 bps
SBIN	6.97	6.72	6.70	7.27	7.84	8.14	8.35	165 bps	21 bps
BoB	7.09	6.80	6.62	7.25	7.92	8.34	8.32	171 bps	-2 bps

Source: Company data, I-Sec research

Exhibit 23: Steep rise in cost of funds on re-pricing

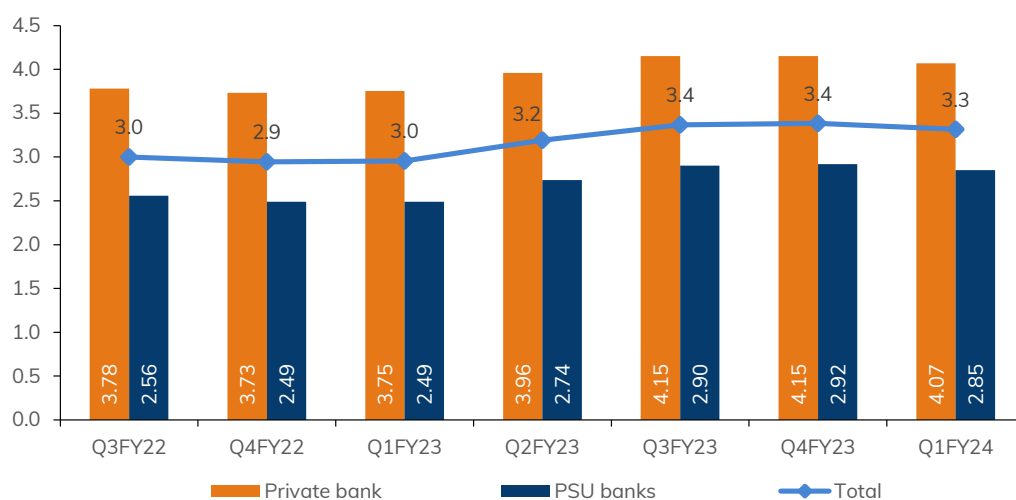
Cost of funds % (calculated)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY change	QoQ change
HDFCB	3.51	3.45	3.56	3.84	4.13	4.32	4.75	118 bps	43 bps
AXIS	3.73	3.66	3.77	4.02	4.26	4.52	4.84	107 bps	32 bps
KMB	3.12	3.04	3.16	3.54	3.77	3.95	4.30	115 bps	35 bps
IIB	4.84	4.62	4.73	5.03	5.44	5.65	6.03	129 bps	38 bps
SBIN	3.64	3.58	3.69	3.88	4.11	4.34	4.63	94 bps	29 bps
BoB	3.55	3.45	3.51	3.77	4.15	4.49	4.75	124 bps	26 bps

Source: Company data, I-Sec research

NIMs have peaked; trend reversal started in Q1FY24

The banks have enjoyed strong NIMs in FY23 as loan re-priced at a faster pace than deposits. With deposits re-pricing catching up, Q1FY24 saw trend reversals for most banks. NIMs declined QoQ for Axis, KMB, FB, RBL, KVB, DCB, YES, SIB, etc. by 12-35 bps. Reported NIMs were flattish for HDFCB, IIB, Bandhan and CUBK. Within PSU banks, Indian and Canara Bank saw flattish NIMs QoQ, Union Bank saw an uptick QoQ while SBI and BoB disappointed with 26-27bps QoQ decline.

Despite QoQ moderation, NIMs for most banks are much higher on YoY basis and thus NIMs for FY24 should be flattish or a marginal decline YoY. There is a downside risk on NIMs from higher-than-expected rise in the cost of deposits, in our view. Despite muted SA growth, most front-line banks have not changed SA rates in the last few months. Any rise in SA rates by large banks could translate into further headwinds to NIMs.

Exhibit 24: NII as a % of average assets has trended lower in Q1FY24

Source: Company data, I-Sec research

Note: Data pertains to over 23 banks comprising over 90% of the systemic credit

Exhibit 25: NIM have peaked; trend reversal started in Q1FY24

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	QoQ (bps)	YoY (bps)
Bank of Baroda	3.02	3.33	3.37	3.53	3.27	(26)	25
Bank of India	2.55	3.04	3.28	3.15	3.03	(12)	48
Canara	2.78	2.86	3.05	3.07	3.05	(2)	27
Indian	3.10	3.20	3.74	3.59	3.61	2	51
PNB	2.79	3.00	3.16	3.24	3.08	(16)	29
SBI	3.02	3.32	3.50	3.60	3.33	(27)	31
Union	3.00	3.15	3.21	2.98	3.13	15	13
Axis	3.60	3.96	4.26	4.22	4.10	(12)	50
Bandhan	8.00	7.00	6.50	7.30	7.30	-	(70)
CUB	3.95	4.09	3.88	3.65	3.67	2	(28)
DCB	3.61	3.88	4.02	4.18	3.83	(35)	22
Federal	3.22	3.30	3.49	3.31	3.15	(16)	(7)
HDFCB	4.00	4.10	4.10	4.10	4.10	-	10
IDFCFB	5.77	5.98	6.13	6.41	6.33	(8)	56
IndusInd	4.21	4.24	4.27	4.28	4.29	1	8
KVB	3.85	4.10	4.36	4.37	4.19	(18)	34
KMB	4.92	5.17	5.47	5.75	5.57	(18)	65
RBL	4.36	4.50	4.74	5.01	4.84	(17)	48
South Indian	2.74	3.21	3.52	3.67	3.34	(33)	60
Yes	2.40	2.60	2.50	2.80	2.50	(30)	10

Source: Company data, I-Sec research

Overall NII growth strong on YoY basis but flattish QoQ

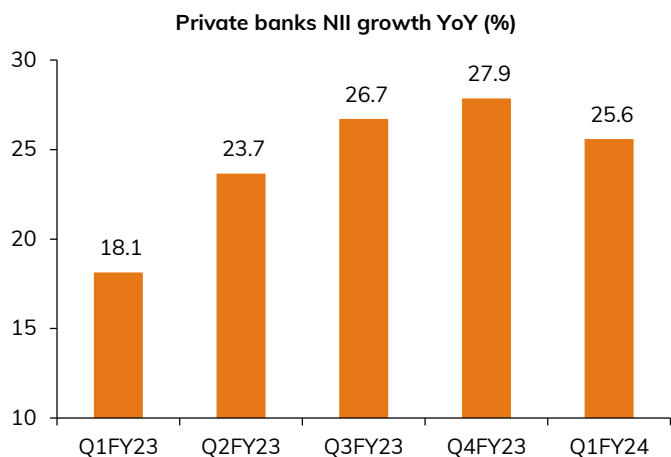
NII growth for banks remained strong on YoY basis (on strong loan growth and higher NIM) though has moderated sharply on soft loan growth QoQ and NIMs decline QoQ. NII for both private and PSU banks grew strongly at 25-26% YoY though it was soft 2% QoQ for private banks and a negative 1% QoQ for PSU banks.

Exhibit 26: Bank-wise NII

(INR mn)	Q1FY24	Q1FY23	Q4FY23	QoQ (%)	YoY (%)
Bank of Baroda	109,967	88,384	115,249	-4.6	24.4
Bank of India	59,140	40,724	55,238	7.1	45.2
Canara	86,657	67,847	86,168	0.6	27.7
Indian	57,035	45,340	55,083	3.5	25.8
PNB	95,016	75,428	94,988	0.0	26.0
SBI	389,050	311,959	403,925	-3.7	24.7
Union	88,397	75,817	82,506	7.1	16.6
Axis	119,588	93,840	117,422	1.8	27.4
Bandhan	24,906	25,144	24,718	0.8	-0.9
CUB	5,225	5,249	5,143	1.6	-0.5
DCB	4,707	3,740	4,860	-3.1	25.9
Federal	19,186	16,045	19,093	0.5	19.6
HDFCB	235,991	194,814	233,518	1.1	21.1
IDFCFB	37,451	27,511	35,968	4.1	36.1
IndusInd	48,671	41,253	46,695	4.2	18.0
KVB	8,971	7,459	8,926	0.5	20.3
KMB	62,337	46,970	61,026	2.1	32.7
RBL	12,462	10,277	12,112	2.9	21.3
South Indian	8,078	6,034	8,572	-5.8	33.9
Yes	19,996	18,503	21,053	-5.0	8.1

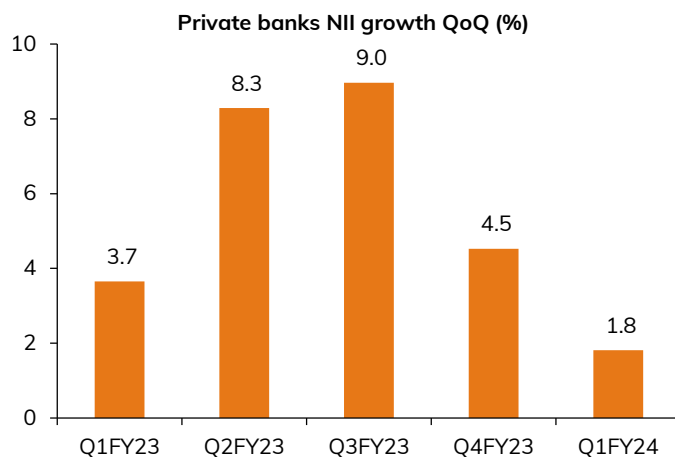
Source: Company data, I-Sec research

Exhibit 27: NII growth strong on YoY basis...



Source: Company data, I-Sec research

Exhibit 28: ...but moderated significantly on QoQ basis as margins have started declining

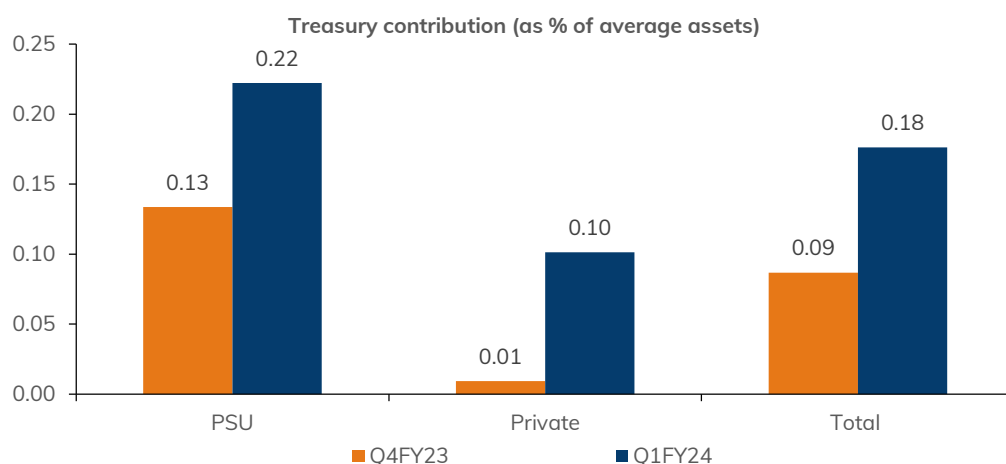


Source: Company data, I-Sec research

Treasury contribution is much better and likely to remain healthy

FY23 had been a volatile year from treasury yields perspective. Treasury contribution (gains + revaluation) in FY23 for most banks was negligible or negative while banks such as KMB, HDFCB and Axis saw negative treasury contribution. However, Q1FY24 saw healthy improvement in treasury contribution. Banks such as Axis, KMB, HDFCB saw healthy treasury gains at 9-19 bps of average assets in Q1FY24. Treasury contribution was also healthy at Federal, SIB, RBL and YES in Q1. PSU banks also saw healthy improvement in treasury from 13bps contribution to 22 bps QoQ. We believe treasury contribution should be better YoY for most banks in FY24E.

Exhibit 29: Treasury contribution is much better and is likely to remain healthy in FY24E



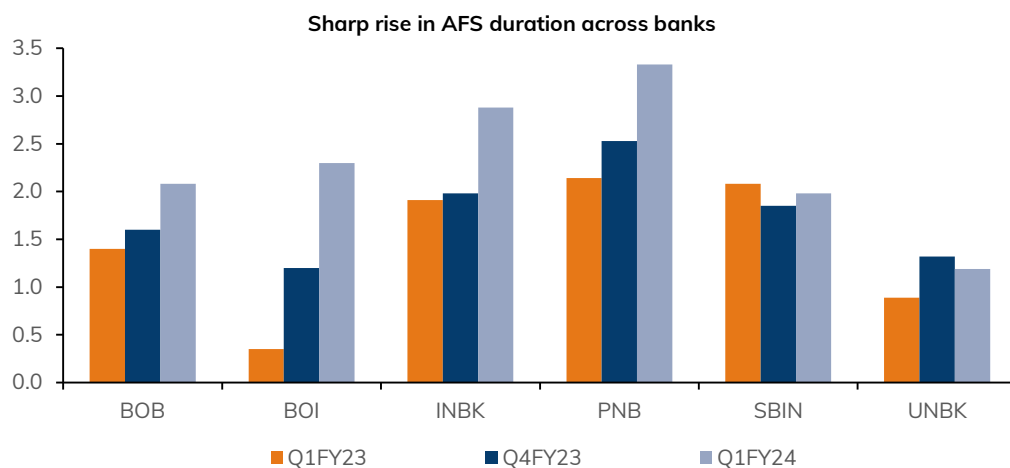
Source: Company data, I-Sec research

Note: Data pertains to over 23 banks comprising over 90% of the systemic credit

Rise in AFS duration

We notice there has been a sharp rise in AFS duration for most banks in Q1FY24. Due to volatile rate movements, banks had contained AFS duration for most part in the last 2 years. However, with rates peaking, banks seem to have taken aggressive stance with significant rise in AFS duration.

Exhibit 30: Rise in AFS duration (years) for most banks in Q1FY24



Source: Company data, I-Sec research

Attrition rates rise sharply to alarming levels for new private banks

We note attrition rates for almost all banks have jumped significantly in FY23 vs FY21. We find merit in the argument that due to Covid-19, there was limited staff turnover across industries including banking, which due to economic activities normalising has seen swift movement. Attrition levels for some banks at 40-50% appear alarming. It appears that high attrition levels are mostly driven by junior employee / sales force while attrition at senior / top levels is manageable (though still higher).

Within large private banks, reported attrition levels are the highest at IIB (51% vs 37% YoY) followed by KMB (46% vs 39% YoY), Axis (~35% vs 32% YoY) and HDFCB (34% vs 28% YoY). Attrition levels are also huge at RBL (49%), YES bank (43%), Bandhan (33%), CSB (50%), DCB Bank (28%), etc. In the last 2 years, the reported attrition has also gone up for old generation private banks such as Federal Bank (6% vs 4% in FY21) and KVB (9% vs 3.5% in FY21) though it is a lot lower than new age private banks. Persistent elevated attrition could dent operational efficiency, staff productivity and risk management practices at the bank, in our view. We would be monitoring the situation closely.

Exhibit 31: Attrition rates rise sharply for new private banks

Attrition or staff turnover rate (%)	FY21	FY22	FY23
Axis Bank	19.1	31.6	34.8
Bandhan Bank	18.1	24.2	32.8
City Union Bank	6.3	13.5	14.0
CSB Bank	17.4	28.2	49.9
DCB Bank	17.8	25.2	28.2
Federal Bank	3.7	5.9	6.3
HDFC Bank	15.5	27.6	34.2
IndusInd Bank	21.0	37.0	51.0
Karnataka Bank	1.9	1.9	2.2
Karur Vysya Bank	3.5	10.1	8.6
Kotak Mahindra Bank	28.8	39.0	45.9
RBL Bank	22.9	43.4	48.9
YES Bank	25.8	42.4	42.7

Source: Company Data, I-Sec research

Note: Numbers may not be comparable across banks due to lack of standardisation.

Note: IDFC First Bank has not reported total attrition levels though has given granular details

Operating expenses jump 28% YoY and 6% QoQ for private banks

Staff expenses grew ~30% YoY for private banks on higher headcounts and wage inflation. Higher headcounts are necessitated as these banks are expanding distribution and getting aggressive in higher touch segments. On QoQ basis, staff costs were up 12% for private banks. Non-staff opex grew 26% YoY for private banks on rising distribution, rise in business volume and continued IT spend. Overall, opex growth QoQ (6%) was higher than NII growth for private banks.

Staff cost was also up >30% YoY for PSU banks, partly driven by wage bipartite provisions, which started Q3FY23 onwards. PSU banks saw contained rise in non-staff opex.

Exhibit 32: Bank-wise total operating expenses

(INR mn)	Q1FY24	Q1FY23	Q4FY23	QoQ %	YoY (%)
Bank of Baroda	64,946	54,929	69,180	-6	18.2
Bank of India	36,245	30,413	44,391	-18	19.2
Canara	58,806	53,538	61,397	-4	9.8
Indian	32,784	25,742	34,866	-6	27.4
PNB	69,701	47,006	70,527	-1	48.3
SBI	256,714	207,556	297,328	-14	23.7
Union	55,637	49,510	66,964	-17	12.4
Axis	82,317	64,254	73,624	11.8	28.1
Bandhan	13,134	10,235	13,053	0.6	28.3
CUB	2,998	2,953	2,922	2.6	1.5
DCB	3,690	3,002	3,643	1.3	22.9
Federal	13,487	10,838	13,086	3.1	24.4
HDFCB	140,569	105,018	134,621	4.4	33.9
IDFCFB	36,586	26,630	34,356	6.5	37.4
IndusInd	32,468	26,603	30,672	5.9	22.0
KVB	5,818	4,695	5,543	5.0	23.9
KMB	39,674	31,575	36,415	8.9	25.6
RBL	12,841	11,122	12,915	-0.6	15.5
South Indian	6,788	5,329	6,410	5.9	27.4
Yes	23,223	20,016	22,203	4.6	16.0

Source: Company data, Bloomberg, I-Sec research

Operating profits strong on YoY basis but flattish QoQ

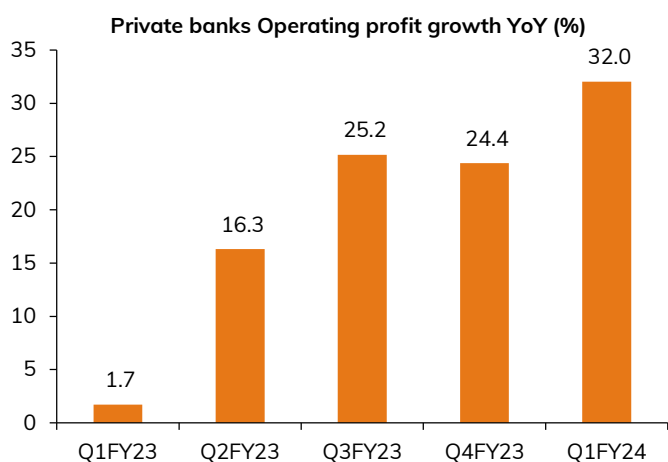
Mirroring the trends in NII, operating profits also grew sharply on YoY basis at 32% YoY for private banks but flattish QoQ on higher opex. PSU banks saw even higher growth on YoY basis at >50% but only 1.5% QoQ. Overall operating profits grew 42% YoY and 1% QoQ.

Exhibit 33: Bank-wise operating profit

(INR mn)	Q1FY24	Q1FY23	Q4FY23	QoQ %	YoY (%)
Bank of Baroda	78,243	45,275	80,729	-3.1	72.8
Bank of India	37,520	21,828	41,837	-10.3	71.9
Canara	76,040	66,062	72,522	4.9	15.1
Indian	41,347	35,644	40,156	3.0	16.0
PNB	59,653	53,792	58,664	1.7	10.9
SBI	252,969	127,526	246,211	2.7	98.4
Union	71,793	54,476	68,234	5.2	31.8
Axis	88,144	58,870	91,676	-3.9	49.7
Bandhan	15,623	18,206	17,957	-13.0	-14.2
CUB	4,143	4,471	4,170	-0.7	-7.4
DCB	2,087	1,661	2,439	-14.5	25.6
Federal	13,024	9,734	13,346	-2.4	33.8
HDFCB	187,720	153,678	186,209	0.8	22.2
IDFCFB	15,003	9,438	15,587	-3.7	59.0
IndusInd	38,301	33,937	37,528	2.1	12.9
KVB	6,484	4,755	7,391	-12.3	36.4
KMB	49,496	27,833	46,474	6.5	77.8
RBL	6,475	5,291	5,938	9.0	22.4
South Indian	4,902	3,168	5,616	-12.7	54.7
Yes	8,184	5,898	8,889	-7.9	38.8

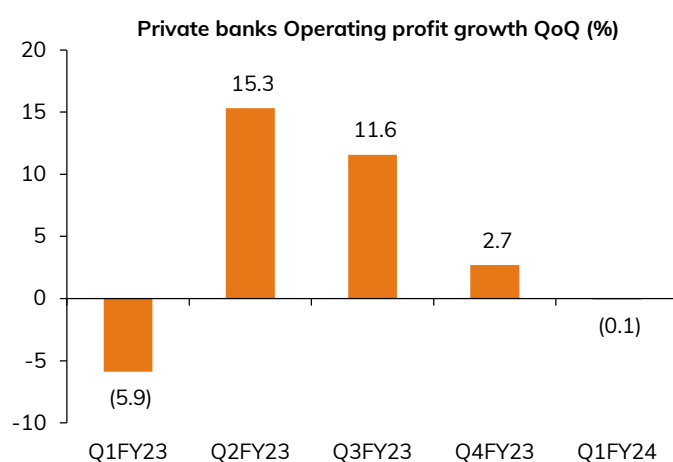
Source: Company data, I-Sec research

Exhibit 34: Operating profit growth has accelerated on YoY basis...



Source: Company data, I-Sec research

Exhibit 35: ...but flat QoQ weighed by lower NII and higher opex



Source: Company data, I-Sec research

Gross slippages jumped QoQ on seasonality but much lower YoY

Gross slippages increased QoQ to ~1.5% annualised vs ~1.3% in Q4FY23, mainly due to seasonal pressure. On YoY basis, gross slippages improved sharply from ~2.2% in Q1FY23. It is important to note that on an aggregate basis, gross slippages at PSU banks (1.3% annualised) remain lower than private peers (1.9% annualised). Bandhan Bank saw a sharp rise in gross slippages due to change in recognition of stressed ECLGS loans. CUB, DCB and YES Bank also saw meaningful rise in gross slippages QoQ.

Exhibit 36: Gross slippages jumped QoQ on seasonality, but much lower YoY

	Slippages (INR mn)			Slippages As a % of same qtr advances		
	Q1FY24	Q1FY23	Q4FY23	Q1FY24	Q1FY23	Q4FY23
Bank of Baroda	27,610	43,520	27,440	1.1	2.2	1.2
Bank of India	25,490	28,330	26,250	2.1	2.6	2.2
Canara	34,280	39,490	29,730	1.6	2.1	1.4
Indian	18,520	30,890	25,660	1.6	3.1	2.3
PNB	23,900	64,680	39,960	1.1	3.5	1.9
SBI	78,720	101,150	34,560	1.0	1.4	0.4
Union	32,410	42,440	27,940	1.7	2.5	1.5
Axis	39,900	36,840	33,750	1.9	2.1	1.6
Bandhan	19,400	11,250	11,180	7.9	5.0	4.3
CUB	3,822	2,702	3,582	3.7	2.7	3.3
DCB	3,420	5,710	2,690	3.9	7.7	3.1
Federal	5,010	4,630	4,540	1.1	1.2	1.0
HDFCB	58,000	72,000	49,000	1.4	2.1	1.2
IDFCFB	11,280	11,320	10,840	2.7	3.4	2.9
IndusInd	13,760	22,500	16,030	1.8	3.6	2.2
KVB	1,500	1,390	2,220	0.9	1.0	1.4
KMB	12,050	14,350	8,230	1.5	2.0	1.0
RBL	5,550	6,530	6,810	3.0	4.3	3.9
South Indian	4,870	4,540	3,580	2.7	2.9	2.1
Yes	14,300	10,720	11,960	2.9	2.3	2.4

Source: Company data, I-Sec research

Asset quality sustains improving net NPAs trajectory

Recovery and upgrades were soft and thus there was a rise in net slippages for both private and PSU banks. The pace of write-offs has slowed down meaningfully in Q1FY24. Gross NPAs for private banks increased by 3% QoQ led by HDFCB, Bandhan, FB etc. though it was lower by 20% on YoY basis. PSU banks saw 4% decline in GNPAs QoQ thus driving improvement in overall banking GNPAs QoQ.

Banks continue to maintain strong specific PCR. Large private banks also carry healthy contingent provisions along with higher than regulatory required provisions on restructured loans. A few PSU banks have also started making higher-than-required provisions on standard restructured loans / SMA loans to strengthen the balance sheet.

Overall net NPAs for banks sustained improving trajectory at ~1.4% for Q1FY24 vs 1.5% in Q4FY23. While private banks' net NPAs have seen a marginal rise, we do not read much as this has strong seasonality. On YoY basis, private banks have seen sharp improvement in net NPAs from 0.9% to ~0.5%. We estimate gross slippages to remain comfortable for banks going ahead due to continued benign asset quality outlook. We would be monitoring the performance of unsecured retail loans as this segment has seen a sharp rise in growth in recent quarters.

Exhibit 37: Bank-wise net NPA

NNPA (%)	Q1FY24	Q1FY23	Q4FY23	QoQ (bps)	YoY (bps)
Bank of Baroda	0.8	1.6	0.9	-11	-80
Bank of India	1.7	2.2	1.7	-1	-56
Canara	1.6	2.5	1.7	-16	-91
Indian	0.7	2.1	0.9	-20	-142
PNB	2.0	4.3	2.7	-74	-230
SBI	0.7	1.0	0.7	4	-29
Union	1.6	3.3	1.7	-12	-173
Axis	0.4	0.6	0.4	2	-23
Bandhan	2.2	1.9	1.2	101	26
CUB	2.5	2.9	2.4	15	-38
DCB	1.2	1.8	1.0	15	-63
Federal	0.7	0.9	0.7	0	-25
HDFCB	0.3	0.4	0.3	-3	-5
IDFCFB	0.7	1.3	0.9	-16	-60
IndusInd	0.6	0.7	0.6	-1	-9
KVB	0.6	1.9	0.7	-15	-132
KMB	0.4	0.6	0.4	3	-22
RBL	1.0	1.2	1.1	-10	-16
South Indian	1.9	2.9	1.9	-1	-102
Yes	1.0	4.2	0.8	17	-317

Source: Company data, I-Sec research

Behaviour of RSA and ECLGS portfolio comfortable; credit costs remain benign

The behaviour of loans under restructuring remains satisfactory with reasonable re-lapse rate. Unlike in the past, majority of restructured portfolio is secured and granular, thus, it should entail lower loss given default. Performance of ECLGS loans also remains reasonable with no spike in NPAs. As per revised RBI circular, Bandhan Bank had classified stressed ECLGS loans into GNPA's. However, there was no such spike in other banks' ECLGS portfolio. Total provisions (including standard assets and contingent) was up marginally QoQ for private banks but broader trend continues improving. There was a sharp decline in overall provisions for PSU banks.

Exhibit 38: Credit costs have been comfortable for most banks

Credit cost (%)	Q1FY24	Q1FY23	Q4FY23	QoQ (bps)	YoY (bps)
Bank of Baroda	0.81	0.84	0.60	20	-3
Bank of India	0.67	1.19	1.69	-102	-52
Canara	1.27	1.98	1.49	-22	-70
Indian	1.52	2.22	2.28	-76	-70
PNB	1.84	2.58	1.84	-1	-74
SBI	0.31	0.62	0.41	-11	-31
Union	1.04	1.94	1.54	-50	-90
Axis	0.48	0.20	0.14	34	28
Bandhan	2.45	2.83	2.81	-35	-37
CUB	1.47	1.51	1.48	-1	-4
DCB	0.43	0.47	0.61	-19	-4
Federal	0.34	0.44	0.27	7	-10
HDFCB	0.71	0.91	0.67	4	-21
IDFCFB	1.14	0.93	1.27	-13	21
IndusInd	1.32	2.02	1.42	-10	-70
KVB	0.97	1.09	1.86	-89	-12
KMB	0.44	0.03	0.18	26	41
RBL	1.46	1.68	1.34	12	-22
South Indian	1.11	0.89	0.22	88	22
Yes	0.72	0.38	1.22	-50	34

Source: Company data, I-Sec research

Note: Credit cost is calculated as total non-tax provisions as a % of same period loans

PAT growth strong on YoY basis but flattish QoQ as NIMs decline and opex rises

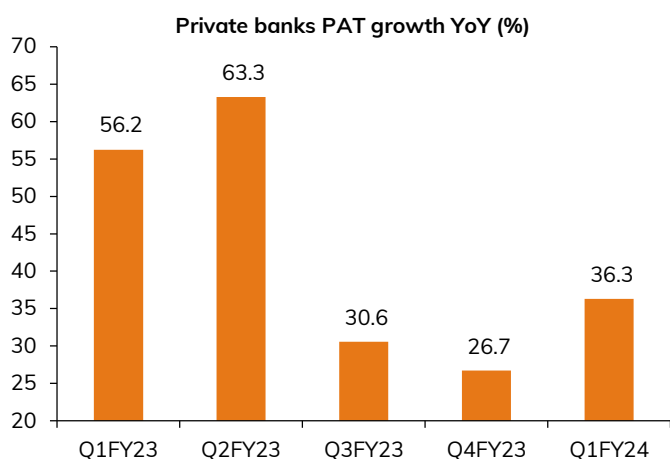
Overall profit after tax grew 36% YoY for private banks on the back of NII/PPOP growth of 26/32%, respectively. However, as is the case with NII and PPOP, PAT is also flattish on QoQ basis as NIMs have reversed, opex has been higher QoQ and credit cost is flattish. PSU banks also saw PAT rising to 132% YoY on the back of 25/50% rise in NII / PPOP, respectively.

Exhibit 39: PAT growth strong on YoY basis but flattish QoQ

PAT (INR mn)	Q1FY24	Q1FY23	Q4FY23	QoQ (%)	YoY (%)
Bank of Baroda	40,701	21,681	47,753	-14.8	87.7
Bank of India	15,511	5,615	13,504	14.9	176.2
Canara	35,348	20,220	31,747	11.3	74.8
Indian	17,088	12,134	14,473	18.1	40.8
PNB	12,527	3,084	11,586	8.1	306.1
SBI	168,843	60,681	166,945	1.1	178.2
Union	32,364	15,585	27,823	16.3	107.7
Axis	57,971	41,253	66,253	-12.5	40.5
Bandhan	7,211	8,865	8,083	-10.8	-18.7
CUB	2,273	2,251	2,180	4.2	0.9
DCB	1,269	971	1,422	-10.7	30.7
Federal	8,537	6,007	9,026	-5.4	42.1
HDFCB	119,518	91,960	120,474	-0.8	30.0
IDFCFB	7,652	4,743	8,026	-4.7	61.3
IndusInd	21,236	16,033	20,405	4.1	32.5
KVB	3,586	2,288	3,378	6.2	56.8
KMB	34,523	20,712	34,956	-1.2	66.7
RBL	2,883	2,014	2,713	6.3	43.2
South Indian	2,024	1,154	3,339	-39.4	75.4
Yes	3,425	3,106	2,024	69.2	10.3

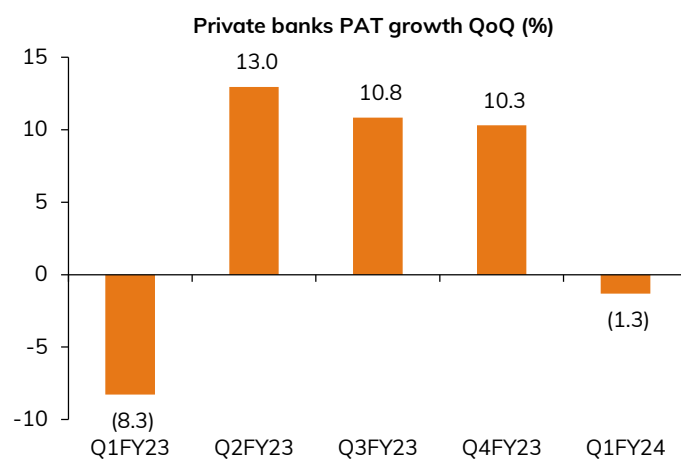
Source: Company data, I-Sec research

Exhibit 40: PAT growth is running strong, and has improved vs last two quarters on YoY basis...



Source: Company data, I-Sec research

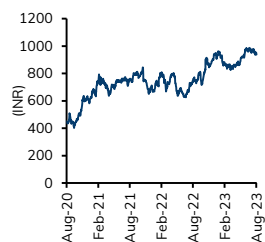
Exhibit 41: ...but margins and opex pressure, as well as elevated base, weigh on QoQ growth



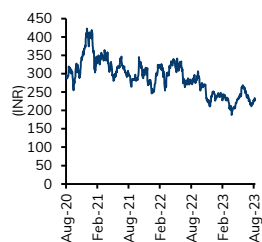
Source: Company data, I-Sec research

Price charts

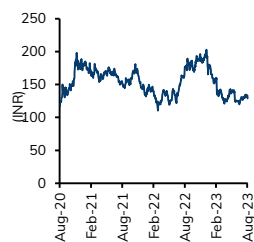
Axis Bank



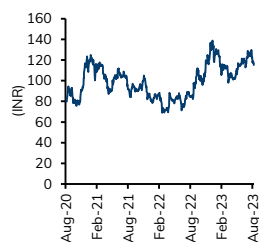
Bandhan Bank



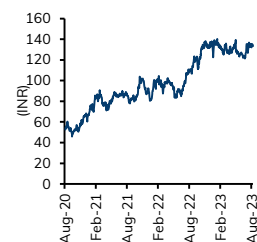
City Union Bank



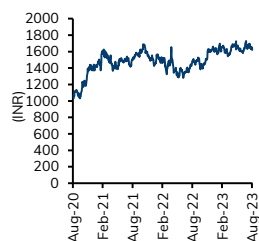
DCB Bank



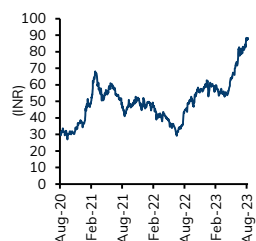
Federal Bank



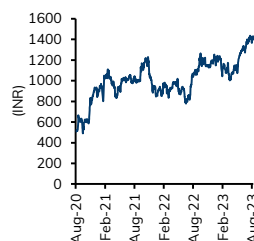
HDFC Bank



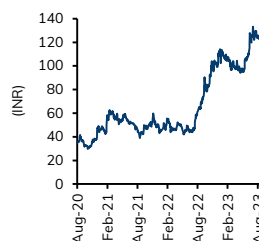
IDFC First Bank



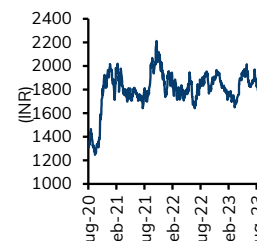
IndusInd Bank



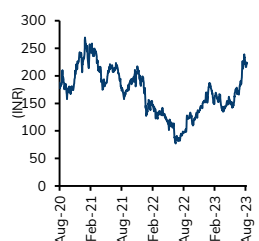
Karur Vysya Bank



Kotak Mahindra Bank



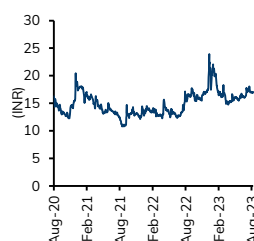
RBL Bank



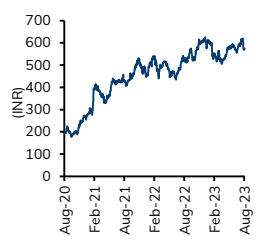
South Indian Bank



YES Bank



State Bank of India



Source: Bloomberg

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