SYSTEMATIX INSTITUTIONAL EQUITIES ™

Systematix
Institutional Equities

Indian Banking Sector

04 December 2024

Preference for safety and valuation over growth continues

SECTOR OUTLOOK

Industry	Banking

Banking coverage - rating and target price

Company	Rating	CMP (Rs)	TP (Rs)
HDFCB	BUY	1,826	1,945
AXIS	HOLD	1,161	1,335
ICICI	BUY	1,308	1,455
SBI	BUY	854	1,015
KOTAK	BUY	1,750	2,010
INDUSIND	BUY	998	1,495
FEDERAL	BUY	210	235

Source: Systematix Institutional Research

Preference for safety and valuation over growth: We build upon the thesis highlighted in our last quarter sector note "Focus on safety and valuation over growth" wherein we had analysed the unsecured portfolios of the banks. The 2Q results season has essentially been a vindication of our view with calls like anticipated earnings cut at KMB playing out. The notable exception to our view has been ICICI, wherein the bank's aggregate portfolio quality held up against our assessment of rise in the slippage/credit cost numbers. We continue to prefer the large cap banks in order of preference viz SBI, KMB, ICICI, HDFCB, FB, AXSB and IIB. Overall, as highlighted in our FY25 outlook note, for FY25, PSU banks in general have greater cushion for PPOP outperformance vs the private banks. However, we believe that the re-rating story for the PSU banks is broadly captured in the price and expect bank's share returns to broadly mimic the growth in its underlying book value. Given our preference for safety and lower earnings volatility, we would play the PSU banks via SBI and BoMH along with Indian bank.

Addressing the elephant in the room - Microfinance: Analysis of the PAR flows from quarterly disbursements for Bandhan (which is relatively better placed) indicates that slippage flow into PAR pool will peak out in 4QFY25, with 1QFY26 also expected to show elevated slippages. Underlying assumption is that since the proportion of borrowers expected to be impacted from the new guardrails (effective from 1st Jan 2025) is similar to the proportion already impacted, by the guard rail of July 2024, the incremental slippage flows can be expected to be broadly similar to the flows post the implementation of the initial guard rail. The Bandhan use case (utilizing available data for 75% PAR pool) could serve as a guidepost in calling 1QFY26, the quarter when stress levels for other MFI players would peak out. Credit costs can be expected to remain elevated in the ensuing quarters to shore up PCR. Utkarsh, with 42%/27% of its portfolio respectively in UP/BR, stands exposed whilst Bandhan, with significant operations in low borrower leverage states of WB and AS, seems favorably placed. However, **factoring in haircut for stressed credit events, we assess Bandhan, RBL, Jana, Utkarsh and Fusion to be at risk of breaching capital adequacy requirements.** Amongst the MFI players, IndusInd, AU and Ujjivan with lower proportion of over-leverage customers and with valuations close to trough levels will become attractive candidates as we get closer to the peak of the stress cycle (4QFY25 for Bandhan and 1QFY26 for others).

Key takeaways from 2Q earnings: Growth remained strong for PSU banks vs private banks which saw modest growth due to elevated CD ratios and decline in unsecured loans. Banks like HDFCB, IIB, BoB, Utkarsh, Suryoday reduced their FY25 growth guidance. Margins declined across the board due to interest reversal on slippages, sticky deposit costs and declining unsecured mix. Other income got a boost from the recognition of penal interest charges instead of the hitherto recognized penal interest. Other income, for PSUs, benefitted from higher recoveries and treasury gains. Opex to assets ratio for PSUs increased by ~10-12bps qoq due to higher pension liabilities. Private banks saw a controlled increase in overheads which led to opex/assets remaining stable qoq. For SFB's, while there was an increase in employee costs led by investments in collections team, it was partly offset by lower overheads and co-brand partner payouts. Credit costs normalized upwards for private banks and SFBs due to stress in unsecured credit whilst recognition of couple of large PSU accounts impacted the PSU banks.

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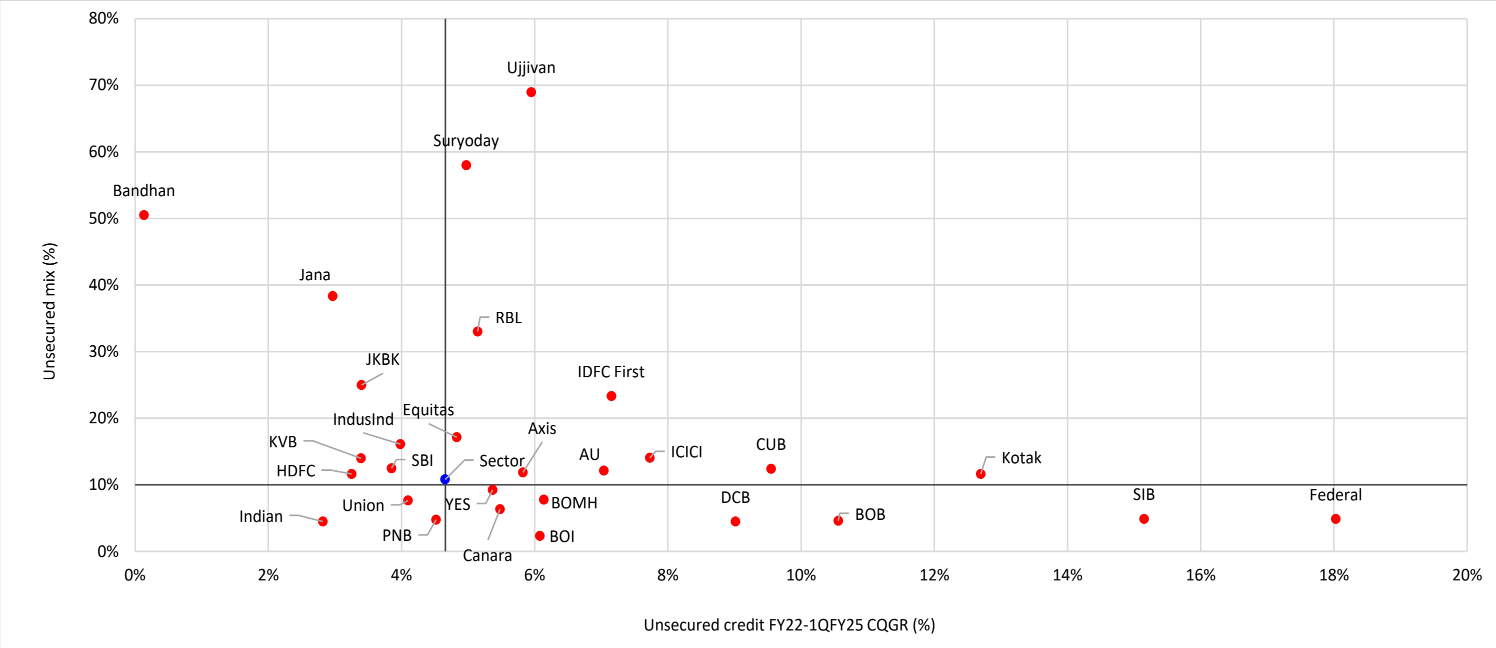
Pecking order of preference: SBI, KMB, ICICI, HDFCB, FB, AXSB and IIB; MFIs - Prefer to play via AU and Ujjivan

Exhibit 1: Banks with much higher-than-sector share and growth of unsecured portfolio will have elevated credit costs.



*Source: Bloomberg consensus estimates, Systematix Institutional Research *unsecured loans: credit card, microfinance, PL, education and consumer durable loans*

Post the 1QFY25 results, in our report titled "Focus on safety and valuation over growth", we looked at (i) the share of unsecured advances within each bank relative to sector average share (~10%) in conjunction with (ii) its quarterly average growth relative to sector avg unsecured credit growth rate (~4% CQGR) since the start of rate hike cycle (FY22 to 1QFY25) when banks increased focus on higher yielding unsecured loans to counter deposit cost triggered NIM pressures. (exhibit 1).

From that point of view, (i) Most PSU banks except BOB had grown their unsecured portfolios largely in-line to tad higher than sector average growth rate and had their unsecured mix broadly in-line/lower than sector average share; (ii) amongst the larger private banks, HDFCB has grown its unsecured portfolio below sector growth rate while Kotak, Axis, ICICI and Federal had grown at higher than sector averages. On the other hand, while IIB has unsecured growth around sector average, its unsecured share is much higher at 15% vs 10% for sector. (iii) Within smaller private banks, Ujjivan and IDFC First have much higher-than-sector share of unsecured portfolios and have also grown much above sector growth rates**. Against that backdrop, we had envisaged a lower risk of higher credit costs in unsecured portfolios for PSU banks and HDFCB and a higher risk for ICICI, Kotak, Axis, Federal and IndusInd**.

In that context, the 2QFY25 results were broadly in-line with our thesis as,

(i) HDFCB reported that asset quality in unsecured credit remained intact as the bank had calibrated its credit filters much early on in the cycle. The bank would continue to grow this segment, in contrast to peers which are curtailing unsecured growth in the near term.

(ii) Axis, Kotak, Federal, IIB all saw a deterioration in asset quality in unsecured credit. **(1)** Axis bank saw net retail slippage rise to 1.58% in 1HFY25 vs 1.06%/1.07% for 1HFY24/FY24. **(2)** Kotak saw net slippage increasing by 54% qoq mainly from credit cards (30-35% of the net slippage) and MFI due to higher delinquencies in the older vintage customers and the bank expects the elevated slippage trend to continue for next 2-3 quarters. **(3)** Federal bank also reported of higher stress in unsecured credit and expects MFI credit costs to stabilize in next few quarters. However, its overall reported credit costs remained largely stable at 30bps due to lower share of unsecured credit in the total portfolio. **(4)** IIB saw MFI GNPA increase to 6.54% (+138bp qoq). The bank took contingent provisions of Rs 5.25bn in the quarter, nearly half of which was for MFI.

(iii) ICICI bank remains the only exception to our thesis, where overall asset quality continues to remain benign despite inch up of credit costs in PL and credit cards. The bank expects overall credit costs to be contained between 40-50bps as the bank rationalized its sourcing and re-calibrated its credit filters in the stressed segments, a few quarters ago.

Our thesis at that time had suggested that PSU banks, except BOB, remain relatively better placed. In that context,

(i) SBI reported unsecured Xpress credit GNPA remaining stable at 1% and its 1HFY25 credit costs of 43bps (2Q: 38bp) was also within its FY25 guidance of 50bps. Likewise, the other smaller PSU banks, except BOB, saw unsecured asset quality remaining stable. The increase in their overall credit costs was mainly due to technical delays in repayments in some central/state PSU entities and recognition of stress in 2 large PSU accounts – MTNL and RINL.

(ii) On the other hand, BoB saw a deterioration in its PL book given its high growth of ~10-11% CQGR. PL GNPA increased to 3.16% (+62bp qoq) and hence the bank stopped digital small ticket loans and branch based non-salary segment has been tightened.

Impact of stress in the MFI sector on the listed banking universe -

A common theme across the banks, with operations in the microfinance sector, has been the escalation in the proportion of the credit costs for the microfinance businesses.

The relaxation in the underwriting constraints, triggered post the introduction of RBI's Harmonized regulations for Microfinance, in March 2022, has resulted in significant over leverage amongst the borrowers. Sub-optimal center attendance for meetings, post COVID, coupled with high attrition amongst the field staff have also exacerbated the issue.

The regulator, both MFIN (SRO for MFI businesses) and RBI, for its part have been tightening the lending standards for the microfinance business, via incremental guardrails, with the intention of safeguarding the interests of the borrowers and of restricting the prospect of wider financial instability due to inter-linkages across the various participants.

Action by RBI and MFIN's guardrails

RBI Governor sounded out the issue of excess rates being charged by MFIs and some NBFC on low value loans, during the Jun'24 monetary policy statement.

RBI on its part has been acting on various MFI players for charging usurious rate. This was reflected in the clampdown of the operations of the four MFI players viz- Asirvad Micro Finance Ltd, Arohan Financial Services Ltd, DMI Finance Private Limited and Navi Finserv Limited effective from close of business of Oct 21, 2024. Since then, the restrictions on Navi Finserv have been removed from 2nd Dec 2024.

Guard rails Version 1.0 on July 2024: The Micro Finance Industry Network (MFIN), industry association and self-regulatory organization (SRO) for the banks, NBFC-MFIs, SFBs and NBFCs involved in microfinance announced the initial set of guard rails to rope in the overleverage issue plaguing the sector. The guardrails were mainly around – **(1)** Restrict the number of microfinance lenders to a borrower to a maximum of 4 and **(2)** Limit the total microfinance indebtedness to INR 2 lacs. With nearly 80% of the loans having a tenure of 1.5 years or more, a limit of INR 2 lacs meant much lesser repayment obligation than the permissible regulatory limit. While the impact of the implementation of these guardrails meant slowdown in the disbursement growth rate of the various players, the root issue of over leverage continued to persist.

Guard rails Version 2.0 on Oct 2024: On 25th Oct 2024, MFIN released guidelines to help strengthen the underwriting of microfinance loans. These guidelines pertain to a more accurate assessment of the monthly repayment obligations of the borrowers. The industry body felt that an accurate estimation of these outflows faces two hurdles: **(1)** It is often found that the EMI value for a particular loan is not mentioned in the credit report. This mostly happens in the case of consumer/retail loans since submission of EMI data by the lenders to the credit bureaus is not mandatory for such loans. **(2)** In case of loans which are not repaid monthly but are paid in one "bullet repayment" at the end of the tenure (like gold loans or Kissan credit cards), there is no "monthly outflow" value in the report.

Guard rails Version 3.0 on Nov 2024: The MFIN monitoring, based on credit bureau data for the months of Aug and Sep shows good adherence to the guard rails issued in July. On 25th Nov 2024, continuing with its vigilant monitoring, data analysis and feedback from members, MFIN introduced the latest set of guidelines involving – (1) Number of microfinance lenders to a microfinance client reduced to 3 from 4. (2) The total indebtedness or outstanding loan amount of a microfinance client to be INR 2 lakh. However, it will include bother microfinance loans and unsecured retail loans. (3) The existing industry norm of not lending to an NPA client (overdue for >90 days) with an outstanding amount of > INR 3,000 has been tightened to "no lending to a delinquent client (overdue for > 60 days) with an outstanding amount of > Rs3,000. (4) Interest rates to be closely monitored by the Board of member REs to ensure that efficiency gains are passed on to clients. Further, other than processing fee and credit life insurance, no other charges can be deducted from the sanctioned loan amount. (5) In order to strengthen KYC process and improve underwriting, while validated voter ID will continue to be the primary ID, the sector has set an ambitious and aspirational target to seed PAN for 50% of borrower accounts by Mar 2025. These norms come into effect from 1st Jan 2025.

Addressing the pertinent aspects of the microfinance crisis

Post the revision in MFIN guardrails, we extend our thesis further and address 5 key questions: (A) When are fresh flows in microfinance likely to peak out; (B) Which states have higher risk of fresh flows in early bucket in MFI; (C) How are the players positioned in terms of state-wise risk exposure; (D) Risk assessment and estimation of adjustment factor in valuations; (E) Relative positioning of the key MFI players w.r.t key performance indicators.

(A) When are fresh flows in MFI likely to peak out?

We take the use case of Bandhan to predict the peak of fresh flows into the PAR 30+ early and stressed buckets. We model the PAR 30-180 numbers for the next few quarters (exhibit-4) based on our estimate of net slippage rate and assuming a maximum PAR slippage number from the disbursals made. The numbers for the last 4 quarters indicate that **(i)** about ~60-70% of the o/s PAR 30+ in 1Q'25/2Q'25 stemmed from the disbursements done between 4Q'23-4Q'24. **(ii)** PAR for disbursals done earlier, i.e. 2Q'23, 3Q'23, has peaked out in the 1Q'25 quarter itself.

Modelling flows into PAR 30+ of Bandhan with the intention of assessing when fresh delinquency flows peak out: We use Bandhan as a proxy to estimate by when we should see a peaking of the flows into the PAR pool. We remain cognizant of the fact that Bandhan has been relatively better placed (detailed below) during the current crisis due to its calibrated growth in recent years, geography of operations and leverage levels of borrowers.

To model the delinquencies from disbursements done, we assume:

(i) **Max delinquency (PAR 30+) of ~12%** from disbursals done between 4Q'23-4Q'24-period when the maximum amount of overleveraging occurred. **Explanation for the 12% rate:** We note that Bandhan's PAR 30-180, in MFI, increased by about +200bps to 9%, as of Sep'24, from 7%, as of Jun'24, post the implementation of the first set of MFIN guardrails (Guardrail 1.0 in Aug 2024). We also note that, post the implementation of the new guardrail from Jan 2025, the incremental set of impacted borrowers for Bandhan is broadly similar to the proportion of borrowers impacted on the implementation of Guardrail 1.0, in July 2024. Thus, we expect the maximum PAR level for Bandhan to be conservatively at 12% (9% plus incremental addition of ~2% plus). A similar trend is visible for CREDAG/Muthoot MicroFin/Spandana/Fusion for which leverage data is available (exhibit-2 below). **Since the disbursement related GNPA numbers provided by Bandhan is for ~75% of the GNPAs, we max out the cumulative slippage, from a particular disbursement during the quarter, to ~9% (75% of the 12% PAR number) to make it in same proportion as the disbursement related GNPA numbers. Current PAR for the bank is ~9% whilst our model utilizes data for 75% of PAR or 6.9% PAR as the data available is for this quantum only.**

Exhibit 2: Vintage tables indicate that share of borrowers with 4 lenders is almost similar to share of borrowers with >4 lenders.

CredAG					
Portfolio (%)	**0-2 yrs**	**2-4 yrs**	**4-6 yrs**	**>6 yrs**	**Total %**
Unique	8.6%	4.4%	5.3%	8.3%	**26.6%**
CredAG + 1	8.0%	4.6%	6.0%	8.6%	**27.2%**
CredAG + 2	7.0%	3.8%	4.4%	5.7%	**20.9%**
CredAG + 3	5.0%	2.4%	2.4%	3.0%	**12.8%**
CredAG + 4 & above	6.0%	2.1%	1.9%	2.6%	**12.6%**
Total	**34.6%**	**17.3%**	**20.0%**	**28.2%**	**100.1%**

Muthoot Microfinance					
Portfolio (%)	**0-2 yrs**	**2-4 yrs**	**4-6 yrs**	**>6 yrs**	**Total %**
Unique	15.1%	5.9%	2.7%	3.8%	**27.5%**
MML + 1	14.4%	5.8%	2.6%	3.7%	**26.5%**
MML + 2	12.8%	4.6%	1.8%	2.3%	**21.5%**
MML + 3	9.0%	2.6%	0.8%	1.0%	**13.4%**
MML + 4 & above	8.3%	1.7%	0.4%	0.5%	**10.9%**
Total	**59.6%**	**20.6%**	**8.3%**	**11.3%**	**99.8%**

Source: Company, Systematix Institutional Research

(ii) **Net slippage rate:** We use this factor to anticipate the flow, during the forecast quarter, to PAR 30+, from the disbursement made during the prior quarter.

Exhibit 3: Net slippage rate of 2.3% for disbursals between 4Q'23-4Q'24 assumes impact of latest guardrail to be similar to that of the first guardrail as the no. of borrowers with 4 lenders is broadly similar to the no. of borrowers with >4 lenders.

Bandhan	4Q'23	1Q'24	2Q'24	3Q'24	4Q'24	1Q'25	2Q'25
Gross Advances - MFI (Rs, Mn)	5,64,900	5,09,300	5,35,800	5,76,000	6,22,500	6,19,100	5,92,900
PAR 30-90 (%)	3.8%	2.9%	2.4%	1.9%	1.4%	1.4%	1.8%
PAR 30-90 (Rs, Mn)	21,466	14,770	12,859	10,944	8,715	8,667	10,672
Net Flow into 30-90 (Rs, Mn)		-6,697	-1,911	-1,915	-2,229	-48	2,005
PAR 90+/GNPA (%)	5.9%	9.3%	10.5%	11.2%	5.2%	5.8%	7.2%
PAR 90+/GNPA (Rs, Mn)	33,400	47,500	56,200	64,300	32,100	36,200	42,600
Gross Slippage into GNPA (Rs, Mn)		9,200	10,000	9,930	6,320	5,430	7,520
- recovery rate as % of 1 qtr lagged slippage		15%	15%	15%	15%	15%	15%
Recovery (Rs, Mn)			1,380	1,500	1,490	948	815
Net Slippage into NPA (Rs, Mn)			8,620	8,430	4,831	4,482	6,706
Net Slippage into 30+ (Rs, Mn)	-	-6,697	6,710	6,515	2,602	4,434	8,710
Net Slippage rate in 30+ (%, unannualized) – A		**-1.31%**	**1.50%**	**1.40%**	**0.52%**	**0.76%**	**1.52%**
QoQ chg (bps) - **B**		-131	281	-11	-88	24	75
Slippage rate post the implementation of the new guard rail from 1st Jan 2025 = A+ B							**2.27%**

Source: Company, Systematix Institutional Research

We assume a net slippage rate of ~2.3% (in the 4Q'23-4Q'24 disbursals), from 3QFY25 onwards**,** higher than its current net slippage rate of 1.5%. This ~2.3% factors an additional slippage rate of 75bps to the 2QFY25 net slippage level, of 1.5%, to factor the impact of the new guardrail (along similar lines as initial set of guardrails). Post the period coinciding with the high leverage levels of the borrowers (i.e. disbursements over 1QFY24-4QFY24), we assume the net slippage rates normalize lower in succeeding quarters to 1%.

Exhibit 4: Bandhan's slippages are likely to peak in 4QFY25, taper over 1QFY26 and normalize only from 2QFY26 onwards

	Bandhan Bank		PAR - 30+									
Max PAR	9.00	Disbursement (EEB)	3Q'24	4Q'24	1Q'25	2Q'25	3Q'25 E	4Q'25 E	1Q'26 E	2Q'26 E	3Q'26 E	Comments
		Rs, bn	%	%	%	%	%	%	%	%	%	
Net slippage rate (%)*	1Q'23	82	3.6	3.3								
0.00	**2Q'23**	**128**	**4.2**	**4.2**	**4.5**	**3.8**	**0.6**	**-**	**-**	**-**	**-**	
	- net slippage (%)						-	-	-	-	-	PAR has reduced over last 2 quarters hence net slippage is zero from 3QFY25E
	- cumulative slippage (%)					3.8	3.8	3.8	3.8	3.8	3.8	
	- write-offs (5 qtr lagged NPA)						3.2	-	0.3	0.7	-	
0.00	**3Q'23**	**152**	**5.0**	**5.2**	**5.2**	**4.9**	**2.3**	**-**	**-**	**-**	**-**	
	- net slippage (%)						-	-	-	-	-	PAR has remained broadly stable over last 2 quarters hence net slippage will be zero from 3QFY25E
	- cumulative slippage (%)					4.9	4.9	4.9	4.9	4.9	4.9	
	- write-offs (5 qtr lagged NPA)						2.6	0.8	0.6	0.4	0.1	
2.27	**4Q'23**	**211**	**4.4**	**5.0**	**5.2**	**5.5**	**6.6**	**5.3**	**1.9**	**-**	**-**	
	- net slippage (%)						2.3	1.2	-	-	-	Assuming peak net slippage rate of 2.3% p.q. and Peak PAR (cumulative slippage) at 9%, net slippage becomes zero at 1QFY26E
	- cumulative slippage (%)					5.5	7.8	9.0	9.0	9.0	9.0	
	- write-offs (5 qtr lagged NPA)						1.2	1.3	0.9	0.6	4.7	
2.27	**1Q'24**	**80**	**1.1**	**1.9**	**2.4**	**3.0**	**5.3**	**7.2**	**7.7**	**6.2**	**3.9**	
	- net slippage (%)						2.3	2.3	1.5	-	-	Assuming peak net slippage rate of 2.3% p.q. and Peak PAR (cumulative slippage) at 9%, net slippage becomes zero at 2QFY26E
	- cumulative slippage (%)					3.0	5.3	7.5	9.0	9.0	9.0	
	- write-offs (5 qtr lagged NPA)						-	0.3	0.7	0.6	0.7	
2.27	**2Q'24**	**169**	**0.4**	**1.2**	**2.0**	**3.1**	**5.3**	**7.6**	**8.6**	**7.5**	**5.6**	
	- net slippage (%)						2.3	2.3	1.4	-	-	Assuming peak net slippage rate of 2.3% p.q. and Peak PAR (cumulative slippage) at 9%, net slippage becomes zero at 2QFY26E
	- cumulative slippage (%)					3.1	5.3	7.6	9.0	9.0	9.0	
	- write-offs (5 qtr lagged NPA)						-	-	0.4	0.6	1.0	
2.27	**3Q'24**	**174**	**-**	**0.3**	**1.1**	**2.6**	**4.8**	**7.1**	**9.0**	**8.7**	**7.4**	
	- net slippage (%)						2.3	2.3	1.9	-	-	Assuming peak net slippage rate of 2.3% p.q. and Peak PAR (cumulative slippage) at 9%, net slippage becomes zero at 2QFY26E
	- cumulative slippage (%)					2.6	4.8	7.1	9.0	9.0	9.0	
	- write-offs (5 qtr lagged NPA)						-	-	0.1	0.2	1.0	
2.27	**4Q'24**	**228**		**0.0**	**0.4**	**1.9**	**4.2**	**6.4**	**8.7**	**9.0**	**8.4**	
	- net slippage (%)						2.3	2.3	2.3	0.3	-	Assuming peak net slippage rate of 2.3% p.q. and Peak PAR (cumulative slippage) at 9%, net slippage becomes zero at 3QFY26E
	- cumulative slippage (%)					1.9	4.2	6.4	8.7	9.0	9.0	
	- write-offs (5 qtr lagged NPA)						-	-	-	0.0	0.6	
1.83	**1Q'25**	**137**			**0.0**	**0.6**	**2.4**	**4.2**	**6.1**	**7.9**	**8.9**	
	- net slippage (%)						1.8	1.8	1.8	1.8	1.1	Reduction in net slippage to 1.8% as disbursements done in 1Q'25 was with tightened credit filters
	- cumulative slippage (%)					0.6	2.4	4.2	6.1	7.9	9.0	
	- write-offs (5 qtr lagged NPA)							-	-	-	0.1	
1.83	**2Q'25**	**125**				**0.0**	**1.9**	**3.7**	**5.5**	**7.4**	**9.0**	
	- net slippage (%)						1.8	1.8	1.8	1.8	1.6	Reduction in net slippage as disbursements done in 2Q'25 was with tightened credit filters
	- cumulative slippage (%)					0.0	1.9	3.7	5.5	7.4	9.0	
	- write-offs (5 qtr lagged NPA)							-	-	-	-	
1.40	**3Q'25E**	**165**					**-**	**1.4**	**2.8**	**4.2**	**5.6**	
	- net slippage (%)							1.4	1.4	1.4	1.4	Peak net slippage rate reduction to Dec'23 levels of 1.4%p.q (before increase in risk weights)
	- cumulative slippage (%)						-	1.4	2.8	4.2	5.6	
	- write-offs (5 qtr lagged NPA)							-	-	-	-	
1.00	**4Q'25E**	**190**						**-**	**1.0**	**2.0**	**3.0**	
	- net slippage (%)								1.0	1.0	1.0	Assume steady state net slippage of 1%
	- cumulative slippage (%)							-	1.0	2.0	3.0	
	- write-offs (5 qtr lagged NPA)								-	-	-	
1.00	**1Q'26E**	**150**							**-**	**1.0**	**2.0**	
	- net slippage (%)									1.0	1.0	Assume steady state net slippage of 1%
	- cumulative slippage (%)								-	1.0	2.0	
	- write-offs (5 qtr lagged NPA)									-	-	
1.00	**2Q'26E**	**170**								**-**	**1.0**	
	- net slippage (%)										1.0	Assume steady state net slippage of 1%
	- cumulative slippage (%)									-	1.0	
	- write-offs (5 qtr lagged NPA)										-	
1.00	**3Q'26E**	**200**									-	
	Total PAR 30-180 (Rs, bn)				**32.8**	**41.0**	**54.8**	**75.1**	**91.6**	**98.6**	**102.8**	
	total 4Q'23-4Q'24 (Rs, bn)				19	28	45	59	68	66	59	
	% of total PAR 30-180				58%	68%	82%	79%	74%	66%	57%	
	Slippages on disbursements (%) - unannualized						**1.91%**	**1.90%**	**1.66%**	**0.83%**	**0.82%**	

*Source: Company, Systematix Institutional Research * Assumption of Net slippage rate is on unannualized basis*

For ease of understanding the flow in the exhibit above:

Example: For the data associated with the 4Q'23,

1. Of the total disbursement of Rs 211Bn made during the quarter, 4.4% of that amount was in PAR30+ as of 3Q'24. By 2Q'25, 5.5% of the disbursement, of Rs 211 Bn, had moved to PAR30+.
2. Estimating the PAR 30+ for the forecast period of the disbursement, of Rs 211 Bn, made in 4Q'23: For this purpose, we need the slippage rate of 2.27% that we had derived earlier in Exhibit 3. The cumulative PAR 30+ of the disbursement would be equal to the number in the preceding quarter plus the slippage rate. As both the PAR and slippage numbers are expressed as % of same disbursement, a simple addition will suffice. For example, Cumulative PAR 30+ for 3QFY25E will be cumulative PAR 30+ for 2QFY25 (i.e. 5.5%) plus Slippage Rate (2.27%) = 7.8%.
3. We are interested in progressing the slippages across the quarters such that the peak Cumulative PAR 30+ for a particular disbursement is 9%. As explained in earlier section, this would broadly be representative of the Max delinquency (PAR 30+) of 12% as the data for the disbursement (as per latest bank presentation) corresponds to only 75% of the PAR. So, 9%/0.75 = 12% is the cap.
4. To cap the limit to 9%, we have assumed 1.2% slippage rate for the disbursement, made in 4Q'23, in 4Q'25E.

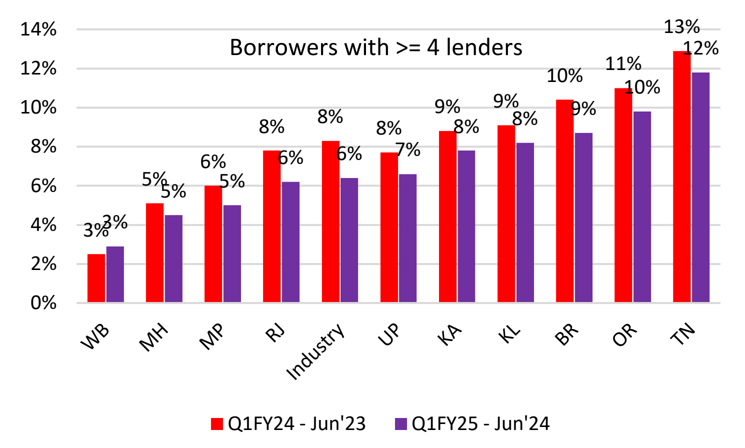
To compute the period when the slippages peak out: For this, we take the weighted average of the slippage rates with the disbursements made during the corresponding quarter for a span of eight such preceding quarters assuming a 2 year loan tenure. The Slippages (%, unannualized) indicates the cumulative slippage rate from the disbursements made from preceding eight quarters. As per the exhibit above, slippage rate will peak out in 4QFY25 for Bandhan and is expected to be normalise only from 2QFY26, with 1QFY26 also exhibiting above normal slippages due to the impact of the seasonally strong disbursement made in 4QFY24.

Basis our model (exhibit 4), it appears that fresh slippages are likely to peak out in 4Q'25 for Bandhan. Credit costs can thus be expected to remain elevated during 1HFY26. However, Bandhan remains relatively better placed vs the industry as it has the highest exposure to West Bengal (23%) where the dynamics are favourable compared to the other states as (i) no of borrowers with >=3 lenders are 8.5%, much lower vs 14% industry average, (ii) forward flow rates into 1-30dpd (% opening std advances) for WB are lower at 1% vs 2% industry average, (iii) The bank has curtailed its unsecured growth over the last several quarters (flat CQGR since 4Q'22) in an attempt to de-risk its overall book. This is also reflected in 2Q'25 PAR 30-60dpd of EEB portfolio of Bandhan at 0.9% which is lower/in-line to all other players. Hence, **with Bandhan as a reference point, we think that the industry slippages will likely peak out only by 4QFY25-1QFY26 with 1QFY26 also expected to show elevated slippages**. **As such, we expect the credit costs for the participants to remain elevated in 1HFY26 – factoring need to shore up PCR and write-off fresh slippages.** This also corroborates with the commentary given by some of the players in their 2QFY25 earnings calls.

(B) Which states have higher risk of fresh flows into the early buckets?

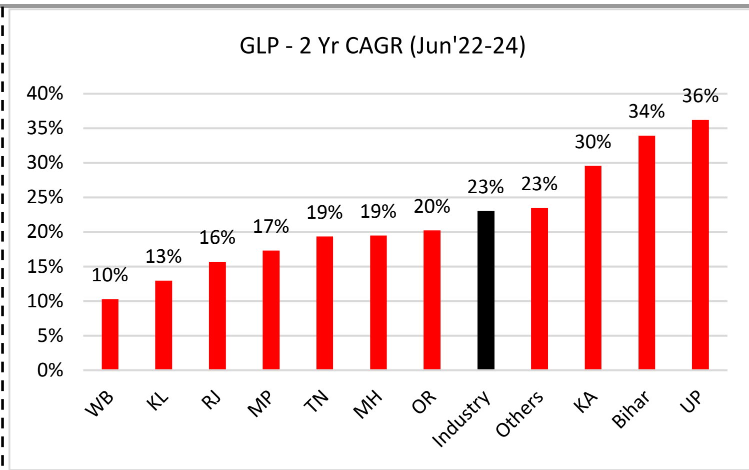
States with higher share of borrowers with >3 lenders and higher fresh flows in early buckets (1-30dpd) are at higher risk (Exhibit 10). While these are forward flow rates in 1Q'25, it is unlikely that the relative positioning of the states in terms of forward flow rates will be different materially in the next few quarters. Basis that, (i) **low risk state** mainly consists of West Bengal (WB), wherein the fresh flow rates and borrowers with >3 lenders are below industry averages. (ii) **medium risk states** are Maharashtra (MH), Madhya Pradesh (MP), Rajasthan (RJ) where forward flow rates were higher than industry average in the Jun'24 quarter but overleveraging (>3 lender share) was relatively lower. Karnataka (KA) has an over-leverage issue which is yet to materialize into higher flows, as of 1QFY25, but likely to happen in ensuing quarters. Also, the 2-year GLP growth rate for KA was above the sector average. (iii) **High risk states** include UP, Bihar (BR), Odisha (OR), Tamil Nadu (TN) Kerela (KL) and Gujarat (GJ-basis management commentary).

Exhibit 5: **WB has least number of borrowers with >=4 lenders**



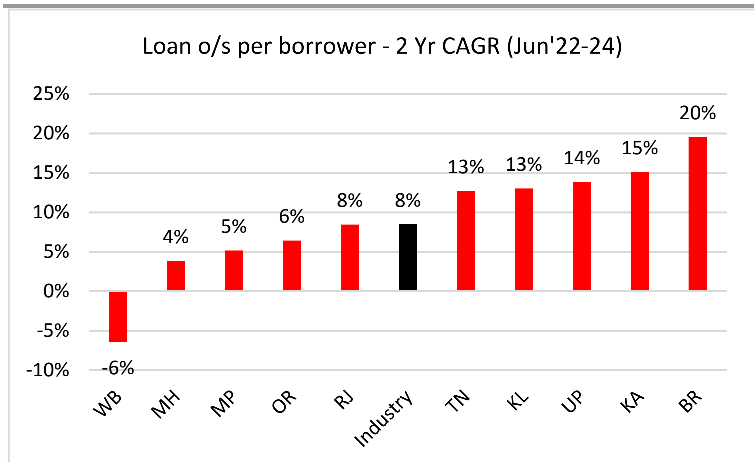
Source: CRIF, Systematix Institutional Research

Exhibit 6: **UP, BR, KA and some smaller states have above the industry growth (2 yr CAGR)**



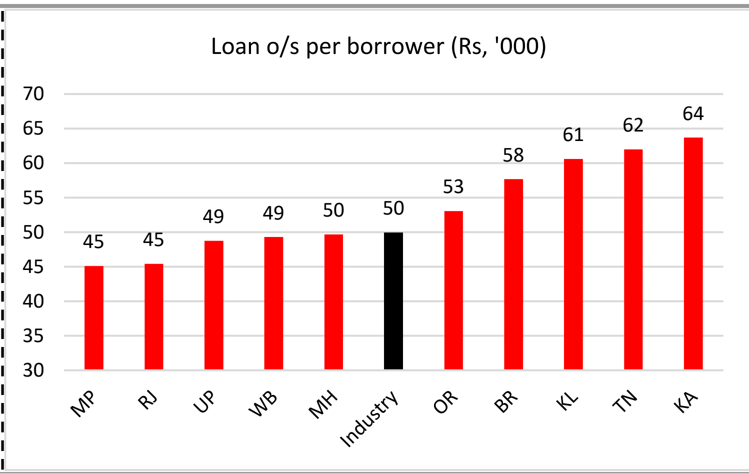
Source: CRIF, Systematix Institutional Research

Exhibit 7: **WB has seen reduction in exposure per borrower in last 2 yrs**



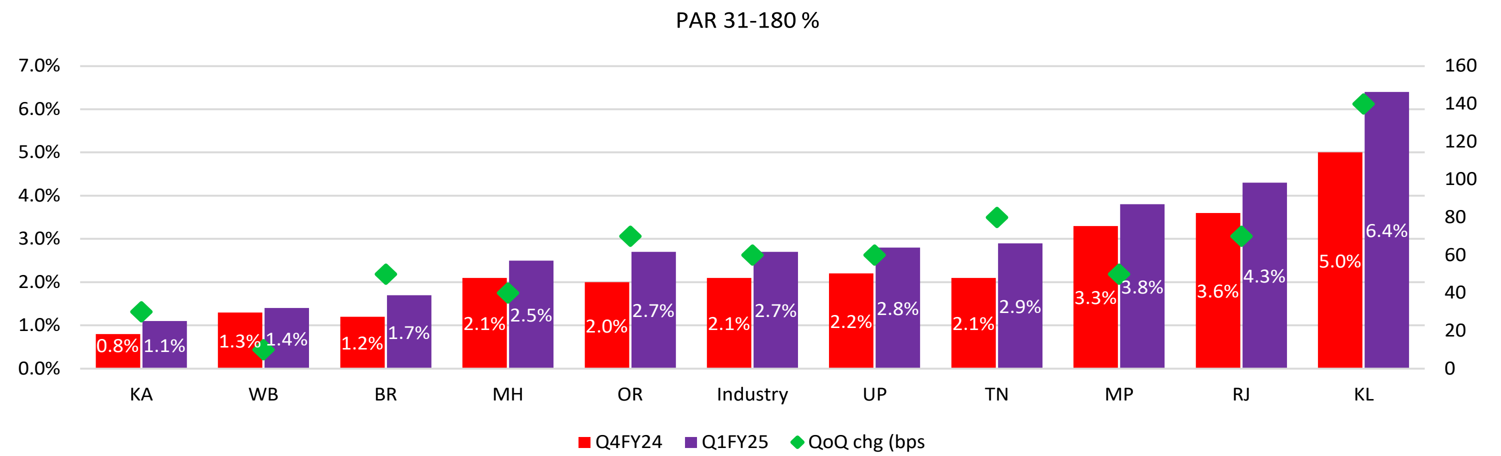
Source: CRIF, Systematix Institutional Research

Exhibit 8: **Industry is broadly at the Rs 50k ATS mark.**



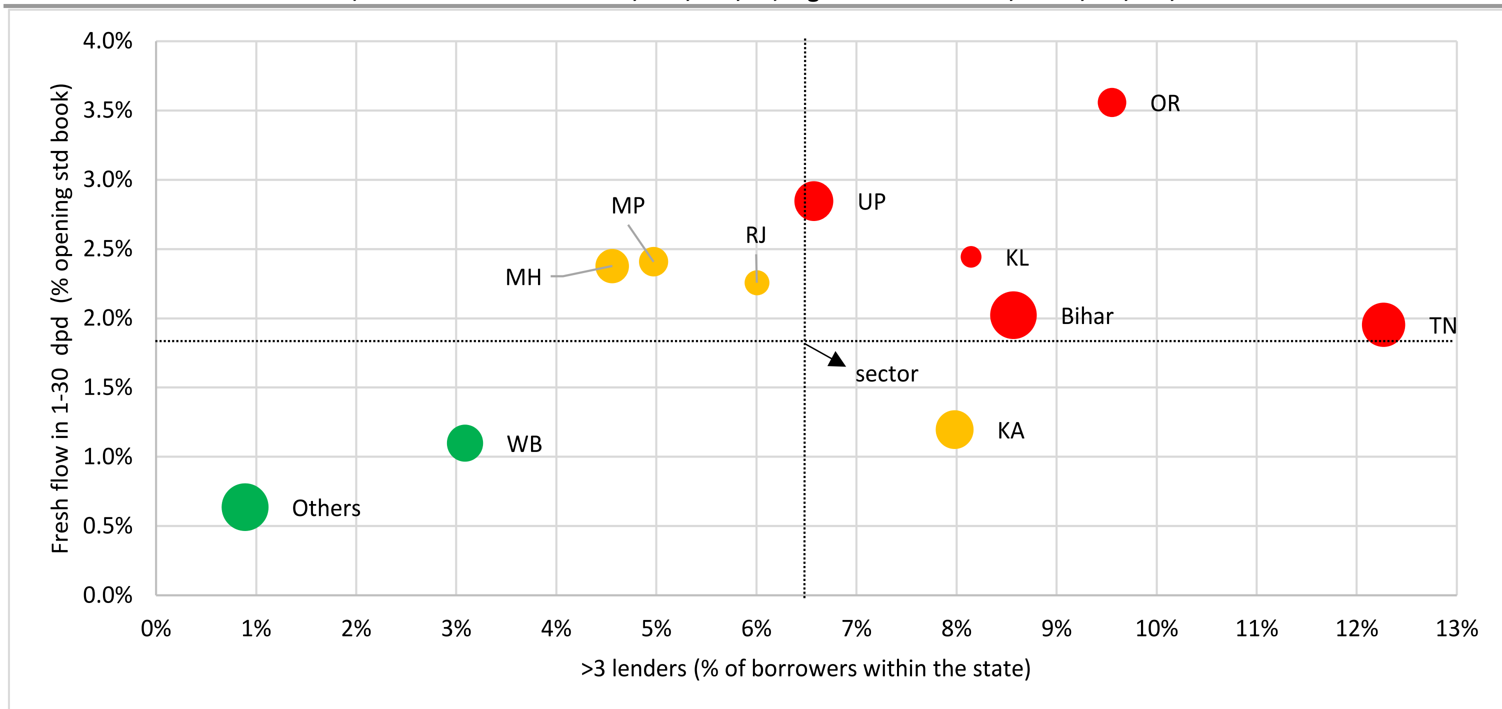
Source: CRIF, Systematix Institutional Research

Exhibit 9: QoQ deterioration at KL (140bps) is worst vs industry (60bps)



Source: CRIF, Systematix Institutional Research

Exhibit 10: Low risk states - WB; medium risk states - KA, MH, MP, RJ; high risk states – UP, Bihar, TN, OR, KL.



*Source: CRIF, Systematix Institutional Research * size of the bubble denotes the state's share as % of the MFI sector.*

(C) How are the players positioned in terms of state-wise risk exposure?

Players like Bandhan, AU, Ujjivan, Jana, CredAG and Spandana Sphoorty and Satin Creditcare are relatively better positioned as they have a lower percentage of portfolio which is exposed to the high-risk states of TN, Bihar, UP, Orissa, Kerela, Gujarat.

Exhibit 11: Low risk states - WB; medium risk states - KA, MH, MP, RJ; high risk states – UP, Bihar, TN,OR,KL and GJ.

State wise mix (%)	RBL	Bandhan	AU (Fincare)	Ujjivan	Equitas	Suryoday	Jana	Utkarsh	CredAG	Arman Fin Svcs	Spandana Sphoorty	Satin Credit care	Muthoot MFI	Fusion
TN	11%		9%	14%	48%	26%	13%		20%		1%		22%	8%
WB	7%	36%		12%							4%	9%	8%	2%
Bihar	16%	10%	13%	7%				42%	6%	9%	12%	15%	9%	13%
KA	8%		8%	13%	13%	6%	12%		31%		10%		8%	3%
MH	6%	6%	7%	9%	15%	29%	13%	4%	21%	6%		1%	6%	2%
UP	10%		6%	7%	1%		6%	27%		23%	6%	27%	10%	18%
MP	6%	5%	7%	2%	3.0%	7%	8%	4%	7%	15%	9%		2%	9%
OR	8%			2%		11%		8%			13%	5%	6%	9%
RJ	8%		6%	5%	4%		6%			12%	4%	4%	4%	8%
KL	2%			2%	0.4%								13%	0%
GUJ			8%	8%	4%	11%	8%			28%	4%			
AP			15%		4%						10%			
AS		9%										9%		
Others	19%	34%	22%	20%	8%	9%	34%	15%	15%	7%	27%	30%	9%	21%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**99%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Low risk (%)	7%	45%	15%	12%	4%	0%	0%	0%	0%	0%	14%	18%	8%	2%
Medium risk (%)	28%	11%	27%	29%	35%	42%	39%	8%	59%	33%	23%	5%	20%	22%
High risk (%)	46%	10%	36%	39%	53%	48%	27%	77%	26%	60%	36%	47%	60%	48%

*Source: Company, Systematix Institutional Research * share in terms of number of branches for AU, RBL, Muthoot MFI.*

(D) Risk assessment and estimation of adjustment factor in valuations?

Post the new MFIN guardrails which curtails lending to borrowers availing loans from more than >3 lenders, bulk of the incremental flows into the PAR pool are likely to stem from standard borrowers (0 DPD) in this over-leveraged bucket.

Exhibit 12: Vintage tables indicate that the incremental standard book at risk of flowing into PAR is likely to be around ~22% on average.

CredAG							Muthoot Microfinance					
Portfolio (%)	**0-2 yrs**	**2-4 yrs**	**4-6 yrs**	**>6 yrs**	**Total %**		**Portfolio (%)**	**0-2 yrs**	**2-4 yrs**	**4-6 yrs**	**>6 yrs**	**Total %**
Unique	8.6%	4.4%	5.3%	8.3%	**26.6%**		Unique	15.1%	5.9%	2.7%	3.8%	**27.5%**
CredAG + 1	8.0%	4.6%	6.0%	8.6%	**27.2%**		MML + 1	14.4%	5.8%	2.6%	3.7%	**26.5%**
CredAG + 2	7.0%	3.8%	4.4%	5.7%	**20.9%**		MML + 2	12.8%	4.6%	1.8%	2.3%	**21.5%**
CredAG + 3	5.0%	2.4%	2.4%	3.0%	**12.8%**		MML + 3	9.0%	2.6%	0.8%	1.0%	**13.4%**
CredAG + 4 & above	6.0%	2.1%	1.9%	2.6%	**12.6%**		MML + 4 & above	8.3%	1.7%	0.4%	0.5%	**10.9%**
Total	**34.6%**	**17.3%**	**20.0%**	**28.2%**	**100.1%**		**Total**	**59.6%**	**20.6%**	**8.3%**	**11.3%**	**99.8%**
PAR 15+	**0-2 yrs**	**2-4 yrs**	**4-6 yrs**	**>6 yrs**	**Total %**		**PAR 30+**	**0-2 yrs**	**2-4 yrs**	**4-6 yrs**	**>6 yrs**	**Total %**
Unique	2.7%	1.8%	1.8%	1.2%	1.9%		Unique	3.6%	3.0%	1.5%	1.0%	2.9%
CredAG + 1	3.6%	2.5%	2.5%	1.9%	2.7%		MML + 1	3.7%	3.7%	2.3%	1.8%	3.3%
CredAG + 2	5.0%	3.9%	3.9%	2.5%	3.9%		MML + 2	4.9%	5.1%	3.0%	2.7%	4.6%
CredAG + 3	7.7%	6.9%	5.0%	3.6%	6.1%		MML + 3	6.8%	7.6%	4.4%	4.9%	6.7%
CredAG + 4 & above	15.4%	13.3%	9.9%	5.6%	12.2%		MML + 4 & above	14.1%	15.8%	10.6%	10.2%	14.1%
Total	**6.3%**	**4.5%**	**3.6%**	**2.3%**	**5.3%**		**Total**	**5.9%**	**5.3%**	**2.8%**	**2.4%**	**5.1%**
Blended PAR 15+ (>=4 lenders)	**11.9%**	**9.9%**	**7.2%**	**4.5%**	**9.1%**		**Blended PAR 30+ (>=4 lenders)**	**10.3%**	**10.8%**	**6.5%**	**6.7%**	**10.0%**
Incremental book at risk of flowing into PAR (%)					23.08%		Incremental book at risk of flowing into PAR (%)					21.87%

*Source: Company, Systematix Institutional Research * Incremental book at risk of flowing into PAR factors the only stress that is yet to be in PAR pool for that segment*

Basis the Sep'24 vintage tables (exhibit 12) given by CredAG and Muthoot Microfinance (MML), we estimate that the incremental standard book, by value, which is at risk of flowing into PAR bucket is around ~22%. This is the average of flows expected from CREDAG and MML. We considered the average given that both firms lie on the opposite ends of the risk spectrum- with CredAG having 26% exposure to high risk states whilst MML has 60% exposure to higher risk states. We use this as an important proxy variable whilst estimating the networth adjustment factor for the rest of the players.

To estimate the networth adjustment (reduction) factor:

1. **Assumption 1:** The proportion of over-leverage customers (>3 loans) is ~16% at a sector level. Considering the proportion of over-leverage customers for the banks is lower at ~10% vs. that at the NBFCs (~22%), we assume the book at risk of moving into PAR to be identical to this overleverage proportion. IndusInd and Ujjivan bank's book at risk of flowing into PAR is taken to be equal to the number of >3 customers reported by the bank. Equitas and Suryoday's book at risk of flowing into PAR is based on approximation based on commentary around customers with >4 loans.
2. **Assumption 2**: We also assume a 50% recovery rate in the book which is at risk of flowing into PAR. Our assumption also stems from the recent commentary by Bandhan wherein management alluded to recovering ~50% of the fresh PAR flows in the ensuing quarters. We apply the adjustment factor to estimate the adjusted trailing P/B and capital adequacy ratios.

Exhibit 13: Bandhan, RBL, Jana, Utkarsh and Fusion are likely candidates for a capital raise

Sep'24	IIB	RBL	Bandhan	AU	Ujjivan	Equitas	Suryoday	Jana	Utkarsh	CredAG	Arman	Spandana	Satin	Muthoot MFI	Fusion
Networth (Rs, bn)	652.7	154.7	237.1	160.4	58.8	59.5	19.3	38.6	31.3	69.9	8.7	35.1	25.4	30.0	25.2
NNPA (Rs, bn)	22.8	7.0	16.2	7.1	1.6	3.3	0.7	2.5	1.6	1.8	0.1	0.9	1.2	0.9	2.3
Revaluation reserves	23	7	16	7	2	3	1	2	2	2	0	1	1	1	2
Book at risk of flowing into SMA (Rs, bn)	29.5	7.0	59.3	7.2	10.4	12.7	13.1	13.3	24.4	54.4	4.5	22.1	18.2	22.6	21.7
- MFI book (Rs, bn)	327.2	69.7	592.9	72.2	148.9	56.4	52.3	59.1	*108.8*	*241.9*	*19.8*	*98.1*	*81.1*	*100.4*	*96.6*
-Book at risk of flowing into PAR (%)	*9%*	*10%*	*10%*	*10%*	*7%*	*22%*	*25%*	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*	*22%*
Recovery rate (%)	50%	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*	*50%*
tax rate (%)	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Adjustment factor	**8%**	**10%**	**21%**	**9%**	**12%**	**18%**	**32%**	**24%**	**38%**	**34%**	**22%**	**28%**	**35%**	**34%**	**48%**
Adjusted Networth (Rs, bn)	**601.7**	**139.8**	**186.5**	**145.3**	**52.0**	**48.9**	**13.1**	**29.3**	**19.3**	**46.4**	**6.8**	**25.2**	**16.4**	**19.9**	**13.1**
Market Cap (Rs, bn)	781.7	96.7	276.3	436.3	64.9	71.0	14.9	43.3	39.3	155.9	13.8	26.9	17.2	32.7	18.8
Trailing P/B	1.2	0.6	1.2	2.7	1.1	1.2	0.8	1.1	1.3	2.2	1.6	0.8	0.7	1.1	0.7
Adj trailing P/B	**1.3**	**0.7**	**1.5**	**3.0**	**1.2**	**1.5**	**1.1**	**1.5**	**2.0**	**3.4**	**2.0**	**1.1**	**1.0**	**1.6**	**1.4**
Historical P/BV (trailing)															
Min	0.6	0.4	1.2	2.6	0.9	1.1	0.6	1.2	1.1	1.7	1.4	0.7	0.2	1.1	0.6
Max	3.1	1.8	5.5	9.0	5.0	2.6	2.5	2.2	2.9	5.5	6.6	3.7	1.4	1.9	2.9
Trailing P/B wrt rock bottom valuation	96%	70%	-5%	3%	28%	7%	40%	-6%	12%	35%	14%	16%	305%	-1%	25%
Tier - 1	15.2%	14.2%	13.6%	17.4%	21.6%	18.1%	23.5%	17.8%	19.9%	25.2%	40.7%	35.8%	27.4%	28.7%	23.5%
adjustment factor	8%	10%	21%	9%	12%	18%	32%	24%	38%	34%	22%	28%	35%	34%	48%
Adj Tier-1	**14.0%**	**12.8%**	**10.7%**	**15.8%**	**19.1%**	**14.9%**	**16.0%**	**13.5%**	**12.2%**	**16.7%**	**31.9%**	**25.7%**	**17.7%**	**19.0%**	**12.1%**
CRAR	16.5%	15.9%	14.3%	18.5%	23.4%	19.4%	25.0%	18.8%	22.4%	26.1%	41.9%	35.8%	28.8%	28.7%	24.4%
adjustment factor	8%	10%	21%	9%	12%	18%	32%	24%	38%	34%	22%	28%	35%	34%	48%
Adj CRAR	**15%**	**14%**	**11%**	**17%**	**21%**	**16%**	**17%**	**14%**	**14%**	**17%**	**33%**	**26%**	**19%**	**19%**	**13%**

*Source: Company, Systematix Institutional Research. * Adj Networth = Reported Networth – revaluation reserves – (NNPA+ book at risk of flowing into SMA*(1-recovery rate))*(1-Tax rate) ; Adjustment factor = 1 – Adj. Networth/Reported Networth*

Based on that, it appears that (i) Valuation wise- Bandhan, AU and Equitas trade at Adj trailing P/B near around rock-bottom valuation levels. (ii) However, Bandhan, RBL, Utkarsh, Fusion and Jana are the likely candidates for a capital raise as their CRAR is likely to be close to/fall below the 15% in case of our assumptions materializing. Fusion finance has already announced a Rs 5.5bn capital raise in Oct'24 via a rights issue. Bandhan management in the last analyst call mentioned that the capital levels are adequate for this loan year's growth requirements. RBL management has stated that 12.5-13% core equity ratio is the limit that they would not like to breach. (iii) **AU, IndusInd and Ujjivan have relatively low adjustment factor to be applied to their capital ratios.**

(E) Relative positioning of key MFI players w.r.t key performance indicators.

Exhibit 14: Assessing the various MFI players across parameters

	IIB	RBL	Bandhan	AU	Ujjivan*	Equitas	Suryoday	Jana	Utkarsh	CREDAG	Arman	Spandana	Satin	Muthoot MFI	Fusion
Operational parameters															
AUM (Rs, Bn) - Sep'24	1,910	879	1,307	960	303	361	94	264	191	251	25	105	117	125	116
MFI AUM (Rs, Bn) - Sep'24	327	70	593	72	193	56	52	59	109	242	20	105	81	125	110
MFI AUM growth (FY22-FY24) (CAGR %)	13%	24%	0%	27%	30%	27%	22%	4%	19%	28%	46%	35%	25%	40%	27%
Geographic concentration - exposure to higher risk states	NA	46%	10%	36%	39%	53%	48%	27%	77%	26%	60%	36%	47%	60%	48%
Customer over-leverage levels (> 3 lenders)*	9.0%	-	-	-	7.0%	-	-	-	-	25%	41%*	27%	4.2%*	24%	22%
Customer over-leverage levels (> 4 lenders)*	-	9-10%	4.5%	8.0%	-	15%	25%	-	14%	13%	22.8%*	14%	-	13%	10%
Stable funding sources - Sep'24															
- Deposits as % of AUM - for banks	216%	90%	103%	114%	112%	111%	95%	94%	102%	-	-	-	-	-	-
- Bank borrowings as % of AUM - for NBFCs	-	-	-	-	-	-	-	-	-	43%	29%	44%	44%	62%	59%
Credit rating	Crisil (AA+); Moody's (Ba1)	ICRA (AA-); CARE (AA-)	ICRA (AA-); Crisil (AA-)	Crisil (AA); CARE (AA); ICRA (AA)	CARE (AA-)	India Ratings (AA-); CARE (AA-)	ICRA (A)	ICRA (A-); India Ratings (IND A-)	ICRA (A+), CARE (A+)	ICRA (AA-); Crisil (AA-)	CARE (A-); Acuite (A)	Crisil (A); ICRA (A+); CARE (A+)	ICRA (A); CARE (BBB+)	Crisil (A+)	ICRA (A-); Crisil (A); CARE (A)
Product Mix - Sep'24															
MFI	9%	8%	45%	8%	49%	16%	26%	3%	57%	96%	80%	100%	88%	100%	95%
Individual Loans/PL/CD	-	-	-	5%	15%	-	30%	19%	-	-	-	-	-	-	-
Credit cards	3%	24%	-	-	-	-	-	-	-	-	-	-	-	-	-
Gold loans	-	-	-	2%	-	-	-	-	-	-	-	-	-	-	-
Small Business loans	-	10%	-	25%	-	41%	12%	-	-	-	-	-	-	-	-
Housing finance	4%	-	24%	9%	19%	12%	8%	20%	4%	-	-	-	7%	-	-
LAP	3%	8%	-	-	-	-	-	19%	-	-	-	-	-	-	-
Agri	-	2%	-	7%	2%	-	-	13%	-	-	-	-	-	-	-
Vehical Finance	23%	-	-	27%	-	25%	11%	-	6%	-	3%	-	-	-	-
MSME	26%	-	-	9%	5%	4%	-	14%	16%	-	16%	-	5%	-	5%
Corporate Loans	25%	46%	25%	6%	7%	2%	10%	5%	11%	-	-	-	-	-	-
Others	6%	2%	6%	3%	3%	1%	3%	6%	6%	4%	-	-	-	-	-
Asset quality profile															
Operating profit margin - as % Avg assets (1HFY25)	2.8%	2.5%	4.3%	3.2%	4.6%	2.9%	4.2%	4.0%	4.7%	10.0%	12.9%	8.3%	7.6%	7.8%	10.0%
Net Slippage ratios (1HFY25)	0.5%	1.9%	2.1%	2.0%	2.4%	3.1%	4.2%	NA	5.6%	4.2%	7.1%	10.4%	4.0%	3.2%	16.5%
PCR levels	70.1%	73.0%	73.5%	62.8%	78.1%	67.7%	74.3%	67.2%	77.7%	69.5%	82.9%	79.7%	61.1%	64.8%	76.2%
Credit costs - as % Avg assets (1HFY25)	1.1%	1.4%	1.3%	1.0%	1.2%	4.1%	1.8%	2.5%	2.7%	4.3%	7.9%	11.7%	3.8%	3.9%	17.9%
Total PAR - MFI	10.9%	8.0%	9.0%	*NA*	5.2%	8.6%	7.5%	*NA*	10.3%	3.3%	8.4%	11.0%	5.2%	5.8%	13.3%
PAR 30-90 - MFI	*4.0%*	*3.9%*	*1.8%*	*NA*	*2.6%*	*3.8%*	*3.5%*	*NA*	*5.0%*	*1.6%*	*4.4%*	*6.2%*	*1.7%*	*3.1%*	*3.9%*
GNPA - MFI	*6.9%*	*4.1%*	*7.2%*	*2.3%*	*2.7%*	*4.8%*	*4.0%*	*5.6%*	*5.3%*	*1.7%*	*4.0%*	*4.9%*	*3.5%*	*2.7%*	*9.4%*
Capital ratios															
Tier 1 (%) - Sep'25	15.2%	14.2%	13.6%	17.4%	21.6%	18.1%	23.5%	17.8%	19.9%	25.2%	40.7%	35.8%	27.4%	28.7%	23.5%

Adj Tier-1	14.0%	12.8%	10.7%	15.8%	19.1%	14.9%	16.0%	13.5%	12.2%	16.7%	31.9%	25.7%	17.7%	19.0%	12.1%
CRAR (%) - Sep'25	16.5%	15.9%	14.3%	18.5%	23.4%	19.4%	25.0%	18.8%	22.4%	26.1%	41.9%	35.8%	28.8%	28.7%	24.4%
Adj CRAR	15.2%	14.4%	11.2%	16.8%	20.7%	15.9%	17.0%	14.3%	13.8%	17.3%	32.8%	25.7%	18.6%	19.0%	12.6%
Valuation															
Historical P/BV (trailing) range	0.6 - 3.1	0.4 - 1.8	1.2 - 5.5	2.6 - 9	0.9 - 5	1.1 - 2.6	0.6 - 2.5	1.2 - 2.2	1.1 - 2.9	1.7 - 5.5	1.4 - 6.6	0.7 - 3.7	0.2 - 1.4	1.1 - 1.9	0.6 - 2.9
Min	0.6	0.4	1.2	2.6	0.9	1.1	0.6	1.2	1.1	1.7	1.4	0.7	0.2	1.1	0.6
Max	3.1	1.8	5.5	9.0	5.0	2.6	2.5	2.2	2.9	5.5	6.6	3.7	1.4	1.9	2.9
P/BV - trailing	1.2	0.6	1.2	2.7	1.1	1.2	0.8	1.1	1.3	2.2	1.6	0.8	0.7	1.1	0.7
Adj P/BV - trailing	1.3	0.7	1.5	3.0	1.2	1.5	1.1	1.5	2.0	3.4	2.0	1.1	1.0	1.6	1.4
Trailing P/B wrt rock bottom valuation	96%	70%	-5%	3%	28%	7%	40%	-6%	12%	35%	14%	16%	305%	-1%	25%
RoA - 1HFY25	1.3%	0.9%	2.3%	1.6%	2.5%	0.2%	1.8%	1.6%	1.5%	4.1%	3.7%	-2.5%	2.8%	2.8%	-5.9%
RoE - 1HFY25	10.9%	7.8%	17.3%	13.8%	18.6%	1.3%	12.4%	14.5%	12.3%	17.1%	11.1%	-8.8%	12.1%	12.1%	-25.4%

*Source: Company, Systematix Institutional Research * Ujjivan PAR = PAR 1-90 * Arman numbers for customer overleverage are at the time of origination at the family level for all loans. * Satin numbers for customer overleverage are at the time of disbursement.*

Consolidating the above analysis in the below table along with other key parameters: **(i)** players like Bandhan, AU, Ujjivan, Jana, CredAG and Spandana Sphoorty are relatively better positioned in terms of exposure to risky states. Concentration of exposure to UP, BR is high for Utkarsh and Satin;

(ii) most banks have grown their MFI book at 20-30% over last two years, with Bandhan remaining broadly static. Amongst NBFC - MFI's – CredAG and Satin have grown their portfolios in-line with industry growth of 23% (2 yr CAGR Jun'22-24). Arman and Muthoot Microfin have grown much faster at >40% levels;

(iii) AU, IndusInd and Ujjivan have relatively low adjustment factor to be applied to their capital ratios.

(iv) In terms of operating profit margin, Ujjivan along with the NBFCs like CREDAG are better placed to absorb short term credit spikes in terms of asset quality. CREDAG has the lowest total PAR across players followed by Ujjivan and Satin;

(v) Bandhan, RBL, Utkarsh, Fusion and Jana are the likely candidates for a capital raise as their CRAR is likely to be close to/fall below the 15% in case of our assumptions materializing;

(vi) w.r.t rock bottom valuations, Bandhan, AU, Ujjivan and Equitas remain favorably placed.

(vii) considering all the parameters, IndusInd, AU and Ujjivan are better placed amongst the banks along with CREDAG amongst the NBFCs. This assessment is mainly on the impact of the microfinance stress. Indusind bank, whilst attractive on the valuation front, has the overhang of the re-appointment of the current CEO along with impact from poor economics for the new CV operators.

Earnings impact

Exhibit 15: Earnings upgrades/downgrades

Bank	FY25			2QFY25 earnings - key highlights
	14-Oct-24	18-Nov-24	Chg. in EPS estimates (%)	
HDFC	89.7	89.5	-0.2%	Accelerated push for C-D ratio of 86-89% (pre-merger levels). FY25/FY26/FY27 credit growth to be slower/in-line/higher than system. Unsecured credit asset quality stable. Margin decline -1bp qoq due to higher liquidity from asset sales. Opex increase modest on seasonally low overheads.
ICICI	64.3	64.9	0.9%	Loan growth (4.4%qoq, 15% yoy) led by business banking and corporate credit. Deposit growth also strong at 5% qoq. Asset quality metrics remained benign. FY25 credit costs 40-50bps (1H 42bps). NIM declined -9bp qoq as YoF declined -6bp and CoF increased +4bp.
Axis	86.2	85.3	-1.0%	Muted loan growth (11.4% yoy,2%qoq). Deposit growth strong (13.7% yoy) ~200bp higher than industry. NIM declined -1bp qoq (ex 5bps IT refund in previous qtr). Net retail slippage increased to 1.58% in 1HFY25 vs 1.06%/1.07% for 1HFY24/FY24 due to stress in unsecured retail. Write-offs increased by 41% qoq mainly in the retail and CBG segments.
Kotak	79.4	79.6	0.2%	Asset quality deterioration in older vintages in MFI and credit cards, with 48bps qoq worsening in slippage ratio. NIM declined -11bp qoq with 2Q being 1st full qtr to see impact of regulatory curbs. Loan growth (3% qoq, 18% yoy) led by SME and consumer banking while unsecured credit growth remained flat qoq.
IndusInd	124.7	105.5	-15.4%	The bank took contingent provisions of Rs 5.25bn in the quarter, (50% of the provisions were for MFI). 2H credit costs within target range of 1.1-1.3% (1H: 1.31%). Nim declined -17bps qoq due to adverse mix and interest reversals on slippages. Core fees declined -19% qoq due to lower loan processing charges on lower disbursements and lower credit card fees due to changes to regulatory guidelines.
Federal	17.1	17.3	1.0%	Loan growth strong 19% yoy (FY25 growth ~18%). Deposit growth also strong 15.6% yoy led by pick-up in NR deposit flows. Nim increased +3bps qoq, ex +7bps penal interest impact. Fee/avg assets at 0.88% vs 0.77% qoq) led by penal charge benefit, higher focus on core para banking fees (+42% yoy) and seasonality. Headline asset quality metrics stable qoq despite seasonal inch up in slippages in unsecured credit.
RBL	23.4	18.2	-22.3%	Loan growth muted (1.4% qoq, 4.6% YTD) due to weakness in unsecured credit. Strong deposit growth (6.5% qoq, 4.5% YTD) on weak base. NIM -38bp qoq (ex-one-offs in 1Q) due to interest reversal of slippages. Core fees/assets +11bp qoq due to higher credit card fees. Net slippage ratio increased in credit cards (14% vs 9% qoq) due to in-house transition of BFL collection services and MFI (13% vs 7.7% qoq) due to stress in Bihar (30% of book).
KVB	22.7	22.9	1.0%	NIM at 4.11% within 2Q guidance of >4% as CoD up +8bp qoq lower vs guidance of 10-12bp. However, YoA decline (-2bp qoq vs +10-12bp qoq guidance). Opex to assets inc to 2.59% (+10bp qoq) due to (i) higher employee costs on frontloaded employee additions due to higher branch opening plans in FY25: 100 vs FY24: 39 (ii) higher IT costs, higher branch setup costs from the newly opened branches in recent quarters. Higher writeoffs (~2x qoq), mainly in retail segment.
CUB	14.7	14.9	1.3%	Loan growth (12% yoy) now in-line with industry and led by a pick-up in core segments of (i) MSME loan (42% mix) growth of 5% qoq (vs trend of 1-2% decline for past few quarters) and (ii) Gold loans, (25% of book, +8% qoq, 14% yoy). Guidance for credit growth in 2H to be in-line with system and led by traditional core businesses. Reported NIM inc +13bps qoq due to YoF (+10bp qoq) on higher gold loan yields and CoF (-4bp qoq) with borrowings declining 44%qoq.
DCB	19.4	19.2	-0.7%	Business growth momentum was strong (advances / deposits growing by ~5.5% qoq, 19-20% yoy). Reported NIM -12bps qoq, due to decline in YoA (-11bp qoq) on interest refund due to regulatory changes to timing of interest accrual. CoD stable qoq. Core Fee/assets increased to 0.83% (+12bps qoq) on higher TPP income and penal charge benefit. Slippages continued to increase in mortgage book (GNPA increased 10bp qoq) due to delinquencies in older vintages (sourced in FY23). Reported credit costs increased to 27bp vs 18bp in 1Q and bank expects credit costs to rise to 30-35bps in the coming quarters due to normalization to steady state levels.

SBI	76.2	78.4	2.8%	Loan growth (2% qoq, 16% yoy) led by agri and SME. FY25 14-16% growth. Deposit growth guidance increased to 10% from 8%. NIM declined -8bp qoq due to higher CoD (+22bp ytd). FY25 margin guidance maintained. 1HFY25 credit costs of 43bps in-line with FY25 guidance of 50bps
BOB	35.2	35.6	1.1%	FY25 advances & deposit growth guidance lowered by 100bps, margin guidance maintained. NIM (3.1%) declined -8bps (-5bp penal interest impact). Other income (2x qoq) led by higher TWO recovery on resolution in large NCLT account and higher trading gains. Higher credit costs (65bps vs 47bps in 1Q) due to increase in prudent provisions on std assets (Rs 3bn), NPA assets and creation of Rs 2.3bn floating provisions
PNB	12.6	13.8	9.4%	FY25 guidance revised for (i) credit costs to be 0.25-3% vs < 0.5% earlier (1H: 0.2%); 2nd consecutive quarter of positive guidance revision. Bank also made floating provision of Rs 3.5bn (3bps of net advances) in 2Q. (ii) GNPA guidance (revised) 3.5-3.75% vs <4% earlier (Sep'24: 4.48%); (iii) FY25 RoA guidance revised to 0.9-1% vs 0.8% given earlier.
Canara	17.7	17.6	-0.3%	NIM declined -2bps qoq, lower vs 7-10bps reduction for peers and is largely in-line with FY25 guidance of 2.9%. This was led by (i) higher YoA (+11 bps) as corporate loan yields increased by +136bps as the bank has been shedding low yielding corporate loans; (ii) CoD remained stable qoq. Credit cost increased +7bps qoq due to Rs 5bn additional provision to strengthen PCR (90.7%, 167bp qoq).
UBI	20.7	20.6	-0.4%	Weak domestic loan growth (1.8% qoq, 2.4% ytd) due to decline in wholesale advances. Deposit growth also weak (1.5% qoq, 1.7% ytd) due to CASA decline. NIM declined -15bp qoq (-11bp penal interest impact), +19bp qoq CoD increase on weak CASA growth. Gross slippage ratio increased to 2.4% vs 1.08% in 1Q due to 1-2 days delayed payments in a couple of state government accounts. Credit costs stable qoq.
Indian bank	73.6	75.0	1.9%	Reported NIM increased +1bps (ex penal interest impact of 8bps in 2Q). Other income increased (27%qoq) due to higher TWO recovery and treasury gains. SMA-2 in corporate increased to 1.05% vs 0.12% qoq due to slippage of a govt guaranteed account of Rs 22bn, it has however been upgraded to SMA – 1 as of Oct'24.
BOI	18.2	17.1	-6.0%	NIM declined -25bp qoq due to lower yields in international book and penal interest migration to penal charges. Higher employee costs due to higher AS-15 provisions. SMA1-2 increased due to delays in state PSU repayments.
AU SFB	29.0	29.5	1.6%	Deposit growth was very strong at 12.7% qoq (1H: 12.25%). FY25 guidance of CoF reduced to 7.1-7.15% (vs initial guidance of 7.2-7.25%) and FY25 NIM guidance increased to 6% vs ~5.6% given earlier. Credit costs in credit cards + PL/BL increased to ~10.3% in 2Q (vs 6.5% in 1Q) and will stay elevated in 2H. MFI credit costs at ~3% in-line with bank's expectation. However, full year MFI credit cost to exceed 3%. Secured asset credit costs increased to ~1% / 0.9% in 2Q / 1H (vs 0.8% in 1Q) due to seasonality and heavy rains in northern India. FY25 overall credit costs to be around 1H (1.28% of GLP).
Ujjivan SFB	6.6	5.3	-20.0%	NIM declined -10bps qoq due to adverse asset mix and interest reversals from slippages, while CoF was stable. FY25 NIM guidance revised lower to 8.6-8.8% from ~9% earlier. FY25 credit costs guidance revised further upwards to 2.3%-2.5% (from 1.7% FY25 guidance in Jun'24, 1H: 1.73%) due to lagged increase in provisions and forward flows from SMA buckets.
Equitas SFB	5.9	3.9	-34.1%	NIM declined by -28bp qoq due to interest reversal on slippages partly offset by +13bps benefit from SA rate reduction in previous qtr. MFI credit costs increased significantly to 10.18% in 1HFY25 (6.75% ex of Rs 1bn stress provisions in 2Q) vs 1.04% for remaining book. Excess provisions of Rs 1.46bn (2.6% of MFI book) led by (i) Rs 460mn due to strengthening of IRAC provisions; (ii) Rs 1bn additional stress provisions in MFI (50% of 30-90dpd in MFI). Opex increased by 3% qoq mainly due to higher employee costs (21% yoy).

Source: Company, Systematix Institutional Research

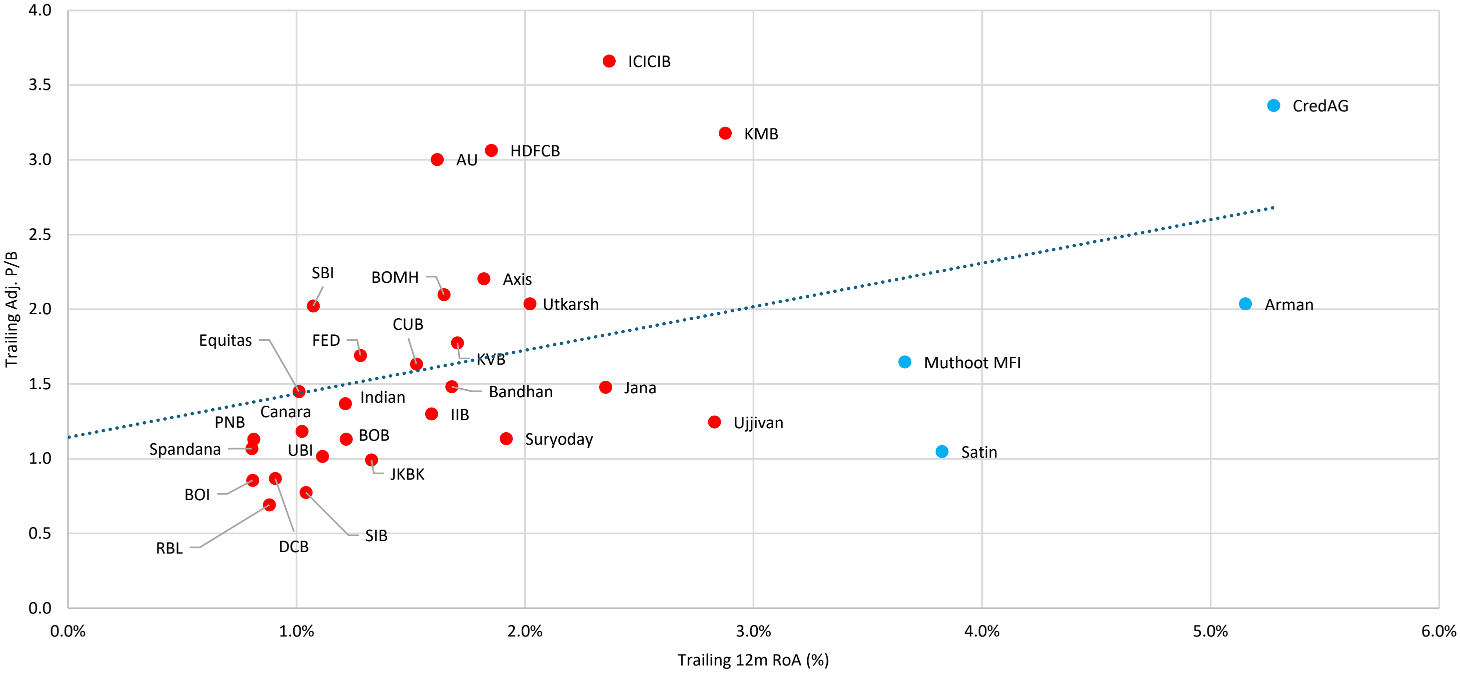
Valuations

Exhibit 16: Valuation table

Name	Rating	MCAP (Rs bn)	CMP (Rs)	TP (Rs)	EPS growth (%)			P/EPS			P/ABV			RoE (%)			RoA (%)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
HDFCB	BUY	13958	1826	1945	1	16	14	20.3	17.6	15.4	2.9	2.6	2.3	16.9	15.2	15.4	2.0	1.9	1.9
ICICIB	BUY	9232	1308	1455	27	13	9	19.4	17.1	15.6	3.4	3.0	2.6	18.7	18.2	17.4	2.4	2.3	2.2
AXISB	HOLD	3591	1161	1335	159	13	10	14.4	12.7	11.5	2.4	2.0	1.7	18.1	17.1	15.9	1.8	1.8	1.8
KOTAK BANK	BUY	3479	1750	2010	26	-5	20	18.9	19.9	16.5	2.7	2.4	2.1	15.3	12.5	13.2	2.5	2.0	2.1
INDUSIND	BUY	778	998	1495	21	1	23	8.7	8.6	7.0	1.3	1.1	1.0	15.3	13.7	14.8	1.8	1.7	1.8
FEDERAL	BUY	515	210	235	7	11	22	13.0	11.7	9.6	1.7	1.5	1.3	14.7	13.3	14.4	1.3	1.2	1.3
IDFC FIRST	NOT RATED	477	65	NA	9	-22	63	15.1	19.5	11.9	1.5	1.3	1.2	10.2	6.9	10.5	1.1	0.8	1.0
KVB	NOT RATED	191	239	NA	45	15	10	11.9	10.4	9.5	1.8	1.7	1.4	17.2	17.0	16.2	1.6	1.6	1.6
CUB	NOT RATED	135	183	NA	8	9	11	13.3	12.3	11.1	1.8	1.6	1.4	12.8	12.5	12.4	1.5	1.5	1.5
RBL	NOT RATED	99	163	NA	32	-11	48	8.4	9.4	6.4	0.7	0.7	0.6	8.0	6.9	9.5	0.9	0.7	1.0
DCB	NOT RATED	41	129	NA	15	12	20	7.5	6.7	5.6	0.9	0.9	0.8	11.2	11.6	12.4	0.9	0.9	0.9
CSB	NOT RATED	53	307	NA	4	0	20	9.4	9.4	7.8	1.5	1.3	1.1	16.2	13.8	14.5	1.7	1.5	1.5
BANDHAN	NOT RATED	282	175	NA	2	67	16	12.7	7.6	6.5	1.4	1.2	1.0	10.8	15.9	15.9	1.3	2.0	1.9
AU SFB	NOT RATED	442	595	NA	5	28	31	25.9	20.2	15.5	3.2	2.7	2.3	13.0	14.2	15.2	1.5	1.6	1.6
EQUITAS SFB	NOT RATED	73	64	NA	36	-46	101	9.2	16.9	8.4	1.3	1.2	1.1	14.4	6.4	12.9	2.0	0.8	1.5
UJJIVAN SFB	NOT RATED	67	35	NA	29	-20	26	5.3	6.6	5.2	1.6	1.1	0.9	31.2	16.7	18.4	3.5	2.3	2.4
SIB	NOT RATED	64	24	NA	38	-17	8	4.8	5.7	5.3	0.8	0.7	0.7	13.8	12.2	11.9	1.0	0.9	0.9
KARNATAKA BANK	NOT RATED	82	216	NA	5	-7	7	5.4	5.8	5.4	0.9	0.8	0.7	13.7	12.2	11.7	1.2	1.2	1.2
SBI	BUY	7621	854	1015	22	23	21	9.7	7.9	6.5	1.8	1.5	1.3	18.8	19.7	20.3	1.0	1.2	1.3
BOB	NOT RATED	1316	255	NA	26	3	6	7.4	7.2	6.8	1.1	1.1	0.9	16.4	15.6	14.5	1.2	1.1	1.1
PNB	NOT RATED	1241	108	NA	229	84	6	14.4	7.8	7.3	1.2	1.1	1.0	11.4	13.8	13.1	0.8	0.9	0.9
UNION	NOT RATED	962	126	NA	54	9	3	6.7	6.1	5.9	1.0	1.0	0.9	15.5	15.8	14.4	1.1	1.1	1.0
CANARA	NOT RATED	954	105	NA	40	10	7	6.6	6.0	5.6	1.2	1.2	1.0	17.2	17.8	16.3	1.0	1.0	1.0
INDIAN	NOT RATED	781	580	NA	41	25	8	9.7	7.7	7.1	1.5	1.4	1.2	15.2	17.2	16.2	1.1	1.2	1.2
BOI	NOT RATED	519	114	NA	56	15	4	7.7	6.7	6.4	0.9	0.9	0.8	11.1	10.9	9.2	0.8	0.8	0.7
J&KBANK	NOT RATED	114	103	NA	35	-2	0	6.1	6.3	6.3	1.0	0.9	0.8	16.9	13.9	12.4	1.3	1.1	1.0
BOMH	NOT RATED	439	57	NA	48	37	11	10.0	7.3	6.5	2.3	1.7	1.4	23.0	25.4	22.1	1.4	1.8	1.7

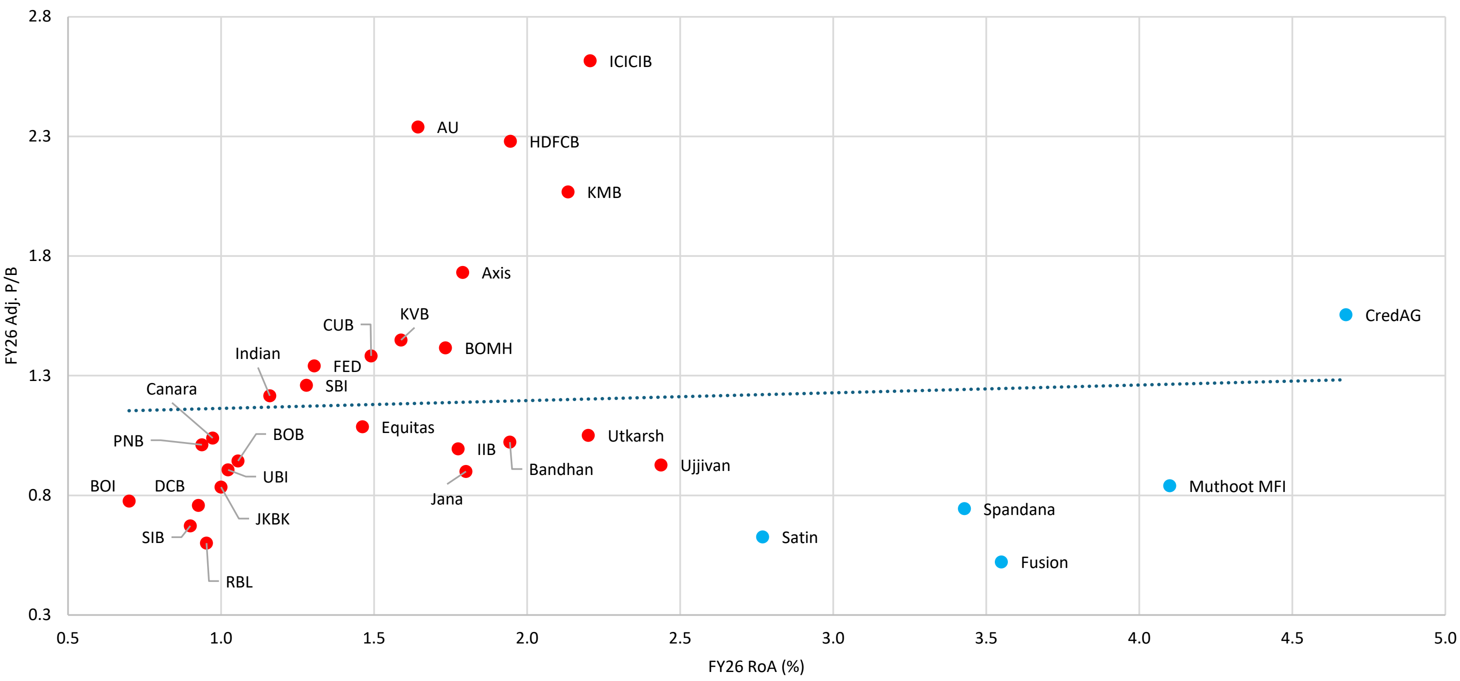
Source: Company, Bloomberg consensus for companies not covered, Systematix Institutional Research

Exhibit 17: Trailing Adj P/B vs 12m trailing RoA



Source: Company, Systematix Institutional Research

Exhibit 18: FY26 Adj P/B vs FY26 RoA



*Source: Company, Systematix Institutional Research *Bloomberg consensus estimates used for NOT RATED companies*

Earnings Highlights

2QFY25 loan growth of (3% qoq, 13% yoy) was led by SME, gold loans, home loans. FY25 outlook muted due to curbs in unsecured credit, CDR and margin pressures. Bottom-up analysis of 27 banks indicate that sector loan growth moderated to 13% yoy/14% (ex HDFCB) from ~16-20% (ex HDFCB) in the last 9 quarters. Private banks underperformed the sector with growth of 11.5% yoy with muted growth in (i) HDFCB (7% yoy) due to asset sales, (ii) Kotak and IIB (15%/13% yoy) due to stress in unsecured credit, (iii) Axis (11.4% yoy) due to CDR pressures. On the other hand, PSU banks outperformed the sector with 14% yoy growth with larger PSU banks SBI/BOB/PNB witnessing stable to improving growth trends of 15%/12%/15% yoy. While SFBs (ex AU) maintained the net loan growth trajectory of 20.3% yoy, it was mainly supported by lower securitisation/assignment volumes. However, gross loan growth reduced to 21% yoy (despite a lower base) vs 24% yoy in 1Q**.** In terms of sectoral drivers, growth was mainly led by SME and secured credit viz. home loans and gold loans while growth remained weak in auto loans and unsecured credit (PL, credit cards, MFI). While banks indicate of underlying corporate credit demand being strong, at an aggregate level, growth remained soft due to shedding away of low yielding advances. **FY25 growth is expected to be muted due to stress in unsecured credit, deposit mobilisation challenges coupled with C-D ratio pressures, reduction in overseas loans due to softening of global rates, delayed pickup in private capex cycle along with many PSU banks chosing to shed low yielding short term loans given to central and state PSUs. Due to these reasons, many banks like HDFCB, IIB, BoB, Utkarsh, Suryoday reduced their FY25 growth guidance**.

FY25 NIMs to be under pressure due to interest reversal on slippages, sticky deposit costs and reducing unsecured mix: SCB's deposit growth was at 3.7% qoq (on flat growth in 1Q), 11% yoy led by strong CASA growth (2.4% qoq, 7% yoy) led by higher CA flows (4.8% qoq on a low base, 8% yoy) from corporates. C-D ratio declined largely across the board for pvt banks and SFBs. On the other hand, PSU banks continued to lose deposit mkt share and deposit growth continued to lag advances growth. As a result, C-D ratio increased across the board for PSU banks barring SBI/J&K bank and has now reached towards the higher end of their comfort zones. Margins compressed across the board mainly as (i) Pvt banks saw spread compression of -5bps qoq mainly due to reduction in unsecured loan mix along with C-D ratio reduction of -150bp qoq; (ii) PSU banks saw margin compression of -6bps qoq due to spread compression of -7bps qoq mainly due to funding cost increase of +10bps qoq partly offset by C-D ratio improvement +20bps qoq (+100bp qoq improvement for PSU banks - ex SBI); (iii) SFBs saw margin decline of -18bps qoq as funding yields decline -11bps qoq due to interest reversal on slippages in the unsecured portfolio and muted growth. Overall banks also saw penal interest impact of 5-10bps qoq on yields. **FY25 NIMs to be under pressure due to (i) interest reversal on slippages in unsecured credit which are expected to remain elevated in 2H, (ii) sticky deposit costs as while short term CD rates have softened, retail deposit rates continue to increase with larger banks like ICICI increasing retail card rates by +15bps in last 2 quarters, (iii) reduction in unsecured mix.**

PSU banks' other income befitted from higher TWO recovery and treasury gains: Other income yields for PSU banks increased materially by 25bps qoq vs 6bps for private banks mainly due to higher TWO recovery, higher treasury gains due to fall in G-Sec yields and reclassification of penal interest in the form of penal charges. Also, private banks' fee income was impacted due to muted growth in retail credit.

Credit costs increased for pvt banks and SFBs due to stress in unsecured credit and increase in PSU banks was due to slippages in PSU accounts: Pvt banks and SFBs saw an increase in total credit costs by +12bp/+24bp qoq which was led by (i) higher slippages and write-offs mainly in the unsecured credit and (ii) creation of additional provision buffers. On the other hand, PSU banks saw an increase in NPA provisions (% avg Net advances) by +5bp qoq due to slippages in PSU accounts due to technical delays in repayment of dues and classification of some of the central and state govt PSU exposures as NPA. That said, many of the accounts have been upgraded in the current quarter post repayment of dues. However, total credit costs for PSU banks remained broadly stable (-2bp qoq), due to reversal in std asset and other provisions.

With respect to stress in unsecured credit: (1) asset quality in personal loans by large pvt banks continues to remain stable. (2) MFI segment saw higher credit costs between 6-10% due to higher slippages on lower collection efficiency and lower centre meeting attendance. Slippages were 3-4x higher in borrowers with 4 or more lenders. Such borrowers account for ~8-14% of total borrowers. PAR30-60dpd for the industry had increased to 0.8% in Jun'24 from 0.5% in Mar'24 which is likely to continue to result in fwd flows going fwd. The same was highlighted by key MFI players which indicated that slippages will remain elevated in 3Q and a taper is likely only in 4Q and beyond. (2) credit card segment also saw elevated slippages, however players like IIB and RBL have indicated of signs of stabilisation in 3Q. In contrast to MFI where players indicated to curbing incremental disbursements due to asset quality stress, in the credit card segment players indicated of growth to continue despite a slight inch up in slippages.

Overall credit costs and slippages will remain elevated in 2H due to (i) MFI- higher fwd flows resulting from SMA buckets which have increased in 2Q along with lagged increase in provisioning by 25% each quarter; (ii) Credit cards - while 70-80% of the fwd flows in NPA bucket have been provided upfront, credit costs in credit cards will remain elevated as slippages continue to remain elevated; (iii) Wholesale credit – while overall asset quality remains benign, risks of further slippages in PSU accounts remain as SMA buckets have increased for nearly all PSU banks for 2nd consecutive quarter.

Exhibit 19: Commentary on unsecured credit from key market participants suggests improvement in stress levels in second half of FY25

Credit cards	**SBI Cards**	'The credit card industry has continued to witness an increase in delinquency levels, largely driven by environmental factors which have impacted the repayment capacity of borrowers. As per recent RBI reports, these factors include increase in household debt and excess leverage through retail loans. The latest data from the credit bureau suggests that the card industry delinquencies will increase gradually during FY 24, have increased even more sharply in first half of FY 25.'' ''The primary reason for the increase in Credit Cost has been the customers inability to repay owing to cash flow challenges and increase in leverage.Our delinquency levels have remained elevated with **Credit Cost at 9% in Q2**'' ''We **expect credit costs to remain elevated around these levels**. But then simultaneously, we have also stated that there are other indicators that help us in estimating that there will be some downward gradient in times to come.'' ''We are seeing a drop in early delinquency of new acquisitions. It is difficult to predict the exact timeline and quantum of improvement in Credit Cost, as this would also depend on the changes in the unsecured lending ecosystem and macroeconomic factors.'' ''In terms of the flow rate, the early delinquency, flows "into delinquency". That's been improving. But other flow rates , from delinquent to write-off, is not improving. And that is witnessed in our write-off numbers, and they are clearly going up.'' ''Our efforts have been directed towards tightening our underwriting standards, actively managing our portfolio, and intensifying our collections activity by leveraging digital and tele-calling earlier in the customer lifecycle.''.
Credit cards	**ICICI Bank**	'We have also seen an increase in the delinquencies and NPL formation in unsecured loans over the last 3-4 quarters, both in credit cards and in personal loans. But during this period and even prior to that, we had been taking various steps to sort of improve the way we were underwriting and sourcing this portfolio in terms of customer segments and pricing and various other filters.'' ''Credit card is definitely a business we would want to continue to grow. But , over a period of time, we have taken various steps in terms of the sourcing pattern. While, delinquencies and credit costs go up, it continues to be a very profitable business and a growth business.'' ''Overall, the unsecured piece, (PL+CC) put together are about 14% of the loan book. So, some increase in delinquency or credit costs in these segments has contributed to the path towards some kind of normalization of credit costs. But we are still in the 40-50 basis point range on an overall basis. So, that's how we would manage going forward.''
Credit cards	**Kotak**	'On the Unsecured retail business, the tech embargo has had an effect, particularly on the credit card business. Total share of retail unsecured asset businesses has dipped a little bit to a shy over 11%. In the credit card business, we have also seen some level of credit stress due to the overleveraging of certain kind of customers.'' ''Credit card business has most of the credit losses. So, if you look at our total credit cost, credit card is always going to constitute a very significant portion of that total and that will kind of continue. ''W.r.t slippage, "credit card does constitute about 30%-35% share, the net slippage.We are hopeful in Q3 and Q4, we will have recoveries from the rural and secured businesses which will sort of help us to reduce the slippage going forward further in the Q3-Q4.'' ''Credit cost will more or less stabilize and then over the next 2-3 quarters actually come down. We expect post Diwali that we will see a certain amount of recoveries particularly in the businesses that are linked to the rural parts of India and a improvement in credit costs in the next 3 to 6, 9 months in portfolios like credit cards.''
Credit cards	**IndusInd**	"On credit cards, we will cautiously start increasing our volumes and remain watchful.'' ''Only other segment which is a little bit worrisome is credit cards. While the delinquencies are showing a higher percentage, the flows have been stabilized. So, we are seeing a stable flow which is a little elevated than normalized levels and as a result higher delinquencies percentage. We are waiting for the delinquencies to start declining in cards. '' ''Gross NPAs flows are 7%-8% with the credit cost of 2.8%-3%. The stress has not increasing but there is also not an improvement in the flow rate on the credit card.''
Credit cards	**RBL**	'While credit card slippages have largely been on account of the impact of changeover of collection services from our large co-brand partner. The benefit of this transition, both in terms of our control and the ability to manage this going forward far exceed this impact. Our analysis has clearly shown that this near-term challenge on credit card slippage is a function of time and scale of this transition program and has negligible casual relation with the portfolio quality, our customer profile that we have. And as we exited Q2, we have seen the collection efficiency in the current and the early buckets materially improving nearly back to the levels pre transition. And this gives us the confidence that this pressure is largely behind us as we enter Q3.'' W.r.t credit costs., ''once the transition impact is over, we should get back to levels that was prevalent like for non-BFL cards as well in the range of, 5% - 5.5% credit cost kind of an outcome is what we are really targeting over the next couple of quarters, maybe 2 to 3 quarters.''

MFI	**CreditAccess Grameen**	'The unsecured lending space, including MFI, marked by high growth has witnessed an increase in delinquency levels over the past 3-4 quarters. Given the short-term nature of such unsecured lending and timely calibration by various institutions, we believe this credit cycle to be transient in nature, taking recognition to which the MFI industry, represented by MFIN, implemented the guardrails in July '24 to strengthen the underwriting norms across all the various entities.'' ''While we have been witnessing an accelerated realization of delinquencies in the last few months, we believe that the MFIN guardrails are essential for fostering a healthier environment for the industry in the medium to long run.'' ''It is not just MFI industry is struggling, a lot of other industry, which is finance sector, individual loan sector, personal loan sector, credit card sector, retail loan sector. Some of the reasons which are in the nature of third-party intervention, lack of income, lack of liquidity and cash flow because of tight credit norms for everybody. These are short-term loan cycles, so this cycle also should be short-term and should be over in this financial year itself.'' Because of MFin guardrails, '' It is more of accelerated recognition of these delinquencies which will happen in this FY and maybe it should end somewhere in 3rd quarter. It will be a short-lived delinquency cycle and post that the industry delinquency trend should be relatively better. '' ''But the MFIN said that after Q3, they will again review and see the impact of the guardrails, whether to make it more stringent or to add more parameters, they will look at ''W.r.t slippages, ''Karnataka is 2.3%. Maharashtra and MP holding well at 4.2% and 4.6%. In TN, it has increased to 6.2%, and Bihar is on the higher side at 8.9%. And other states, it is 8%, but we have to also take into account that the book degrowth is higher because there are certain states where we are kind of not growing much like Rajasthan, Gujarat, Kerala, etc'' ''We are seeing the stabilization in both Karnataka, in Maharashtra, and MP, and Chhattisgarh, a large part of that, even TN. We have a strong belief that we should be able to **turn around in Q3, and able to grow in the Q4**.'' ''**PAR accretion or increase should be peak as far as this quarter**, or maybe the trend of reversal should start from Q3. **Oct may be stabilized, Nov may start turning around, Dec may be a bit improvement**''
MFI	**Arman Financial Services Ltd**	'The industry is experiencing a substantial rise in impairment cost. This increase is largely due to overleveraging in the rural retail unsecured lending space, impacting both MFI and non-MFIs alike.'' ''Overleveraging has strained borrower repayment capacities, leading to a rise in delinquencies and higher default rates. Additionally, high attrition rates among the field staff across industry have affected collection efficiency as turnover disrupts the consistency effectiveness of borrower interactions, which is a crucial component for timely repayments in microfinance.'' ''We had anticipated an increase in the credit cost from overleveraging.However, the severity of these challenges have been much greater than expected, and compounded by an evolving macroeconomic and regulatory environment. Given these conditions, we have opted for a cautious growth strategy, emphasizing collections and portfolio holdover expansion.'' ''The rural sector has faced significant pressures from various factors, including unpredictable weather, election-related uncertainties and disruptions, broader economic headwinds, all of which have contributed and affected borrower repayment capacities. Despite the near-term challenges, we are confident in our long-term strategy, which we believe will support future growth.'' ''The MFIN guardrails have been introduced to manage overleveraging, and we are in the process of establishing an independent credit teams across all branches by the end of year. These teams will strengthen our credit assessment processes, enhance oversight and quality control at the branch level. This initiative is designed to improve our risk management capabilities and better equip us to assess and respond effectively to borrower needs. Our focus remains on quality over quantity and navigate the current challenges in the rural environment and awaiting the end of the down cycle. We believe that by prioritizing quality, we'll be in a stronger position once the industry environment stabilizes.'' ''For H1 FY 25, total disbursements were INR832 crores, down from INR1,068 crores in H1 FY 24. This reduction reflects our decision to prioritize asset quality and to focus on collections rather than growth.''
MFI	**Spandana Sphoorty Financial Ltd**	'The dilution of the JLG model post Covid, is taking time to turn around. This has impacted the discipline around the center meetings and a key indicator of a customer engagement being center attainment, that is still at 55% .'' ''Borrower indebtedness is one of the challenges impacting the industry. If we look at the borrower indebtedness or overleveraging. there has seen a significant shift downwards from Spandana and Spandana +1.'' ''As a matter of abundant caution, we have announced internally that the organization will not be the fourth lender new to Spandana borrowers.'' ''We continue to believe that these challenges are transitory and expect operations to normalize by end of the current FY. We monitor very closely, our actions will now be focused on improving the portfolio quality. We will continue to be prudent in our approach to lending, ensuring that our portfolio is well diversified, while staying conservative on ticket sizes and customer indebtedness.''
MFI	**Satin Credit care**	'MFIN guardrails and Sa-Dhan's SANKALP guidelines were introduced in the month of July '24, an essential measure for fostering conducive environment for the industry for the longer run.'' ''It gives us pride to mention that much before the sector-wide initiatives by SROs, the company has been following the good practices like the policy of capping the maximum number of MFI lenders at four and limiting the total marginal indebtedness to INR2 lakhs.**When the SROs implemented the guardrails in July '24, the retrospective analysis showcased that just about 1% of the company's existing clients exceeded the number of lenders by four, and only 0.04% clients had loan outstanding exceeding INR2 lakhs at the time of disbursement, demonstrating the strength and consistency of our approach to responsible lending over the years.''** **''Our asset quality has experienced a temporary, transitory increase in delinquency across a few geographies, including Orissa, Punjab, Rajasthan, Jharkhand, and Maharashtra, influenced by various challenges like heat waves, floods, general election, and other on-ground external factors.''** ''Our performance in Punjab has outpaced industry standards, with C.E holding above 92% level even with calibrated results. We expect the situation to improve from Q4 FY25. '' ''We are far better off in Nov since we do not have festivals now. The monsoon/heat wave is over.We are far better in this month as compared to the previous 6 months. Probably one indication, which gives some kind of comfort.''

MFI	**Muthoot Microfinanc e**	'We are seeing rising delinquency trend in the industry, focus is on our existing customers. So, disbursement, a year, it used to be 50-50, which is 50% new to Muthoot and 50% existing customer. Now, it is 40-60, which is 40% new customers to 60% existing customers. And it is even fewer in the following months. We are focusing on existing rather than taking the chances of the NTC.'' ''Whatever pain has been there, people have taken it in Q1 and Q2. Q3, we'll see a stabilization for some of the entities, some of the entities turning to the kind of an upside. And then Q4 should be good definitely.'' ''Bihar, contribution of 44% in terms of digital, has faced challenges in collection and more recently flooding. Their collection portion in terms of digital has dipped a little bit. This is a temporary phenomenon. In the coming months, it will go up.'' ''With all the regulations in place, all the guidance, guardrails that have been put in place, it will reduce the unnecessary over lending in the segment and that will benefit us, the customer will not be unnecessarily overlended, which will help us to maintain a better portfolio.'' ''C.E for TN is at 97%, and Kerala at 98%. Bihar at 94% considering that the last part of Bihar is flooded with water, excluding the claims from NATCAT. We will get those claims which will include that would be around 96%.'' ''Karnataka is 97.6% and Kerala and Tamil Nadu are showing a good performance in terms of collection. Bihar, because of previous external events, including the extensive holidays, because of the extensive natural calamity flooding also, we had issues. Around 22,000 cases is pending for claims settlement. Once these claims are received, the collection will improve in these states as well.'' ''Southern states, we have done better. Even though the industry trend will show that the Kerala delinquency is high. But in our portfolio, we are getting good connections from Kerala, since the collections are around 98%+, and that is going to further improve in the coming days. Similarly, in Tamil Nadu, we are doing better than the competition. The challenge we are facing is in Bihar, but still our C.E better than the industry. And especially these states which are affected by various events like Gujarat and Bihar, there were floods, we will do better than the industry.''
MFI	**Bandhan Bank**	'In Q2, the pain in the MFI sector has increased and accordingly we have seen a marginal increase in slippages leading to slight deterioration in asset quality'' ''Whilst the increases in SMA 1 and SMA 2 buckets have been contained in the context of the challenges of the MFI sector, we are working hard on the SMA0 bucket recoveries to ensure that these loans are regularised and do not slip into higher buckets in ensuing quarters.'' ''We have decided to be a bit more secured, which means that micro will grow, but the other businesses will grow at a much faster pace. Generally, Q3 and Q4 are better quarters for us traditionally. This year, have Q2, purposely, we have decided to be watchful and careful across various states and specific pockets and even specific BUs. And given the elevated risk in the industry, we would like to maintain similar watchful posture in Q3 as well. In October, we are already seeing some bit of a better uptick, both in terms of collection efficiency in the regular pool. And if, it turns around positively by January, we will have an opportunity to grow that book. We will be more careful in containing the portfolio quality rather than focusing too much of a growth in the MFI portfolio.'' ''Individual is doing better than the group at this stage. And that's almost expected when Industry overall issue happens, generally, the individual behaves better than the group.'' ''We have 60% unique customers to Bandhan, 80% is Bandhan + 1, but we still have ~4.5% or, about ~6-7% as Bandhan + 3'' ''Within EEB, moderation in C.E is largely in rest of India portfolio; while,C.E in WB and Assam on sequential basis is largely stable at 99% and 99.2% respectively '' ''Bihar is holding up pretty well for us. West Bengal is doing very well. Assam is doing extremely well . Orissa is a little bit of a problem. Parts of UP, bit of a problem. Maharashtra, parts of Rajasthan, bit of a problem. So, it's like not the whole state, it's just parts of it. Maharashtra is elevated. Bit of UP, Eastern One is also elevated . WB continues to hold good , which is our state, which we have good strength here.'' ''We had guided that we will be in the range of 1.8%-2% of credit cost for FY5. We continue to have the same guidance with the belief that, in Q3, the slippages could be elevated and the credit cost could be elevated further. But by Q4, we believe that the market would start showing some signs of positivity returning back.''
MFI	**Kotak Mahindra Bank**	"On the MFI side , we restricted growth because as we called out 2Qs ago, we were seeing some strain, and we are being cautious of growing in the MFI space. We expect this trend to continue for the next quarter, maybe two quarters, and then it should get okay. It's obviously confined to certain states and some states are coming back quite nicely, while in some cases, the strain kind of continues'' ''Unsecured retail mix reduced to 11.3% due to the embargo on the credit card and lower disbursement in the micro credit.'' "Once we get out of the embargo, we will grow our unsecured retail book giving higher yielding asset'' ''BSS Microfinance business, a correspondent entity, ended the quarter with a lower post-tax profit of 16 crore due to lower disbursements and an increase in delinquencies in select states'' ''Micro Credit, after a consistent 20%-25% growth in the last 2 years, the micro sector degrew by 4% and was expected to degrow in this quarter as well. The segment saw certain stress because of overleveraging of certain borrower segment. This along with the slowdown in the rural household incomes saw some increase in delinquency. This is likely to play out over the next 2-3 quarters. Our micro credit business actually degrew. We pulled back a bit and we will be watchful of the trends as we look at this important business. We are optimistic of the medium- and long-term prospects of the business and building a quality franchise with the right reward metrics.'' ''Slippage itself, we expect with the measures described to reduce going forward especially in the microcredit book. But this can continue for a couple of quarters, So, as the old legacy loans run down, what is left will be fresher underwriting and that therefore automatically means that these slippages come under control'

MFI	IndusInd Bank	'We remained watchful on microfinance disbursements, prioritizing collection in light of industry-wide challenges.'' ''We believe MFI business is likely to see support from the rural recovery, industry level cautious stance and external disturbances such as heatwave, floods etc. getting behind. The sector is resilient and has bounced back after disruptions in the past. We do believe in the long term potential and our approach of being a conservative and diversified rural play should deliver recovery ahead of the sector.'' ''We should get back to our steady state RoA once we resume growth in microfinance.'' ''We continue to be cautiously optimistic about asset growth. We will continue to evaluate situation as we go forward. If the market is improving in the MFI and see trend in our own portfolio, looking at the center meetings and the quality of the book improving, we'll start disbursing at a faster pace. MFI, if it comes back to what it is,we should be able to get back to our retail growth.'' ''While the flows are elevated in MFI, we are collecting money from these customers. We have put a lot of resources on the field and cost has increased on MFI, but we are focused on the collection and all our energy & resources are put on the center meetings and making sure that the collection improves and the flow is reduced.'' ''This quarter is very critical. We have to wait and watch and see how the disbursements pick-up this quarter. This is a festival season and these two quarters have always been very good quarters for MFI historically.'' ''There is stress which are emerging in some parts of the country, specifically Bihar, Maharashtra, Odisha, parts of North. We are cautiously optimistic on the microfinance. We like this business. We believe that this business will turn around once the disbursements growth resumes. And because we don't give disbursements to clients who are delinquent. In my opinion, if everything goes well, within two months we should start seeing the flow rates coming down in this business.'' ''We did not have a West Bengal blowout the way other players had. We did not have an Assam blowout. We have reduced our exposure in Bihar. So, we have always said that in microfinance segment, 3.5% to 4% of gross flows is given and 2.5% to 3.25% of credit cost. It cannot run below that, and continue to maintain it. There may be some quarters where higher provisions have to be taken but in some quarters you'll be able to manage. Our microfinance book remains strong. The whole industry is going through a troubled phase because the funding cycle has stopped right now.And once the funding cycle comes in, you will see that the quality of the book will come back. '' **''Clients who are exclusive to BFIL are 44% of the book. Clients who have only one other lender than BFIL is 27% of book and clients who have 2 or 3 other lenders are another 21% of book. Only 7% of book is where 4 other lenders or more are there.''** **''One is certain districts in certain states which we are not preferring because of delinquency and leverage levels. Number two, if a center has a delinquency beyond a certain threshold level, we don't consider the center at all. And that is why the disbursements are lower. Third, if we feel that there is an over leveraging on the household income and the household income has changed very frequently by the customer, we don't go ahead. Fourth, if we think that the borrower has more than three lenders, we don't do the business. And fifth, if a customer has been more than 60 DPD with any one of the lenders we don't do the business.''**
MFI	RBL	'On microfinance, the momentum of growth is on a near-term back burner as we face on-ground issues with the borrower leverage, borrower multiple lenders, etc. But this appears to be settling for now.'' ''While we are seeing improvements in efficiencies as we exited Sept and with the industry now adapting conservative lending practices, our estimate would be to see this near-term impact bottoming out through Q3, as efficiencies trend upward and returned to normalcy in Q4'' ''Some of the states saw a dip in collection owing to floods, specifically Bihar, which is, around 30% of our portfolio.''We hope that this is kind of quickly changing in this month, 98% levels by sometime in October, November.'' ''We continue to emphasize great focus on collections, especially in early buckets, and have actually made some changes in the added manpower, have dedicated teams now looking at 30+and 60+ given the current situation.'' ''While we are better in Sept over Aug, we are still well below May, June levels on the current collections. States such as Rajasthan, Punjab and Jharkhand, which were problematic earlier have now turned around and have shown material upswing in collection performance.'' **''Approximately 40%, 45% of our customers are only RBL. And if you look at RBL plus 4 or RBL greater than that or 2 lakh leverage, broadly 8% to 10% would be in that bucket.''** ''In terms of slippages, would expect it to be higher than current quarter. And then we will expect that to start trending down from Q4 onwards. And credit costs within microfinance, we will expect credit cost to go up.''
MFI	AU SFB	'The whole challenge on MFI started coming from Q2 only, while Oct is better than Sep. But we really want to see 1 more quarter to comment where we are heading in MFI(7% of our book).'' **''41% of our customer doesn't take any loans from anybody else**. We remain very conservative in our underwriting over the year in Fincare. Very experienced team. We have built lot much around our C.E .But we need one more quarter to really assess the real impact of this whole slippages''. '' Bihar is slightly more challenging. The second more challenging state is Orissa. The good news is that our Bihar state is actually the eighth largest state at about 7.86% of our microfinance portfolio. And Orissa, It's only INR150 crores, 2% of our portfolio. So more difficult states, which have had greater flows in H1 are relatively smaller for us. There are obviously a few more states which are in the yellow zone. These are in redder zone, but can be managed with less credit losses over a point of time.'' **''8% of our borrowers have taken loans from equal to or more than 5 lenders**. Industry guardrails are on a number of lenders just 4. Fincare guardrails are more conservative than the industry guardrails.This number will gradually decline over the next few months in our portfolio. In fact, from June to September, it has gone down from 11% to about 8%'' ''C.E for Q2 was 98.44%. Q1 was 99.07%. In H1, we have delivered the current bucket C.E of 98.75%, which we believe is better than pretty much what we are hearing from the industry.'' ''We expect credit costs to remain elevated and finish full year broadly the same level as H1 based on the current outlook. There could be a variance of 5-10 bps, depending on the economic condition in the H2 too.''
MFI	Ujjivan SFB	'FY25 has been a relatively slow quarter compared to previous ones. This was an outcome of expected reduction in business volumes due to implementation of MFin guardrails and our heightened caution around the MFI segment.'' ''MFI segment has seen some challenges, and the situation continues to evolve for the FY '25. We believe that business revival on a reasonable estimate will only be visible from Q4 FY25 onwards at the earliest. To steer through this, we have devised a prudent approach and restricted

		disbursements to New to Credit (NTC), and stop new customer acquisition in problematic clusters of some states.'' ''We will continue to see a degrowth in our group loan portfolio for this year, which will weigh down our overall portfolio growth. We have enhanced our focus on building the individual loan portfolio which continues to show much better health and prospect.'' '' Bad debt recovery continues. Rs. 25 crores was recovered in Q2 FY25. Our target is to collect over Rs. 100 crores this year.'' ''Softness in return ratios will be visible for FY25. However, we are very confident that once the microfinance business springs back into a growth trajectory, ROE of 18%-20% is achievable for next year FY 25-26.'' ''Microfinance is the largest portfolio for the bank. We shall continue to do well in this segment once situation normalizes.'' **''7% of our borrowers in 4 plus lenders. And the slippages on that was higher than the borrowers with one, two, or three lenders. The overall slippages from there is about 4% or 5% higher than the regular ones.''** **''10% of our slippages comes from 4 plus lenders. So, the contribution is 7%, and the slippages are about 10%''** ''Slippages and the NPA of individual loan is much better than the group loan portfolio. So, the impact has been largely on the group loan portfolio. For Sept 2024,, IL GNPA is below 2%, and that gives lot of comfort that the IL portfolio can be grown much more comfortably. Therefore, we continue to focus on that portfolio.'' ''Our secured portfolio will grow by 40%+. Our individual loan in MFI book would grow by 17% for the full year. We are not penciling on the microfinance group loan growth or degrowth, because it is still ambiguous.'' ''Non-delinquent portfolio C.E dip from 99.46% to 99.23%. Q3 and onwards we are more optimistic because the guardrails have been implemented, changes in policies , customers would get adjusted to it. Therefore, C.E is likely to improve from here on. PAR would be just a derivative of that.'' ''Top five states, which is Tamil Nadu, Karnataka, Bihar, West Bengal and UP. Of which, C.E is not at PAR in Tamil Nadu. In other states, C.E is 99.4% and above. In Karnataka, it is 99.7%. Bihar and UP continuing to be in the range of 99.4%-99.5%.'' ''All the borrowers who have entered into delinquency in Q1 & Q2, the credit cost would only happen with a lag of 90 -180 days. Because then they get into GNPA, and provisioning buckets. In H2 , the impact would be felt. There will be a higher credit cost because delinquencies and the PAR numbers have gone up in Q1 and Q2.''
MFI	**Equitas SFB**	'Microfinance stress is likely to remain for possibly another two quarters given that the stress started about three quarters back and it's a two-year loan product.'' ''The situation continues to be a concern as fresh slippage and flow from SMA-0, SMA-1, and SMA-2 continues to be elevated.'' ''We have strengthened the branches with dedicated teams to improve customer engagements, collections, and DPD resolutions. These initiatives, we expect, will help improve resolution percentage of various DPD buckets. We need to see slippage in the NPA reduced by half to bring microfinance portfolio to a stable level.'' ''In MFI, the resolution percentage in the buckets are much lower and that is why we have created this extra buffer for the SMA book of MFI. This level of SMA was not there in the past and the resolution percentage being lower, Wwe created the buffer provision.'' ''We have an internal policy that our total unsecured book should not exceed 20%.'' ''From a medium-term perspective, in a 3-4 year time frame, MFI should be in single digit while PL and CC should fill up the balance.'' **'' Four lenders is 14.5%. 9% of our borrowers havnd INR2 lakhs. Below INR1 lakh exposure is 60%.''** ''As per the SRO guidelines,if we are not the 4th lender or less, we don't lend. If the total borrowing is more than INR2 lakhs, that also we don't. Guardrail of the MFIN we have put in place. But our own data shows that the behavior of the portfolio for 2nd/3rd/4th/5th cycle borrowers is better than the new first time customer. Focus is to try and restrict our lending as much as possible to existing borrowers.'' ''Ex-bucket collection efficiency was seeing some level of deterioration over the last 3-4-5 months, but in the month of October, that level of deterioration had stopped, which is the first good sign that we saw in the book and maybe partly contributed by some of the most risk customers already moving to NPA earlier.'' ''We believe that 4th quarter is possibly a time period by which we should see some level of abatement. And maybe the Q1 of next year could be reasonably normal. ''
MFI	**Jana SFB**	'At Jana, we think our MFI business contribution will be more guarded in the future also. While we always had a plan to get to 80% secured, our mind is to get there faster now.'' ''We were anticipating to become a 67% to 68% secured by the end of the year. We'll probably aim between a 68% and a 70% now''. ''One of the de-growths that we have seen in MFI business for the bank, as well as the increase in gross NPA, is because of our BC network .''Of17 BCs, 14 are behaving fine. There is only some challenge in 3. Out of that, one is a little more challenged. '' ''We are not seeing any microfinance rub off on our book.No challenge coming from a MFI behavior into any of secured books. Our commonality of customer isn't large'' '' In unsecured, the peak is over. We will get better in Q3, which will include us growing the book, which will include lower credit costs and will include more recoveries''.
MFI	**Suryoday SFB**	'C.E for H1 FY25 stood at 93.9% as against 96% in H1 FY24, primarily due to overall market scenario in the micro finance segment'' ''Overall, MFI industry is passing through a challenging phase of asset quality deterioration, but we, through our prudent rating and robust risk management practices endeavor to maintain healthy asset quality.'' ''Across the industries, there is a clear understanding that the guardrails are really kind of for ensuring and protecting all the players and specifically the customers, to the extent voluntarily there has been an implementation as we see across the board. We are not seeing any deviations because , highly leveraged customers, the slippages are 3 to 4x of the slippages in the customer segment, which has borrowed from no more than 1 or 2 or maximum 3.'' ''We are seeing either in Tamil Nadu or in Orissa. We have not seen any substantial spike except in the state where we operate, which is Gujarat. There is a substantial increase compared to what it was in the past. But other than that, the rest of the states, there are nothing which are acutely impacted, and we are not present in some of the high impact, the heavy-impacted states at this point of time, which is in the north of India.''

		''From a point of view of growth for H2, the more focus will be on 2.5 lakh curated customers, which fit into the guardrail and over and above that in terms of score card, which will be the Vikas Loan customer graduating, both from JLG as well as from within the Vikas Loan..'' ''We will be basically focusing on growing the individual loan book. The growth in the MFI joint lending group book will be very, very moderate.'' ''We wish to come back strongly in H2 driven by the retail asset disbursements. In terms of our Inclusive Finance, we'll continue to focus in Vikas Loan on graduated customer. So the guardrails of MFin as well as in terms of our own credit parameters, and the endeavor that we will kind of reach at least the lower end of the guidance in some of the profitable parameters. '' **''Currently, 25% of the book is about 4 + where we really see a direct linkage in terms of the stress is when it crosses around closer to 7 loans.''** ''Our cumulative credit cost in H1 is ~ INR 120 Cr. We expect the number in H2 to be in the range of INR 100 Cr-110 Cr. That will be the total cumulative cost, that will translate to~2% credit cost. Out of that, INR 135 Cr- 140 Cr will be eligible for a claim settlement in H1 of next year.'' "**future slippages in Q4 will taper off. The peaking will happen in Q2 and Q3 probably will continue at the same momentum**"
MFI	**Utkarsh SFB**	' Q2FY25 has been a challenging quarter for MFI industry. The initial stress in C.E and asset quality, which was caused by heat waves and operational limitations during general elections aggravated further in Q2FY25 on account of higher borrower-level indebtedness and stress accelerated further following, tightening of credit norms post-MFIN's guardrail advisory.'' ''We believe guardrail advisory is structurally positive step for the sector and significant positive once the current stress alleviates. Guardrail norms gives much better control on overall indebtedness level of the borrower as well as multiple lender relationship of the borrower.'' ''We expect **JLG disbursement to normalize from Q4FY25, and basis which, for the full year, JLG portfolio could remain flat against FY24**'' ''**Key factors which impacted C.E and asset quality in Micro Banking segment included over-indebted level of the borrowers, dilation in center meeting discipline post COVID, external disruptions like Karza Mukt Abhiyan in UP and Jharkhand, floods in few districts in Bihar, restricted credit supply in JLG's lending segment following MFIN guardrail advisory and slowdown in disbursement by various entities following focus shifting on C.E, led to acceleration of default**. As such, operating environment and C.E trends in our key states namely Bihar and Uttar Pradesh remain largely in line with our overall portfolio'' ''On account of current challenges in micro banking lending for both asset quality and disbursement, **we are also revising our guidance for FY25. Loan book growth of around 18% to 20% for FY25 against 30% earlier as JLG loan portfolio is expected to remain flat this year.** We will continue to increase share of secured loans in our portfolio in line with our plan. **Credit cost of 3.5% to 4.5% against earlier guidance of 2%.** ROA of around 1% and ROE of around 7% for FY25.''From a medium-term perspective, we expect JLG loan portfolio to normalize for FY26, and expect it to grow by 14%-15% YOY and overall loan book growth for the bank in the range of 25% to 30%.'' ''Credit cost guidance, we are giving 3.5% to 4.5%. We are **expecting a little higher slippages in Q3**, that is what reflecting in our guidance as well'' **W.r.t 4+ lender book, ''in terms of number of customers, it will be about 14%''** ''We are seeing some of the pockets, especially in Bihar, UP, Orissa and Jharkhand, little bigger challenges than other pockets. While Maharashtra is better though we have a small portfolio in Vidharba, but it is a little better than the other places what we have seen so far.'' ''26% of customers are in first cycle. Second cycle and third cycle are again close to 20% each and balance is 4% and 4% plus.'' ''About 32% are unique to Utkarsh. New customer acquisition is not a focus right now. So new to credit customers, we are not acquiring too much because the focus is completely on collection. ''

Source: Company, Systematix Institutional Research

2QFY25 banks' profitability impacted by lower margins and higher provisions partly offset by higher trading income and written-off recoveries.

Exhibit 20: Overall banks: RoA supported mainly by higher other income led by higher TWO recoveries for PSU banks and higher core fee growth for private banks.

Rs Bn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Repo Rate	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.90**	**5.90**	**6.25**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**
Net Advances	95,733	95,257	97,071	1,02,490	1,08,358	1,11,627	1,17,183	1,21,654	1,27,492	1,30,114	1,41,880	1,48,081	1,53,254	1,55,523	1,60,405
% QoQ	3%	0%	2%	6%	6%	3%	5%	4%	5%	2%	4%	4%	3%	1%	3%
% YoY	16%	6%	8%	10%	13%	17%	21%	19%	18%	17%	16%	17%	16%	16%	13%
Deposits	1,34,248	1,34,573	1,37,928	1,40,816	1,48,491	1,48,466	1,53,600	1,57,510	1,66,109	1,69,424	1,76,617	1,80,214	1,89,547	1,90,557	1,97,532
% QoQ	4%	0%	2%	2%	5%	0%	3%	3%	5%	2%	4%	2%	5%	0%	4%
% YoY	25%	9%	10%	10%	11%	10%	11%	12%	12%	14%	15%	14%	14%	12%	12%
Total Banks - P&L															
Interest income	2,563	2,623	2,675	2,758	2,803	2,904	3,179	3,477	3,722	3,927	4,302	4,490	4,647	4,742	4,853
Interest expenses	1,444	1,440	1,443	1,459	1,483	1,544	1,673	1,833	2,014	2,208	2,520	2,666	2,758	2,828	2,927
NII	**1,119**	**1,183**	**1,232**	**1,299**	**1,320**	**1,360**	**1,507**	**1,644**	**1,707**	**1,718**	**1,781**	**1,823**	**1,889**	**1,913**	**1,926**
Other income	610	521	518	483	528	384	506	567	658	619	629	628	769	669	791
Operating income	**1,729**	**1,703**	**1,750**	**1,782**	**1,848**	**1,744**	**2,013**	**2,211**	**2,365**	**2,337**	**2,410**	**2,452**	**2,658**	**2,582**	**2,717**
Operating expenses	846	780	846	866	902	886	952	1,018	1,149	1,109	1,196	1,300	1,320	1,226	1,273
PPOP	**883**	**924**	**904**	**916**	**946**	**858**	**1,061**	**1,193**	**1,216**	**1,228**	**1,214**	**1,152**	**1,338**	**1,356**	**1,444**
Provisions	511	513	317	330	354	297	309	343	287	251	213	207	200	247	268
Profit before tax	**372**	**410**	**588**	**585**	**592**	**561**	**752**	**850**	**929**	**977**	**1,001**	**944**	**1,138**	**1,109**	**1,176**
Taxes	105	104	129	160	143	143	193	223	226	265	254	227	266	284	289
Profit after tax	**267**	**307**	**459**	**425**	**449**	**418**	**560**	**626**	**703**	**712**	**747**	**717**	**872**	**825**	**886**
Key ratios															
C-D Ratio	71%	71%	70%	73%	73%	75%	76%	77%	77%	77%	80%	82%	81%	82%	81%
CASA ratio	42%	42%	43%	43%	43%	42%	42%	41%	41%	40%	38%	38%	38%	37%	37%
NIM (% IEA)	2.9%	3.0%	3.1%	3.2%	3.1%	3.1%	3.4%	3.6%	3.6%	3.5%	3.5%	3.4%	3.4%	3.3%	3.3%
Cost to Income	48.9%	45.8%	48.3%	48.6%	48.8%	50.8%	47.3%	46.0%	48.6%	47.5%	49.6%	53.0%	49.6%	47.5%	46.9%
Opex/Avg Assets	2.1%	1.9%	2.0%	2.0%	2.0%	1.9%	2.0%	2.1%	2.3%	2.1%	2.2%	2.3%	2.2%	2.0%	2.1%
GNPA (%)	7.0%	7.1%	6.6%	6.1%	5.5%	5.3%	4.7%	4.2%	3.8%	3.6%	3.2%	2.9%	2.7%	2.6%	2.5%
NPA (%)	2.4%	2.4%	2.2%	1.9%	1.7%	1.5%	1.3%	1.1%	0.9%	0.9%	0.7%	0.7%	0.6%	0.6%	0.6%
PCR (%)	68.2%	67.5%	68.3%	69.5%	71.3%	72.0%	73.9%	74.8%	76.0%	76.6%	77.3%	77.3%	77.9%	77.8%	78.0%
Credit costs (Prov. % Avg. Net Adv)	2.2%	2.1%	1.3%	1.3%	1.3%	1.1%	1.1%	1.1%	0.9%	0.8%	0.6%	0.6%	0.5%	0.6%	0.7%
Dupont Ratio															
Interest income	6.3%	6.3%	6.3%	6.3%	6.2%	6.3%	6.7%	7.1%	7.3%	7.5%	7.7%	7.8%	7.8%	7.8%	7.9%
Interest expenses	3.5%	3.5%	3.4%	3.3%	3.3%	3.3%	3.5%	3.7%	4.0%	4.2%	4.5%	4.6%	4.7%	4.7%	4.7%
NII	**2.7%**	**2.8%**	**2.9%**	**3.0%**	**2.9%**	**2.9%**	**3.2%**	**3.4%**	**3.4%**	**3.3%**	**3.2%**	**3.2%**	**3.2%**	**3.2%**	**3.1%**
Other income	1.5%	1.2%	1.2%	1.1%	1.2%	0.8%	1.1%	1.2%	1.3%	1.2%	1.1%	1.1%	1.3%	1.1%	1.3%
Operating income	**4.2%**	**4.1%**	**4.1%**	**4.1%**	**4.1%**	**3.8%**	**4.2%**	**4.5%**	**4.7%**	**4.5%**	**4.3%**	**4.3%**	**4.5%**	**4.3%**	**4.4%**
Operating expenses	2.1%	1.9%	2.0%	2.0%	2.0%	1.9%	2.0%	2.1%	2.3%	2.1%	2.2%	2.3%	2.2%	2.0%	2.1%
PPOP	**2.2%**	**2.2%**	**2.1%**	**2.1%**	**2.1%**	**1.8%**	**2.2%**	**2.4%**	**2.4%**	**2.3%**	**2.2%**	**2.0%**	**2.3%**	**2.2%**	**2.3%**
Provisions	1.2%	1.2%	0.7%	0.8%	0.8%	0.6%	0.7%	0.7%	0.6%	0.5%	0.4%	0.4%	0.3%	0.4%	0.4%
Profit before tax	**0.9%**	**1.0%**	**1.4%**	**1.3%**	**1.3%**	**1.2%**	**1.6%**	**1.7%**	**1.8%**	**1.9%**	**1.8%**	**1.6%**	**1.9%**	**1.8%**	**1.9%**
Taxes	0.3%	0.2%	0.3%	0.4%	0.3%	0.3%	0.4%	0.5%	0.4%	0.5%	0.5%	0.4%	0.4%	0.5%	0.5%
Profit after tax	**0.7%**	**0.7%**	**1.1%**	**1.0%**	**1.0%**	**0.9%**	**1.2%**	**1.3%**	**1.4%**	**1.4%**	**1.3%**	**1.2%**	**1.5%**	**1.4%**	**1.4%**
Leverage	13	12	12	12	12	12	12	12	12	12	12	12	11	11	11
Return on equity	8.2%	9.1%	13.2%	11.9%	12.2%	11.0%	14.3%	15.4%	16.7%	16.4%	15.6%	14.4%	16.8%	15.7%	15.7%

Source: Company, Systematix Institutional Research

Exhibit 21: Private banks: Impact of lower margins and higher credit credit costs was offset by higher other income on the back of higher core fee income. Opex / assets remained stable qoq.

Rs Bn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Repo Rate	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.90**	**5.90**	**6.25**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**
Net Advances	35,457	35,555	36,788	38,895	41,338	42,412	44,539	46,063	48,854	50,004	58,779	61,297	63,077	63,891	65,514
% QoQ	4%	0%	3%	6%	6%	3%	5%	3%	6%	2%	5%	4%	3%	1%	3%
% YoY	9%	11%	13%	14%	17%	19%	21%	18%	18%	18%	32%	33%	29%	28%	11%
Deposits	42,195	42,624	44,321	45,851	48,544	48,901	50,563	52,595	56,331	57,796	61,905	63,700	68,140	68,583	71,498
% QoQ	6%	1%	4%	3%	6%	1%	3%	4%	7%	3%	4%	3%	7%	1%	4%
% YoY	17%	15%	16%	16%	15%	15%	14%	15%	16%	18%	22%	21%	21%	19%	15%
Pvt Banks - P&L															
Interest income	978	998	1,022	1,062	1,090	1,140	1,243	1,364	1,460	1,563	1,810	1,894	1,954	2,012	2,054
Interest expenses	481	487	491	498	508	536	584	642	709	796	994	1,051	1,085	1,122	1,154
NII	**497**	**511**	**531**	**564**	**581**	**604**	**659**	**721**	**751**	**767**	**815**	**843**	**869**	**890**	**900**
Other income	222	211	229	236	237	207	245	264	280	296	312	330	348	345	366
Operating income	**719**	**722**	**761**	**800**	**819**	**811**	**904**	**986**	**1,031**	**1,063**	**1,127**	**1,173**	**1,217**	**1,235**	**1,266**
Operating expenses	318	300	335	362	371	383	407	431	461	491	519	540	575	565	576
PPOP	**401**	**422**	**426**	**438**	**447**	**427**	**498**	**554**	**570**	**572**	**608**	**632**	**642**	**669**	**691**
Provisions	200	193	131	100	81	73	88	102	78	83	76	99	76	96	118
Profit before tax	**201**	**229**	**294**	**338**	**366**	**354**	**410**	**453**	**492**	**489**	**532**	**534**	**567**	**573**	**572**
Taxes	46	55	72	82	86	87	101	110	119	120	117	113	117	139	130
Profit after tax	**155**	**174**	**222**	**256**	**281**	**267**	**309**	**343**	**373**	**368**	**415**	**421**	**449**	**434**	**442**
Key ratios															
C-D Ratio	84%	83%	83%	85%	85%	87%	88%	88%	87%	87%	95%	96%	93%	93%	92%
CASA ratio	44%	44%	45%	45%	46%	45%	45%	43%	44%	42%	39%	39%	39%	38%	38%
NIM (% IEA)	3.8%	3.8%	3.8%	3.9%	3.8%	3.9%	4.1%	4.4%	4.3%	4.3%	4.0%	4.0%	3.9%	3.9%	3.9%
Cost to Income	44.2%	41.6%	44.0%	45.2%	45.4%	47.3%	45.0%	43.7%	44.7%	46.2%	46.0%	46.1%	47.2%	45.8%	45.5%
Opex/Avg Assets	2.3%	2.1%	2.3%	2.4%	2.3%	2.3%	2.4%	2.4%	2.5%	2.6%	2.4%	2.4%	2.5%	2.4%	2.4%
GNPA (%)	4.0%	4.2%	3.9%	3.5%	3.1%	3.1%	2.9%	2.3%	2.1%	2.0%	1.9%	1.8%	1.7%	1.8%	1.7%
NPA (%)	1.3%	1.4%	1.2%	1.1%	0.9%	0.8%	0.7%	0.6%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%
PCR (%)	68.9%	68.5%	69.9%	70.6%	72.2%	73.1%	74.9%	75.0%	76.5%	75.6%	75.7%	75.2%	75.0%	74.1%	73.3%
Credit costs (Prov. % Avg. Net Adv)	2.3%	2.2%	1.5%	1.1%	0.8%	0.7%	0.8%	0.9%	0.7%	0.7%	0.5%	0.7%	0.5%	0.6%	0.7%
Dupont Ratio															
Interest income	7.0%	7.0%	7.0%	6.9%	6.8%	6.9%	7.3%	7.7%	7.9%	8.1%	8.3%	8.4%	8.4%	8.4%	8.4%
Interest expenses	3.4%	3.4%	3.3%	3.2%	3.2%	3.2%	3.4%	3.6%	3.8%	4.1%	4.6%	4.7%	4.6%	4.7%	4.7%
NII	**3.6%**	**3.6%**	**3.6%**	**3.7%**	**3.6%**	**3.6%**	**3.9%**	**4.1%**	**4.1%**	**4.0%**	**3.8%**	**3.7%**	**3.7%**	**3.7%**	**3.7%**
Other income	1.6%	1.5%	1.6%	1.5%	1.5%	1.2%	1.4%	1.5%	1.5%	1.5%	1.4%	1.5%	1.5%	1.4%	1.5%
Operating income	**5.1%**	**5.0%**	**5.2%**	**5.2%**	**5.1%**	**4.9%**	**5.3%**	**5.6%**	**5.6%**	**5.5%**	**5.2%**	**5.2%**	**5.2%**	**5.1%**	**5.2%**
Operating expenses	2.3%	2.1%	2.3%	2.4%	2.3%	2.3%	2.4%	2.4%	2.5%	2.6%	2.4%	2.4%	2.5%	2.4%	2.4%
PPOP	**2.9%**	**2.9%**	**2.9%**	**2.9%**	**2.8%**	**2.6%**	**2.9%**	**3.1%**	**3.1%**	**3.0%**	**2.8%**	**2.8%**	**2.7%**	**2.8%**	**2.8%**
Provisions	1.4%	1.3%	0.9%	0.6%	0.5%	0.4%	0.5%	0.6%	0.4%	0.4%	0.3%	0.4%	0.3%	0.4%	0.5%
Profit before tax	1.4%	1.6%	2.0%	2.2%	2.3%	2.1%	2.4%	2.6%	2.7%	2.5%	2.5%	2.4%	2.4%	2.4%	2.3%
Taxes	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.6%	0.5%
Profit after tax	**1.1%**	**1.2%**	**1.5%**	**1.7%**	**1.7%**	**1.6%**	**1.8%**	**1.9%**	**2.0%**	**1.9%**	**1.9%**	**1.9%**	**1.9%**	**1.8%**	**1.8%**

Source: Company, Systematix Institutional Research

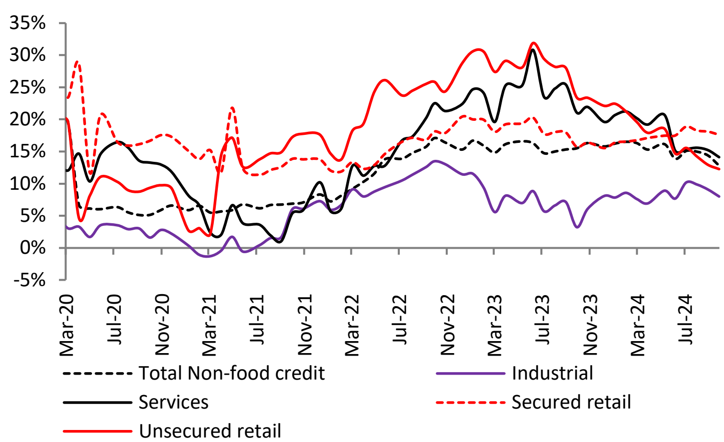
Exhibit 22: PSU banks: RoA supported by higher other income mainly led by higher TWO recoveries

Rs Bn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Repo Rate	**4.00**	**4.00**	**4.00**	**4.00**	**4.00**	**4.90**	**5.90**	**6.25**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**	**6.50**
Net Advances	59,577	59,025	59,570	62,810	66,155	68,311	71,683	74,554	77,523	78,923	81,861	85,496	88,786	90,061	93,223
% QoQ	2%	-1%	1%	5%	5%	3%	5%	4%	4%	2%	4%	4%	4%	1%	4%
% YoY	20%	3%	5%	8%	11%	16%	20%	19%	17%	16%	14%	15%	15%	14%	14%
Deposits	91,365	91,239	92,863	94,156	99,010	98,591	1,01,991	1,03,791	1,08,524	1,10,333	1,13,291	1,15,027	1,19,781	1,20,219	1,24,109
% QoQ	4%	0%	2%	1%	5%	0%	3%	2%	5%	2%	3%	2%	4%	0%	3%
% YoY	30%	6%	7%	7%	8%	8%	10%	10%	10%	12%	11%	11%	10%	9%	10%
PSU Banks - P&L															
Interest income	1,557	1,595	1,621	1,662	1,677	1,724	1,894	2,068	2,213	2,310	2,436	2,535	2,631	2,656	2,723
Interest expenses	950	941	938	947	960	991	1,072	1,172	1,285	1,389	1,500	1,587	1,644	1,672	1,738
NII	**607**	**655**	**683**	**715**	**717**	**733**	**822**	**896**	**928**	**922**	**935**	**948**	**987**	**984**	**985**
Other income	382	305	285	242	284	173	255	296	370	316	309	290	410	314	414
Operating income	**989**	**960**	**967**	**957**	**1,002**	**906**	**1,078**	**1,193**	**1,297**	**1,237**	**1,244**	**1,238**	**1,397**	**1,298**	**1,399**
Operating expenses	515	467	496	488	514	485	526	567	666	596	654	735	717	631	666
PPOP	**474**	**493**	**471**	**468**	**488**	**420**	**551**	**626**	**631**	**642**	**590**	**503**	**679**	**667**	**732**
Provisions	308	311	179	227	269	221	219	240	207	166	134	105	121	143	141
Profit before tax	**167**	**182**	**293**	**242**	**219**	**200**	**332**	**385**	**425**	**476**	**456**	**398**	**558**	**524**	**592**
Taxes	59	49	57	76	56	55	89	111	105	141	134	111	146	142	156
Profit after tax	**108**	**133**	**236**	**166**	**163**	**145**	**243**	**274**	**320**	**334**	**322**	**287**	**412**	**381**	**436**
Key ratios															
C-D Ratio	65%	65%	64%	67%	67%	69%	70%	72%	71%	72%	72%	74%	74%	75%	75%
CASA ratio	41%	41%	42%	42%	42%	41%	40%	40%	40%	39%	38%	38%	38%	37%	36%
NIM (% IEA)	2.4%	2.6%	2.7%	2.7%	2.7%	2.7%	2.9%	3.1%	3.1%	3.0%	3.0%	2.9%	3.0%	2.9%	2.8%
Cost to Income	52.0%	48.6%	51.3%	51.0%	51.3%	53.6%	48.8%	47.5%	51.3%	48.1%	52.6%	59.3%	51.4%	48.6%	47.6%
Opex/Avg Assets	1.9%	1.7%	1.8%	1.7%	1.8%	1.6%	1.8%	1.8%	2.1%	1.8%	2.0%	2.1%	2.0%	1.7%	1.8%
GNPA (%)	8.8%	8.8%	8.3%	7.6%	7.0%	6.6%	5.9%	5.4%	4.8%	4.6%	4.1%	3.7%	3.4%	3.3%	3.1%
NPA (%)	3.0%	3.1%	2.8%	2.5%	2.1%	2.0%	1.6%	1.4%	1.2%	1.1%	0.9%	0.8%	0.7%	0.7%	0.6%
PCR (%)	68.1%	67.3%	67.9%	69.3%	71.0%	71.6%	73.7%	74.8%	75.9%	76.9%	77.9%	78.1%	79.0%	79.2%	79.9%
Credit costs (Prov. % Avg. Net Adv)	2.1%	2.1%	1.2%	1.5%	1.7%	1.3%	1.3%	1.3%	1.1%	0.8%	0.7%	0.5%	0.6%	0.6%	0.6%
Dupont Ratio															
Interest income	5.8%	5.9%	5.9%	5.9%	5.8%	5.8%	6.3%	6.7%	6.9%	7.1%	7.3%	7.4%	7.4%	7.4%	7.4%
Interest expenses	3.6%	3.5%	3.4%	3.4%	3.3%	3.4%	3.6%	3.8%	4.0%	4.3%	4.5%	4.6%	4.6%	4.6%	4.7%
NII	2.3%	2.4%	2.5%	2.6%	2.5%	2.5%	2.7%	2.9%	2.9%	2.8%	2.8%	2.8%	2.8%	2.7%	2.7%
Other income	1.4%	1.1%	1.0%	0.9%	1.0%	0.6%	0.8%	1.0%	1.2%	1.0%	0.9%	0.8%	1.2%	0.9%	1.1%
Operating income	3.7%	3.5%	3.5%	3.4%	3.5%	3.1%	3.6%	3.9%	4.1%	3.8%	3.7%	3.6%	3.9%	3.6%	3.8%
Operating expenses	1.9%	1.7%	1.8%	1.7%	1.8%	1.6%	1.8%	1.8%	2.1%	1.8%	2.0%	2.1%	2.0%	1.7%	1.8%
PPOP	1.8%	1.8%	1.7%	1.7%	1.7%	1.4%	1.8%	2.0%	2.0%	2.0%	1.8%	1.5%	1.9%	1.8%	2.0%
Provisions	1.2%	1.1%	0.7%	0.8%	0.9%	0.7%	0.7%	0.8%	0.6%	0.5%	0.4%	0.3%	0.3%	0.4%	0.4%
Profit before tax	0.6%	0.7%	1.1%	0.9%	0.8%	0.7%	1.1%	1.2%	1.3%	1.5%	1.4%	1.2%	1.6%	1.5%	1.6%
Taxes	0.2%	0.2%	0.2%	0.3%	0.2%	0.2%	0.3%	0.4%	0.3%	0.4%	0.4%	0.3%	0.4%	0.4%	0.4%
Profit after tax	0.4%	0.5%	0.9%	0.6%	0.6%	0.5%	0.8%	0.9%	1.0%	1.0%	1.0%	0.8%	1.2%	1.1%	1.2%

Source: Company, Systematix Institutional Research

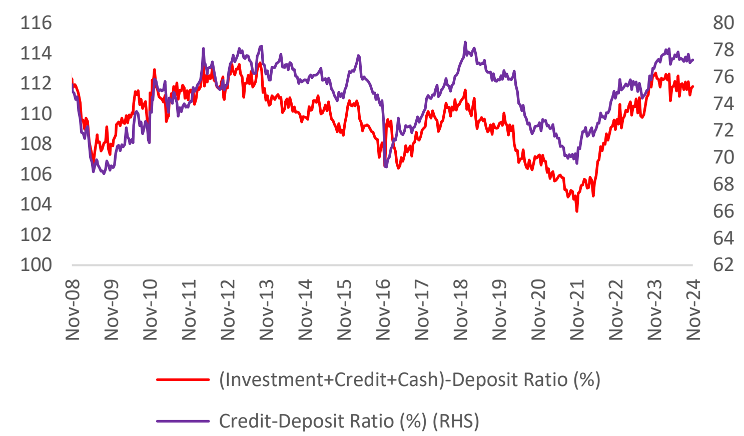
Advances growth driven by strong retail credit growth

Exhibit 23: Moderation in unsecured credit



Source: Company, Systematix Institutional Research

Exhibit 24:(Investment+Credit+Cash) to Deposit Ratio still near decadal highs



*Source: Company, Systematix Institutional Research * ratio excludes HDFC Ltd*

Exhibit 25: Moderation in loan growth to 13%/14% (ex HDFCB) from ~16-20% levels (ex HDFCB) earlier due to moderation in unsecured credit.

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
	qoq advances growth										yoy advances growth									
Total Banks	3.0%	5.0%	3.8%	4.8%	2.1%	4.2%	4.4%	3.5%	1.4%	3.1%	17.2%	20.7%	18.7%	17.7%	16.6%	21.1%	21.7%	20.2%	19.5%	13.1%
Total Banks - ex e.HDFCL	3.0%	5.0%	3.8%	4.8%	2.1%	4.5%	4.4%	3.5%	1.4%	3.1%	17.2%	20.7%	18.7%	17.7%	16.6%	16.0%	17.0%	16.0%	15.7%	14.2%
Private Banks	2.6%	5.0%	3.4%	6.1%	2.4%	4.9%	4.3%	2.9%	1.3%	2.5%	19.3%	21.1%	18.4%	18.2%	17.9%	32.0%	33.1%	29.1%	27.8%	11.5%
PSU Banks	3.3%	4.9%	4.0%	4.0%	1.8%	3.7%	4.4%	3.8%	1.4%	3.5%	15.7%	20.3%	18.7%	17.2%	15.5%	14.2%	14.7%	14.5%	14.1%	13.9%
Small Finance Banks	4.6%	6.2%	7.9%	7.5%	6.5%	4.4%	3.8%	8.0%	3.7%	6.2%	33.6%	34.7%	32.2%	28.9%	31.2%	29.0%	24.1%	24.7%	32.2%	34.5%
Private Banks																				
HDFCB	1.9%	6.1%	1.8%	6.2%	0.9%	5.0%	4.9%	1.6%	-0.9%	1.3%	21.6%	23.4%	19.5%	16.9%	15.8%	57.5%	62.3%	55.2%	52.5%	7.0%
ICICI	4.3%	4.8%	3.8%	4.7%	3.7%	5.0%	3.9%	2.7%	3.3%	4.4%	21.3%	22.7%	19.7%	18.7%	18.1%	18.3%	18.5%	16.2%	15.7%	15.0%
Axis	-0.9%	4.2%	4.3%	10.9%	1.6%	4.5%	3.9%	3.5%	1.6%	2.0%	14.0%	17.6%	14.6%	19.4%	22.4%	22.8%	22.3%	14.2%	14.2%	11.4%
Kotak	3.3%	4.9%	5.7%	2.9%	2.7%	6.0%	3.2%	4.6%	3.7%	2.5%	28.8%	25.1%	22.9%	17.9%	17.3%	18.5%	15.7%	17.6%	18.7%	14.7%
IndusInd	3.7%	4.9%	4.9%	6.3%	3.9%	4.7%	3.6%	5.1%	1.3%	2.7%	17.7%	17.8%	19.3%	21.3%	21.5%	21.3%	19.8%	18.4%	15.5%	13.2%
Federal	4.7%	6.3%	4.3%	3.7%	5.2%	5.1%	3.3%	5.1%	5.4%	4.3%	16.9%	20.0%	19.5%	20.4%	21.0%	19.6%	18.4%	20.0%	20.3%	19.4%
RBL	0.4%	4.4%	5.9%	5.3%	4.1%	4.4%	4.7%	5.1%	3.2%	1.4%	6.6%	12.4%	14.7%	17.0%	21.3%	21.3%	19.9%	19.6%	18.6%	15.1%
KVB	5.3%	4.5%	2.6%	2.3%	4.5%	5.4%	3.3%	2.6%	4.5%	3.4%	15.2%	17.1%	15.9%	15.5%	14.6%	15.5%	16.3%	16.7%	16.7%	14.5%
CUB	-0.4%	4.3%	0.6%	2.2%	-3.9%	3.1%	0.8%	5.9%	0.2%	4.8%	12.9%	12.9%	9.8%	6.7%	2.9%	1.8%	2.0%	5.7%	10.2%	12.0%
DCB	2.5%	5.0%	5.3%	4.3%	3.2%	5.1%	4.5%	5.1%	3.1%	5.4%	16.9%	16.5%	19.2%	18.2%	19.0%	19.1%	18.2%	19.0%	18.9%	19.3%
SIB	4.6%	4.9%	3.2%	2.8%	2.8%	1.2%	3.8%	3.6%	2.6%	2.6%	11.0%	16.2%	18.3%	16.4%	14.3%	10.3%	10.9%	11.8%	11.7%	13.2%
Karnataka Bank	2.8%	2.6%	4.4%	-4.1%	2.6%	6.4%	4.3%	4.8%	3.5%	-0.1%	13.0%	9.9%	12.5%	5.6%	5.4%	9.3%	9.1%	19.3%	20.4%	13.0%
PSU Banks																				
SBI	3.0%	4.8%	3.6%	4.6%	1.1%	3.4%	5.2%	5.2%	1.2%	2.9%	15.8%	20.8%	18.6%	17.0%	14.9%	13.3%	15.1%	15.8%	15.9%	15.3%
BOB	2.9%	4.6%	6.5%	5.6%	2.4%	3.6%	2.6%	4.1%	-1.7%	7.0%	19.6%	20.6%	21.7%	21.1%	20.5%	19.3%	15.0%	13.3%	8.8%	12.3%
PNB	2.0%	4.1%	3.5%	3.8%	4.0%	3.0%	3.0%	2.0%	5.3%	3.6%	12.3%	14.9%	15.5%	14.1%	16.3%	15.1%	14.5%	12.5%	13.9%	14.6%
Canara	6.2%	5.6%	3.5%	1.7%	2.9%	4.3%	3.2%	1.2%	1.6%	4.0%	15.2%	21.4%	18.0%	18.1%	14.5%	13.2%	12.8%	12.2%	10.7%	10.3%
Union	2.3%	7.6%	4.0%	0.7%	1.1%	4.3%	7.3%	1.0%	0.9%	2.1%	15.7%	25.2%	22.6%	15.3%	13.9%	10.5%	14.0%	14.3%	14.0%	11.6%
Indian	2.5%	3.3%	3.5%	5.4%	1.6%	3.1%	4.0%	5.2%	1.2%	2.3%	9.5%	15.0%	14.0%	15.4%	14.4%	14.2%	14.8%	14.6%	14.1%	13.2%
Bank of India	5.2%	4.0%	3.4%	2.1%	1.2%	5.6%	4.5%	3.8%	2.7%	3.8%	19.5%	21.5%	18.5%	15.5%	11.0%	12.8%	13.9%	15.9%	17.6%	15.6%
BOMH	4.1%	5.6%	6.2%	11.9%	0.5%	4.3%	3.2%	8.1%	2.7%	4.1%	28.9%	30.2%	23.0%	30.5%	26.1%	24.5%	21.0%	16.9%	19.5%	19.2%
J&K	2.2%	3.6%	4.1%	6.0%	2.7%	4.0%	2.2%	4.5%	1.8%	0.7%	7.7%	9.0%	13.6%	16.9%	17.4%	17.8%	15.6%	13.9%	13.0%	9.5%
Small Finance Banks																				
AU Small Finance	5.6%	6.3%	7.5%	5.1%	7.6%	2.1%	4.0%	9.6%	4.8%	5.8%	43.3%	44.4%	38.4%	26.7%	29.2%	24.0%	20.0%	25.2%	42.6%	47.8%
Equitas	5.7%	6.6%	6.6%	10.8%	6.7%	4.5%	1.5%	6.0%	3.1%	6.4%	22.5%	22.4%	27.1%	33.2%	34.4%	31.7%	25.5%	20.0%	16.0%	18.1%
Suryoday	2.4%	4.7%	4.7%	12.9%	2.8%	8.7%	6.8%	12.5%	2.6%	6.3%	28.2%	21.1%	15.3%	26.6%	27.1%	32.0%	34.8%	34.3%	34.0%	31.0%
Ujjivan	1.1%	5.8%	12.0%	9.0%	4.1%	9.7%	5.3%	4.9%	0.9%	7.6%	24.3%	29.3%	27.2%	30.6%	34.5%	39.5%	31.2%	26.3%	22.3%	20.0%
Jana	5.2%	7.0%	10.3%	10.0%	4.0%	13.7%	4.5%	5.2%	4.7%	2.7%	18.4%	20.8%	32.4%	36.5%	35.0%	43.5%	36.0%	30.1%	31.0%	18.3%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Bottom-up analysis of 27 banks indicate that sector loan growth moderated to 13% yoy/14% (ex HDFCB) from ~16-20% (ex HDFCB) in the last 9 quarters.

Sectoral deployment data for Oct'24 shows that:

(i) **Retail loan growth** declined to 15.8% yoy ex-merger (vs ~17% yoy in last 6 months) largely, due to decline in **unsecured loans** (credit cards + consumer durables + other personal loans) to 12.3% yoy ex-merger vs avg of 16% in last 6 months. However, within secured retail, **housing loan** growth continued to remain strong at 17.8% yoy (ex-merger), vs 17-18% yoy (ex-merger) growth trend in last 6 months. Growth in **Loan against gold jewellery** accelerated to 56.2% yoy (vs 51% yoy a month ago), largely on the back on gold prices. **Vehicle loan** growth moderated to 11.4% yoy vs 13.3% yoy a month ago.

(ii) **Growth in service sector** declined to 14.1% yoy (ex-merger) largely on account of sharp decline in **credit to NBFCs** at 6.4% yoy (vs 9.5% yoy a month ago) and reduced **trade credit** at 12.4% yoy (vs 14.3% yoy a month ago). However, **credit to commercial real estate** has shown an uptick to 26% yoy (ex-merger) vs 24.5% yoy a month ago.

(iii) **Industry credit** continued to be largely stable at 8% yoy (ex-merger)

Deposit mobilization was strong led by strong CASA flows.

Exhibit 26: Sequentially, deposit mobilization was strong across banks

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
	QoQ growth									YoY growth								
Total Banks	3.5%	2.5%	5.5%	2.0%	3.3%	2.0%	5.2%	0.5%	3.7%	11.4%	11.9%	11.9%	14.1%	14.1%	13.6%	13.3%	11.7%	11.1%
Total Banks - ex HDFC	3.5%	2.5%	5.5%	2.0%	3.4%	2.0%	5.2%	0.5%	3.7%	11.4%	11.9%	11.9%	14.1%	14.1%	13.6%	13.5%	11.9%	11.1%
Private Banks	3.4%	4.0%	7.1%	2.6%	4.4%	2.9%	7.0%	0.7%	4.2%	14.1%	14.7%	16.0%	18.2%	19.8%	18.6%	18.6%	16.3%	13.3%
PSU Banks	3.4%	1.8%	4.6%	1.7%	2.7%	1.5%	4.1%	0.4%	3.2%	9.8%	10.2%	9.6%	11.9%	11.1%	10.8%	10.4%	9.0%	9.5%
Small Finance Banks	7.3%	7.4%	11.6%	3.2%	9.8%	4.6%	9.3%	1.4%	9.7%	40.7%	38.9%	33.9%	32.7%	35.8%	32.3%	29.6%	35.6%	35.4%
Private Banks																		
HDFCB	4.3%	3.6%	8.7%	1.6%	5.3%	1.9%	7.5%	0.0%	5.1%	19.9%	20.8%	19.2%	29.8%	27.7%	26.4%	24.4%	15.1%	4.3%
ICICI	3.8%	2.9%	5.2%	4.9%	4.5%	2.9%	6.0%	0.9%	5.0%	10.3%	10.9%	17.9%	18.8%	18.7%	19.6%	15.1%	15.7%	3.8%
Axis	0.9%	4.6%	11.6%	-0.6%	1.5%	5.2%	6.3%	-0.6%	2.3%	9.9%	15.2%	17.2%	17.9%	18.5%	12.9%	12.8%	13.7%	0.9%
Kotak	2.8%	6.0%	5.3%	6.4%	3.8%	1.9%	9.9%	-0.3%	3.1%	12.9%	16.5%	22.0%	23.3%	18.6%	23.6%	15.8%	15.1%	2.8%
IndusInd	4.4%	3.0%	3.4%	3.2%	3.7%	2.5%	4.3%	3.6%	3.5%	14.3%	14.6%	14.6%	13.9%	13.4%	14.4%	14.9%	14.7%	4.4%
Federal	3.2%	6.5%	5.9%	4.3%	4.7%	2.9%	5.4%	5.4%	1.1%	14.8%	17.4%	21.3%	23.1%	19.0%	18.3%	19.6%	15.6%	3.2%
RBL	0.2%	2.9%	3.8%	0.9%	4.8%	3.3%	11.6%	-2.1%	6.5%	11.0%	7.4%	8.1%	13.1%	13.5%	21.9%	18.4%	20.2%	0.2%
KVB	3.7%	3.5%	0.6%	5.3%	2.9%	3.1%	4.0%	3.6%	3.8%	13.9%	11.9%	13.7%	12.8%	12.5%	16.3%	14.4%	15.4%	3.7%
CUB	2.3%	0.2%	4.8%	-1.4%	2.1%	0.0%	5.6%	-1.4%	4.6%	7.0%	9.9%	5.9%	5.7%	5.5%	6.2%	6.2%	8.8%	2.3%
DCB	5.4%	6.9%	4.4%	4.3%	5.8%	3.6%	4.7%	4.7%	5.5%	22.6%	18.9%	22.6%	23.1%	19.3%	19.7%	20.2%	19.9%	5.4%
SIB	0.3%	2.5%	1.1%	4.2%	1.7%	2.1%	2.8%	1.6%	1.9%	2.6%	2.8%	8.3%	9.7%	9.4%	11.2%	8.4%	8.6%	0.3%
Karnataka Bank	1.3%	3.6%	3.3%	-0.5%	3.0%	3.0%	6.4%	2.1%	-0.2%	7.9%	8.7%	7.9%	9.7%	9.0%	12.2%	15.2%	11.7%	1.3%
PSU Banks																		
SBI	3.6%	0.6%	5.0%	2.4%	3.5%	1.6%	3.2%	-0.3%	4.4%	9.5%	9.2%	12.0%	11.9%	13.0%	11.1%	8.2%	9.1%	3.6%
BOB	5.6%	5.4%	4.7%	-0.3%	4.1%	-0.3%	6.6%	-1.5%	4.3%	17.5%	15.1%	16.2%	14.6%	8.3%	10.2%	8.9%	9.1%	5.6%
PNB	5.0%	1.4%	5.8%	1.3%	0.9%	1.0%	3.5%	2.8%	3.6%	7.4%	11.8%	14.2%	9.8%	9.4%	6.9%	8.5%	11.3%	5.0%
Canara	1.4%	2.6%	1.4%	1.1%	3.3%	2.5%	3.9%	1.7%	0.9%	11.5%	8.5%	6.6%	8.7%	8.5%	11.3%	12.0%	9.3%	1.4%
Union	5.1%	2.1%	4.9%	0.9%	0.8%	3.1%	4.2%	0.2%	1.5%	13.6%	8.3%	13.6%	9.0%	10.1%	9.3%	8.5%	9.2%	5.1%
Indian	0.8%	1.4%	4.0%	0.1%	3.1%	2.1%	5.2%	-1.0%	1.8%	6.1%	4.6%	6.4%	8.8%	9.6%	10.8%	9.6%	8.2%	0.8%
Bank of India	1.1%	0.9%	2.4%	4.0%	1.0%	0.6%	4.3%	3.6%	1.4%	4.9%	6.6%	8.7%	8.7%	8.3%	10.2%	9.7%	10.1%	1.1%
BOMH	0.0%	6.4%	12.3%	4.4%	-2.1%	2.7%	10.2%	-1.2%	3.3%	11.7%	15.7%	24.7%	22.2%	17.9%	15.7%	9.4%	15.5%	0.0%
J&K	3.2%	1.9%	3.5%	-0.6%	4.4%	1.5%	4.8%	-1.6%	4.0%	7.9%	6.4%	8.2%	9.4%	9.0%	10.4%	9.3%	8.9%	3.2%
SFBs																		
AU Small Finance	6.8%	4.7%	13.5%	-0.1%	9.3%	5.8%	8.8%	-0.4%	12.7%	38.0%	31.9%	26.9%	29.8%	31.1%	25.7%	40.4%	44.8%	6.8%
Equitas	6.4%	7.8%	8.5%	9.2%	11.3%	5.0%	11.6%	3.9%	6.2%	30.8%	33.9%	35.9%	42.2%	38.4%	42.3%	35.4%	29.2%	6.4%
Suryoday	4.6%	11.6%	10.0%	10.7%	11.7%	1.5%	19.9%	4.6%	8.8%	48.2%	34.1%	42.3%	51.9%	38.0%	50.5%	42.2%	38.5%	4.6%
Ujjivan	10.6%	13.8%	10.1%	4.4%	9.3%	1.8%	6.0%	3.3%	4.8%	49.1%	39.6%	44.5%	42.9%	27.9%	23.2%	22.0%	16.9%	10.6%
Jana	5.3%	7.4%	7.3%	2.9%	12.7%	9.8%	8.6%	5.0%	4.6%	17.6%	20.7%	24.8%	33.5%	36.5%	38.2%	41.1%	31.0%	5.3%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

SCB's deposit growth was at 3.7% qoq (on flat growth in 1Q), 11% yoy led by strong CASA growth (2.4% qoq, 7% yoy) led by higher CA flows (4.8% qoq on a low base, 8% yoy) from corporates.

Credit deposit ratio declined sequentially for private banks and SFB and increased for PSU banks.

Exhibit 27: C-D ratio declined across the board for pvt banks and SFBs and increased for PSU banks.

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Total Banks	**72%**	**72%**	**71%**	**71%**	**70%**	**73%**	**73%**	**75%**	**76%**	**77%**	**77%**	**77%**	**80%**	**82%**	**81%**	**82%**	**81%**
Private Banks	86%	86%	84%	83%	83%	85%	85%	87%	88%	88%	87%	87%	95%	96%	93%	93%	92%
Private Banks - ex HDFCB	86%	86%	84%	83%	82%	84%	84%	87%	88%	88%	88%	88%	88%	89%	86%	88%	87%
PSU Banks	65%	66%	65%	65%	64%	67%	67%	69%	70%	72%	71%	72%	72%	74%	74%	75%	75%
Small Finance Banks	112%	106%	102%	95%	96%	97%	92%	93%	92%	92%	89%	92%	87%	87%	86%	89%	87%
Private Banks																	
HDFC	84%	85%	85%	85%	85%	87%	88%	87%	88%	87%	85%	84%	107%	110%	104%	104%	100%
ICICI	78%	80%	79%	80%	78%	80%	81%	85%	86%	87%	86%	85%	86%	87%	84%	86%	85%
Axis	91%	89%	88%	86%	84%	86%	86%	87%	90%	90%	89%	91%	94%	93%	90%	92%	92%
Kotak	78%	81%	80%	76%	81%	83%	87%	89%	90%	90%	88%	85%	87%	88%	84%	87%	87%
IndusInd	88%	87%	83%	79%	80%	80%	81%	82%	82%	84%	86%	87%	88%	89%	89%	87%	87%
Federal	78%	78%	76%	77%	78%	80%	80%	83%	85%	83%	82%	82%	83%	83%	83%	83%	86%
RBL	87%	84%	80%	76%	74%	79%	76%	76%	79%	82%	83%	85%	85%	86%	81%	86%	81%
KVB	78%	80%	80%	78%	79%	80%	80%	81%	82%	81%	82%	82%	84%	84%	83%	83%	83%
CUB	84%	83%	81%	80%	80%	82%	85%	82%	84%	84%	82%	80%	81%	82%	82%	83%	83%
DCB	86%	88%	87%	83%	85%	86%	84%	85%	85%	83%	83%	82%	82%	83%	83%	82%	82%
SIB	77%	74%	70%	67%	65%	65%	67%	71%	74%	75%	76%	75%	75%	76%	77%	77%	78%
Karnataka	74%	72%	68%	68%	71%	71%	71%	72%	73%	74%	69%	71%	73%	74%	73%	74%	74%
PSU Banks																	
SBI	66%	67%	67%	65%	64%	67%	67%	70%	70%	73%	72%	71%	71%	74%	75%	76%	75%
BOB	70%	73%	73%	72%	72%	75%	74%	77%	77%	77%	78%	80%	80%	82%	80%	80%	82%
PNB	61%	61%	61%	60%	60%	61%	64%	65%	65%	66%	65%	67%	68%	69%	68%	70%	70%
Canara	65%	65%	63%	63%	63%	66%	65%	67%	70%	70%	70%	72%	72%	73%	71%	71%	73%
Union	65%	66%	64%	64%	64%	66%	64%	68%	70%	71%	68%	68%	71%	74%	71%	72%	72%
Indian	68%	70%	67%	67%	65%	66%	66%	68%	70%	71%	72%	73%	73%	75%	75%	76%	77%
BOI	60%	60%	58%	59%	62%	64%	67%	69%	71%	73%	73%	71%	74%	77%	76%	76%	77%
BOMH	61%	61%	59%	61%	61%	67%	65%	70%	74%	73%	73%	70%	75%	75%	74%	77%	77%
J&K	67%	64%	62%	63%	63%	63%	61%	64%	64%	66%	67%	70%	69%	70%	70%	72%	70%
SFBs																	
AU Small Finance	101%	102%	96%	92%	92%	91%	88%	89%	89%	91%	84%	91%	85%	83%	84%	92%	86%
Equitas	123%	106%	103%	98%	99%	102%	102%	100%	101%	100%	102%	99%	93%	90%	86%	85%	85%
Suryoday	113%	113%	122%	114%	134%	146%	123%	121%	121%	113%	116%	108%	105%	111%	104%	102%	100%
Ujjivan	128%	116%	110%	97%	96%	99%	89%	89%	85%	84%	83%	83%	83%	86%	85%	83%	86%
Jana	NA	NA	NA	91%	95%	94%	96%	102%	103%	106%	109%	110%	111%	106%	102%	102%	100%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

C-D ratio declined largely across the board for pvt banks and SFBs. On the other hand, PSU banks continued to lose deposit mkt share and deposit growth continued to lag advances growth. As a result, C-D ratio increased across the board for PSU banks barring SBI/J&K bank and has now reached towards the higher end of their comfort zones.

Bank spreads come off from peak levels yet above those at start of the current rate hike cycle.

Exhibit 28: Spreads declined sequentially across the board.

Interest spreads	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
	Asset Yields						Cost of Funds						Spreads					
Private Banks																		
HDFC	8.4%	8.6%	8.6%	8.5%	8.6%	8.7%	4.7%	5.7%	5.8%	5.7%	5.7%	5.8%	3.6%	2.8%	2.9%	2.9%	2.9%	2.9%
ICICI	8.7%	8.7%	8.8%	8.7%	8.7%	8.8%	4.6%	4.8%	5.0%	5.0%	5.0%	5.2%	4.1%	3.9%	3.8%	3.7%	3.6%	3.6%
Axis	8.3%	8.6%	8.6%	8.5%	8.5%	8.6%	4.8%	5.1%	5.3%	5.2%	5.3%	5.4%	3.4%	3.5%	3.4%	3.3%	3.3%	3.2%
Kotak	8.7%	8.8%	9.0%	8.8%	8.7%	8.8%	4.3%	4.7%	4.9%	4.7%	5.0%	5.1%	4.4%	4.1%	4.1%	4.1%	3.7%	3.7%
IndusInd	9.8%	10.1%	10.2%	10.3%	10.2%	10.0%	6.0%	6.2%	6.2%	6.5%	6.5%	6.5%	3.8%	3.9%	4.0%	3.8%	3.6%	3.5%
Federal	8.1%	8.3%	8.4%	8.4%	8.5%	8.4%	5.2%	5.5%	5.7%	5.7%	5.8%	5.8%	2.9%	2.9%	2.7%	2.7%	2.7%	2.6%
RBL	10.5%	10.7%	11.0%	10.9%	11.0%	10.9%	5.8%	6.0%	6.2%	6.2%	6.2%	6.5%	4.7%	4.7%	4.8%	4.7%	4.9%	4.4%
KVB	8.5%	8.6%	8.8%	8.7%	8.8%	8.9%	4.9%	5.2%	5.2%	5.3%	5.4%	5.5%	3.5%	3.4%	3.6%	3.5%	3.4%	3.4%
CUB	8.0%	8.3%	8.2%	8.3%	8.2%	8.5%	5.3%	5.5%	5.7%	5.6%	5.6%	5.7%	2.7%	2.8%	2.6%	2.6%	2.6%	2.8%
DCB	9.8%	9.8%	9.9%	9.9%	9.8%	9.8%	6.6%	6.7%	7.0%	6.9%	7.1%	7.2%	3.2%	3.1%	2.9%	2.9%	2.7%	2.7%
SIB	7.9%	8.1%	8.2%	8.3%	8.2%	8.3%	4.9%	5.1%	5.3%	5.4%	5.5%	5.5%	3.0%	3.0%	2.9%	2.9%	2.8%	2.8%
Karnataka	8.7%	8.7%	8.6%	8.6%	8.8%	8.6%	5.2%	5.3%	5.3%	5.5%	5.4%	5.5%	3.5%	3.4%	3.3%	3.2%	3.4%	3.2%
PSU Banks																		
SBI	7.5%	7.7%	7.9%	8.0%	7.9%	7.9%	4.6%	4.9%	5.1%	5.1%	5.1%	5.2%	2.9%	2.9%	2.8%	2.8%	2.7%	2.7%
BOB	7.5%	7.7%	7.8%	7.9%	7.8%	7.8%	4.7%	5.1%	5.1%	5.1%	5.1%	5.2%	2.8%	2.7%	2.7%	2.8%	2.7%	2.6%
PNB	7.2%	7.5%	7.7%	7.7%	7.6%	7.6%	4.7%	4.8%	4.9%	5.1%	5.0%	5.2%	2.6%	2.7%	2.7%	2.6%	2.6%	2.5%
Canara	7.6%	8.0%	8.1%	8.1%	7.9%	7.9%	5.2%	5.5%	5.6%	5.7%	5.6%	5.7%	2.4%	2.4%	2.5%	2.4%	2.2%	2.2%
Union	7.7%	7.9%	8.0%	8.1%	7.9%	7.9%	5.0%	5.3%	5.4%	5.5%	5.4%	5.6%	2.7%	2.7%	2.6%	2.6%	2.5%	2.3%
Indian	7.6%	7.9%	7.8%	7.8%	7.8%	7.9%	4.6%	4.9%	5.0%	4.9%	5.0%	5.1%	3.1%	3.0%	2.9%	2.8%	2.8%	2.8%
BOI	7.4%	7.5%	7.4%	7.6%	7.6%	7.5%	4.6%	4.9%	5.0%	5.1%	5.1%	5.2%	2.8%	2.6%	2.4%	2.5%	2.5%	2.3%
BOMH	7.3%	7.6%	7.7%	7.7%	7.9%	8.0%	4.0%	4.2%	4.3%	4.3%	4.4%	4.6%	3.4%	3.4%	3.4%	3.3%	3.5%	3.4%
J&K	8.5%	8.8%	9.0%	8.8%	8.8%	9.0%	4.4%	4.5%	4.9%	4.8%	4.7%	4.9%	4.1%	4.3%	4.1%	4.0%	4.1%	4.1%
Small Finance Banks																		
AU Small Finance	11.1%	11.1%	11.4%	11.0%	12.3%	12.1%	6.4%	6.5%	6.8%	6.7%	6.9%	6.9%	4.7%	4.6%	4.6%	4.3%	5.3%	5.2%
Equitas	14.3%	14.5%	14.5%	13.8%	13.6%	13.6%	6.8%	7.3%	7.6%	7.3%	7.3%	7.5%	7.4%	7.1%	6.9%	6.5%	6.3%	6.1%
Suryoday	14.9%	14.9%	15.7%	15.8%	16.2%	16.3%	6.6%	7.2%	7.4%	7.2%	7.5%	7.7%	8.4%	7.7%	8.3%	8.6%	8.7%	8.6%
Ujjivan	15.6%	15.6%	15.5%	15.8%	15.8%	15.5%	6.9%	7.3%	7.4%	7.1%	7.4%	7.5%	8.7%	8.3%	8.1%	8.7%	8.4%	8.1%
Jana	13.9%	14.7%	14.5%	14.5%	14.5%	14.3%	7.5%	7.7%	7.8%	7.7%	7.9%	8.1%	6.4%	6.9%	6.8%	6.7%	6.5%	6.3%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Large cap private banks, ICICI, AXIS, retain about ~15-20bps of spread gains since the start of the rate hike cycle in 1QFY23, while Kotak, IIB, Federal have largely reversed the gains. Amongst PSU banks, spreads are now in-line to below peak spreads for SBI, BoB, Canara, Union,

However, BOI and JKBK retain a larger portion, at ~50%, of the peak spread gains during the cycle. That said, PSU banks have guided yields to have peaked out and are likely to see spread declines from hereon which is also reflected in their FY25 margin guidance declines of about 10-15bps

BOMH, via balance sheet management, has been able to maintain its spreads gains sustainably thus far.

RBL has benefitted more from the faster growth in the unsecured higher margin segments over this rate cycle, however, it lost about 40bps of the spread gains in the current quarter due to interest reversals from slippages in unsecured credit.

Likewise spreads for SFBs also declined due to interest reversals from slippages and a higher proportion of secured assets within the portfolio.

Exhibit 29: NIMs declined largely across the board mainly due to interest reversal from slippages.

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Total Banks	2.9%	3.0%	3.1%	3.2%	3.1%	3.1%	3.4%	3.6%	3.6%	3.5%	3.4%	3.4%	3.4%	3.3%	3.3%
Private Banks	3.8%	3.8%	3.8%	3.9%	3.8%	3.9%	4.1%	4.4%	4.3%	4.3%	4.0%	4.0%	3.9%	3.9%	3.9%
PSU Banks	2.4%	2.6%	2.7%	2.7%	2.7%	2.7%	2.9%	3.1%	3.1%	3.0%	3.0%	2.9%	3.0%	2.9%	2.8%
Small Finance Banks	6.3%	6.8%	7.1%	7.5%	7.5%	7.4%	7.6%	7.5%	7.4%	7.2%	7.0%	7.0%	6.8%	7.2%	7.0%
Private Banks															
HDFC	4.2%	4.0%	4.1%	4.1%	3.9%	3.9%	4.1%	4.3%	4.2%	4.1%	3.5%	3.5%	3.5%	3.5%	3.5%
ICICI	3.7%	3.8%	4.0%	3.9%	3.9%	4.0%	4.3%	4.7%	4.8%	4.8%	4.6%	4.5%	4.4%	4.4%	4.3%
Axis	3.5%	3.4%	3.3%	3.5%	3.3%	3.5%	3.8%	4.1%	3.9%	3.9%	4.0%	3.9%	3.8%	3.8%	3.8%
Kotak	4.1%	4.2%	4.2%	4.3%	4.4%	4.6%	4.9%	5.2%	5.3%	5.1%	5.0%	5.0%	4.9%	4.7%	4.7%
IndusInd	4.3%	4.1%	4.1%	4.2%	4.3%	4.3%	4.4%	4.4%	4.4%	4.5%	4.6%	4.7%	4.5%	4.4%	4.2%
Federal	3.0%	3.0%	3.1%	3.2%	3.1%	3.1%	3.3%	3.5%	3.2%	3.1%	3.1%	3.1%	3.1%	3.1%	3.0%
RBL	3.9%	4.1%	3.8%	4.2%	4.6%	4.1%	4.2%	4.6%	4.6%	5.2%	5.2%	5.3%	5.2%	5.4%	5.0%
KVB	3.4%	3.5%	3.7%	3.7%	3.7%	3.8%	4.0%	4.2%	4.1%	4.0%	3.9%	4.1%	4.0%	4.0%	4.0%
CUB	3.4%	3.5%	3.6%	3.5%	3.5%	3.5%	3.7%	3.6%	3.2%	3.3%	3.4%	3.2%	3.3%	3.2%	3.4%
DCB	3.4%	3.3%	3.3%	3.5%	3.7%	3.5%	3.8%	3.9%	4.0%	3.7%	3.6%	3.4%	3.5%	3.3%	3.2%
SIB	2.6%	2.5%	2.4%	2.5%	2.6%	2.6%	3.0%	3.3%	3.4%	3.1%	3.1%	3.1%	3.2%	3.1%	3.1%
Karnataka	2.4%	2.9%	3.2%	3.1%	3.2%	3.2%	3.7%	3.7%	3.8%	3.6%	3.5%	3.4%	3.3%	3.5%	3.2%
PSU Banks															
SBI	2.6%	2.7%	2.9%	2.8%	2.8%	2.7%	3.0%	3.1%	3.2%	3.1%	3.0%	2.9%	3.0%	2.9%	2.9%
BOB	2.6%	2.9%	2.8%	3.0%	2.9%	2.9%	3.3%	3.3%	3.4%	3.1%	3.0%	3.0%	3.1%	3.0%	3.0%
PNB	2.4%	2.5%	2.2%	2.6%	2.4%	2.4%	2.6%	2.8%	2.8%	2.7%	2.8%	2.9%	2.8%	2.8%	2.7%
Canara	2.1%	2.3%	2.2%	2.4%	2.4%	2.3%	2.4%	2.8%	2.7%	2.6%	2.6%	2.7%	2.7%	2.5%	2.5%
Union	2.2%	2.8%	2.7%	2.8%	2.5%	2.7%	3.0%	3.0%	2.8%	2.9%	2.9%	2.9%	2.9%	2.8%	2.7%
Indian	2.3%	2.7%	2.7%	2.9%	2.7%	2.8%	2.9%	3.4%	3.3%	3.3%	3.3%	3.2%	3.2%	3.2%	3.2%
BOI	1.7%	1.9%	2.1%	2.0%	2.3%	2.3%	2.8%	3.0%	2.9%	3.0%	2.9%	2.7%	2.8%	2.8%	2.6%
BOMH	3.1%	3.0%	3.1%	3.0%	3.0%	3.0%	3.3%	3.4%	3.5%	3.6%	3.7%	3.7%	3.6%	3.8%	3.7%
J&K	3.5%	3.6%	3.7%	3.7%	3.5%	3.7%	4.2%	4.3%	4.1%	4.1%	4.2%	4.0%	3.9%	4.0%	4.1%
Small Finance Banks															
AU Small Finance	5.5%	5.8%	5.9%	6.0%	6.0%	5.7%	6.0%	6.0%	5.8%	5.6%	5.5%	5.5%	5.2%	6.2%	6.1%
Equitas	7.4%	7.7%	7.9%	8.8%	8.8%	8.7%	8.7%	8.7%	8.8%	8.5%	8.1%	8.0%	7.5%	7.3%	7.0%
Suryoday	3.6%	7.6%	9.2%	10.0%	7.9%	8.9%	8.8%	8.9%	9.4%	9.4%	8.8%	9.4%	9.6%	9.7%	9.6%
Ujjivan	7.7%	8.0%	8.4%	9.4%	10.2%	10.5%	10.8%	10.1%	9.6%	9.6%	9.3%	9.1%	9.6%	9.4%	9.1%
Jana	NA	6.8%	6.7%	7.2%	7.6%	7.1%	7.4%	7.8%	7.8%	7.2%	7.9%	7.7%	7.7%	7.6%	7.3%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Margins compressed across the board mainly as (i) Pvt banks saw spread compression of -5bps qoq mainly due to reduction in unsecured loan mix along with C-D ratio reduction of -150bp qoq; (ii) PSU banks saw margin compression of -6bps qoq due to spread compression of -7bps qoq mainly due to funding cost increase of +10bps qoq partly offset by C-D ratio improvement +20bps qoq (+100bp qoq improvement for PSU banks - ex SBI); (iii) SFBs saw margin decline of -18bps qoq as funding yields decline -11bps qoq due to interest reversal on slippages in the unsecured portfolio and muted growth. Overall banks also saw penal interest impact of 5-10bps qoq on yields.

Considering RBI's focus on curbing CDR and unsecured advances, interest reversals from slippages in unsecured credit along with pickup in corporate loans, we expect margins pressures, though modest, to sustain into FY25.

Impact of higher trading gains and TWO recoveries was more prominent in PSU banks as compared to private banks.

Exhibit 30: Other income improved materially for PSU banks as compared to private banks.

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
POSI (Rs bn)															
Private Banks	17.1	38.0	24.2	26.9	10.0	-7.3	6.8	14.4	3.2	21.2	14.5	25.0	17.2	16.6	28.7
PSU Banks	31.1	86.0	58.3	32.1	23.1	-52.4	21.3	51.3	47.1	69.0	42.8	37.3	74.2	50.5	90.9
Small Finance Banks	0.7	1.7	0.4	0.3	0.0	-0.4	0.2	0.2	0.1	0.8	0.3	0.5	0.6	0.7	1.3
Total Banks	48.9	125.8	82.8	59.3	33.1	-60.1	28.3	65.9	50.4	91.1	57.6	62.9	92.0	67.8	120.9
Other income as % of avg assets															
Total Banks	1.5%	1.2%	1.2%	1.1%	1.2%	0.8%	1.1%	1.2%	1.3%	1.2%	1.1%	1.1%	1.3%	1.1%	1.3%
Private Banks	1.6%	1.5%	1.6%	1.5%	1.5%	1.2%	1.4%	1.5%	1.5%	1.5%	1.4%	1.5%	1.5%	1.4%	1.5%
PSU Banks	1.4%	1.1%	1.0%	0.9%	1.0%	0.6%	0.8%	1.0%	1.2%	1.0%	0.9%	0.8%	1.2%	0.9%	1.1%
Small Finance Banks	2.3%	1.6%	1.6%	2.0%	2.0%	1.3%	1.6%	1.7%	2.0%	1.7%	1.9%	1.9%	2.2%	1.9%	1.9%
Private Banks															
HDFC	1.8%	1.4%	1.6%	1.7%	1.5%	1.2%	1.4%	1.5%	1.5%	1.5%	1.3%	1.3%	1.2%	1.2%	1.3%
ICICI	1.4%	1.3%	1.5%	1.5%	1.4%	1.3%	1.4%	1.3%	1.3%	1.3%	1.4%	1.4%	1.2%	1.5%	1.5%
Axis	1.5%	1.3%	1.5%	1.4%	1.5%	1.0%	1.3%	1.5%	1.5%	1.6%	1.5%	1.6%	1.9%	1.6%	1.8%
Kotak	1.6%	1.6%	1.8%	1.3%	1.7%	1.2%	1.8%	1.9%	1.8%	2.1%	1.8%	1.7%	2.1%	1.9%	1.7%
IndusInd	2.0%	1.9%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	2.0%	2.0%	1.9%	1.6%
Federal	1.0%	1.3%	1.0%	0.9%	0.9%	0.8%	1.1%	0.9%	1.1%	1.1%	1.0%	1.2%	1.0%	1.2%	1.2%
RBL	2.8%	2.6%	2.3%	2.4%	2.0%	2.3%	2.2%	2.3%	2.4%	2.3%	2.3%	2.5%	2.6%	2.3%	2.7%
KVB	0.9%	1.1%	0.9%	1.0%	1.0%	1.0%	1.1%	1.4%	1.8%	1.4%	1.4%	1.4%	2.4%	1.4%	1.7%
CUB	1.2%	1.4%	1.5%	1.1%	1.3%	1.4%	1.1%	1.4%	1.2%	1.2%	1.1%	1.1%	1.0%	1.1%	1.3%
DCB	1.3%	1.2%	1.0%	1.1%	1.1%	0.8%	0.9%	0.8%	1.0%	0.8%	0.8%	0.8%	0.9%	0.9%	1.2%
SIB	1.8%	1.9%	0.7%	0.9%	0.8%	1.0%	1.0%	-0.1%	1.3%	1.3%	1.3%	1.6%	1.2%	1.4%	1.5%
Karnataka	1.5%	1.0%	1.3%	0.9%	1.1%	0.6%	1.1%	0.8%	1.6%	1.3%	1.0%	1.2%	1.5%	1.0%	0.9%
PSU Banks															
SBI	1.5%	1.0%	0.7%	0.7%	1.0%	0.2%	0.7%	0.9%	1.0%	0.9%	0.8%	0.8%	1.1%	0.7%	1.0%
BOB	1.7%	1.0%	1.2%	0.8%	0.8%	0.4%	0.6%	1.0%	1.0%	0.9%	1.1%	0.7%	1.1%	0.6%	1.3%
PNB	0.8%	1.2%	1.0%	0.8%	0.7%	0.8%	0.8%	1.0%	1.0%	0.9%	0.8%	0.7%	1.1%	0.9%	1.1%
Canara	1.8%	1.4%	1.4%	1.2%	1.5%	1.7%	1.5%	1.2%	1.4%	1.4%	1.3%	1.2%	1.4%	1.4%	1.3%
Union	1.7%	1.0%	1.5%	0.9%	1.1%	1.0%	1.1%	1.1%	1.7%	1.2%	1.1%	1.1%	1.4%	1.3%	1.5%
Indian	1.0%	1.2%	1.2%	1.0%	1.0%	1.0%	1.1%	1.0%	1.1%	1.0%	1.1%	1.0%	1.2%	1.0%	1.2%
BOI	1.0%	1.3%	1.2%	1.0%	0.9%	0.6%	0.8%	0.7%	1.5%	0.7%	0.8%	0.6%	0.8%	0.6%	1.0%
BOMH	2.6%	1.4%	1.6%	1.1%	0.9%	0.5%	0.8%	1.1%	1.3%	0.9%	1.0%	1.0%	1.4%	1.2%	1.0%
J&K	0.6%	0.7%	0.7%	0.5%	0.6%	0.6%	0.4%	0.7%	0.5%	0.6%	0.5%	0.5%	0.6%	0.5%	0.8%
Small Finance Banks															
AU Small Finance	2.3%	1.7%	1.5%	2.0%	2.0%	0.9%	1.3%	1.5%	1.6%	1.4%	1.8%	1.8%	2.1%	1.7%	1.9%
Equitas	2.8%	1.6%	2.3%	2.1%	2.3%	1.9%	2.0%	2.0%	2.9%	1.9%	1.9%	2.0%	2.2%	1.8%	2.0%
Suryoday	0.8%	1.3%	2.0%	1.0%	1.0%	0.6%	1.2%	1.2%	1.4%	2.0%	2.0%	1.9%	2.2%	2.2%	1.4%
Ujjivan	2.3%	1.5%	1.1%	2.0%	2.3%	2.1%	2.3%	1.9%	2.2%	2.1%	2.1%	1.9%	2.4%	1.9%	1.9%
Jana	0.0%	1.0%	2.0%	1.4%	2.0%	3.4%	2.1%	2.9%	2.6%	2.9%	2.4%	1.9%	2.3%	2.3%	2.1%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Other income yields for PSU banks increased materially by 25bps qoq vs 6bps for private banks mainly due to higher TWO recovery, higher treasury gains due to fall in G-Sec yields and reclassification of penal interest in the form of penal charges. Also, private banks' fee income was impacted due to muted growth in retail credit.

Operating expenses increased sequentially for PSU banks due to higher actuarial provisions.

Exhibit 31: Opex to assets for PSU banks increased due to higher pension liabilities.

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
	Opex to avg. asset (%)						Cost to Income (%)					
Total Banks	2.1%	2.2%	2.3%	2.2%	2.0%	2.1%	47%	50%	53%	50%	47%	47%
Private Banks	2.6%	2.4%	2.4%	2.5%	2.4%	2.4%	46%	46%	46%	47%	46%	45%
PSU Banks	1.8%	2.0%	2.1%	2.0%	1.7%	1.8%	48%	53%	59%	51%	49%	48%
Small Finance Banks	5.3%	5.2%	5.3%	5.5%	5.3%	5.2%	61%	60%	61%	62%	60%	60%
Private Banks												
HDFC	2.3%	1.8%	1.8%	2.0%	1.9%	1.9%	43%	40%	40%	45%	41%	41%
ICICI	2.4%	2.3%	2.3%	2.1%	2.2%	2.2%	40%	41%	41%	39%	40%	39%
Axis	2.5%	2.6%	2.6%	2.6%	2.5%	2.6%	48%	50%	49%	47%	47%	47%
Kotak	3.2%	3.1%	3.2%	3.1%	3.0%	3.0%	44%	46%	48%	45%	46%	47%
IndusInd	2.8%	2.9%	3.1%	3.1%	3.0%	2.9%	46%	47%	48%	49%	50%	52%
Federal	2.0%	2.1%	2.1%	2.4%	2.1%	2.1%	51%	52%	52%	62%	53%	53%
RBL	5.0%	4.8%	5.0%	4.8%	4.8%	4.7%	69%	66%	67%	64%	66%	64%
KVB	2.5%	2.6%	2.7%	2.9%	2.5%	2.6%	47%	49%	50%	47%	47%	47%
CUB	1.8%	2.0%	2.0%	2.1%	2.1%	2.2%	42%	46%	49%	51%	49%	47%
DCB	2.8%	2.6%	2.6%	2.7%	2.7%	2.7%	64%	64%	65%	64%	68%	64%
SIB	2.5%	2.6%	2.8%	2.7%	2.7%	2.6%	58%	61%	62%	64%	61%	59%
Karnataka	2.2%	2.1%	2.3%	2.7%	2.2%	2.2%	47%	51%	53%	60%	53%	58%
PSU Banks												
SBI	1.9%	2.2%	2.6%	2.0%	1.7%	1.8%	50%	61%	74%	51%	49%	49%
BOB	1.8%	1.9%	1.8%	2.0%	1.8%	1.8%	45%	47%	50%	49%	49%	44%
PNB	1.9%	1.8%	1.8%	2.1%	1.9%	2.0%	54%	52%	51%	56%	53%	55%
Canara	1.7%	1.7%	1.9%	2.0%	1.8%	1.7%	44%	44%	50%	50%	47%	46%
Union	1.7%	1.7%	1.7%	2.2%	1.8%	1.8%	44%	44%	44%	54%	44%	44%
Indian	1.8%	1.9%	1.9%	2.0%	1.8%	1.9%	44%	44%	47%	48%	44%	45%
BOI	1.8%	1.8%	1.7%	1.9%	1.7%	1.8%	49%	49%	55%	54%	51%	51%
BOMH	1.6%	1.7%	1.6%	1.9%	1.8%	1.8%	37%	38%	36%	39%	38%	39%
J&K	2.7%	2.8%	2.5%	2.3%	2.5%	2.4%	65%	65%	62%	57%	62%	55%
Small Finance Banks												
AU Small Finance	4.5%	4.4%	4.5%	4.7%	4.7%	4.5%	65%	61%	63%	65%	60%	57%
Equitas	6.6%	6.3%	6.2%	6.0%	5.8%	5.8%	66%	65%	64%	63%	66%	66%
Suryoday	6.3%	6.8%	6.7%	7.1%	7.0%	6.7%	58%	65%	62%	62%	60%	63%
Ujjivan	6.0%	5.8%	6.0%	6.5%	6.1%	6.4%	53%	52%	56%	56%	55%	60%
Jana	5.8%	6.0%	5.4%	5.5%	5.4%	5.6%	58%	59%	57%	56%	55%	61%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers.*

Opex to assets ratio for PSU banks increased by ~10-12bps qoq due to higher pension liabilities on decline in benchmark rates. On the other hand private banks saw controlled increase in other overheads which led to opex/assets remaining stable qoq. For SFB's while they saw an increase in higher employee costs led by investments in collections team, it was partly offset by lower other overheads and co-brand partner payouts.

Sequentially PPOP growth was mainly led by higher other income

Exhibit 32: While PPOP was impacted by lower margins, its impact was partly offset by higher other income led by higher TWO recovery for PSU banks and higher core fee growth due to benefit from penal charges

	Ppop as % of avg. assets					Ppop growth (YoY %)					Ppop growth (QoQ %)				
	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Total Banks	2.2%	2.0%	2.3%	2.2%	2.3%	14%	-4%	10%	10%	19%	-1%	-5%	16%	1%	7%
Private Banks	2.8%	2.8%	2.7%	2.8%	2.8%	22%	14%	13%	17%	14%	6%	4%	2%	4%	3%
Private Banks - ex HDFCB	2.8%	2.8%	2.9%	2.8%	2.8%	18%	8%	10%	12%	17%	-1%	4%	7%	2%	3%
PSU Banks	1.8%	1.5%	1.9%	1.8%	2.0%	7%	-20%	8%	4%	24%	-8%	-15%	35%	-2%	10%
Small Finance Banks	3.5%	3.4%	3.4%	3.6%	3.5%	28%	23%	15%	38%	33%	9%	2%	6%	18%	4%
Private Banks															
HDFC	2.7%	2.7%	2.5%	2.7%	2.7%	30%	24%	18%	27%	9%	21%	4%	-7%	9%	3%
ICICI	3.4%	3.4%	3.3%	3.4%	3.5%	22%	11%	9%	13%	18%	1%	3%	2%	7%	4%
Axis	2.6%	2.7%	2.9%	2.7%	2.9%	12%	-1%	15%	15%	24%	-2%	6%	15%	-4%	6%
Kotak	3.5%	3.4%	3.8%	3.5%	3.3%	29%	14%	18%	6%	11%	-7%	-1%	20%	-4%	-3%
IndusInd	3.3%	3.3%	3.2%	3.0%	2.7%	10%	9%	7%	3%	-7%	1%	3%	1%	-2%	-9%
Federal	1.9%	2.0%	1.5%	1.9%	1.9%	9%	13%	-17%	15%	18%	2%	9%	-23%	35%	4%
RBL	2.4%	2.4%	2.7%	2.5%	2.6%	43%	35%	49%	33%	24%	13%	5%	16%	-3%	6%
KVB	2.6%	2.7%	3.3%	2.8%	2.9%	11%	-2%	17%	15%	28%	-2%	6%	28%	-14%	9%
CUB	2.3%	2.2%	2.0%	2.1%	2.4%	-15%	-27%	-16%	-10%	11%	-7%	-6%	-3%	6%	15%
DCB	1.5%	1.4%	1.5%	1.3%	1.5%	15%	9%	-4%	-2%	21%	1%	0%	11%	-12%	24%
SIB	1.6%	1.7%	1.5%	1.7%	1.8%	8%	138%	-23%	4%	20%	-6%	5%	-10%	17%	8%
Karnataka	2.0%	2.0%	1.8%	1.9%	1.6%	-10%	2%	-27%	-7%	-12%	-13%	3%	-7%	12%	-18%
PSU Banks															
SBI	1.4%	0.9%	1.9%	1.7%	1.9%	-8%	-48%	17%	5%	51%	-23%	-32%	117%	-8%	11%
BOB	2.1%	1.8%	2.1%	1.8%	2.4%	33%	-15%	0%	-8%	18%	2%	-13%	16%	-12%	32%
PNB	1.7%	1.7%	1.7%	1.7%	1.7%	12%	11%	9%	10%	10%	4%	2%	1%	3%	4%
Canara	2.2%	1.9%	2.0%	2.0%	2.0%	10%	-2%	2%	0%	1%	0%	-11%	9%	3%	0%
Union	2.2%	2.2%	1.9%	2.2%	2.3%	10%	10%	-4%	8%	12%	1%	1%	-10%	19%	4%
Indian	2.4%	2.2%	2.2%	2.3%	2.4%	19%	1%	7%	9%	10%	4%	-5%	5%	5%	5%
BOI	1.8%	1.4%	1.6%	1.6%	1.7%	11%	-18%	-15%	-2%	10%	0%	0%	0%	0%	0%
BOMH	2.8%	2.9%	3.0%	3.0%	2.8%	31%	27%	19%	23%	15%	3%	5%	10%	4%	-4%
J&K	1.5%	1.5%	1.8%	1.5%	2.0%	11%	1%	48%	13%	47%	1%	3%	21%	-10%	32%
Small Finance Banks															
AU Small Finance	2.8%	2.7%	2.5%	3.1%	3.4%	30%	18%	16%	81%	75%	19%	1%	1%	49%	15%
Equitas	3.4%	3.5%	3.5%	3.0%	2.9%	36%	29%	-3%	9%	6%	6%	9%	4%	-9%	3%
Suryoday	3.6%	4.2%	4.4%	4.6%	3.9%	1%	80%	26%	23%	35%	-19%	21%	12%	12%	-12%
Ujjivan	5.3%	4.7%	5.2%	4.9%	4.3%	26%	18%	26%	11%	-5%	6%	-5%	13%	-2%	-10%
Jana	4.2%	4.1%	4.4%	4.3%	3.6%	18%	8%	10%	12%	17%	-1%	4%	7%	2%	3%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Asset quality deterioration is more prominent in SFBs due to MFI slippages.

Exhibit 33: GNPA remained stable for Pvt banks, increased for SFBs and declined across the board for PSU banks.

	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
	GNPA						NNPA						PCR					
Total Banks	**3.6%**	**3.2%**	**2.9%**	**2.7%**	**2.6%**	**2.5%**	**0.9%**	**0.7%**	**0.7%**	**0.6%**	**0.6%**	**0.6%**	**77%**	**77%**	**77%**	**78%**	**78%**	**78%**
Private Banks	**2.0%**	**1.9%**	**1.8%**	**1.7%**	**1.8%**	**1.7%**	**0.5%**	**0.5%**	**0.5%**	**0.4%**	**0.5%**	**0.5%**	**76%**	**76%**	**75%**	**75%**	**74%**	**73%**
PSU Banks	**4.6%**	**4.1%**	**3.7%**	**3.4%**	**3.3%**	**3.1%**	**1.1%**	**0.9%**	**0.8%**	**0.7%**	**0.7%**	**0.6%**	**77%**	**78%**	**78%**	**79%**	**79%**	**80%**
Small Finance Banks	**2.2%**	**2.1%**	**2.1%**	**2.0%**	**2.1%**	**2.3%**	**0.7%**	**0.6%**	**0.7%**	**0.7%**	**0.6%**	**0.8%**	**71%**	**71%**	**68%**	**69%**	**72%**	**68%**
Private Banks																		
HDFC	1.2%	1.3%	1.3%	1.2%	1.3%	1.4%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%	75%	74%	75%	74%	71%	70%
ICICI	2.9%	2.6%	2.4%	2.3%	2.3%	2.1%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	83%	83%	81%	81%	80%	79%
Axis	2.1%	1.8%	1.7%	1.5%	1.6%	1.5%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%	80%	79%	78%	79%	78%	77%
Kotak	1.8%	1.7%	1.7%	1.4%	1.4%	1.5%	0.4%	0.4%	0.3%	0.3%	0.4%	0.4%	78%	79%	81%	76%	75%	71%
IndusInd	1.9%	1.9%	1.9%	1.9%	2.0%	2.1%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	71%	71%	71%	71%	71%	70%
Federal	2.4%	2.3%	2.3%	2.1%	2.1%	2.1%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	71%	72%	72%	72%	72%	73%
RBL	3.2%	3.1%	3.1%	2.7%	2.7%	2.9%	1.0%	0.8%	0.8%	0.7%	0.7%	0.8%	70%	76%	75%	73%	73%	73%
KVB	2.0%	1.7%	1.6%	1.4%	1.3%	1.1%	0.6%	0.5%	0.4%	0.4%	0.4%	0.3%	71%	73%	73%	71%	71%	75%
CUB	4.9%	4.7%	4.5%	4.0%	3.9%	3.5%	2.5%	2.3%	2.2%	2.0%	1.9%	1.6%	50%	51%	52%	52%	53%	55%
DCB	3.3%	3.4%	3.5%	3.3%	3.4%	3.4%	1.2%	1.3%	1.2%	1.1%	1.2%	1.2%	64%	63%	65%	66%	65%	65%
IDFC First	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%	68%	68%	67%	69%	69%	75%
SIB	5.1%	5.0%	4.7%	4.5%	4.5%	4.4%	1.8%	1.7%	1.6%	1.5%	1.4%	1.3%	65%	67%	67%	69%	69%	71%
Karnataka Bank	3.7%	3.5%	3.6%	3.5%	3.5%	3.2%	1.4%	1.4%	1.6%	1.6%	1.7%	1.5%	62%	62%	58%	56%	54%	55%
PSU Banks																		
SBI	2.8%	2.5%	2.4%	2.2%	2.2%	2.1%	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%	75%	75%	74%	75%	74%	76%
BOB	3.5%	3.3%	3.1%	2.9%	2.9%	2.5%	0.8%	0.8%	0.7%	0.7%	0.7%	0.6%	79%	78%	78%	77%	77%	76%
PNB	7.7%	7.0%	6.2%	5.7%	5.0%	4.5%	2.0%	1.5%	1.0%	0.7%	0.6%	0.5%	76%	80%	85%	88%	88%	90%
Canara	5.2%	4.8%	4.4%	4.2%	4.1%	3.7%	1.6%	1.4%	1.3%	1.3%	1.2%	1.0%	71%	71%	71%	71%	71%	74%
Union	7.3%	6.4%	4.8%	4.8%	4.5%	4.4%	1.6%	1.3%	1.1%	1.0%	0.9%	1.0%	80%	81%	78%	79%	81%	78%
Indian	5.5%	5.0%	4.5%	4.0%	3.8%	3.5%	0.7%	0.6%	0.5%	0.4%	0.4%	0.3%	88%	88%	89%	89%	90%	92%
Bank of India	6.7%	5.8%	5.4%	5.0%	4.6%	4.4%	1.7%	1.5%	1.4%	1.2%	1.0%	0.9%	77%	75%	75%	77%	79%	79%
BOMH	2.3%	2.2%	2.0%	1.9%	1.9%	1.8%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	90%	90%	90%	89%	89%	89%
J&K	5.8%	5.3%	4.8%	4.1%	3.9%	3.9%	1.4%	1.0%	0.8%	0.8%	0.8%	0.8%	77%	81%	84%	81%	81%	79%
Small Finance Banks																		
AU Small Finance	1.8%	1.9%	2.0%	1.7%	1.8%	2.0%	0.6%	0.6%	0.7%	0.5%	0.6%	0.7%	69%	69%	66%	68%	65%	63%
Equitas	2.8%	2.3%	2.3%	2.4%	2.5%	2.8%	1.2%	1.0%	1.1%	1.2%	0.8%	1.0%	58%	58%	56%	56%	70%	68%
Suryoday	3.0%	2.9%	2.9%	2.8%	2.7%	2.9%	1.6%	1.5%	1.4%	0.9%	0.5%	0.8%	47%	50%	54%	71%	84%	74%
Ujjivan	2.4%	2.2%	2.1%	2.1%	2.3%	2.5%	0.1%	0.1%	0.2%	0.3%	0.4%	0.6%	98%	96%	93%	88%	84%	78%
Jana	0.0%	2.4%	2.2%	2.1%	2.6%	3.0%	NA	0.9%	0.7%	0.6%	1.0%	1.0%	NA	65%	68%	74%	63%	67%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Exhibit 34: Credit costs increase with a significant increase visible for SFBs.

Credit costs (%) - Annualised	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Total Banks	**2.7%**	**2.1%**	**2.3%**	**2.2%**	**2.1%**	**1.3%**	**1.3%**	**1.3%**	**1.1%**	**1.1%**	**1.1%**	**0.9%**	**0.8%**	**0.6%**	**0.6%**	**0.5%**	**0.6%**	**0.7%**
Private Banks	**2.8%**	**2.1%**	**2.0%**	**2.3%**	**2.2%**	**1.5%**	**1.1%**	**0.8%**	**0.7%**	**0.8%**	**0.9%**	**0.7%**	**0.7%**	**0.5%**	**0.7%**	**0.5%**	**0.6%**	**0.7%**
PSU Banks	**2.6%**	**2.2%**	**2.4%**	**2.1%**	**2.1%**	**1.2%**	**1.5%**	**1.7%**	**1.3%**	**1.3%**	**1.3%**	**1.1%**	**0.8%**	**0.7%**	**0.5%**	**0.6%**	**0.6%**	**0.6%**
Small Finance Banks	**3.0%**	**1.6%**	**6.6%**	**1.7%**	**5.5%**	**3.9%**	**2.2%**	**1.9%**	**1.3%**	**0.9%**	**0.5%**	**0.8%**	**0.6%**	**0.8%**	**1.1%**	**1.1%**	**2.0%**	**2.3%**
Private Banks																		
HDFC	1.6%	1.5%	1.3%	1.7%	1.7%	1.3%	1.0%	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	0.6%	0.7%	0.4%	0.4%	0.4%
ICICI	4.8%	1.9%	1.6%	1.6%	1.5%	1.4%	1.0%	0.5%	0.5%	0.7%	0.9%	0.6%	0.5%	0.2%	0.4%	0.2%	0.4%	0.4%
Axis	3.2%	3.1%	2.6%	1.5%	2.1%	1.1%	0.8%	0.6%	0.2%	0.3%	0.8%	0.2%	0.5%	0.4%	0.4%	0.5%	0.8%	0.9%
Kotak	1.8%	0.7%	0.8%	1.3%	1.7%	0.7%	-0.2%	-0.5%	0.0%	0.2%	0.2%	0.2%	0.4%	0.4%	0.7%	0.3%	0.6%	0.7%
IndusInd	4.5%	3.9%	3.6%	3.6%	3.4%	3.2%	2.9%	2.5%	2.1%	1.8%	1.6%	1.5%	1.3%	1.3%	1.2%	1.1%	1.2%	2.1%
Federal	1.3%	1.7%	1.3%	0.8%	2.0%	0.9%	0.6%	0.2%	0.4%	0.7%	0.5%	0.3%	0.3%	0.1%	0.2%	-0.2%	0.3%	0.3%
RBL	3.5%	3.5%	4.3%	5.3%	9.6%	4.6%	3.0%	2.7%	1.7%	1.6%	1.8%	1.4%	1.5%	3.4%	2.3%	2.0%	1.7%	2.8%
KVB	2.9%	1.7%	1.8%	0.2%	2.0%	1.3%	1.1%	1.0%	1.1%	1.5%	2.4%	1.9%	1.0%	0.7%	0.8%	1.6%	0.7%	0.9%
CUB	1.9%	2.1%	2.5%	2.8%	1.9%	1.6%	1.3%	1.7%	1.5%	1.0%	2.1%	1.5%	1.4%	0.3%	0.4%	0.3%	0.3%	0.6%
DCB	1.3%	1.6%	2.4%	1.5%	2.4%	1.3%	1.4%	1.0%	0.5%	0.4%	0.5%	0.6%	0.4%	0.4%	0.4%	0.2%	0.3%	0.4%
SIB	1.8%	1.9%	2.9%	3.1%	3.5%	3.0%	2.4%	0.5%	0.9%	1.1%	0.2%	0.2%	1.1%	0.3%	0.3%	0.2%	0.6%	0.5%
Karnataka	0.0%	0.0%	0.0%	0.0%	2.8%	2.6%	1.0%	0.7%	2.5%	-0.1%	1.1%	1.9%	1.0%	0.8%	0.9%	1.1%	0.2%	0.2%
PSU Banks																		
SBI	2.2%	1.8%	1.8%	1.8%	1.6%	0.0%	1.1%	1.1%	0.6%	0.4%	0.8%	0.4%	0.3%	0.0%	0.1%	0.2%	0.4%	0.5%
BOB	3.3%	1.7%	2.3%	2.0%	2.3%	1.6%	1.4%	2.0%	0.9%	0.8%	1.1%	0.6%	0.8%	0.9%	0.3%	0.5%	0.4%	0.9%
PNB	3.3%	2.8%	3.3%	2.1%	3.0%	2.0%	2.0%	2.7%	2.6%	2.6%	2.4%	1.9%	1.9%	1.6%	1.2%	0.7%	0.5%	0.1%
Canara	2.9%	2.6%	2.8%	2.6%	2.1%	2.1%	2.1%	2.1%	2.0%	1.9%	1.6%	1.5%	1.3%	1.2%	0.8%	1.1%	1.0%	0.9%
Union	3.2%	2.9%	3.6%	2.7%	2.3%	2.6%	1.7%	2.3%	2.0%	2.3%	1.6%	1.9%	1.0%	0.9%	0.8%	0.6%	1.3%	0.8%
Indian	3.2%	2.6%	2.3%	1.8%	2.8%	2.8%	2.7%	2.0%	2.3%	2.0%	2.4%	2.3%	1.5%	1.3%	1.1%	1.0%	1.0%	0.8%
BOI	1.6%	2.2%	2.0%	1.8%	1.8%	1.0%	0.3%	1.5%	1.2%	1.7%	1.6%	1.7%	0.7%	0.6%	0.4%	1.3%	0.9%	0.7%
BOMH	2.8%	1.6%	2.0%	5.3%	2.9%	3.5%	2.8%	1.1%	1.6%	1.7%	1.6%	2.3%	1.8%	2.2%	2.1%	2.0%	1.9%	1.6%
J&K	1.6%	2.0%	2.7%	0.2%	1.3%	1.1%	0.0%	-0.3%	0.8%	0.4%	0.1%	-0.9%	0.4%	0.0%	0.0%	-0.7%	-0.1%	0.1%
Small Finance Banks																		
AU Small Finance	2.7%	0.9%	3.9%	2.2%	2.4%	0.1%	0.6%	0.9%	0.3%	0.3%	0.2%	0.3%	0.2%	0.7%	1.0%	0.8%	1.5%	1.6%
Equitas	1.9%	2.0%	3.1%	2.3%	3.5%	3.2%	1.7%	2.6%	2.8%	1.7%	0.9%	2.0%	0.9%	0.9%	1.2%	1.4%	3.9%	4.0%
Suryoday	6.2%	1.7%	5.1%	3.2%	11.3%	9.7%	6.6%	9.6%	5.8%	6.1%	3.0%	3.6%	3.5%	1.7%	2.2%	2.5%	2.5%	3.1%
Ujjivan	4.0%	2.8%	17.0%	-0.8%	13.6%	13.3%	5.5%	1.7%	0.7%	-0.2%	0.0%	0.0%	0.5%	0.8%	1.0%	1.2%	1.6%	2.1%
Jana	NA	NA	NA	NA	3.4%	4.5%	4.9%	6.0%	5.8%	5.3%	4.3%	4.7%	4.0%	3.2%	3.0%	3.1%	3.3%	3.4%

*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Pvt banks and SFBs saw an increase in total credit costs by +12bp/+24bp qoq which was led by (i) higher slippages and write-offs mainly in the unsecured credit and (ii) creation of additional provision buffers. On the other hand, PSU banks saw an increase in NPA provisions (% avg Net advances) by +5bp qoq due to slippages in PSU accounts due to technical delays in repayment of dues and classification of some of the central and state govt PSU exposures as NPA. That said, many of the accounts have been upgraded in the current quarter post repayment of dues. However, total credit costs for PSU banks remained broadly stable (-2bp qoq), due to reversal in std asset and other provision

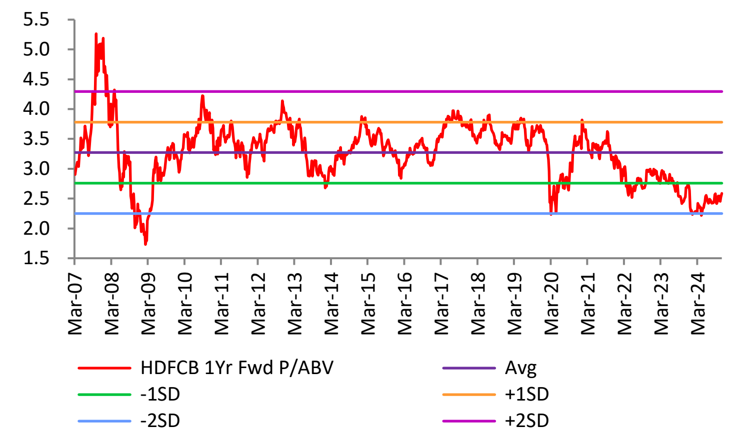
Banks' RoA supported mainly by higher other income and controlled opex growth.

Exhibit 35: All PSU banks sustained the 1% RoA trend.

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
	RoA						RoE					
Total Banks	**1.3%**	**1.3%**	**1.2%**	**1.5%**	**1.3%**	**1.4%**	**16.2%**	**15.5%**	**14.2%**	**16.7%**	**15.1%**	**15.5%**
Private Banks	**1.9%**	**1.9%**	**1.8%**	**1.9%**	**1.8%**	**1.8%**	**16.2%**	**15.9%**	**15.5%**	**15.8%**	**14.6%**	**14.3%**
PSU Banks	**1.0%**	**1.0%**	**0.8%**	**1.2%**	**1.1%**	**1.2%**	**16.2%**	**14.9%**	**12.7%**	**17.7%**	**15.8%**	**17.1%**
Small Finance Banks	**2.2%**	**2.2%**	**2.0%**	**2.1%**	**1.6%**	**1.5%**	**16.9%**	**16.8%**	**15.4%**	**16.5%**	**12.5%**	**11.7%**
Private Banks												
HDFC	1.9%	2.2%	1.9%	1.8%	1.8%	1.9%	16.7%	18.3%	15.8%	15.1%	14.4%	14.6%
ICICI	2.4%	2.4%	2.3%	2.3%	2.4%	2.4%	18.7%	19.2%	18.6%	18.4%	18.0%	18.3%
Axis	1.8%	1.8%	1.8%	2.0%	1.6%	1.9%	18.1%	17.4%	17.3%	19.3%	15.6%	17.1%
Kotak	2.8%	2.4%	2.2%	2.9%	2.3%	2.2%	16.2%	14.5%	13.2%	17.4%	13.9%	12.3%
IndusInd	1.8%	1.8%	1.9%	1.9%	1.6%	1.0%	15.2%	15.1%	15.4%	15.2%	13.4%	8.1%
Federal	1.3%	1.4%	1.4%	1.2%	1.3%	1.3%	15.6%	15.7%	14.8%	12.7%	13.5%	13.6%
RBL	1.0%	1.0%	0.7%	1.1%	1.1%	0.6%	8.4%	8.4%	6.5%	9.7%	9.9%	5.8%
KVB	1.6%	1.6%	1.6%	1.8%	1.7%	1.7%	16.4%	16.7%	17.6%	18.6%	17.8%	17.6%
CUB	1.4%	1.9%	1.5%	1.5%	1.5%	1.6%	12.0%	15.9%	12.6%	12.3%	12.4%	13.0%
DCB	0.9%	0.9%	0.9%	1.0%	0.8%	0.9%	11.0%	10.7%	10.4%	12.5%	10.2%	11.8%
SIB	0.7%	1.0%	1.1%	1.0%	1.0%	1.1%	11.9%	15.7%	16.9%	14.2%	13.1%	14.0%
Karnataka	1.5%	1.3%	1.2%	1.0%	1.4%	1.2%	17.7%	15.2%	14.2%	10.6%	16.7%	13.6%
PSU Banks												
SBI	1.2%	1.0%	0.6%	1.4%	1.1%	1.2%	20.1%	16.3%	10.1%	22.2%	17.6%	18.0%
BOB	1.1%	1.1%	1.2%	1.3%	1.1%	1.3%	16.2%	16.3%	16.8%	17.5%	15.3%	17.0%
PNB	0.3%	0.5%	0.6%	0.8%	0.8%	1.0%	5.0%	6.9%	8.5%	11.4%	11.9%	14.7%
Canara	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	18.8%	18.3%	17.7%	17.5%	17.4%	16.9%
Union	1.0%	1.1%	1.1%	1.0%	1.1%	1.3%	16.2%	16.4%	15.7%	13.9%	14.8%	18.0%
Indian	1.0%	1.1%	1.1%	1.2%	1.2%	1.3%	14.0%	15.7%	15.5%	15.5%	16.1%	17.3%
BOI	0.8%	0.7%	0.9%	0.6%	0.7%	1.0%	10.4%	9.6%	11.7%	8.5%	9.9%	13.5%
BOMH	1.3%	1.3%	1.5%	1.7%	1.7%	1.7%	21.3%	20.5%	21.9%	24.9%	25.3%	24.2%
J&K	0.9%	1.1%	1.1%	1.7%	1.1%	1.4%	12.9%	14.6%	15.0%	21.2%	13.3%	16.9%
Small Finance Banks												
AU Small Finance	1.7%	1.7%	1.5%	1.7%	1.6%	1.7%	13.8%	13.9%	12.5%	14.5%	13.2%	14.5%
Equitas	2.1%	2.0%	2.0%	1.9%	0.2%	0.1%	14.5%	14.6%	14.4%	14.2%	1.7%	0.9%
Suryoday	1.9%	1.9%	2.1%	2.1%	2.2%	1.4%	11.8%	12.1%	13.4%	13.7%	15.2%	9.5%
Ujjivan	3.8%	3.6%	3.1%	3.3%	2.9%	2.2%	29.6%	28.2%	24.4%	24.7%	20.9%	15.8%
Jana	1.4%	1.8%	1.8%	4.1%	2.1%	1.2%	17.0%	19.6%	20.4%	40.9%	18.6%	10.2%

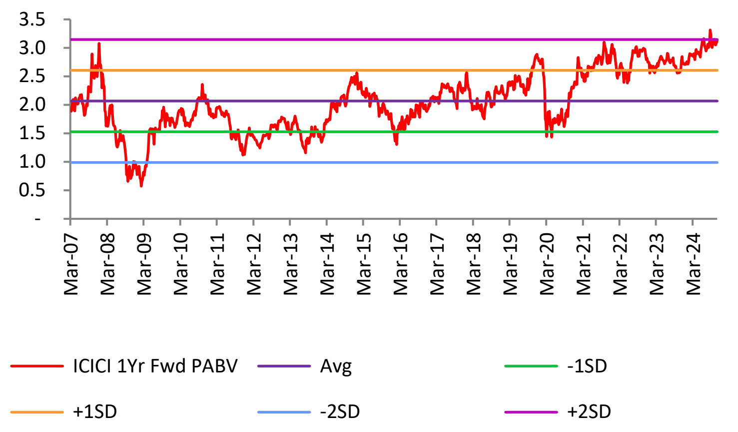
*Source: Company, Systematix Institutional Research, *JANA SFB and Karnataka bank have been excluded from sector aggregate numbers*

Exhibit 36: HDFCB's 1yr fwd P/ABV (2.6x) is -1SD below LT average.



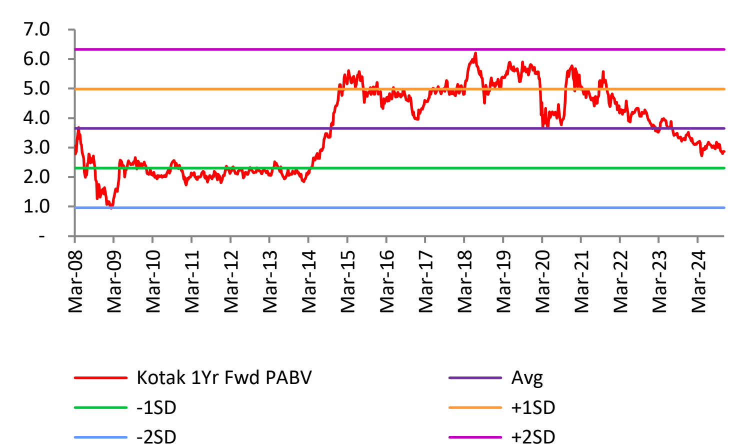
Source: Company, Systematix Institutional Research

Exhibit 37: ICICI's 1yr fwd P/ABV (3.14x) is +2SD above LT average.



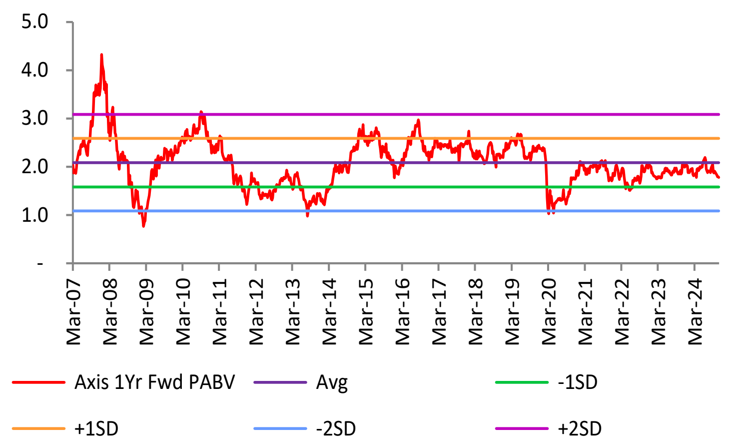
Source: Company, Systematix Institutional Research

Exhibit 38: Kotak's 1yr fwd P/ABV (2.87x) is below LT average.



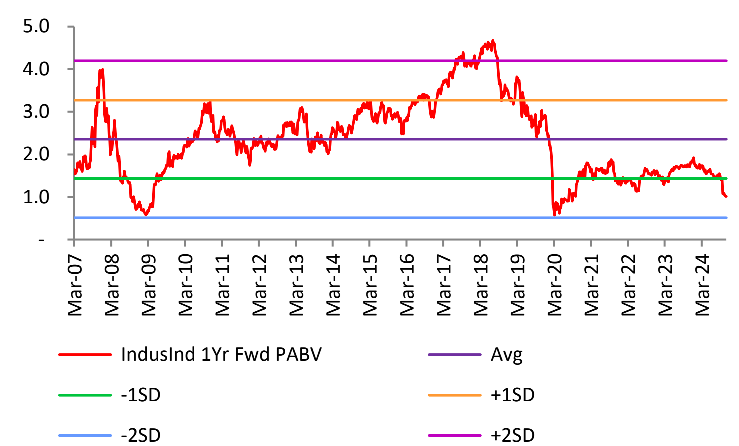
Source: Company, Systematix Institutional Research

Exhibit 39: Axis' 1yr fwd P/ABV (1.78x) is around LT average.



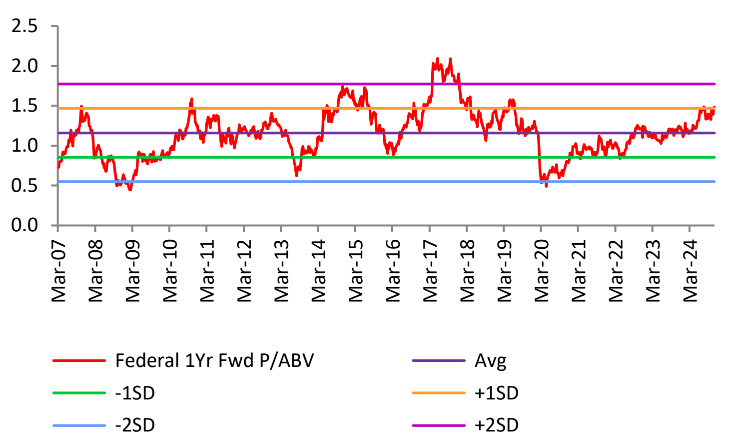
Source: Company, Systematix Institutional Research

Exhibit 40: IndusInd's 1yr fwd P/ABV (1x) is -1SD below LT avg.



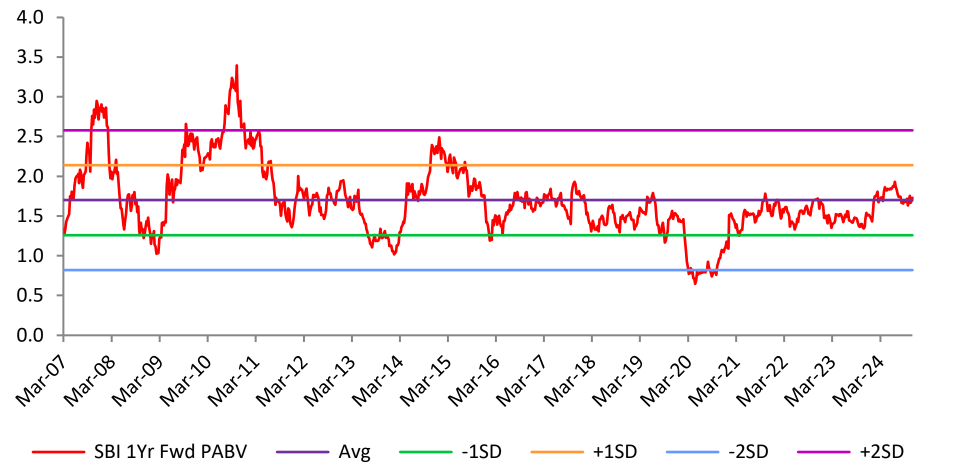
Source: Company, Systematix Institutional Research

Exhibit 41: Federal bank's 1yr fwd P/ABV (1.48x) is +1SD above LT avg.



Source: Company, Systematix Institutional Research

Exhibit 42: SBI's 1yr fwd P/ABV (1.73x) is around LT average



Source: Company, Systematix Institutional Research

Company Section

Private Banks

HDFC Bank (BUY): Stable quarter on margins and asset quality.

Guidance: Accelerated approach to align C-D ratio, via portfolio sales, to pre-merger levels of 86-89% (100.8% as of Sep'24) in 2-3 yrs time frame vs 4-5 yrs timeframe earlier. FY25 credit growth slower than system, FY26 in-line with system and FY27 higher than system. Stable margins near term. Fee income growth 14-17%.

What we like: Management guided for an accelerated push for C-D ratio alignment to pre-merger levels of 86-89% (vs 101% as of Sep'24) in 2-3 yrs vs 4-5 yrs timeframe earlier. As a result, while FY25 credit growth will be slower than system, growth will return to system levels in FY26. Within retail, unsecured credit (PL + credit cards) growth remained strong sequentially at 3.5% qoq, 11% yoy as opposed to a trend of moderation for peers. Asset quality in unsecured credit remains intact vs key peers witnessing a deterioration as the bank had calibrated its filters much early on in the cycle.

On a period end basis, deposits at Rs 25 Tn saw strong growth of 5.1% qoq, 15% yoy, an accretion of Rs 1.2 Tn, vs a decline of Rs -7.8 Bn in previous quarter which was mainly attributed to seasonal outflow of CA deposits by the bank. Term deposit growth was also strong at 6.7% qoq, 19.3% yoy.

On reported basis, NIM % IEA at 3.65% (-1bp qoq) and NIM % assets at 3.46% (-1bp qoq) remained largely stable qoq supported by (i) asset sales of lower yielding portfolios; (ii) lower corporate mix (-100bps qoq); (iii) partly offset by the drag from excess liquidity on the balance sheet due to the asset sales. Going fwd, margins will remain stable supported by improving retail mix and substitution of eHDFCL's borrowings on maturity by customer deposits.

What we don't like: NII growth (1% qoq, 10% yoy) was subdued mainly due to lower loan growth.

Exhibit 43: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	2,49,51,203	2,33,12,329	7%	2,46,35,208	1.3%
Deposits	2,50,00,882	2,17,28,578	15%	2,37,90,845	5.1%
NII	**3,01,139**	**2,73,852**	**10%**	**2,98,371**	**0.9%**
Operating income	4,15,966	3,80,931	9%	4,05,053	2.7%
PPOP	**2,47,057**	**2,26,939**	**9%**	**2,38,846**	**3.4%**
PBT	2,20,053	1,97,901	11%	2,12,826	3.4%
PAT	**1,68,210**	**1,59,761**	**5%**	**1,61,748**	**4.0%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
Avg. CASA Ratio	35.3%	37.6%	-229 bp	36.3%	-96 bp
CD Ratio	99.8%	107.3%	-749 bp	103.5%	-375 bp
NIM % of IEA (reported)	3.7%	3.6%	10 bp	3.7%	4 bp
Cost to Income (ex capital gains)	40.9%	41.6%	-67 bp	41.3%	-37 bp
Credit costs % advances (reported)	0.4%	0.5%	-6 bp	0.4%	1 bp
GNPA (%)	1.4%	1.3%	2 bp	1.3%	3 bp
NNPA (%)	0.41%	0.4%	6 bp	0.39%	2 bp
PCR (%)	69.9%	74.4%	-453 bp	71.2%	-131 bp
CAR	19.8%	19.5%	30 bp	19.3%	50 bp

Source: Company, Systematix Institutional Research

Exhibit 44: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**
Total income	4.6%	4.6%	4.5%	4.5%	4.6%
PPOP	**2.7%**	**2.7%**	**2.5%**	**2.7%**	**2.7%**
PBT	2.4%	2.2%	2.2%	2.4%	2.4%
PAT (RoAA)*	**1.9%**	**1.9%**	**1.8%**	**1.8%**	**1.9%**
ROE	**16.8%**	**15.8%**	**15.1%**	**14.4%**	**14.6%**

*Source: Company, Systematix Institutional Research *HDFCB RoA excluding exceptional gains in 4QFY24*

ICICI Bank (BUY): Steady asset quality, a key positive surprise.

Guidance: Mid to high teens loan growth. Domestic C-D ratio (84.2% as of Jun'24) to be around historical levels of low to mid 80's. Personal loan growth to moderate further (17% / 25% / 33% in 2Q / 1Q / FY24). Opex to assets to remain stable around current levels of ~2.2%.

What we like: Despite normalization in overall credit costs to 39bp/42bp in 2Q/1H vs 28bps in FY24, the bank expects overall credit costs to be contained between 40-50bp as the bank had rationalized its sourcing and calibrated its credit filters in unsecured credit a few quarters ago. Overall asset quality continued to remain benign with GNPA / NNPA declined to 2% / 0.4% (-18bp / -1bp qoq). Gross/net slippage ratio also declined to 1.67% /0.58% vs 2% / 0.89% qoq
The management guided that while bulk of the deposit back-book repricing is behind, deposit costs will increase by a few bps in the next couple of quarters due to (i) pass through of 15bps increase in retail card rates in the past 2 quarters and (ii) hardening of wholesale deposit rates in the 1yr+ tenure bucket. Despite the increased competitive intensity especially in the corporate and business banking segments, the bank will maintain pricing discipline and expects the current margin trends to sustain until the start of the rate cut cycle.

Fees/assets increased to 1.22% vs 1.17% in 1Q and the bank expects the trend to sustain despite moderation in retail loans.

What we don't like: Despite increase in slippages and credit costs in both PL and credit cards over the last few quarters, (i) the bank does not expect any further reduction in PL disbursal volumes; (ii) the bank will continue to grow credit cards (as opposed to peers guiding for moderation here) due to its highly profitable nature and it being a customer acquisition engine for the bank.
2H opex will be higher than 1H (2Q/1H: 7%/9% yoy) due to higher festive and tech spends and back ended branch openings. However, the bank sees opportunities to optimize opex in the medium term.

Exhibit 45: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	1,27,72,404	1,11,05,421	15.0%	1,22,31,543	4.4%
Deposits	1,49,77,607	1,29,47,417	15.7%	1,42,61,495	5.0%
NII	**2,00,480**	**1,83,079**	**10%**	**1,95,529**	**2.5%**
Operating income	2,72,246	2,40,846	13%	2,65,548	2.5%
PPOP	**1,67,232**	**1,42,293**	**18%**	**1,60,248**	**4.4%**
PBT	1,54,901	1,36,466	14%	1,46,927	5.4%
PAT	**1,17,459**	**1,02,610**	**14%**	**1,10,591**	**6.2%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
Avg. CASA Ratio	38.9%	40.8%	-190 bp	39.6%	-70 bp
CD Ratio	85.3%	85.8%	-50 bp	85.8%	-49 bp
NIM (reported)	4.3%	4.5%	-26 bp	4.4%	-9 bp
Cost to Income	38.6%	40.9%	-235 bp	39.7%	-108 bp
Credit costs	0.39%	0.2%	18 bp	0.44%	-5 bp
GNPA (%)	2.0%	2.5%	-51 bp	2.15%	-18 bp
NNPA (%)	0.4%	0.4%	-1 bp	0.4%	-1 bp
PCR (%)	79.0%	83.1%	-405 bp	80.2%	-117 bp
CAR	15.4%	16.1%	-72 bp	16.0%	-61 bp

Source: Company, Systematix Institutional Research

Exhibit 46: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**4.3%**	**4.3%**	**4.2%**	**4.2%**	**4.1%**
Total income	5.7%	5.7%	5.4%	5.6%	5.6%
PPOP	3.4%	3.4%	3.3%	3.4%	3.5%
PBT	3.2%	3.1%	3.1%	3.1%	3.2%
PAT (RoAA)	**2.4%**	**2.3%**	**2.3%**	**2.4%**	**2.4%**
ROE	**19.2%**	**18.6%**	**18.4%**	**18.0%**	**18.3%**

Source: Company, Systematix Institutional Research

Axis Bank (HOLD): Growth outlook remains bleak for FY25.

Guidance: In the medium term, advances growth to be 300-400bps higher than sector average.

What we like: Deposits increased by 2.3% qoq, 13.7% yoy, ~200bps higher than industry. Quality of deposit franchise has improved over the past few years. Post the rate hike cycle, while CASA ratio has deteriorated in-line with the industry trend, however, it has remained around pre-COVID levels vs 400-600bps below pre-COVID levels for the other large peer banks. Deposit mobilization initiatives include (i) deposit transformation project which is seeing good outcomes like improvement in NTB productivity, NTB customer growth rate and premiumization of deposits led by expansion of burgundy franchise (ii) ramp up of newly added branches, (iii) digital partnerships.
Other overheads increased by only 6% yoy in 1HFY25 (vs 30% growth in FY24) due to productivity gains from digital initiatives and the trend is likely to continue. The bank had a tax write-back of Rs 5.5bn which was utilized to make prudent provisions of Rs 5.2bn on off-book assets.

What we don't like: Gross advances growth muted (2% qoq) due to moderation in Unsecured credit (PL + credit cards) growth to 2.6% qoq vs trend of 6-8% qoq quarterly growth and flat qoq corporate credit growth. In the short term, credit growth will be constrained by elevated C-D ratio (93%) and moderation in unsecured retail. Despite, the bank's current growth rate being c. 150-200bps lower than system, management maintained its stance of growing 300-400bps higher than system in medium term.
While 2Q NIM (ex IT refund benefit of +5bps in 1Q) were broadly stable qoq, margin pressures will persist due to (i) lagged impact of slowed down on unsecured credit (credit card/PL) and (ii) CDR remains elevated and hence sourcing deposits at cost effective rates will be a challenge.
The bank has witnessed stress in retail segment mainly led by unsecured retail as net retail slippage increased to 1.58% in 1HFY25 vs 1.06%/1.07% for 1HFY24/FY24. Write-offs increased by 41% qoq mainly in the retail and CBG segments. As a result, it tightened its credit filters. However the management re-iterated that the portfolio continues to behave within its internal risk guardrails.

Exhibit 47: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	99,99,792	89,73,470	11%	98,00,915	2.0%
Deposits	1,08,67,440	95,55,560	14%	1,06,24,837	2.3%
NII	**1,34,832**	**1,23,146**	**9%**	**1,34,482**	**0.3%**
Operating income	2,02,051	1,73,486	16%	1,92,317	5.1%
PPOP	**1,07,125**	**86,319**	**24%**	**1,01,062**	**6.0%**
PBT	85,084	78,173	9%	80,670	5.5%
PAT	**69,176**	**58,636**	**18%**	**60,346**	**14.6%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	40.6%	44.4%	-377 bp	41.8%	-125 bp
CD Ratio	93.1%	93.9%	-80 bp	93.4%	-33 bp
NIM (reported)	3.99%	0.0%	399 bp	4.1%	-6 bp
Cost to Income	47.0%	50.2%	-326 bp	47.5%	-47 bp
Credit costs	0.58%	0.5%	12 bp	1.05%	-47 bp
GNPA (%)	1.4%	1.7%	-29 bp	1.5%	-10 bp
NNPA (%)	0.3%	0.4%	-2 bp	0.3%	0 bp
PCR (%)	76.6%	79.5%	-282 bp	78.1%	-144 bp
CAR	16.57%	16.6%	0 bp	16.7%	-8 bp

Source: Company, Systematix Institutional Research

Exhibit 48: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.7%**	**3.7%**	**3.6%**	**3.7%**	**3.6%**
Total income	5.3%	5.3%	5.5%	5.2%	5.4%
PPOP	2.6%	2.7%	2.9%	2.7%	2.9%
PBT	2.4%	2.4%	2.6%	2.2%	2.3%
PAT (RoAA)	**1.8%**	**1.8%**	**2.0%**	**1.6%**	**1.9%**
ROE	**17.4%**	**17.3%**	**19.3%**	**15.6%**	**17.1%**

Source: Company, Systematix Institutional Research

Kotak Mahindra bank (BUY): Asset quality deterioration in unsecured credit was key disappointment.

Guidance: FY25 guidance: Rs 3.5-4.5bn impact to PBT (~2.5% of FY25 PBT) due to RBI ban. C-D ratio to remain around current levels of 86.6%. Opex/assets to remain around the current levels of ~3%. Branch additions 150-200 per year (1H: 65). Branch count 3000-3500 in next 4-5 yrs (vs 2,013 o/s).

What we like: Deposit growth (3.1% qoq, 15% yoy) was in-line with customer assets growth (3% qoq, 18% yoy) leading to a marginal decline in C-D ratio (86.6%, -58bps qoq) and expects it to remain around current levels.

What we don't like: Net slippage increased by 54% qoq mainly from credit cards (30-35% of the net slippage) and MFI due to higher delinquencies in the older vintage customers. However, personal loan portfolio continued to show stable trends so far. The bank expects the elevated slippage trend from both the micro credit and credit card segments to continue for the next 2-3 quarters.

Reported NIM declined to 4.9% (-11bps qoq) due to (i) qoq decline in higher yielding segment of credit cards (-1%qoq) and microcredit (-6%qoq) with 2Q being the first quarter of full impact from the regulatory curbs; (ii) interest reversals from higher slippages; (iii) marginal impact(-2bps) from deployment of short term liquidity from capital market activities in shorter term low yielding assets. The impact was partly offset by draw down in higher cost borrowings (-10%qoq). While margins will remain under pressure in the near term due to slower unsecured growth and interest reversals on slippages, partly offset by (i) +4bps benefit from SA rate cut by 50bps in Oct'24 in accounts with balances less than Rs 5 lakhs; (ii) yield benefit from the acquisition of Standard chartered bank's personal loan portfolio of Rs 41bn.

While Opex/assets remained stable at 3% due to lower customer acquisition costs (CAC), it will remain elevated around current levels in the near to medium term as (i) the bank plans to increase the branch opening frequency to 150-200 branches per year (65 in 1HFY25, 168 / 80 new branches in FY24/FY23), (ii) return of CAC post lifting of credit card embargo which is likely in 2HFY25.

Exhibit 49: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	39,95,216	32,85,820	22%	37,60,753	6%
Deposits	46,14,542	38,62,540	19%	44,89,538	3%
NII	70,196	62,966	11%	68,424	2.6%
Operating income	97,038	86,112	13%	97,714	-0.7%
PPOP	50,993	46,101	11%	52,541	-2.9%
PBT	44,389	42,436	5%	46,756	-5.1%
PAT	33,437	31,910	5%	62,496	-46.5%
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	43.6%	48.3%	-465 bp	43.4%	20 bp
CD Ratio	86.6%	86.9%	-28 bp	87.2%	-58 bp
NIM (reported)	4.9%	5.2%	-31 bp	5.0%	-11 bp
Cost to Income	47.5%	46.5%	99 bp	46.2%	122 bp
Credit costs	0.68%	0.5%	23 bp	0.60%	7 bp
GNPA (%)	1.5%	1.7%	-23 bp	1.4%	10 bp
NNPA (%)	0.4%	0.4%	6 bp	0.4%	8 bp
PCR (%)	71.4%	79.1%	-763 bp	74.9%	-344 bp
CAR	22.6%	21.7%	90 bp	22.8%	-20 bp

Source: Company, Systematix Institutional Research

Exhibit 50: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**4.8%**	**4.9%**	**4.8%**	**4.5%**	**4.6%**
Total income	6.6%	6.6%	6.9%	6.5%	6.3%
PPOP	3.5%	3.4%	3.8%	3.5%	3.3%
PBT	3.2%	3.0%	3.6%	3.1%	2.9%
PAT (RoAA)	**2.4%**	**2.2%**	**2.9%**	**2.3%**	**2.2%**
ROE	**14.5%**	**13.2%**	**17.4%**	**13.9%**	**12.3%**

Source: Company, Systematix Institutional Research

IndusInd Bank (BUY): A tough quarter with disappointment on most KPIs

Guidance: Vehicle finance disbursements to pick up (10-11% qoq) in 2H. Corporate credit growth 18-23%. Credit cost guidance 1.1-1.3%. C-D ratio comfort zone 88-90% (2Q: 86.5%).

What we like: Corporate credit growth to be strong between 16-18% and will be led by relatively higher mid-corporate growth. Opex / assets declined to 2.9% vs 3% qoq due to lower other expenses (-1% qoq, 13% yoy) and lower employee costs (+5% qoq on low base, +14% yoy).

What we don't like: Asset Quality deteriorated as gross slippage increased to 2.08% vs 1.8% qoq led by higher slippages in both secured and unsecured credit. GNPA increased in MFI (6.54%, +138bp qoq), 2W (7.99%, +94bp qoq), tractors (1.7%. +33bpq qoq). Excluding the contingent buffer created in 2Q (Rs 5.25bn, 6bps of net advance), credit costs increased to 1.47% (+27bps qoq) in 2Q and 1H credit costs of 1.31% remained around guided range of 1.1-1.3%. 2H credit costs will also be elevated as 30-90dpd bucket in MFI has increased to 4% (vs 2% in 1Q) resulting in higher fwd flows in 2H. However, the bank does not expect them to be materially outside the guided range (1.1-1.3%) due to seasonal improvement in other secured businesses.

Net Advances growth of 2.7% qoq was lower than usual trend of 4-5% qoq growth in the 2nd quarter due to weakness in vehicle finance (1% qoq) led by system wide slowdown in auto sales and unsecured credit (-6.4% qoq) due to tightening of credit filters. Overall loan growth will be lower than the PC-6 (planning cycle -6) target of 18-23%.

Reported NIM declined to 4.08% (-17bps qoq) mainly due to decline in consumer / corporate banking yields by -28bp / -7bp qoq on the back of adverse mix (i.e lower MFI and higher large corporate share). However, the bank will protect margins via increase in C-D ratio to 88-90% (from 86.5% in 2Q) by slowing down on liability growth if higher yielding retail growth continues to remain subdued in coming quarters.

Decline in core fee/assets (1.58% vs 1.8% qoq) due to lower disbursements, impact on credit card fees on guidelines on overlimit charges, late payment fees and penal charges. CET-1 (15.21% as of Sep'24) was impacted by 78bps due to increase in risk weights on MFI from 75% to 125%.

Exhibit 51: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	35,71,586	31,54,540	13%	34,78,980	2.7%
Deposits	41,26,792	35,97,860	15%	39,86,070	3.5%
NII	53,473	50,767	5%	54,076	-1.1%
Operating income	75,312	73,585	2%	78,489	-4.0%
PPOP	35,918	38,809	-7%	39,267	-8.5%
PBT	17,717	29,071	-39%	28,769	-38.4%
PAT	13,255	21,815	-39%	21,522	-38.4%
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	35.8%	39.3%	-349 bp	36.7%	-81 bp
CD Ratio	86.5%	87.7%	-113 bp	87.3%	-73 bp
NIM (reported)	4.1%	4.3%	-21 bp	4.3%	-17 bp
Cost to Income	52.3%	47.3%	505 bp	50.0%	234 bp
Credit costs	2.1%	1.3%	80 bp	1.2%	85 bp
GNPA (%)	2.1%	1.9%	18 bp	2.0%	9 bp
NNPA (%)	0.6%	0.6%	7 bp	0.6%	4 bp
PCR (%)	70.1%	70.6%	-45 bp	70.6%	-47 bp
CAR	16.5%	18.2%	-170 bp	17.6%	-104 bp

Source: Company, Systematix Institutional Research

Exhibit 52: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	4.3%	4.4%	4.3%	4.1%	4.0%
Total income	6.2%	6.4%	6.3%	6.0%	5.6%
PPOP	3.3%	3.3%	3.2%	3.0%	2.7%
PBT	2.5%	2.5%	2.5%	2.2%	1.3%
PAT (RoAA)	1.8%	1.9%	1.9%	1.6%	1.0%
ROE	15.1%	15.4%	15.2%	13.4%	8.1%

Source: Company, Systematix Institutional Research

Federal Bank (BUY): Steady quarter on all key parameters.

Guidance: FY25 loan growth 18%. Deposit growth to be in-line with loan growth. C-D ratio to remain around current levels (Sep'24:86.9%). 2H CIR to be similar to 1H (53.1%).

What we like: Despite the sequential inch up in slippages in unsecured credit (MFI, PL, credit cards), headline asset quality metrics improved sequentially and reported credits remained largely stable at 30bps vs 27bps in 1Q. MFI slippages remain below industry levels as the bank is favorably exposed to states with lower stress and its credit filters remain stringent vs industry such as approval rate of 33% for bank vs 45% for industry. MFI credit costs to stabilize in next 2 quarters. In personal loans, the bank had introduced a more conservative score-card based sourcing in the previous quarter leading to lower disbursements in current quarter and going forward. Credit card asset quality controlled via credit line management strategies.

While deposit growth (1.1%qoq, 16% yoy) was muted, quality of deposit accretion was good as CASA growth was 4% qoq and NR deposit flows have improved with 8-9% yoy growth in last 2 qtrs vs 4-5% growth trend previously. Fee/avg assets increased to 0.88% vs 0.77% qoq) led by penal charge benefit, higher focus on core para banking fees (+60% qoq, +42% yoy) and seasonality.

What we don't like: Credit growth (4.3%qoq, 19.3%yoy) led by growth in wholesale credit. Unsecured credit growth strong (4%qoq, 45%yoy) but likely to moderate going forward due to tightening of credit filters given elevated industrywide stress.

While reported NIM increased to 3.19% (+3bps qoq excluding -7bps impact from new penal interest guidelines), margins will be under pressure due to peaking of C-D ratio and higher yielding unsecured mix slowing. However, levers to offset the pressures include (i) asset mix optimization by focusing on higher yielding cohorts within secured segments; (ii) deposit mix optimization with improved CASA and NR deposits

CIR (ex treasury gains) increased to 54% (+59bp qoq) due to higher staff costs (+5.4% qoq, +24% yoy) led by higher actuarial provisions and 2H CIR to be largely similar to 1H (53.1%)

Exhibit 40: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	23,03,122	19,28,170	19.4%	22,08,070	4.3%
Deposits	26,91,066	23,28,680	15.6%	26,60,650	1.1%
NII	23,672	20,564	15%	22,920	3.3%
Operating income	33,312	27,868	20%	32,072	3.9%
PPOP	15,654	13,245	18%	15,009	4.3%
PBT	14,070	12,806	10%	13,566	3.7%
PAT	10,567	9,538	11%	10,095	4.7%
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	30.1%	31.2%	-110 bp	29.3%	80 bp
CD Ratio	85.6%	82.8%	278 bp	83.0%	259 bp
NIM (reported)	3.1%	3.2%	-10 bp	3.2%	-4 bp
Cost to Income	53.0%	52.5%	53 bp	53.2%	-19 bp
Credit costs	0.30%	0.13%	17 bp	0.27%	3 bp
GNPA (%)	2.1%	2.3%	-17 bp	2.1%	-2 bp
NNPA (%)	0.6%	0.6%	-7 bp	0.6%	-3 bp
PCR (%)	72.9%	72.3%	65 bp	71.9%	101 bp
CAR	15.2%	15.5%	-30 bp	15.6%	-37 bp

Source: Company, Systematix Institutional Research

Exhibit 53: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.9%**	**2.9%**	**2.9%**	**2.9%**	**2.9%**
Total income	4.0%	4.1%	3.9%	4.0%	4.0%
PPOP	1.9%	2.0%	1.5%	1.9%	1.9%
PBT	1.8%	1.8%	1.6%	1.7%	1.7%
PAT (RoAA)	**1.36%**	**1.38%**	**1.20%**	**1.27%**	**1.27%**
ROE	**15.7%**	**14.8%**	**12.7%**	**13.5%**	**13.6%**

Source: Company, Systematix Institutional Research

RBL (NOT RATED): Credit card slippages peaked, more pain left in MFI.

Guidance: **FY25**: Loan/deposit growth 18-20%, NIM: Q3 stable qoq, Q4 slightly improving. CoF stabilized. 2H CIR steady (2Q/1H: 64.2%/65%), employee cost increase 3-4% qoq, 10-15% yoy, FY25: credit costs 2.6-3% (2Q/1H: 3.2%/2.8%), flattish in 3Q, declining in 4Q. RoA < 1.1% in FY25, 1.3-1.4% by exit FY26 (vs earlier guidance of 1.4-1.5%)

What we like: Strong deposit growth (6.5% qoq, 20% yoy) with good SA growth (8.4% qoq, 14% yoy) and trend will continue due to corrective steps taken like focus on branch profitability. Core fees/ avg assets increased to 2.35% (+11bps qoq) led by higher credit card fees. Flat opex growth as (i) increase in employee costs led by onboarding third party collections team, annual wage hikes and higher actuarial pension provision; (ii) this was offset by lower other overheads due to reduction in cobrand partner payouts and lower outsourcing collection costs.
Credit cards: Credit card net slippage ratio increased to 14% (1Q: 9%), due to in-house transition of collection services from BFL. Portfolio quality remains intact, slippages have peaked and will decline materially in 3Q as (i) Early bucket CE in BFL cobrand card is back to pre-transition levels in Sep; (ii) credit costs in ex-BFL cards stable qoq at ~6%.

What we don't like: NIM at 5.04% (-38bp qoq ex IT refund benefit in 1Q) declined due to interest reversals (Rs 1.2bn) on slippages. While CoF has largely stabilized, 2H margins to be under pressure due to interest reversals from MFI slippages.
MFI: Net slippage increased to 13% (1Q: 7.7%) as Bihar (30% of MFI book) was impacted by floods. That said, Punjab, Rajasthan, Jharkhand (9% of MFI book) CE improved by 1% in Sep'24. Company expects Bihar CE to increase by 1% in 3Q and hence overall CE to increase to 99% (vs 97.5% in Sep'24). This will restrict fresh delinquencies into SMA buckets. Overall bank credit costs (2Q/1H: 3.2%/2.8%) to be flattish in 3Q, declining in 4Q, due to (i) higher MFI credit costs led by fwd flows from SMA buckets and catch up provisions in MFI as 25% is provided on 90dpd, 75% in 3 qtrs. (ii) This will be partly offset by lower credit card slippages which have 70% PCR on 90dpd and 30% in 120dpd leaving less scope for incremental provisions.

Exhibit 54: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	8,78,823	7,63,240	15%	8,67,040	1%
Deposits	10,79,587	8,97,800	20%	10,13,520	7%
NII	**16,150**	**14,750**	**9%**	**17,000**	**-5%**
Operating income	25,423	21,794	17%	25,054	1%
PPOP	**9,099**	**7,310**	**24%**	**8,591**	**6%**
PBT	2,916	906	222%	4,928	-41%
PAT	**2,225**	**2,941**	**-24%**	**3,715**	**-40%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	33.6%	35.7%	-219	32.6%	99
CD Ratio	81.4%	85.0%	-361	85.5%	-414
NIM (reported, post BC re-classification)	5.0%	5.5%	-50	5.7%	-63
Cost to Income (post BC re-classification)	64.2%	66.5%	-229	65.7%	-150
Credit costs	3.0%	3.3%	-30	2.2%	87
GNPA (%)	2.9%	3.1%	-24	2.7%	19
NNPA (%)	0.8%	0.8%	1	0.7%	5
PCR (%)	73.0%	75.6%	-267	73.1%	-15
CAR	15.2%	16.5%	-125	15.2%	0

Source: Company, Systematix Institutional Research

Exhibit 55: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**4.9%**	**4.9%**	**4.8%**	**5.0%**	**4.6%**
Total income	7.2%	7.4%	7.5%	7.3%	7.3%
PPOP	2.4%	2.4%	2.7%	2.5%	2.6%
PBT	0.3%	1.0%	1.4%	1.4%	0.8%
PAT (RoAA)	**1.0%**	**0.7%**	**1.1%**	**1.1%**	**0.6%**
ROE	**8.4%**	**6.5%**	**9.7%**	**9.9%**	**5.8%**

Source: Company, Systematix Institutional Research

KVB (NOT RATED): Margin pressures to continue.

Guidance: FY25: 100 new branches. Guidance: RoA > 1.65%. GNPA <2%, NNPA <1%, credit costs 75bps. Gross slippage <1%.

What we like: The bank continued to take prudential provisions of Rs 250mn (1H: Rs 500mn, 7bps, FY24: Rs 1bn, 15bps of net advances), partly on the back of higher TWO recovery.

What we don't like: While gross advances growth of 3.3% qoq, 14% yoy, 8% ytd was tracking in-line with FY25 guidance of 14%+, growth will be constrained by corporate book de-growth as CASA growth remains sluggish keeping deposit costs elevated and the bank's focus remains on growing profitably. Growth will be led by RAM growth of 18-20%.

While reported NIM at 4.11% (-2bp qoq) remained within guidance of >4% NIM in 2Q mainly as deposit cost increase of +8bps qoq was lower than guidance of 10-12bp qoq increase. However, yield on advances declined by -2bps qoq vs guidance of +5bps increase despite run-off in the low yielding corporate book. Margin pressures to remain due to higher deposit competition, lower CASA growth, lesser scope to further reduce corporate book as the share already declined to 16.3% (-244bp ytd) vs 18.7% / 21% in FY24 / FY23.

Opex / assets increased to 2.59% (+10bps qoq) due to higher (i) employee costs led by frontloading of employee additions due to higher branch opening plans in FY25: 100 vs FY24: 39 (ii) higher other overheads led by higher IT costs, branch setup costs from the newly opened branches.

Despite improving retail mix (24.51%, +78bp ytd), fee/assets has remained stagnant at (0.87% in 1H vs 0.88% in FY24) due to reduction in corporate book leading to lower loan processing fees. However, going fwd it will be supported by focus on non-fund based fees.

While Headline asset quality metrics improved qoq. GNPA / NNPA / std. restructured loan book (% gross loans) improved to 1.1% / 0.28% / 0.79% vs 1.32%/0.38%/0.85% qoq; this was supported by higher writeoffs (~2x qoq), mainly in the retail segment due to efforts to clean up the book given improved profitability.

Exhibit 56: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	7,96,188	6,95,074	14.5%	7,69,650	3.4%
Deposits	9,58,385	8,30,685	15.4%	9,23,490	3.8%
NII	**10,600**	**9,154**	**15.8**	**10,244**	**3.5**
Operating income	15,320	12,543	22.1	14,127	8.4
PPOP	**8,162**	**6,379**	**28.0**	**7,459**	**9.4**
PBT	6,364	5,115	24.4	6,129	3.8
PAT	**4,736**	**3,785**	**25.1**	**4,587**	**3.3**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	29.5%	32.3%	-280	30.4%	-91
CD Ratio	83.1%	83.7%	-60	83.3%	-27
NIM (reported)	4.1%	4.1%	4	0.04	-2
Cost to Income	46.7%	49.1%	-242	47.2%	-48
Credit costs	0.13%	0.75%	-62	0.71%	-58
GNPA (%)	1.10%	1.73%	-63	1.32%	-22
NNPA (%)	0.28%	0.47%	-19	0.38%	-10
PCR (%)	75.25%	73.45%	179	71.34%	391
CAR	16.3%	16.8%	-56	16.5%	-19

Source: Company, Systematix Institutional Research

Exhibit 57: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.8%**	**4.0%**	**3.8%**	**3.8%**	**3.8%**
Total income	9.7%	9.9%	10.8%	10.0%	10.3%
PPOP	2.6%	2.7%	3.3%	2.8%	2.9%
PBT	2.1%	2.1%	2.2%	2.3%	2.3%
PAT (RoAA)	**1.6%**	**1.6%**	**1.8%**	**1.7%**	**1.7%**
ROE	**16.3%**	**16.7%**	**17.6%**	**18.6%**	**17.8%**

Source: Company, Systematix Institutional Research

City Union Bank (NOT RATED): Visibility on growth returns.

Guidance: FY25 loan growth to be in-line with system. NIM of 3.6% +/- 10bps. CIR: 48-50% in FY25 (1H: 48%), RoA to remain ~1.5%. Slippages to reduce further to Rs 8bn (1H: 3.54bn, FY24: 10bn) and recovery (NPA+TWO) of >Rs 10bn (FY24: 7.6bn). FY25 NNPA 1-1.25% (1.2% Mar'24)

What we like: Advances growth (4.7% qoq, 12%yoy) is now largely in-line with industry and was led by a pick-up in core segments of (i) MSME loans (42% of loan book), which grew 5% qoq (vs trend of 1-2% decline for past few quarters), flat yoy and (ii) Gold loans, (25% of book), increased by 8% qoq, 14% yoy. Guidance for credit growth in 2H to be in-line with system and led by traditional core businesses. W.r.t.launch of new verticals (Affordable home loans, micro LAP), resources along with "feet on street" to be in place by 3Q and soft launch by 4Q and any material contribution to loan book (2-3%) will be FY26 onwards and 4-5% in FY27. In FY26, pick-up in secured businesses will drive overall credit growth higher than system.

Reported NIM (3.67%, +13bp qoq) increased mainly due to YoF increase of +10bp qoq and CoF decline (-4bp qoq) due to borrowings declining 44%qoq. QoQ increase in YoA (+22bps qoq) was led by higher gold loan yields due to (i) price hikes (ii) conversion of floating rate loans to fixed rate loans. Currently 25-30% of the loans are converted to fixed rate and the bank expects to convert 50-60% of the gold loan book before the start of the rate cut cycle to offset rate cut impact.

Core fee/assets increased to 0.59% vs 0.57%/0.53% in 1QFY25/2QFY24 due to significant improvement from loan processing charges.

PCR increased to 55% (+233bps qoq) which led to higher credit costs of 0.6% vs 0.28% in 1Q. Negative net slippage (2Q: -0.22% vs -0.12% in 1Q), continued for 5th consecutive quarter and is expected to remain negative in 2H.

What we don't like: Muted deposit growth (4.6% qoq, 8.8% yoy 3%ytd) and was broad based with ~4-5% qoq growth in each of CASA and term deposits.

While CIR reduced to 47.1% (-228bps qoq). FY25 CIR to remain around 48-50% due to upfronting of costs related to new business verticals.

Exhibit 58: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	4,77,715	4,26,522	12%	4,55,949	5%
Deposits	5,73,691	5,27,140	9%	5,48,569	5%
NII	**5,825**	**5,384**	**8%**	**5,452**	**7%**
Operating income	8,088	7,205	12%	7,373	10%
PPOP	**4,282**	**3,866**	**11%**	**3,735**	**15%**
PBT	3,582	3,586	0%	3,345	7%
PAT	**2,852**	**3,086**	**-8%**	**2,645**	**8%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	29.4%	29.6%	-13	29.5%	-8
CD Ratio	84.9%	82.9%	205	84.9%	7
NIM (reported)	3.7%	3.7%	-7	3.5%	13
Cost to Income	47.1%	46.3%	72	49.3%	-228
Credit costs	0.6%	0.3%	33	0.3%	32
GNPA (%)	3.5%	4.7%	-112	3.9%	-34
NNPA (%)	1.6%	2.3%	-72	1.9%	-25
PCR (%)	55.1%	50.9%	417	52.8%	233
CAR	23.0%	22.2%	77	23.6%	-60

Source: Company, Systematix Institutional Research

Exhibit 59: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.3%**	**3.1%**	**3.2%**	**3.1%**	**3.3%**
Total income	4.4%	4.2%	4.2%	4.2%	4.6%
PPOP	2.3%	2.2%	2.0%	2.1%	2.4%
PBT	2.3%	2.2%	2.0%	2.1%	2.4%
PAT (RoAA)	**1.9%**	**1.5%**	**1.5%**	**1.5%**	**1.6%**
ROE	**15.9%**	**12.6%**	**12.3%**	**12.4%**	**13.0%**

Source: Company, Systematix Institutional Research

DCB (NOT RATED): Margins impacted by adverse mix and regulatory changes. Slippages remain elevated in mortgages.

Guidance: FY26 guidance: NIM 3.65%-3.75%. Fee income/avg assets 1%, opex/assets: 2.6%. RoA: 1%. RoE: 14%. 2HFY25 reported credit cost: 30-35bps (2Q: 27bps).

What we like: Business growth momentum was strong with both advances and deposits growing by ~5.5% qoq, 19-20% yoy along with stable C-D ratio (81.5%, stable qoq).

Core Fee/assets increased to 0.83% (+12bps qoq) supported by higher TPP income and penal charge benefit. Fee/assets to improve to 100bps in medium term due to asset mix change.

X-bucket CE across key products remains steady, showing no major stress in core retail portfolios

What we don't like: Reported NIM declined to 3.3% (-12bps qoq), mainly due to decline in YoA (-11bp qoq) while CoD declined marginally by -1bps qoq. This was due to one-off from regulatory change on timing of interest accrual (interest needed to be refunded from time between DD made to DD handover date), penal interest impact, lower MFI disbursements, increase in lower yielding co-lending share (+90bps qoq). Margin headwinds include lower MFI share, continued reliance on co-lending arrangements to support growth, structurally lower penal charges. However, some offsets include focus on growing higher yielding cohorts like business loans (over home loans) in mortgages and more of OD (less of TReDS) in MSME along with deposit costs to remain stable going forward.

Opex/avg assets at 2.75%, to remain elevated due to continued business investments and is expected to reduce to 2.6% in FY26. phase, with benefits expected over the next 6 quarters. Slippages continued to increase in mortgage book (GNPA increased 10bp qoq) due to delinquencies in older vintages (sourced in FY23). However, recent vintages show improved performance due to tightened underwriting standards. Reported credit costs increased to 27bp vs 18bp in 1Q and bank expects credit costs to rise to 30-35bps in the coming quarters due to normalization to steady state levels.

Exhibit 60: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	4,44,652	3,72,760	19%	4,21,810	5.4%
Deposits	5,45,317	4,54,963	20%	5,16,900	5.5%
NII	**5,092**	**4,757**	**7%**	**4,966**	**2.5%**
Operating income	7,138	5,831	22%	6,396	11.6%
PPOP	**2,551**	**2,105**	**21%**	**2,054**	**24.2%**
PBT	2,095	1,708	23%	1,770	18.4%
PAT	**1,555**	**1,268**	**23%**	**1,314**	**18.4%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	25.6%	25.0%	57	25.4%	20
CD Ratio	81.5%	81.9%	-39	81.6%	-6
NIM (reported)	3.3%	3.7%	-42	3.4%	-12
Cost to Income	64.3%	63.9%	36	67.9%	-363
Credit costs	0.4%	0.4%	-2	0.3%	15
GNPA (%)	3.3%	3.4%	-7	3.3%	-4
NNPA (%)	1.2%	1.3%	-11	1.2%	-1
PCR (%)	75.6%	75.5%	13	76.0%	-38
CAR	15.6%	16.6%	-100	16.0%	-40

Source: Company, Systematix Institutional Research

Exhibit 61: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.4%**	**3.2%**	**3.3%**	**3.1%**	**3.1%**
Total income	4.1%	4.1%	4.2%	4.0%	4.3%
PPOP	1.5%	1.4%	1.5%	1.3%	1.5%
PBT	1.2%	1.2%	1.4%	1.1%	1.3%
PAT (RoAA)	**0.9%**	**0.9%**	**1.0%**	**0.8%**	**0.9%**
ROE	**10.7%**	**10.4%**	**12.5%**	**10.2%**	**11.8%**

Source: Company, Systematix Institutional Research

South Indian Bank (NOT RATED): Key asset quality parameters improved sequentially.

Guidance: FY25 guidance of ~12-13% growth in advances and deposits. FY25 opex <10%, NIM of 3.5% in medium term in 5-6 quarters (vs 3.26% 1QFY25). FY25 slippage of Rs 12bn (Rs 3.41bn in 1QFY25). RoA 1% in short to medium term.

What we like: Gross advances growth (2.6% qoq, 13.1% yoy, 5.6% ytd) led by higher retail loan growth (11.3% qoq) while business loans degrew by -4.6%qoq and corporate loan remained flat qoq. The share of corporate loans within AUM declined by -108bps qoq to 40%.
Deposit growth 2% qoq, 8.6% yoy (H1: 3.5% ytd) was led by growth in retail term deposits (2.4% qoq, 9.3% yoy). Bulk deposits broadly remained flat qoq (-9% ytd).
Opex to asset ratio declined to 2.62% (-3bps qoq) as previous quarter had costs related to new wage hike settlements and in current quarter the bank controlled increase in headcount. The bank targets CIR reduction by 10% over 3 yr period (1H: 59%) led by operating leverage.
On asset quality, GNPA declined to 4.4% (-10bps qoq) and NNPA at 1.31% (-13bps qoq), where NPA for business loans declined by -52bps qoq. Further, annualized credit costs declined to 0.54% (-3bps qoq). The gross slippage ratio declined to 1.6% (-18bps qoq) and net slippage was negative on account of higher recoveries and upgrades. FY25 slippage guidance of Rs 12bn vs 1HFY25: Rs 6.6bn and FY24: Rs 13.3bn. SMA- 2 also reduced by 10bps qoq to 0.6%. Std restructured book also reduced to 0.56% vs 0.8% qoq.

What we don't like: CASA growth was muted at 1% qoq, 2.6% ytd mainly due to flat qoq SA growth. SA share declined -60bps qoq. CASA ratio declined to 31.8% (-26bps qoq).
While slippage ratio in business loans reduced to 4.4% vs 5% qoq, slippages in business loans were mainly in the old book (which is being run-down) due to ageing. The slippage rate of the old book is likely to remain elevated at 4-5% levels (double of the bank's comfort zone) for a few more quarters. Management highlighted of MSME deman remaining softer than expectations,

Exhibit 62: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	8,21,742	7,25,876	13%	8,01,292	3%
Deposits	10,54,515	9,70,853	9%	10,35,324	2%
NII	**8,823**	**8,306**	**6%**	**8,658**	**2%**
Operating Income	13,318	11,864	12%	12,875	3%
PPOP	**5,503**	**4,604**	**20%**	**5,077**	**8%**
PBT	4,402	4,092	8%	3,947	12%
PAT	**3,247**	**2,748**	**18%**	**2,941**	**10%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	31.8%	32.0%	-24	32.1%	-26
CD Ratio	77.9%	74.8%	316	77.4%	53
NIM (reported)	3.2%	3.3%	-7	3.3%	-2
Cost to Income	58.7%	61.2%	-251	60.6%	-189
Credit costs	0.5%	0.3%	26	0.6%	-3
GNPA (%)	4.4%	5.0%	-56	4.5%	-10
NNPA (%)	1.3%	1.7%	-39	1.4%	-13
PCR (%)	71.2%	66.8%	444	69.0%	219
CAR	18.0%	16.7%	135	18.1%	-7

Source: Company, Systematix Institutional Research

Exhibit 63: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.98**	**2.90**	**3.03**	**2.94**	**2.96**
Total income	4.25	4.50	4.23	4.38	4.47
PPOP	1.65	1.71	1.50	1.73	1.85
PBT	1.47	1.54	1.36	1.34	1.48
PAT (RoAA)	**0.98**	**1.08**	**1.00**	**1.00**	**1.09**
ROE	**15.74**	**16.86**	**14.18**	**13.08**	**14.00**

Source: Company, Systematix Institutional Research

Karnataka bank (NOT RATED): Muted growth and elevated opex dent earnings.

Guidance: FY25 Loan growth 15% reduced from 18-20% given earlier, FY25 deposit growth 13-15%. CIR closed to mid-50's in 1-2 qtrs vs earlier guidance of closer to 50% by exit FY25, NIM: 3.4-3.6% (1H: 3.38%), credit cost 0.9-1%, RoA 1.2-1.4%, RoE 15-17%, GNPA ~3%, NNPA ~1.2%, net slippage ratio 50bps

What we like: Margins to be supported in the coming quarters led by improving share of retail and mid corporate, benign C-D ratio and deployment of excess liquidity into higher yielding retail assets vs currently being deployed in treasury.
Asset quality improved materially as GNPA/NNPA declined to 3.2% / 1.5% (-33bp / -20bp qoq). credit costs also declined by -6bps qoq.

What we don't like: Loan growth (flat qoq, 3.2% ytd) was muted as the bank shed low yielding bulk advances. Deposit growth was also flat qoq, 2% ytd as the bank shed high cost deposits. Further it reduced its growth guidance 15% from 18-20% given earlier on the back of the renewed strategy to focus on growing retail assets like housing, vehicle, gold and education loans.
NIM declined to 3.23% (-31bps qoq) due to IT refund benefit of Rs 810mn (8bps of IEA) in the previous quarter and deployment of excess liquidity of Rs 40bn in lower yielding treasury (AFS) book.
CIR increased to 58.3% (+552bps qoq) led by one-off technology costs, lateral recruitments and increased actuarial provisions due to decline in benchmark rates. The bank has undertaken centralization and verticalization initiatives to reduce overhead costs. However, it now guides for CIR to reach to mid-50's in next 1-2 qtrs vs earlier stance of 50% by exit FY25.

Exhibit 64: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	7,39,523	6,54,223	13%	7,40,148	-0.1%
Deposits	9,99,680	8,95,317	12%	10,01,639	-0.2%
NII	8,336	8,224	1%	9,034	-7.7%
Operating Income	11,035	10,720	3%	11,824	-6.7%
PPOP	4,604	5,222	-12%	5,586	-17.6%
PBT	4,290	4,023	7%	5,183	-17.2%
PAT	3,361	3,303	2%	4,003	-16.1%
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	30.8%	31.9%	-109 bp	30.5%	28 bp
CD Ratio	74.0%	73.1%	90 bp	73.9%	8 bp
NIM (reported)	3.2%	3.6%	-35 bp	3.5%	-31 bp
Cost to Income	58.3%	51.3%	699 bp	52.8%	552 bp
Credit costs	0.2%	0.8%	-62 bp	0.2%	-6 bp
GNPA (%)	3.2%	3.5%	-26 bp	3.5%	-33 bp
NNPA (%)	1.5%	1.4%	10 bp	1.7%	-20 bp
PCR (%)	55.2%	61.8%	-660 bp	54.0%	118 bp
CAR	17.6%	16.2%	138 bp	17.6%	-6 bp

Source: Company, Systematix Institutional Research

Exhibit 65: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.2%**	**3.1%**	**3.0%**	**3.1%**	**2.9%**
Total income	4.2%	4.3%	4.4%	4.1%	3.8%
PPOP	2.0%	2.0%	1.8%	1.9%	1.6%
PBT	1.6%	1.5%	1.1%	1.8%	1.5%
PAT (RoAA)	**1.3%**	**1.2%**	**1.0%**	**1.4%**	**1.2%**
ROE	**15.2%**	**14.2%**	**10.6%**	**16.7%**	**13.6%**

Source: Company, Systematix Institutional Research

Small Finance Banks

AU SFB (NOT RATED): Despite asset quality deterioration, RoA guidance intact led by improved opex and margin outlook.

Guidance: **FY25 guidance:** Deposit/advances growth 25% yoy (1H: 12.3%/8.9%). CoF Guidance FY25: 7.10-7.15% vs 7.2-7.25% initially expected. FY25 NIM: ~6%. RoA 1.6% in FY25 and 1.7% in FY27. FY25 CIR: 60%. FY25 credit cost: 1.28% (% of GLP)

What we like: Deposit growth was very strong at 12.7% qoq (1H: 12.25%) led by strong growth in both Term deposits (13.7% qoq) CASA (10.9% qoq). Hence, FY25 CoF guidance reduced by 10bps to 7.1-7.15% (FY24: 7.1%) and FY25 NIM guidance increased to 6% vs ~5.6% given earlier. CIR reduced to 56.7% (-326bps qoq) due to merger led operating efficiencies in Fincare and lower customer acquisition costs in credit cards due to lower card issuances. FY25 CIR guidance reduced to 60% (vs 63% earlier) on merger led productivity synergies. Bank maintained FY25 RoA guidance of 1.6% despite higher credit cost trends due to improved margin and opex outlook.

What we don't like: Asset quality deteriorated with GNPA/NNPA increasing to 1.98% / 0.75% (+20bp / +12bp qoq). Gross / Net slippages increased to 3.3% / 2.36% vs 2.52% / 1.65% in 1QFY25. Annualized credit costs % GLP increased to ~1.45% / 1.28% in 2Q/1H (vs 1.15% in 1Q). This was mainly led by increase in credit costs in unsecured credit as (i) Credit costs in credit cards + PL/BL increased to ~10.3%/8.35% in 2Q / 1H vs 6.5% in 1Q. The bank expects credit costs to stay elevated in 2H; (ii) MFI credit costs remained at ~3% / 3.08% in 2Q / 1H (vs 3% in 1Q) in-line with the bank's expectation of 3% credit cost in MFI. However, bank expects full year MFI credit costs to surpass 3% expectation; (iii) secured asset credit costs increased to ~1% / 0.9% in 2Q / 1H (vs 0.8% in 1Q) due to seasonality and heavy rains in northern India. While the bank expects overall credit costs to remain elevated, it expects to finish the full year around the same levels as in 1H (1.28% % of GLP +/- 5-10bps) supported by pull back in credit costs in secured assets.

Exhibit: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	9,48,382	6,41,680	47.8%	8,96,520	5.8%
Deposits	10,96,931	7,57,429	44.8%	9,72,900	12.7%
NII	**19,744**	**12,490**	**58.1%**	**19,206**	**2.8%**
Operating income	26,123	16,744	56.0%	24,663	5.9%
PPOP	**11,318**	**6,477**	**74.7%**	**9,882**	**14.5%**
PBT	7,588	5,334	42.3%	6,689	13.4%
PAT	**5,712**	**4,018**	**42.2%**	**5,026**	**13.6%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	32.4%	33.9%	-150	32.9%	-55
CD Ratio	86.5%	84.7%	174	92.1%	-569
NIM (reported)	6.1%	5.5%	60	6.0%	10
Cost to Income	56.7%	61.3%	-464	59.9%	-326
Credit costs	2.13%	0.7%	141	1.5%	67
GNPA (%)	1.98%	1.9%	7	1.8%	20
NNPA (%)	0.75%	0.6%	15	0.6%	12
PCR (%)	62.8%	69.1%	-625	65.1%	-229

Source: Company, Systematix Institutional Research

Exhibit 66: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**5.3%**	**5.4%**	**5.1%**	**6.53%**	**5.97%**
Total income	7.1%	7.2%	7.2%	8.38%	7.89%
PPOP	2.8%	2.7%	2.5%	3.36%	3.42%
PBT	2.3%	2.0%	2.0%	2.27%	2.29%
PAT (RoAA)	**1.7%**	**1.5%**	**1.7%**	**1.71%**	**1.73%**
ROE	**13.9%**	**12.5%**	**14.5%**	**14.35%**	**14.48%**

Source: Company, Systematix Institutional Research

Ujjivan SFB (NOT RATED): Guidances revised to reflect deterioration in MFI asset quality and lack of growth visibility in MFI

Guidance: FY25 credit costs 2.3%-2.5% (revised from 1.7% in Jun'24, 1H'25: 1.73%, FY24<1%). RoE 18-20% in FY26. FY25 Secured book growth & mix ~40%. IL growth 17% yoy, FY25 NIM 8.6-8.8%, Bad debt recovery Rs 1bn (1H: 0.52bn). 2H gross slippage ratio around 2Q: 3.2%.

What we like: Deposit growth (4.8% qoq) was strong and will be driven by higher (3-4 more) products per customer, new products targeting HNIs and NRIs, AD-1 license approval. Secured mix guidance revised to 40% by Mar'25 (vs earlier 40% by Mar'26). Secured businesses to pickup as (i) MSME stabilized in terms of products, policies, systems and new products launches (Elite LAP, bank guarantees, WC term loan variant). Green shoots visible as disbursements up 2x yoy, yields up 30bp qoq. (ii) VF: streamlined business process, upgraded tech, dealer tie-ups will drive festive growth.

Asset quality: Bank's internal guardrails are stringent vs MFIN: Threshold for NTB customers include <=3 lenders (vs <=4 by MFIN), 1.5Lakhs MFI exposure (vs 2 Lakhs by MFIN). Individual Loan (IL) slippage better than MGL and Ujjivan is sole lender to IL customers in most cases. Amongst mature markets. Bihar/UP CE of ~99.5% was higher vs portfolio CE of 99.23% for ND customers. Oct CE in ND customers is better vs Sep and bank expects ND CE to reach back to Q1 levels.

What we don't like: FY25 NIM guidance reduced to 8.6-8.8% (vs ~9% earlier (1H: 9.2%)). CIR increased to 60% (+472bp qoq) due to salary corrections from industry benchmarking in Oct'23, headcount increase in new secured businesses.

Asset Quality deteriorated in MFI: Amongst mature markets (60% of book in WB, TN, KA, Bihar, UP), CE was impacted in TN. Higher write-offs (Rs 1.4bn in 2Q vs 0.6bn qoq) due to Rs 0.5bn write-off of assam portfolio. FY25 credit costs guidance increased further to 2.3%-2.5% (from 1.7% FY25 guidance in Jun'24, 1H: 1.73%) due to (i) lagged increase in provisions and (ii) increase in forward flows from increase in SMA bucket (2.6%, +170bp qoq). MFI business revival will only be visible from Q4FY25 at the earliest. 20% ROE possible only in FY26 vs earlier guidance 18-20% RoE in FY25.

Exhibit 67: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	2,91,793	2,43,250	20.0%	2,71,140	7.6%
Deposits	3,40,698	2,91,393	16.9%	3,25,140	4.8%
NII	**9,438**	**8,233**	**14.6%**	**9,415**	**0.2%**
Total Net Income	11,510	10,120	13.7%	11,386	1.1%
PPOP	**4,608**	**4,834**	**-4.7%**	**5,095**	**-9.6%**
PBT	3,103	4,364	-28.9%	3,997	-22.4%
PAT	**2,330**	**3,277**	**-28.9%**	**3,011**	**-22.6%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	25.9%	24.1%	186	25.6%	29
CD Ratio	85.6%	83.5%	217	83.4%	225
NIM (reported)	9.2%	8.8%	40	9.3%	-10
Cost to Income	60.0%	52.2%	773	55.2%	472
Credit costs	2.1%	0.8%	133	1.6%	51
GNPA (%)	2.5%	2.2%	30	2.3%	20
NNPA (%)	0.6%	0.1%	51	0.4%	20
PCR (%)	78.1%	96.3%	-1816	84.0%	-592
CAR(%)	23.4%	25.2%	-181	24.9%	-147

Source: Company, Systematix Institutional Research

Exhibit 68: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**9.0%**	**8.8%**	**9.3%**	**9.1%**	**8.8%**
Total income	11.0%	10.7%	11.7%	11.0%	10.7%
PPOP	5.3%	4.7%	5.2%	4.9%	4.3%
PBT	4.8%	4.0%	4.4%	3.9%	2.9%
PAT (RoAA)	**3.6%**	**3.1%**	**3.3%**	**2.9%**	**2.2%**
RoE	**29.2%**	**24.9%**	**25.4%**	**21.9%**	**16.2%**

Source: Company, Systematix Institutional Research

Equitas SFB (NOT RATED): Credit costs elevated due to upfronting of MFI provisions.

Guidance: C-D Ratio (ex IBPC/securitization) to remain at current levels of ~87% (2Q: 87%). FY25 CIR around FY24 levels (1H: 66.3%, FY24: 64.5%). FY25 MFI credit costs 6-7% and 4-5% in FY26.

What we like: CoF increased by only +4bps due to 13bps benefit from SA rate reduction by -200bps in one bucket in 1Q. Further reduction in SA rates in Oct 1st week and peak TD rates by -25bps.
While FY25 margins will be under pressure due to reduction in MFI share, it will be partly offset by (i) 80-85% fixed rate book, (ii) catch-up of portfolio yields with disbursement yields which +135bps higher (iii) launch of PL/credit cards (v) ramp up of higher yielding micro LAP, merchant OD, used cars/CV (iv) reduction in SA rates and peak TD rates. MSE GNPA increased to 9.35% (+230bp qoq) due to slippage of 1 account of Rs 300mn into NPA which is upgraded to standard in 3Q. Vehicle finance x-bucket CE improved in Oct and will further improve in 2H.

What we don't like: Gross loans (Incl IBPC / securitization) growth (3.4% qoq, 5% ytd) muted due to decline in MFI book (-5.6% qoq, -5% ytd). Focus on growing the book only when slippage is halved and CE increases by 1%. NIM declined by -28bp qoq due to interest reversal on slippages.
Opex increased by 3% qoq mainly due to higher employee costs (7.4% qoq, 21% yoy) Opex will remain elevated due to (i) increase in collection team in MFI; (ii) investment in new segments of PL, credit cards and AD-1 products. CIR will decline in a material way only after 3 yrs.
Excess provisions of Rs 1.46bn (2.6% of MFI book) led by (i) Rs 460mn due to strengthening of IRAC provisions to 100% at 180dpd (vs 360dpd earlier) and 75% at 150-180 dpd (vs 50% earlier); (ii) Rs 1bn additional stress provisions in MFI (50% of 30-90dpd in MFI). MFI credit costs increased significantly to 10.18% in 1HFY25 (6.75% ex Rs 1bn stress provisions in 2Q) vs 1.04% for remaining book. However, given low MFI portfolio share at 16%, the overall credit cost (ex one-time floating provision of Rs 1.8bn in 1Q, incl stress provision of Rs 1bn in 2Q) was 2.59%. MFI stress to continue for 2 more quarters. To improve CE and centre meeting attendance, the bank has rolled out interest rate discount schemes based on higher centre meeting attendance & repayment behavior.

Exhibit 69: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	3,39,625	2,87,680	18.1%	3,19,260	6.4%
Deposits	3,98,588	3,08,390	29.2%	3,75,240	6.2%
NII	**8,023**	**7,656**	**4.8%**	**8,015**	**0.1%**
Operating income	10,412	9,470	10.0%	10,102	3.1%
PPOP	**3,497**	**3,302**	**5.9%**	**3,404**	**2.7%**
PBT	201	2,670	-92.5%	358	-43.9%
PAT	**129**	**1,981**	**-93.5%**	**258**	**-50.0%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	30.6%	33.6%	-299 bp	31.2%	-68 bp
CD Ratio	90.4%	94.5%	-408 bp	92.9%	-249 bp
NIM (reported)	7.7%	8.4%	-74 bp	8.0%	-28 bp
Cost to Income	66.4%	65.1%	128 bp	66.3%	11 bp
Credit costs	1.8%	0.9%	92 bp	1.6%	23 bp
GNPA (%)	3.0%	2.3%	68 bp	2.7%	22 bp
NNPA (%)	1.0%	1.0%	0 bp	0.8%	14 bp
PCR (%)	67.7%	57.7%	999 bp	70.3%	-258 bp

Source: Company, Systematix Institutional Research

Exhibit 70: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**7.8%**	**7.7%**	**7.2%**	**7.0%**	**6.8%**
Total income	9.7%	9.7%	9.5%	8.8%	8.8%
PPOP	3.4%	3.5%	3.5%	3.0%	2.9%
PBT	2.7%	2.7%	2.5%	0.3%	0.2%
PAT (RoAA)	**2.0%**	**2.0%**	**1.9%**	**0.2%**	**0.1%**
ROE	**14.6%**	**14.4%**	**14.2%**	**1.7%**	**0.9%**

Source: Company, Systematix Institutional Research

Suryoday SFB (NOT RATED): Credit costs to be partly supported by CGFMU claims.

Guidance: FY25 loan growth 28-30%, disbursement 25-26% yoy. IF growth 15% (vs earlier target of 20%). Secured mix 45% (near term) and 50% (medium term) (2Q: 44%). PPOP 570-580 cr, provisions 210-220 cr (1H: 110cr), PBT 300cr, PAT 225cr, RoA 1.9-2% (ex CGFMU claims recieved) 2.7-2.8% including claims, RoE 14-16%.

What we like: Strong Deposit growth (8.8%qoq, 39%yoy, 14%ytd FY25 guidance: 40-45%) and led by Retail deposits (80% of total deposits) 10.6% qoq, 43% yoy while bulk TD growth was low at 1.9% qoq, 22% yoy. C-D ratio (incl IBPC) declined to 106% (vs 111% in 1QFY25).

What we don't like: NIM (9.68%, -32bp qoq) declined due to interest reversals from slippages and maginal decline in funding costs (-3bps qoq). Other income declined (-32% qoq) due to seasonally lower Pslc income (2Q: 60mn, 1Q: 260mn) and muted disbursements in MFI.
Overall current bucket CE declined significantly to 98.2% (vs 99% yoy) and bank expects 3Q CE to be ~99%. As per the bank, peak of asset quality deterioration is behind as CE deterioration which started in April, is now stable/improving (current bucket CE in JLG in Aug/Sep/Oct/Nov at 97.8%/97.7%/98%/98.5% and VL at Sep/Oct 97.3%/98.5%). While fresh slippages have peaked in 2Q, credit costs to be elevated in 3Q and decline only in 4Q as PAR30+ in IF increased to 7.5% vs 5% in 1Q which will keep fwd flows elevated. Hence, bank guided for 2H credit costs similar to 1H with FY25 estimated credit costs (net of CGFMU claims of Rs 2.2bn, 1H: 1.2bn). However, 64% of this is expected to received as claims in FY26. This is because, (i) 95% of the o/s and 100% of incremental disbursements in IF portfolio are covered under CGFMU. (ii) Out of the Rs 2.1bn o/s GNPA, 90% (1.9bn) is covered under CGFMU of which ~70-75% (0.8bn/1.3-1.4bn) is expected to be claimed in 1Q'26/1H'26. Bank has seen elevation in stress in Gujarat. 25% of IF book is >4 lenders vs 8-10% for peers. While the bank maintained its key guidances, it highlighted that the guidances could be nominally impacted by the current stress environmen.

Exhibit 71: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	88,070	67,210	31%	82,849	6%
Deposits	88,508	63,884	39%	81,373	9%
NII	3,000	2,211	36%	2,932	2%
Operating income	**3,474**	**2,728**	**27%**	**3,634**	**-4%**
PPOP	**1,269**	**944**	**35%**	**1,443**	**-12%**
PBT	602	677	-11%	927	-35%
PAT	**454**	**503**	**-10%**	**701**	**-35%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	17.9%	15.7%	215	17.7%	18
CD Ratio	99.5%	105.2%	-570	101.8%	-231
NIM (reported)	9.7%	9.4%	28	10.0%	-32
Cost to Income	63.5%	65.4%	-195	60.3%	317
Credit costs	3.1%	1.7%	147	2.5%	60
GNPA (%)	2.9%	2.9%	-	2.7%	20
NNPA (%)	0.8%	1.5%	-66	0.4%	40
PCR (%)	74.3%	50.5%	2,382	83.9%	-956
CAR	25.0%	30.3%	-535	27.3%	-232

Source: Company, Systematix Institutional Research

Exhibit 72: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	8.40	8.94	9.22	9.34	9.14
Total income	10.4	10.8	11.4	11.6	10.6
PPOP	3.6	4.2	4.4	4.6	3.9
PBT	2.6	2.8	2.7	3.0	1.8
PAT (RoAA)	1.9	2.1	2.07	2.23	1.38
ROE	12.1	14.2	15.1	16.0	10.3

Source: Company, Systematix Institutional Research

Jana SFB (NOT RATED): Asset quality impacted due to elevated slippages in BC book. Credit costs peak in Q2.

Guidance: Over the next 2-3 years, advances CAGR to be lower at 20% vs 25% CAGR during the last three years. Target secured mix of ~75-80% share in next 2-3 years. Over the next 3 years, yoy opex growth at 8-10% pa vs. 15% CAGR during FY21-24.

What we like: Deposit growth remained strong at 4.6% qoq, 31% yoy. Other secured loans grew by 15% qoq due to strong growth in gold loans driven by MFI team's cross sell efforts. Secured book at 65% vs 60% FY24 (target 75-80% share in next 2-3 yrs). However, the bank does not expect further decline in unsecured share in 2H (1H: 35.4% vs 40.4% FY24).
PCR improved to 67.2% due to higher provisioning in the secured book. (PCR for secured assets rose to 29.7% in 2Q vs 18% in FY24.
The bank tightened MFI lending norms such as (i) Maximum exposure of the bank per customer (both NTB and ETB) capped at Rs. 50K per customer; (ii) total customer indebtedness to be < 1.25lakhs (vs <1.5lakhs previously for NTB and <2lakhs for ETB); (iii) higher focus on individual loans over group loans due to better asset quality and higher focus on gold loans where the risk of overleverage is lower.. The bank will provide support to BCs with experienced collection staff. As per the management, Q3 credit costs to be lower with peak of credit costs likely behind in Q2 (3.4%, +12bp qoq) and the bank will look to grow the unsecured book in 2Q

What we don't like: Advances growth of 2.7% qoq 18% yoy was muted due to weakness in the BC book (-11% qoq, +13% yoy). Reported NIM declined to 7.7% (-30bps qoq) due to de-growth in unsecured book by -5.4% qoq and interest reversal from slippages in MFI.
Total GNPA increased to 2.97% (+35bp qoq) due to increase in GNPA in the BC book to 9.7% (+190bps qoq) due to stress in 2 out of 17 BCs. The bank took additional provision of Rs 610mn in 2Q (Rs. 54mn in 1Q) in order to keep NNPA < 1%.
Wr.t.30-40% PBT growth guidance, the bank will strive to achieve the lower end of the guidance.

Exhibit 73: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	2,48,615	2,10,087	18%	2,42,070	2.7%
Deposits	2,48,080	1,89,367	31%	2,37,100	4.6%
NII	5,939	5,258	13%	6,097	-2.6%
Operating Income	**7,695**	**6,893**	**12%**	**7,988**	**-3.7%**
PPOP	**2,986**	**2,831**	5%	**3,558**	-16.1%
PBT	**884**	**1,229**	-28%	**1,601**	-44.8%
PAT	**967**	**1,229**	-21%	**1,706**	-43.3%
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	20.1%	20.5%	-43	20.4%	-38
CD Ratio	100.2%	110.9%	-1,073	102.1%	-188
NIM (reported)	7.3%	7.9%	-57	7.6%	-27
Cost to Income	61.2%	58.9%	226	55.5%	573
Credit costs	3.4%	3.2%	18	3.3%	12
GNPA (%)	3.0%	2.4%	53	2.6%	35
NNPA (%)	0.99%	0.9%	12	1.0%	-
PCR (%)	67.2%	64.9%	232	62.7%	450
CAR	18.8%	17.5%	131	19.3%	-48

Source: Company, Systematix Institutional Research

Exhibit 74: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**7.7%**	**7.5%**	**7.5%**	**7.4%**	**7.1%**
Total income	10.1%	9.4%	9.8%	9.7%	9.2%
PPOP	4.2%	4.1%	4.4%	4.3%	3.6%
PBT	1.8%	1.8%	2.1%	1.9%	1.1%
PAT (RoAA)	**1.8%**	**1.8%**	**4.1%**	**2.1%**	**1.2%**
ROE	**19.6%**	**20.4%**	**40.9%**	**18.6%**	**10.2%**

Source: Company, Systematix Institutional Research

PSU Banks

SBI (BUY): Earnings trend above estimates on lower opex, asset quality broadly stable.

Guidance: FY25 loan growth 14-16%. Deposit growth 10% (revised from 8% earlier). Global NIM between 3.2-3.4% (1H: 3.31%). Wage bill to decline to Rs 650bn-700bn (FY24: 712bn, 1H: 302bn).

What we like: For FY25, the bank continued to guide for 14-16% loan growth with (i) unsecured xpress credit growth to be stronger in 2H vs 1H due to strong festive demand and process improvements; (ii) double digit growth in corporate credit (1H: 18% yoy, 2% ytd) with strong project pipeline which has increased to Rs 6 trn vs usual trend of Rs 4-4.5 trn and higher utilization of working capital limits. With 2H being seasonally strong and ytd trends (4% ytd deposit growth) remaining reasonable, FY25 deposit growth guidance increased to ~10% from 8% earlier. Bank maintained FY25 guidance stable NIMs around current levels of 3.31% (+/-10bps) as (i) deposit costs have peaked; (ii) impact of likely policy rate cuts by 2H end, to be offset by pass-through of MCLR hikes viz. 30bps 1 yr MCLR hike in 1H. 2Q hikes to be effective from Dec'24; (iii) improved credit yields from better pricing negotiations in corporate credit and higher SME growth led by digitization initiatives. 1H run-rate of Rs 302 bn is trending lower than FY25 employee cost guidance of Rs 650-700bn (2-10% yoy decline) due to write-back of actuarial provisions on pension liability from MTM gains. 1HFY25 credit costs of 43bps (2Q: 38bp) was within FY25 guidance of 50bps. 3Q credit costs to be less than 40bps. 3Q slippage ratio to be <60bps (2Q/1H: 51bp/68bp)

What we don't like: Domestic advances growth was muted at 3.2% ytd due to weak growth in large corporate (2% ytd) and retail credit 3% ytd due to weakness in auto loans (1% ytd) and unsecured xpress credit (-2% ytd). On 1HFY25 basis, reported domestic NIM declined to 3.31% (-12bps ytd) due to deposit cost increase of +22bps ytd and yield on advances decline of -4bps ytd which was partly offset by higher investment yields (+21bps ytd).

Exhibit 75: Quarterly performance

(INR, Bn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	**38,574**	**33,452**	15%	**37,491**	2.9%
Deposits	**51,173**	**46,892**	9%	**49,017**	4.4%
NII	**416**	**395**	**5%**	**411**	**1.2%**
Operating income	**569**	**503**	**13%**	**523**	**8.8%**
PPOP	**293**	**194**	**51%**	**264**	**10.8%**
PBT	248	193	28%	230	7.8%
PAT	**183**	**143**	**28%**	**170**	**7.6%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
Domestic CASA Ratio	40.0%	41.9%	-185 bp	40.7%	-66 bp
CD Ratio	75.4%	71.3%	404 bp	76.5%	-111 bp
NIM (reported)	3.1%	3.3%	-17 bp	3.2%	-8 bp
Cost to Income	48.5%	61.4%	-1288 bp	49.4%	-91 bp
Credit costs	0.38%	0.22%	16 bp	0.48%	-10 bp
GNPA (%)	2.13%	2.6%	-42 bp	2.2%	-8 bp
NNPA (%)	0.53%	0.6%	-11 bp	0.6%	-4 bp
PCR (%)	75.7%	75.4%	21 bp	74.4%	125 bp
CAR	13.8%	14.3%	-52 bp	13.9%	-10 bp

Source: Company, Systematix Institutional Research

Exhibit 76: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.8%**	**2.7%**	**2.7%**	**2.7%**	**2.7%**
Total income	3.5%	3.5%	3.9%	3.4%	3.6%
PPOP	1.4%	0.9%	1.9%	1.7%	1.9%
PBT	1.4%	0.9%	1.8%	1.5%	1.6%
PAT (RoAA)	**1.0%**	**0.6%**	**1.4%**	**1.1%**	**1.2%**
ROE	**15.5%**	**9.6%**	**21.2%**	**16.8%**	**17.2%**

Source: Company, Systematix Institutional Research

BOB (NOT RATED): FY25 business growth guidance lowered by 100bps.

Guidance: FY25 guidance: Advances 11-12% (ytd: 4.8%), deposit 9-11% (Ytd: 2.8%), NIM: 3.15% (+/-5bps) vs 1H: 3.14%, stable yoy, Slippage 1-1.25% (1H: 0.9%), credit cost: 0.75% (1: 0.55%). RoA 1.1%. Recovery (NPA+TWO): 120bn (1H: 57bn), Slippage: 90-100bn (1H: 53bn). TWO recovery normalized run-rate: Rs 8bn per quarter.

What we like: While NIM (3.1%) declined -8bps due to c.-5bp impact from penal charges FY25 margin guidance maintained as (i) deposit repricing largely behind, (ii) focus on profitability intact which led to reduction in growth guidance and bank will pass on price increases if deposit costs go up, (iii) expectation of moderation in deposit cost by Q4 due to benign system liquidity and possibility of rate cut. Other income (2x qoq) led by higher TWO recovery (25bn vs 5.5bn qoq) on resolution in large NCLT account and higher trading gains (80% qoq). Headline asset quality stable: GNPA/NNPA declined -38bp/-9bp qoq. Higher credit costs (65bps vs 47bps in 1Q) due to increase in prudent provisions on std assets (Rs 3bn), NPA assets and creation of Rs 2.3bn floating provisions.

What we don't like: Given muted ytd deposit growth (4.3% qoq, 2.8% ytd), the bank lowered FY25 guidance to 9-11% vs 10-12% earlier. Domestic loan growth (6.5%qoq) was led by low yielding corporate (9.4% qoq) and corporate book will now continue to grow post the strategy to reduce finely priced book in last several qtrs. Advances growth guidance also lowered to 11-13% vs 12-14% earlier. Reduction in guidances was led by (i) focus on profitable growth given challenges to mobilize profitable retail deposits, (ii) peaking C-D ratio, (iii) moderation in overseas book due to repricing pressure due to cooling-off of global rates.

Fee income declined -31% yoy due to promotional campaigns leading to processing fee waivers in retail segment. This is partly offset by higher cash management fees in corporate and MSME.

PL GNPA increased to 3.16% (+62bp qoq) and hence the bank stopped digital small ticket loans and branch based non-salary segment has been tightened. SMA 1,2 increase (0.47% vs 0.18% qoq) due to slippage of 2 state PSU accounts (33-34bn) due to technical delay.

Exhibit 77: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	1,12,11,709	99,79,948	12%	1,04,79,487	7%
Deposits	1,36,34,859	1,24,96,469	9%	1,30,69,941	4%
NII	**1,16,221**	**1,08,307**	**7%**	**1,16,001**	**0%**
Total Net Income	1,68,035	1,50,019	12%	1,40,873	19%
PPOP	**94,770**	**80,197**	**18%**	**71,613**	**32%**
PBT	71,413	58,592	22%	61,506	16%
PAT	**52,379**	**42,529**	**23%**	**44,582**	**17%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
Domestic CASA Ratio	39.8%	39.9%	-4	40.6%	-78
CD Ratio	82.2%	79.9%	237	80.2%	205
NIM (reported)	3.10%	3.1%	3	3.18%	-8
Cost to Income	43.6%	46.5%	-294	49.2%	-556
Credit costs	0.6%	0.93%	-29	0.48%	16
GNPA (%)	2.5%	3.3%	-82	2.9%	-38
NNPA (%)	0.6%	0.8%	-16	0.7%	-9
PCR (%)	76.3%	77.6%	-133	76.6%	-27
CAR (%)	16.3%	15.3%	96	16.8%	-56

Source: Company, Systematix Institutional Research

Exhibit 78: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.9%**	**2.9%**	**3.0%**	**2.9%**	**2.9%**
Total income	4.0%	3.6%	4.1%	3.6%	4.2%
PPOP	2.1%	1.8%	2.1%	1.8%	2.4%
PBT	1.6%	1.7%	1.7%	1.6%	1.8%
PAT (RoAA)	**1.1%**	**1.2%**	**1.3%**	**1.1%**	**1.3%**
ROE	**16.3%**	**16.8%**	**17.5%**	**15.3%**	**17.0%**

Source: Company, Systematix Institutional Research

PNB (NOT RATED): GNPA, credit cost guidance revised further downwards

Guidance: FY25 Loan growth 11-12% (1H: 13%). Deposit growth 9-10% (1H: 11.3%), NIM 2.9-3% (1H: 2.99%), reported credit cost (revised) 0.25-3% (1H: 0.2%). Gross Slippage ratio <1% (1H: 0.71%). FY25 recovery Rs 180bn (1H: Rs 81bn). FY25 RoA (revised)of 0.9-1%, 1% by exit FY25 (1H: 0.92%). GNPA (revised) 3.5-3.75% (Sep'24: 4.48%), NNPA <0.5% (Sep'24: 0.46%).

What we like: Asset Quality continued to improve as GNPA /NNPA decline to 4.5% / 0.5% (-50bps / -14 bps qoq) and GNPA declined across segments. Slippage in unsecured personal loans similar to that in last quarter.

Further, FY25 guidance was revised for (i) credit costs to be 0.25-3% vs < 0.5% earlier (1H: 0.2%); 2nd consecutive quarter of guidance revision. The bank also made floating provision of Rs 3.5bn (3bps of net advances) in 2Q. (ii) GNPA (revised) 3.5-3.75% vs <4% earlier (Sep'24: 4.48%); (iii) FY25 RoA guidance revised to 0.9-1% vs 0.8% given earlier.

Given that the GNPA in new underwriting (last 4 yrs) is much lower at < 0.3% (vs o/s 0.6%) and the bank has a high PCR of 96%, the bank does not see much impact due to ECL transition.

Other income increased by 27% qoq, 51% yoy mainly led by higher TWO recovery (Rs 14bn vs 8.7bn in 1Q) led by resolution in large pvt sector corporate account and higher treasury gains (2.4x qoq, 6x yoy) due to revaluation gains.

What we don't like: NIM (2.92%) declined -15bps mainly due to funding yield decline of -11bps qoq and increase in borrowings by 44%qoq. That said, the bank maintained its FY25 NIM guidance of 2.9-3% as deposit re-pricing is behind and C-D ratio remains low at 72.82% (-23bps qoq). Opex/assets increased to 2% vs 1.9% qoq mainly led by higher employee costs (+26.4% qoq, +40% yoy) due to higher AS-15 provisions led by decline in benchmark yields. However, as per management, it is unlikely to increase materially going forward due to hardening of interest rates. Gross slippage increased to 0.89% vs 0.76% in 1Q due to slippage of Rs 4.34bn (19% of total slippage) in a large corporate PSU telecom account. Total recovery was Rs 48.9bn / 81.4bn in 2Q/1H, run-rate is tracking slightly lower vs FY25 guidance of Rs 180bn.

Exhibit 79: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	1,01,95,952	88,99,199	15%	98,39,976	4%
Deposits	1,45,83,418	1,30,99,098	11%	1,40,82,471	4%
NII	1,05,167	99,229	6%	1,04,763	0%
Operating income	1,50,888	1,29,512	17%	1,40,858	7%
PPOP	68,533	62,164	10%	65,812	4%
PBT	65,653	27,723	137%	52,688	25%
PAT	43,035	17,561	145%	32,515	32%
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	38.18%	41.09%	(292)	38.99%	(81)
CD Ratio	69.91%	67.94%	198	69.87%	4
NIM (reported)	2.92%	3.11%	(19)	3.07%	(15)
Cost to Income	54.58%	52.00%	258	53.28%	130
Credit costs	0.08%	1.38%	(130)	0.33%	(25)
GNPA (%)	4.48%	6.96%	(248)	4.98%	(50)
NNPA (%)	0.46%	1.47%	(101)	0.60%	(14)
PCR (%)	95.90%	91.91%	399	95.90%	-
CAR	16.36%	15.09%	127	15.79%	57

Source: Company, Systematix Institutional Research

Exhibit 80: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	2.7%	2.7%	2.7%	2.6%	2.6%
Total income	3.5%	3.4%	3.8%	3.6%	3.7%
PPOP	1.7%	1.7%	1.7%	1.7%	1.7%
PBT	0.7%	1.0%	1.3%	1.3%	1.6%
PAT (RoAA)	0.5%	0.6%	0.8%	0.8%	1.0%
ROE	6.9%	8.5%	11.4%	11.9%	14.7%

Source: Company, Systematix Institutional Research

Canara Bank (NOT RATED): Relatively better margin performance as compared to peers

Guidance: FY25 Loan growth 10% on conservative stance (2Q: 9.53% yoy), 3Q loan growth: 3.5-4% qoq. 2H: corporate growth 9-10% yoy (2Q: 7% yoy), RAM: 12% yoy (2Q: 12% yoy). MSME growth 9-10% (2Q: 6% yoy). Retail growth 13-14% qoq (2Q: 11% qoq). Deposits growth 9% (2Q: 9.34% yoy). Yield on Investments around current levels (2Q: 6.95%). TWO recovery 40-50bn. Credit cost <1% (2Q: 0.97%). RoA: 1%(2Q: 1.05%)

What we like: Other personal loans increased 100% ytd due to change in strategy last quarter to focus on higher yielding non-agri gold loans (47% qoq, o/s: Rs 280bn) in metro cities and reduce focus on agri gold loans. The bank has digitized the entire process end-to-end which has helped reduce the TAT to 10-15 mins.

Reported NIM declined to 2.88% (-2bps qoq) lower vs 7-10bps reduction for peers and is largely in-line with FY25 guidance of 2.9%. This was led by (i) higher YoA (+11 bps) as corporate loan yields increased by +136bps as the bank has been shedding low yielding corporate loans; (ii) CoD remained stable qoq vs management's guidance of deposit costs increasing for 2 more quarters.

Going forward, treasury income to be supported by 5% HTM sale post softening of yields.

Headline asset quality stable qoq: GNPA decreased to 3.7% (-41bp qoq) and NNPA decreased to 1% (-25bp qoq) and is now lower vs FY25 guidance of 1.1%. Credit cost increased by +7bps qoq due to additional provision of Rs 5bn on existing NPA accounts in order to strengthen PCR (90.7%, 167bp qoq). Recoveries will continue to be higher than slippages.

What we don't like: Deposit growth (0.9% qoq, 2.7% ytd) was muted. Total SMA (% gross advances) increased to 1.48% vs 1.13% in 1Q due to slippage in a state govt account (Rs 30bn) in 2Q which has been subsequently upgraded to SMA-1 as on date. This was in addition, central govt steel account which had slipped in 1Q. These 2 accounts 60% of SMA-2. HL GNPA increased +22bps qoq due to recognition of jointly linked accounts as NPAs on slippage in any one of the accounts.

Exhibit 81: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	94,63,531	85,51,423	10.7%	93,16,128	1.6%
Deposits	1,33,51,669	1,19,24,699	12.0%	1,31,23,666	1.7%
NII	**93,152**	**89,030**	**4.6%**	**91,663**	**1.6%**
Operating income	1,42,962	1,35,375	5.6%	1,44,852	-1.3%
PPOP	**76,538**	**76,156**	**0.5%**	**76,161**	**0.5%**
PBT	54,025	50,076	7.9%	53,338	1.3%
PAT	**40,145**	**36,061**	**11.3%**	**39,053**	**2.8%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	28.7%	29.8%	-109 bp	28.6%	18 bp
CD Ratio	73.0%	72.4%	62 bp	70.9%	216 bp
NIM (reported)	2.9%	3.0%	-14 bp	2.9%	-2 bp
Cost to Income	46.5%	43.7%	272 bp	47.4%	-96 bp
Credit costs	1.1%	1.0%	6 bp	0.9%	15 bp
GNPA (%)	3.7%	4.8%	-103 bp	4.1%	-41 bp
NNPA (%)	1.0%	1.4%	-42 bp	1.2%	-25 bp
PCR (%)	90.9%	88.7%	216 bp	89.2%	167 bp
CAR	16.6%	16.2%	37 bp	16.4%	19 bp

Source: Company, Systematix Institutional Research

Exhibit 82: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.5%**	**2.6%**	**2.6%**	**2.4%**	**2.4%**
Total income	3.9%	3.8%	4.0%	3.8%	3.7%
PPOP	2.2%	1.9%	2.0%	2.0%	2.0%
PBT	1.4%	1.4%	1.3%	1.4%	1.4%
PAT (RoAA)	**1.0%**	**1.0%**	**1.0%**	**1.0%**	**1.0%**
ROE	**18.3%**	**17.7%**	**17.5%**	**17.4%**	**16.9%**

Source: Company, Systematix Institutional Research

Union Bank (NOT RATED): YTD business growth remains weak

Guidance: FY25 loan growth 11-13% (1H: 9.63%), deposit growth 9-11% (1H: 9.2%), CDR: 73-76% (2Q:74.8%). NIM 2.8-3% (1H: 2.97%), GNPA <4% (2Q: 4.36%), CIR: ~45%. Credit costs <1% (1H: 0.91%), slippages Rs115bn (1H: 75.3bn), gross recovery Rs160bn (1H: 73bn), tax rate 25-27% (FY24: 36%). Dummy ledger interest recovery: Rs31bn. Employee cost: Rs33-35bn per qtr. RoA >1%.

What we like: Other income increased by 18% qoq, 44% yoy supported by higher written off recovery (Rs 14bn in 2Q vs Rs 9.5bn in 1Q).

What we don't like: Muted business growth (1.6% qoq, 2% ytd) as (i) Weak domestic loan growth (1.8% qoq, 2.4% ytd) due to decline in wholesale advances (-0.4% qoq, +4% yoy) as the bank de-grew low yielding corporate advances linked to short term T-bills and reduced NBFC exposure; (ii) deposit growth was also weak at 1.5% qoq, 1.7% ytd due to decline in CASA (-3.4%ytd) and bulk TD (-2% ytd).

Reported NIM (2.9%) declined -15bp qoq mainly due to deposit cost increase (+19bps qoq) due to weak CASA growth, 11bps penal interest impact (2H will be 6bps impact) and lower dummy ledger recovery.
Core fee / assets declined to 0.73% vs 0.82% in 1QFY25.
Gross/Net slippage ratio increased to 2.4% /1.49% vs 1.08%/0.24% in 1Q due to 1-2 days delayed payments in a couple of state government accounts. Recovery run-rate 73bn in 1H was trending lower vs FY25 guidance of Rs 160bn. GNPA decreased to 4.4% (-18bps qoq) mainly led by higher write-offs (2x qoq). As a result, loan loss provisions (% avg net advances) increased to 1.13% vs 0.75% in 1Q due to slippage in a key central PSU account (Rs 16bn) which was SMA in previous quarter. However, total credit costs declined to 0.77% vs 1.26% in 1Q due to std. asset provision reversals as the PSU account was moved to NPA..

Exhibit 83: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	89,70,919	80,36,226	11.6%	87,86,929	2.1%
Deposits	1,24,19,470	1,13,76,281	9.2%	1,22,41,910	1.5%
NII	**90,363**	**91,261**	**-1.0%**	**94,121**	**-4.0%**
Operating income	1,43,643	1,28,212	12.0%	1,39,213	3.2%
PPOP	**81,018**	**72,208**	**12.2%**	**77,853**	**4.1%**
PBT	63,896	54,530	17.2%	50,295	27.0%
PAT	**47,087**	**35,114**	**34.1%**	**36,789**	**28.0%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	31.9%	34.1%	-222 bp	32.6%	-73 bp
CD Ratio	74.8%	74.5%	31 bp	74.5%	27 bp
NIM (reported)	2.9%	3.2%	-28 bp	3.1%	-15 bp
Cost to Income	43.6%	43.7%	-8 bp	44.1%	-48 bp
Credit costs	1.1%	0.9%	27 bp	0.8%	37 bp
GNPA (%)	4.4%	6.4%	-202 bp	4.5%	-18 bp
NNPA (%)	1.0%	1.3%	-32 bp	0.9%	8 bp
PCR (%)	78.4%	80.7%	-233 bp	80.9%	-255 bp
CAR	17.1%	16.7%	44 bp	17.0%	11 bp

Source: Company, Systematix Institutional Research

Exhibit 84: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.8%**	**2.8%**	**2.8%**	**2.7%**	**2.6%**
Total income	3.9%	3.9%	4.1%	4.0%	4.1%
PPOP	2.2%	2.2%	1.9%	2.2%	2.3%
PBT	1.7%	1.7%	1.5%	1.4%	1.8%
PAT (RoAA)	**1.1%**	**1.1%**	**1.0%**	**1.1%**	**1.3%**
ROE	**16.4%**	**15.7%**	**13.9%**	**14.8%**	**18.0%**

Source: Company, Systematix Institutional Research

Indian Bank (NOT RATED): Stable quarter on margins and asset quality.

Guidance: FY25 deposit growth 8-10%, credit growth 11-13%, FY25 recovery target between Rs 70-80bn (1H: 39.6bn) with quarterly recovery of 20bn , AUC recovery Rs 20bn (1H: 12bn), FY25 NIM: 3.4%-3.5% (+/- 10bps) (1H: 3.41), RoA: 1.2% (1H: 1.26%), ROE 19-20% (20.38%). CDR ~80%.

What we like: Other income increased by 27% qoq, 22% yoy mainly led by higher TWO recovery (Rs 7.32bn vs Rs 5bn in 1Q) and higher treasury gains (+27% qoq, +77% yoy).
Domestic CASA ratio was at 40.5% (stable qoq).

Reported NIM increased +1bps (ex penal interest impact of 8bps/2bps in 2Q/1Q). 1HFY25 NIM of 3.41 was at lower ended of FY25 guidance of NIM: 3.4%-3.5% (+/-10bps) (FY24: 3.47%).
The bank will encash the investment book due to higher holding yields vs G-sec (Yield on investment at 7.17% vs G-Sec 6.86-6.87).

What we don't like: Muted business growth ytd basis: (i) Gross Advances growth (2.2% qoq, 12% yoy, 3% YTD) was muted as corporate credit growth has remained flat qoq and ytd as the bank shed low yielding corporate book. High yielding unsecured personal loan declined -3.4% qoq, -7% ytd. (ii) weak deposit growth (1.7% qoq, flat ytd) due to weak CASA growth (-4% ytd). However, with 2H being seasonally strong the management maintained its stance of achieving full yr targets.
Opex/assets increased to 1.9% (+13bps qoq on low base) due to increase in increase in other overheads (+11% qoq, +13.5% yoy) and employee costs (+7.1% qoq, +13% yoy). 1HFY25 Employee cost run-rate of Rs. 47.7bn is tad higher than FY25 guidance of ~90bn (FY24: 92bn).
SMA-2 in corporate increased tp 1.05% vs 0.12% qoq due to slippage of a govt guaranteed account of Rs 22bn, it has however been upgraded to SMA – 1 as of Oct'24.

Exhibit 85: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	53,29,416	47,06,266	13%	52,08,470	2.3%
Deposits	69,31,155	64,08,030	8%	68,11,830	1.8%
NII	**61,942**	**57,402**	**8%**	**61,781**	**0.3%**
Total Net Income	**86,163**	**77,332**	**11%**	**80,836**	**6.6%**
PPOP	**47,285**	**43,027**	**10%**	**45,016**	**5.0%**
PBT	36,294	27,521	32%	32,432	11.9%
PAT	**27,064**	**19,878**	**36%**	**24,034**	**12.6%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	38.9%	40.1%	-125	39.0%	-17
CD Ratio	76.9%	73.4%	345	76.5%	43
NIM (reported)	3.39%	3.5%	-7	3.4%	-5
Cost to Income	45.1%	44.4%	76	44.3%	81
Credit costs (reported)	0.65%	0.8%	-14	0.71%	-6
GNPA (%)	3.5%	5.0%	-149	3.8%	-29
NNPA (%)	0.3%	0.6%	-33	0.4%	-12
PCR (%)	92.5%	88.5%	399	90.0%	243
CAR	16.6%	15.5%	102	16.5%	8

Source: Company, Systematix Institutional Research

Exhibit 86: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.2%**	**3.1%**	**3.1%**	**3.1%**	**3.1%**
Total income	4.3%	4.1%	4.3%	4.1%	4.3%
PPOP	2.4%	2.2%	2.2%	2.3%	2.4%
PBT	1.5%	1.5%	1.6%	1.6%	1.8%
PAT (RoAA)	**1.1%**	**1.1%**	**1.2%**	**1.2%**	**1.3%**
ROE	**15.7%**	**15.5%**	**15.5%**	**16.1%**	**17.3%**

Source: Company, Systematix Institutional Research

Bank of India (NOT RATED): Stress in corporate book impacts margins, profitability supported by other income.

Guidance: FY25 domestic advances growth 14%, Domestic deposit growth 13%, Global NIM 2.9%, YoA 8.5%+, NII growth 13% yoy, credit cost 0.7%, reported slippage 1.2%, RoA 0.8%. GNPA ~4%, NNPA ~0.9%, TWO recovery Rs 20bn.

What we like: Advances growth of 3.6% qoq (6.2% ytd) was led by higher yielding RAM credit growth of 5.6% qoq which was led by 6-10% qoq growth in higher yielding segments of Vehicle, education and personal loans while corporate credit declined -1.5% qoq
Other income was nearly 2x qoq due to higher recoveries led by resolutions in 7-8 large NPA accounts, higher treasury gains and penal charge benefit. The bank expects the current growth rates in other income to sustain in 3Q, 4Q led by higher recoveries.

What we don't like: NIM declined -25bps qoq due to due to repayment of Rs 190bn in a large corporate account which was low yielding, interest reversal from slippage in a large PSU telco, penal interest impact and reduction in overseas margin. Bank expects margins to improve from here on in Q3 and Q4 as bank expects credit growth to pick up on the back of pick-up in demand.
Credit costs increased by +12bp qoq due to (i) higher provision (Rs 2bn) on the MTNL account which has now been recognized as an NPA (ii) additional / prudent provisions on legacy unsecured NPAs in cash credit accounts (iii) ageing provisions.
SMA 1+ 2 has increased to 0.9% vs 0.3% in 1Q due to slippage in 4-5 State PSU accounts which were earlier in SMA -0 and have now slipped further. However, all these accounts are secured accounts backed by government guarantees and cashflows. Management believes that these accounts will not slip in the NPA category.
Opex/assets increased to 1.8% (+12bp qoq) as employee costs increased by 21% yoy due to higher AS-15 provisions.

Exhibit 87: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	60,00,063	51,90,885	15.6%	57,81,446	3.8%
Deposits	77,51,807	70,37,506	10.1%	76,43,965	1.4%
NII	**59,851**	**57,395**	**4%**	**62,758**	**-4.6%**
Operating Income	**85,028**	**74,275**	**14%**	**75,778**	**12.2%**
PPOP	**41,474**	**37,556**	**10%**	**36,773**	**12.8%**
PBT	**31,044**	**29,373**	**6%**	**23,841**	**30.2%**
PAT	**23,737**	**14,584**	**63%**	**17,027**	**39.4%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
Domestic CASA Ratio	41.0%	42.9%	-194 bp	42.4%	-147 bp
CD Ratio	80.2%	77.2%	305 bp	78.5%	170 bp
NIM (reported)	2.8%	3.1%	-26 bp	3.1%	-25 bp
Cost to Income	51.2%	49.4%	179 bp	51.5%	-25 bp
Credit costs	1.0%	0.5%	43 bp	0.9%	12 bp
GNPA (%)	4.4%	5.8%	-143 bp	4.6%	-21 bp
NNPA (%)	0.9%	1.5%	-60 bp	1.0%	-5 bp
PCR (%)	79.4%	74.8%	458 bp	79.4%	0 bp
CAR	16.6%	15.6%	103 bp	17.0%	-33 bp

Source: Company, Systematix Institutional Research

Exhibit 88: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**2.7%**	**2.5%**	**2.7%**	**2.7%**	**2.5%**
Total income	3.5%	3.1%	3.4%	3.3%	3.5%
PPOP	1.8%	1.4%	1.6%	1.6%	1.7%
PBT	1.4%	1.2%	0.8%	1.0%	1.3%
PAT (RoAA)	**0.7%**	**0.9%**	**0.6%**	**0.7%**	**1.0%**
ROE	**9.6%**	**11.7%**	**8.5%**	**9.9%**	**13.5%**

Source: Company, Systematix Institutional Research

Bank of Maharashtra (NOT RATED): Margin performance better vs peers

Guidance: FY25 advances growth 18-20% (1H: 6.7%), Deposit growth 12-15% (1H: 2%), NIM 3.75-3.9% (1H: 3.98%), RoA ~1.6% (1H: 1.73%), Slippage: 0.75%-1% (1H: 1.18%), recoveries Rs 15bn (vs Rs 20bn FY24, cash recovery + upgrades+ TWO recovery), credit costs <1%, Branch additions 200-220 vs 286 FY24 (o/s branches 2499).

What we like: Strong deposit growth (3.3% qoq, 2% ytd) led by CASA growth of 2% qoq supported by strong CA growth (12.3% qoq). Gross advances increased by 4% qoq, 18.8% yoy. (H1: 6.75% ytd, vs FY25 guidance of 18-20% growth), supported by strong growth in RAM (5.9% qoq) while corporate growth was muted at 1.2% qoq. Gold loans saw growth of 60% yoy on the back of co lending partnerships with gold loan NBFCs and the bank plans to build a sizable book on the back of this due to good pricing (5% NIM in some arrangements), zero risk weights and meet PSL targets.

While ytd growth trends were muted, the bank has maintained its business growth guidance of 16% yoy on the back of seasonally strong 2H, ramp of the 600 branches added in last 3 years and good sanction pipeline of Rs 390bn in 1H (of that Rs 300 bn is in corporate credit)

NIM remained largely stable at 3.98% (+1bps qoq) vs peers witnessing a decline. (H1: 3.98% vs FY25 guidance 3.75-3.9%) supported by improved mix which led to yield on advances increasing by +25bps qoq.

GNPA at 1.84% (-1bps qoq) and NNPA stable qoq at 0.2%. Further, credit costs declined by -2bps qoq to 1.12% (-22bps yoy). Credit costs as per IRAC norms < 0.40%. Credit costs remained above 1% due to higher ageing provisions.

In 2Q the bank conducted mega e-auction drives to resolve small 1000 accounts and recovered Rs 3bn through this (vs total recovery of Rs 4.75bn).

What we don't like: Other income declined by -11% qoq mainly due to lower recovery from written off assets (-46% qoq) as opposed to peer PSU banks witnessing strong other income increase due to healthy TWO recovery and treasury gains.

Exhibit 89: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	21,39,271	17,95,150	19.2%	20,55,731	4.1%
Deposits	27,62,891	23,92,981	15.5%	26,74,155	3.3%
NII	**28,068**	**24,320**	**15.4%**	**27,991**	**0.3%**
Operating Income	**35,986**	**30,996**	**16.1%**	**36,930**	**-2.6%**
PPOP	**22,020**	**19,204**	**14.7%**	**22,943**	**-4.0%**
PBT	13,799	9,356	47.5%	13,438	2.7%
PAT	**13,268**	**9,198**	**44.2%**	**12,935**	**2.6%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	49.3%	50.7%	-142	49.9%	-57
CD Ratio	78.7%	76.5%	220	78.2%	56
NIM (reported)	4.0%	3.9%	9	4.0%	1
Cost to Income	38.8%	38.0%	77	37.9%	93
Credit costs	1.1%	1.4%	-22	1.2%	-2
GNPA (%)	1.8%	2.2%	-35	1.9%	-1
NNPA (%)	0.2%	0.2%	-3	0.2%	0
PCR (%)	98.3%	98.4%	-9	98.4%	-5
CAR	17.3%	17.6%	-35	17.0%	22

Source: Company, Systematix Institutional Research

Exhibit 90: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.6%**	**3.6%**	**3.5%**	**3.7%**	**3.6%**
Total income	8.4%	8.5%	8.8%	8.8%	8.8%
PPOP	2.8%	2.9%	3.0%	3.0%	2.8%
PBT	1.4%	1.5%	1.7%	1.8%	1.8%
PAT (RoAA)	**1.3%**	**1.5%**	**1.7%**	**1.7%**	**1.7%**
ROE	**20.5%**	**21.9%**	**24.9%**	**25.3%**	**24.2%**

Source: Company, Systematix Institutional Research

J&K bank (NOT RATED): Profitability aided by higher other income and lower opex.

Guidance: FY25 Credit growth 15%, Deposit growth 12%, CASA Ratio 50%, NIM 3.75%-3.85%, ROA 1.25%-1.3%, ROE 17%-18%, GNPA 3.5%. CDR comfort zone 70-75%. FY25 NPA recovery: Rs 15.3bn (1H: 7.6bn). TWO recovery in 2H: Rs 3.5bn

What we like: 1HFY25 NIM of 3.88% is trending above guided range of 3.75-3.85% led by higher yields due to improved mix. Going forward, bank expects NIM to remain stable and maintained its FY25 guidance of 3.75-3.85% as (i) the bank expects CoD to have stabilized around current levels of 4.8%; (ii) retail loan growth will remain the key driver to sustain higher yields. On the back of that, the bank has consciously reduced lending to NBFCs; (iii) A potential reversal in interest rates will support both margins and CASA growth.
CIR declined to 54.6% (vs 62% in 1Q) due to lower employee costs (-5% qoq, -9% yoy) due to lower premium by 20-25% (Rs 1.2.-1.25bn impact) on staff annuities as it now purchased without RoC clause vs purchase with RoC clause earlier. Pension provisions are also expected to reduce going further due to retirement of 1200 employees in next 4 years (o/s 12,259).
Other income growth of 53% qoq was supported mainly by higher TWO recovery.
Credit costs continued to be negative and bank expects credit costs to remain benign for FY25 with ageing provision requirement to be Rs 1.27bn will be partly offset by higher recoveries and provision writebacks. Total SMA has reduced to 21% of std. adv vs 25% as of **FY24.**

What we don't like: Advances growth was flattish qoq due to muted growth in trade credit (flat qoq) and manufacturing (-22% qoq) on the back of restricted activity due to elections. While deposit growth was strong 4% qoq (on low base), 9% yoy, it was strong led by term deposit growth of 6% qoq. CASA ratio declined by -116bp qoq.

Exhibit 91: Quarterly performance

(INR, mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Advances	9,61,391	8,78,178	9.5%	9,54,498	0.7%
Deposits	13,79,183	12,65,897	8.9%	13,25,731	4.0%
NII	**14,359**	**13,338**	**7.7%**	**13,692**	**4.9%**
Operating Income	**2,961**	**1,903**	55.6%	**1,941**	52.5%
PPOP	17,320	15,241	13.6%	15,633	10.8%
PBT	9,450	9,897	-4.5%	9,687	-2.4%
PAT	**7,870**	**5,345**	**47.2%**	**5,947**	**32.3%**
Key Ratios (%)	**2QFY25**	**2QFY24**	**YoY (bps)**	**1QFY25**	**QoQ (bps)**
CASA Ratio	48.6%	50.6%	-201	49.8%	-116
CD Ratio	69.7%	69.4%	34	72.0%	-229
NIM (reported)	3.9%	4.1%	-17	3.9%	4
Cost to Income	54.6%	64.9%	-1037	62.0%	-740
Credit costs	-0.2%	0.0%	-12	-0.1%	-1
GNPA (%)	4.0%	5.3%	-131	3.9%	4
NNPA (%)	0.9%	1.0%	-19	0.8%	9
PCR (%)	79.2%	81.0%	-176	81.1%	-191
CAR	15.0%	14.5%	46	15.1%	-8

Source: Company, Systematix Institutional Research

Exhibit 92: DuPont analysis

Du Pont (% of average assets)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
NII	**3.7%**	**3.5%**	**3.4%**	**3.5%**	**3.6%**
Total income	4.3%	4.0%	4.0%	4.0%	4.3%
PPOP	1.5%	1.5%	1.8%	1.5%	2.0%
PBT	1.5%	1.5%	2.2%	1.6%	1.9%
PAT (RoAA)	**1.1%**	**1.1%**	**1.7%**	**1.1%**	**1.4%**
ROE	**14.6%**	**15.0%**	**21.2%**	**13.3%**	**16.9%**

Source: Company, Systematix Institutional Research

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