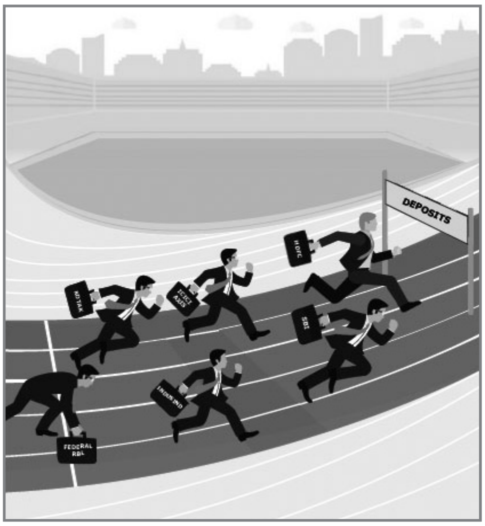
India - Banking

CASA-blanca - The Deposit Decathlon 4Q2023

Taking the fight to PSU banks' home turf



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CASAblanca - The Deposit Decathlon

With credit-deposit ratio at an all-time high, the long-term growth and profitability trajectory for the Indian banks will be underpinned by their success in deposit mobilisation. In this report, we deep-dive into banks' pin code level, district-level strategy and vintage analysis of branches. HDFC ranks #1 on our liability franchise scorecard, followed by SBI and ICICI. We also have a contrarian view on the credit growth exuberance and stress in MSME loans. Our re-pricing analysis shows NIM divergence ahead. We expect only marginal decline in cyclical high ROAs (expansion for Axis, IIB and RBL), with Private banks having cost levers to sustain it. Initiate with BUY on Axis, HDFC, IIB and Federal; ADD on ICICI, RBL and SBI; REDUCE on Kotak and BOB.

HDFC Bank to ace the 'Race for Deposits': Our deposit deep-dive shows HDFC should continue gaining deposit market share (MS), led by: (1) 2-5x branch addition vs peers in the districts witnessing strong deposit growth. (2) 3-10x branch addition vs peers in the 'high-potential districts'. (3) Limited competition in Su-Ru, as 45-50% of the pin-codes where HDFC is adding branches have no presence of ICICI/Axis. (4) Faster deposit compounding, as 60% of its existing branches (one of the highest) are <10 years old. Kotak is a laggard among the larger peers, with high branch concentration and matured branches driving deterioration in deposit quality and funding costs. HDFC ranks #1 on our liability franchise scorecard, followed by SBI and ICICI. Axis and IIB should progress well on their liability turnaround and execution.

Cyclical high ROAs to sustain: We expect mid-teens loan growth to sustain thanks to the confluence of favourable supply and demand-side factors, and as it becomes more broad-based. NIMs should expand for HDFC, IIB, Federal, RBL and BOB, but decline for ICICI, Kotak, SBI and Axis. We do not foresee any systemic asset quality risks on horizon, but we think the pockets of potential stress can emanate from unsecured, MSME and Agri loans. We build a modest increase in the credit costs (FY25-26 avg. of 75 bps) from the current decadal lows, but it should still be less than half of the past 15 years avg.

Prefer Private over Public banks: We expect Private banks to outperform PSU banks, on the back of: (1) Higher credit cost increase for PSU banks as the AQ environment normalises. (2) Potential capital raise by PSU banks, if the RBI raises risk weights and as the ECL norms kick in. (3) Continued MS gains by Private banks as they make in-roads into the Su-Ru India. We recommend investors to rotate from Kotak and ICICI into HDFC, Axis and IIB for superior risk-reward.

Figure 1: Initiate coverage on HDFCB, Axis, IIB and Federal with BUY; ICICI, SBI and RBL with ADD; Kotak and BOB with REDUCE

Company	M. Cap (Rs bn)	CMP (Rs)	Reco	Target	Upside/ (Downside)	P/B (x)			P/E (x)			RoA (%)			RoE (%)		
						FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
HDFCB IN	11,095	1,463	BUY	1,930	32	2.3	2.0	1.7	15	13	11	1.9	1.8	1.9	15.3	16.3	17.3
ICICIBC IN	6,365	909	ADD	1,070	18	2.5	2.1	1.7	15	14	12	2.3	2.0	2.0	18.2	16.7	16.4
AXSB IN	2,996	972	BUY	1,260	30	1.9	1.6	1.3	11	10	8	1.8	1.8	1.8	17.9	17.4	17.2
KMB IN	3,369	1,695	REDUCE	1,800	6	2.9	2.4	2.0	21	19	16	2.5	2.3	2.2	14.8	13.9	13.4
IIB IN	1,099	1,415	BUY	1,770	25	1.8	1.5	1.3	12	10	9	1.8	1.9	1.9	15.5	16.1	16.4
FB IN	335	138	BUY	170	23	1.2	1.0	0.9	9	8	7	1.3	1.2	1.2	14.7	13.7	13.5
RBK IN	130	216	ADD	240	11	0.9	0.8	0.7	11	8	6	1.0	1.1	1.3	8.5	10.2	12.6
SBIN IN	4,882	547	ADD	640	17	1.1	0.9	0.7	7	6	5	1.0	0.9	0.9	16.3	15.7	15.6
BOB IN	978	189	REDUCE	205	8	0.9	0.8	0.7	6	6	6	1.1	1.0	0.9	15.6	14.8	13.2

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Source: Company, Bloomberg, IIFL Research

Did you know?

- Slowdown in household savings and increase in allocation to physical assets is weighing on system deposit growth. HHs own 60% of the system deposits.
- Deposit gr. slowdown higher in semi-urban and rural vs urban and metro.
- Top 5 states (MH, DL, UP, KN and TN) constitute 53% of system deposits and house 37% of the total bank branches.
- Kotak has the highest branch & deposit concentration – Top 3 states constitute 62% of deposits; it has no branch in 90% of India's pin codes.
- Deposit growth in 'fast growing districts' (FGD) is 2-6x of that in 'medium and slow growth districts'.
- HDFC's branch addition in FGD is 2-5x of that for peers, and 3-11x in 'high potential districts' (HPD).
- Low LDR in FGD and HPD offers significant lending opportunity as well.
- HDFC has no competition from ICICI/ Axis in 50% of the pin codes where it opened branches in the last two years.
- RBL, IIB, Axis and HDFC have high share of 'developing' branches at 60-80% = higher deposit compounding ahead.
- Private banks have higher market share (MS) in transaction flows vis-à-vis their deposit MS.
- Total credit of US$2.5 trn is 77% of GDP and flat vs FY18. Growth rate still below the pre-2016 levels.
- For the first time in 15 years, no categories of lenders are impaired and there is limited capital market disintermediation.
- India's Private Non-financial sector's credit-to-GDP is 90% (down 23pp since GFC) vs 150-200% for other countries.
- New corporate loan sanctions at decade-high, but pending disbursements are just 1.4% of system loans.
- 160mn Indians with bureau records are credit underserved. Only 22% credit penetration among the adult population.
- Since Covid, share of unsecured loans for NBFCs is up 1-20pp to 5-35% of the total loans vs increase of only up to 4pp for banks to 10-25% of loans.
- 60% of 63 mn MSMEs have never availed formal credit; financing gap of US$250 bn vs current o/s of US$320 bn
- Peak savings account ROI offered by mid-size Private banks are now higher than larger banks' peak time-deposit rates.
- At 5.1%, banks' impaired loan ratio is the lowest in 15 years.
- Credit priced at 50-100 bps above G-Sec for prime corporates, but spreads still elevated for riskier corporates.
- Small-ticket personal loan delinquencies 5-9x of the big-ticket PLs, and is rising.
- Headline MSME NPA ratio of 11% exaggerates underlying stress; adjusted (ex. legacy stress) 90+ DPD is 4.4%.
- CET1 ratio of banks can be hit by 30-230 bps cumulatively, due to transition to the new ECL provisioning norms, and potential increase in risk-weights for personal loans and NBFC exposure.

Focus Charts

HDFC Bank to ace the 'Race for Deposits'. Other winners will be SBI among Public banks, and ICICI/Axis among Private banks; Kotak is a laggard among the larger Private banks

RACE FOR DEPOSITS

Which banks are better positioned?

IIFL SECURITIES

Presence in districts witnessing stronger deposit growth

- Analysis of 550+ districts
- Top districts with >10% deposit CAGR are classified as **'districts witnessing fast deposit growth'**

Presence in districts with high deposit accretion potential

- Analysis of 300+ districts
- Districts with high nominal GDP, but low deposit/GDP ratio are classified as **'potential districts'**

Overall branch penetration pin code-wise

- Analysis of 19,000+ Pin codes for banks' branches
- Competitive landscape in pin codes where branch additions are being done

Branch Vintage and region-wise productivity analysis

- Vintage analysis for individual banks' branches
- Region-wise vintage analysis
- Region-wise branch productivity analysis

Branches opened in 'fast growing districts' since FY19		Branches opened in 'potential districts' since FY19		Branches / Pin-code		Developing branches (age <10 yrs) as % of total bank branches	
HDFC BANK	1,112	HDFC BANK	651	SBI	1.9	RBL BANK	83%
AXIS BANK	547	SBI	248	Bank of Baroda	1.6	IndusInd Bank	78%
ICICI Bank	438	ICICI Bank	226	HDFC BANK	1.5	AXIS BANK	62%
IndusInd Bank	380	AXIS BANK	217	ICICI Bank	1.5	HDFC BANK	61%
SBI	290	IndusInd Bank	169	AXIS BANK	1.4	ICICI Bank	49%
kotak Kotak Mahindra Bank	210	kotak Kotak Mahindra Bank	58	IndusInd Bank	1.4	kotak Kotak Mahindra Bank	47%
RBL BANK	151	FEDERAL BANK	50	kotak Kotak Mahindra Bank	1.3	Bank of Baroda	34%

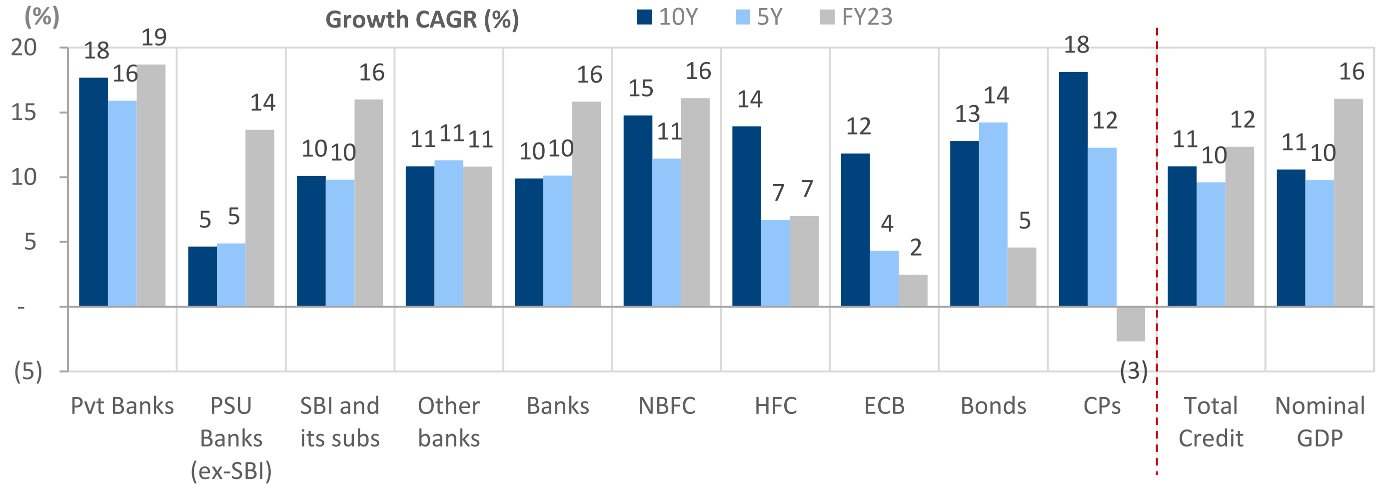
Source: IIFL Research

HDFC Bank ranks #1 in our liability franchise scorecard; ranking improving for Axis but falling for Kotak

On a scale of (1-9)	Weights	HDFC	ICICI	Kotak	Axis	IndusInd	SBI	BOB	Federal	RBL
Market share	20%									
Deposit market share	4%	8	6	4	5	3	9	7	2	1
change in last 3Y	4%	9	8	2	7	6	2	1	2	2
Branch market share	4%	7	6	3	5	4	9	8	2	1
change in last 3Y	4%	9	7	4	6	8	5	1	2	3
NEFT MS - Deposit MS	3%	9	8	6	7	4	1	2	3	5
RTGS MS - Deposit MS	3%	9	7	6	8	4	1	2	3	5
Key liability ratios	35%									
Liability mix - share of deposits	5%	4	8	9	1	3	7	5	6	2
CASA ratio	10%	6	7	9	8	4	5	3	1	1
Retail deposits (per LCR)	10%	7	5	4	3	2	8	6	9	1
Liquidity coverage ratio	5%	5	1	2	3	7	9	8	4	6
Cost of funds	5%	6	8	9	4	1	7	5	3	2
Productivity ratios	15%									
Deposit / Branch (Rsmn)	8%	9	7	8	5	2	6	1	4	3
CASA / Branch (Rsmn)	8%	9	7	8	6	3	5	2	1	4
Branch analysis	30%									
Fast-growing districts	10%	7	6	4	5	3	9	8	2	1
High-potential districts	10%	7	6	3	5	2	9	8	4	1
Vintage analysis	10%	6	5	4	7	8	2	3	1	9
Weighted average scale	100%	7.1	6.2	5.4	5.3	3.8	6.3	4.7	3.2	2.8
ranking		1	3	4	5	7	2	6	8	9

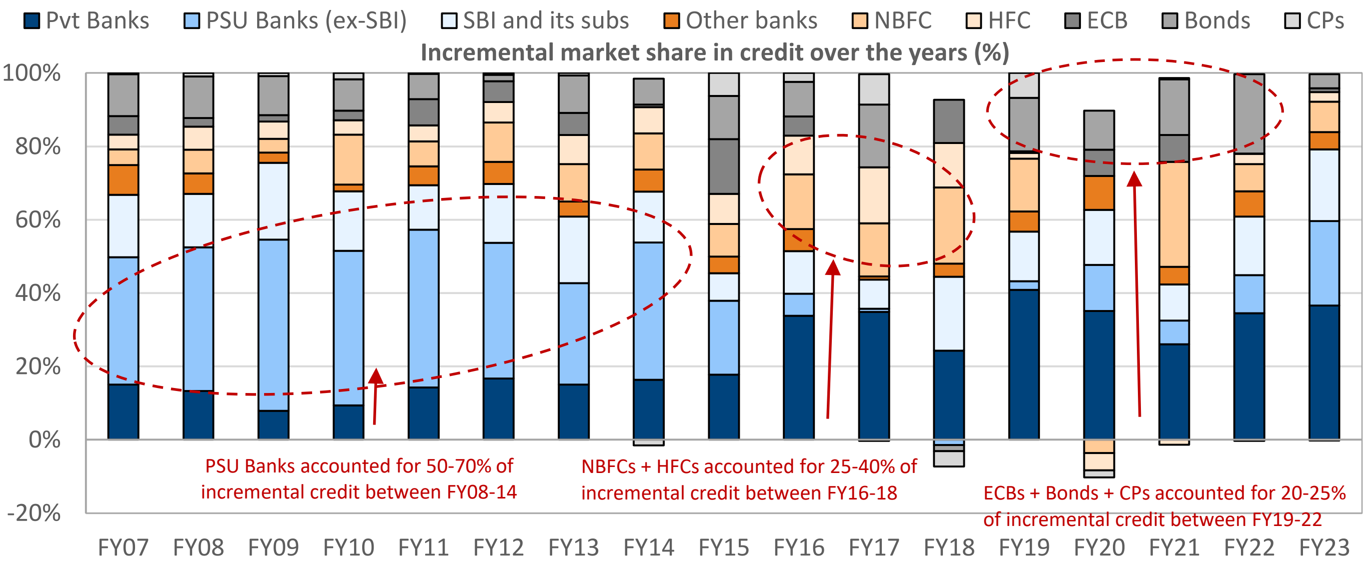
Source: Company, IIFL Research. Note: The ranking of each parameter is an ordinal ranking of 1-9 (9 being the best) on the 1QFY24 reported numbers. The rankings are not fractional rankings relative to each other.

Overall credit growth of 12% YoY in line with the historical run-rate and isn't exuberant (at 77% of GDP flat vs FY18)



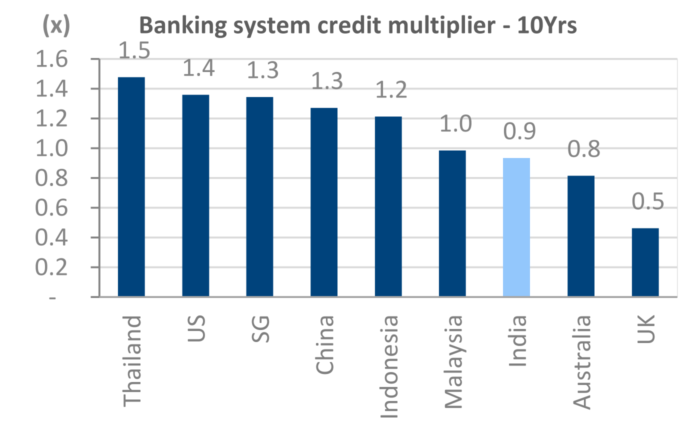
Source: RBI, CMIE, IIFL Research. Note: (1) NBFCs and HFCs credit is on gross basis; (2) 10Y CAGR for PSU Banks (ex-SBI) is a bit understated and that for SBI overstated on account of the merger of SBI with its associate in FY18.

With all the categories of lenders no longer impaired and the end of disintermediation from capital markets, formal lenders (i.e. banks and NBFCs/HFCs) gained incremental MS in FY23; and should continue to grow in mid-teens



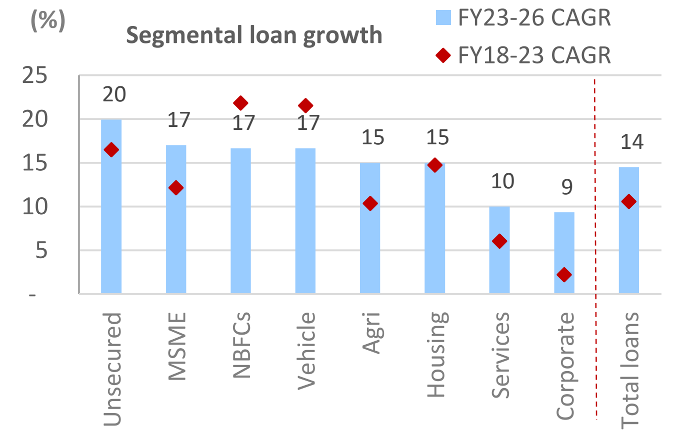
Source: RBI, CMIE, IIFL Research. Note: NBFCs and HFCs credit is net of their borrowings from the banks

India's average credit multiplier of 0.9x for the last decade is still lower than most other countries



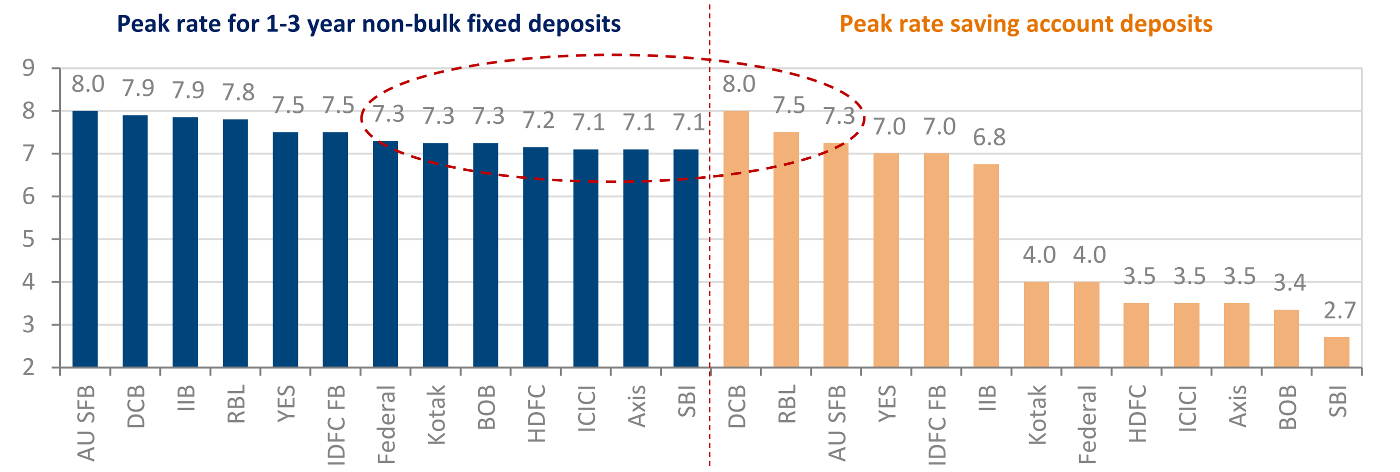
Source: RBI, BIS, IIFL Research

Corporate loan growth weak, but retail strong; expect growth to become more broad-based, going forward



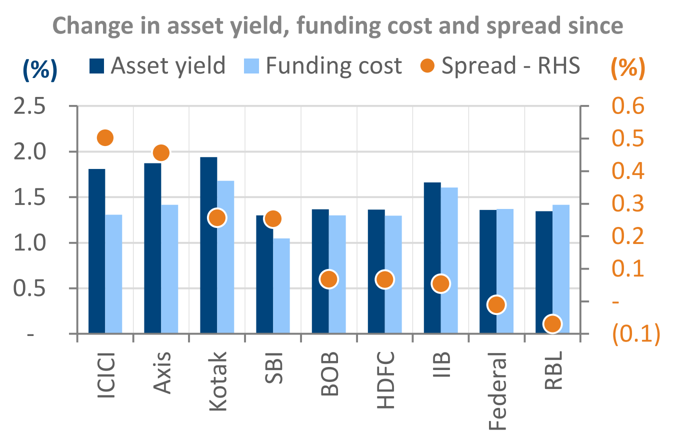
Source: RBI, IIFL Research. Note: Ex. the impact of HDFC merger

Signs of irrational deposit pricing – Savings account rate of interest offered by some mid-sized Private banks is now higher than larger banks' peak time deposit rates



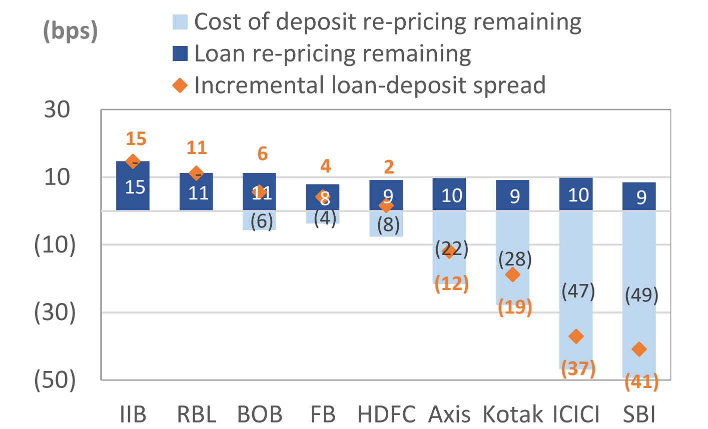
Source: Company, IIFL Research. Note: Interest rates as of 10th Oct, 2023

NIM trajectory so far - Interest spread 10-50 bps higher since 4QFY22; highest spread expansion for ICICI, Axis and Kotak, but lower for IIB, Federal and RBL



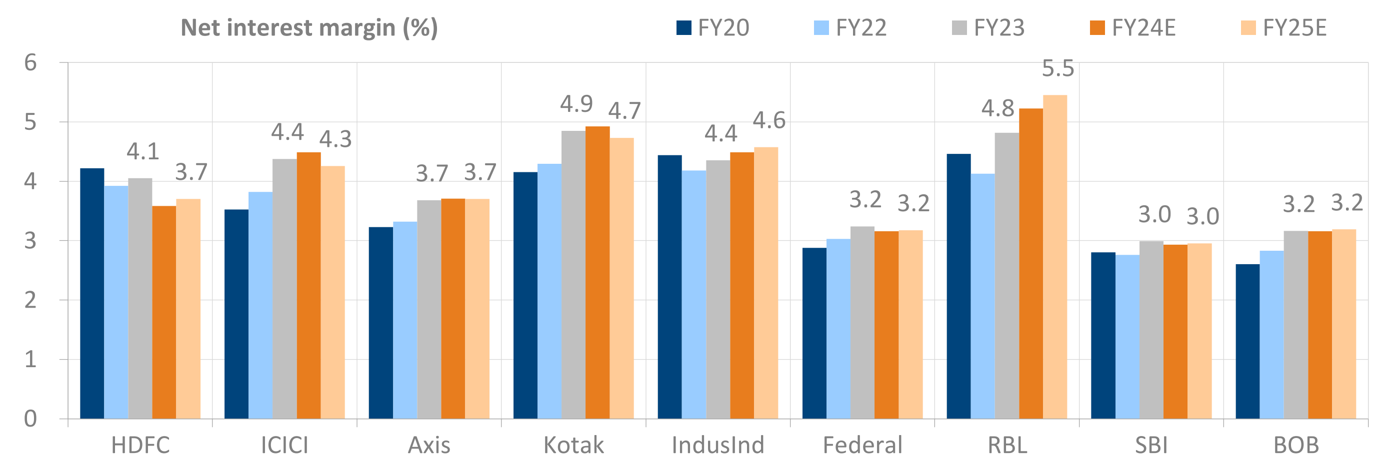
Source: Company, IIFL Research

Going forward - based on our re-pricing analysis, spreads are to decline the most for ICICI, SBI, Kotak; lower for Axis. But expect improvement for RBL, BoB, Federal and IIB



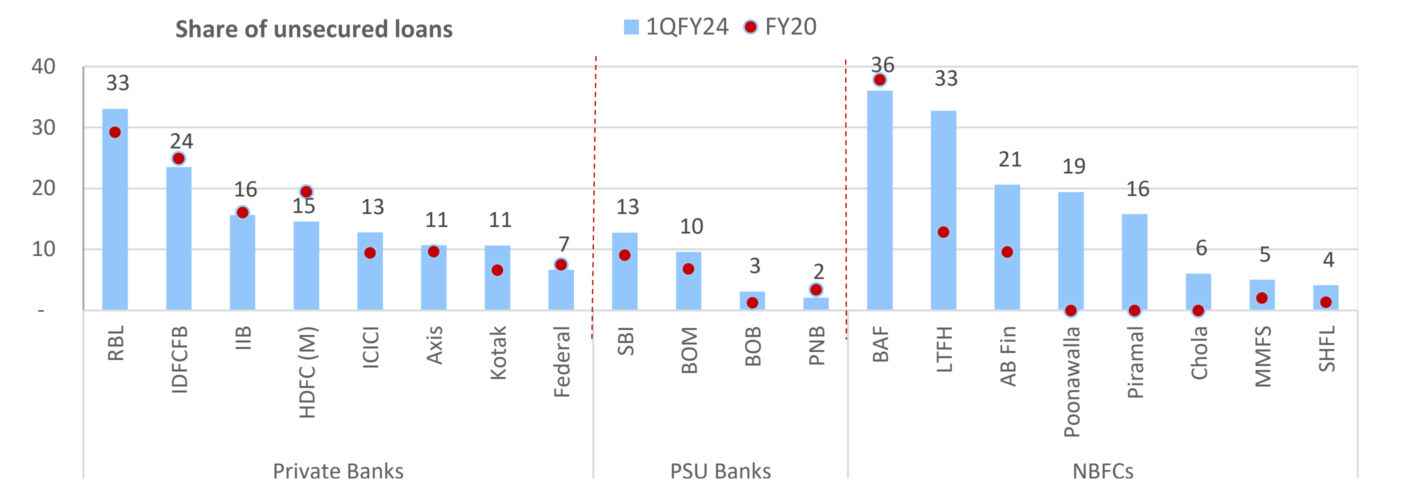
Source: Company, IIFL Research

Expect divergent margin outcomes – FY25 NIMs to be better than FY24 for HDFC, IIB, Federal and RBL. Also pertinent to note that our FY25 NIM estimates for the rest of the banks are also only marginally below FY23 levels i.e. NIMs would moderate, but remain close to the cyclical peak levels unless there are meaningful rate-cuts



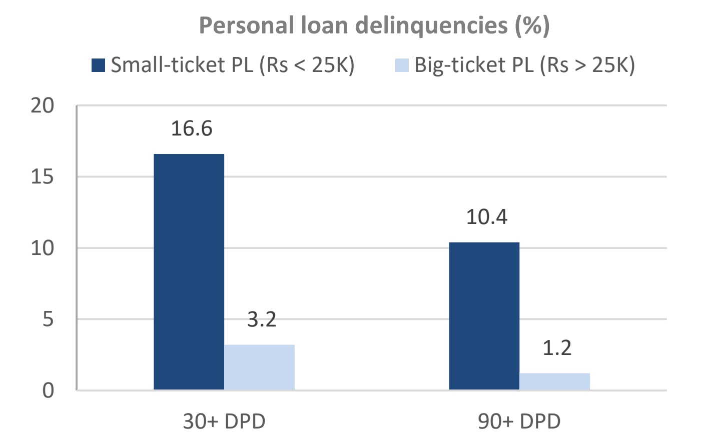
Source: Company, IIFL Research

Share of unsecured loans in banks' loan mix has been flat to up 4 pp to 10-25%, since FY20. However, the increase is much higher for NBFCs at 1-20 pp to 5-35% ; the highest increase is for LTFH, Poonawalla, Piramal and AB Cap



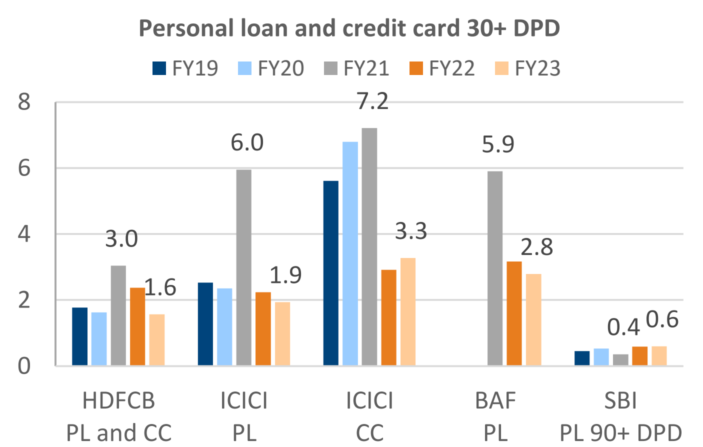
Source: Company, RBI, IIFL Research. Note: (1) Unsecured loans include consumer durable, personal loans, education, credit card, embedded finance and microfinance as of 1QFY24, (2) For NBFCs – it does not include unsecured business loans. If included the share of unsecured loans would further increase by 36% for Poonawalla, 17% for BAF, 10% for AB Finance and 5% for Piramal.

Small-ticket PLs have 5-9x delinquencies vs big-ticket loans; FinTechs & NBFCs sourcing through them, mainly impacted



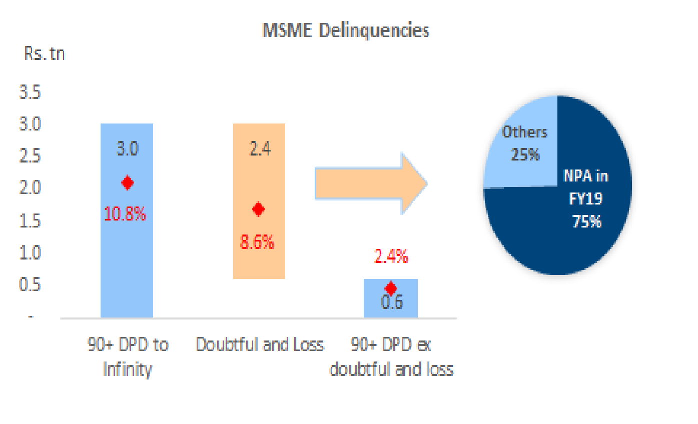
Source: TransUnion CIBIL, IIFL Research

Stress in unsecured loans lower and improving (below pre-Covid level) for larger Private banks, SBI and BAF



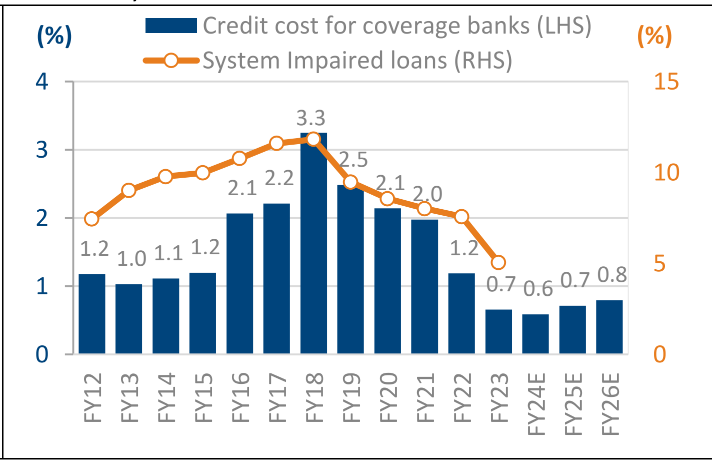
Source: Company, IIFL Research. Note: SBI not directly comparable

MSME loans - Headline NPA ratio of 11% exaggerates underlying stress; adjusted (ex. legacy stress) 90+ DPD is 4.4%



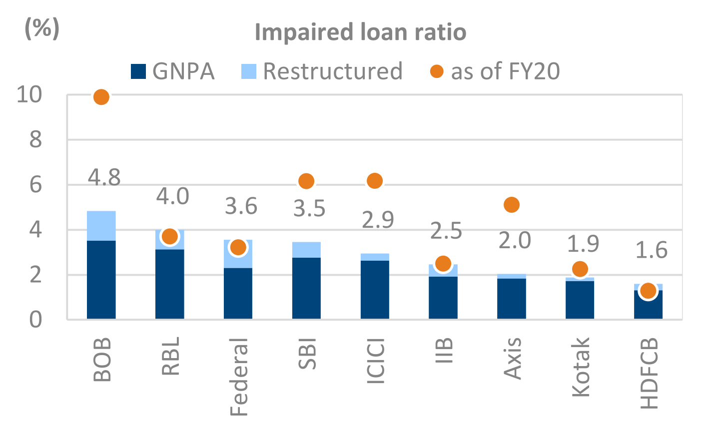
Source: TransUnion CIBIL, SIDBI, IIFL Research

System impaired loans at a 15yr low; expect modest rise in credit costs, but should still be less than half of the LTA



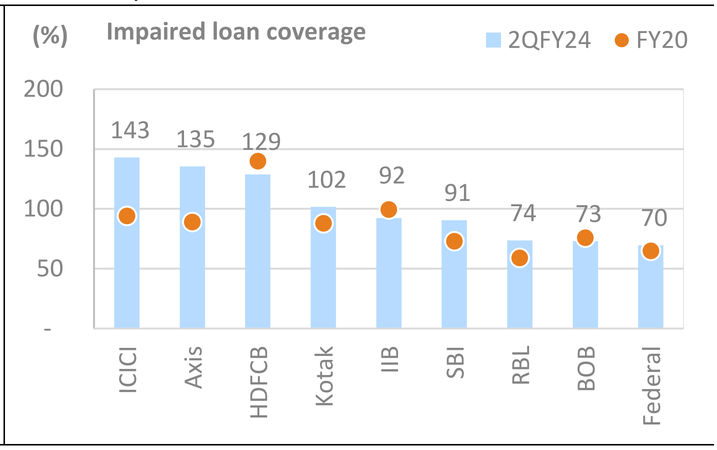
Source: Company, IIFL Research. Impaired loans = GNPA + restructured

Impaired loans lower vs pre-Covid for all banks, flat for RBL and Federal Bank



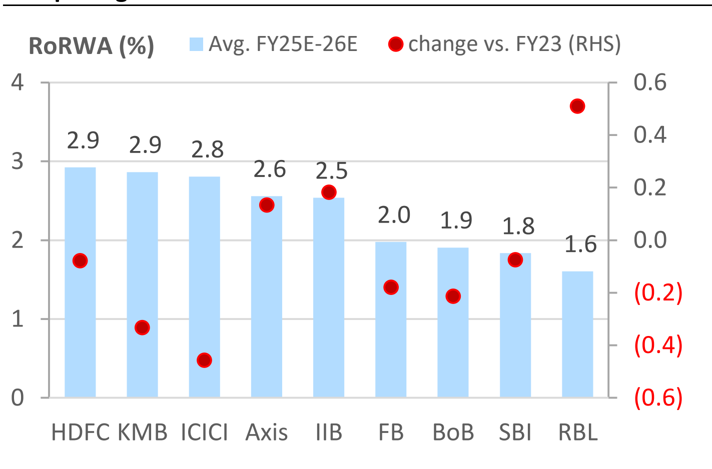
Source: Company, IIFL Research. Note: Impaired loan ratio = GNPA ratio + Restructured loan ratio. As of 1QFY24 for SBI and BOB

Larger Private banks have high coverage on impaired loans, but low for RBL, BOB and Federal



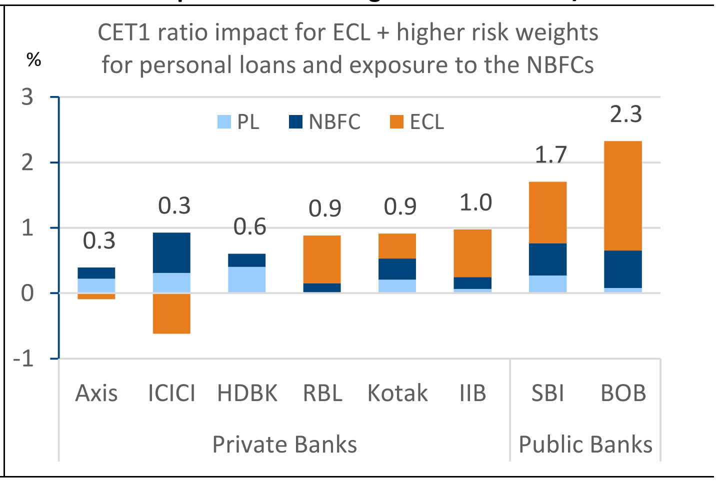
Source: Company, IIFL Research. Note: Impaired loan coverage = Total provisions / Impaired loans. As of 1QFY24 for SBI and BOB

Expect HDFC Bank to deliver best-in class RoRWA; risk-reward compelling in the context of below LTA valuations



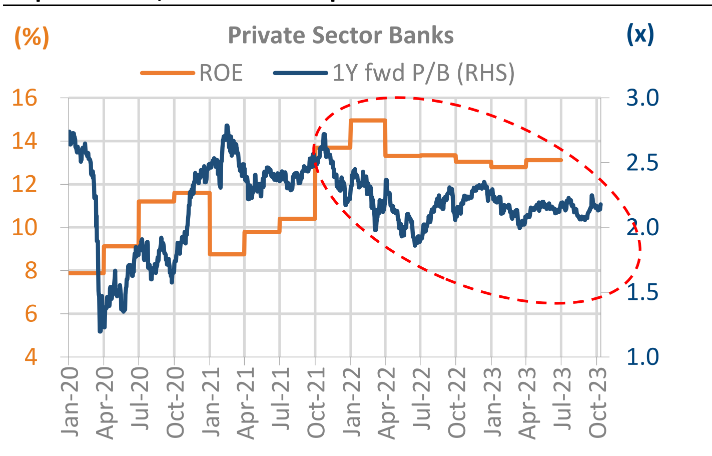
Source: Company, IIFL Research.

PSU banks may need to raise capital due to CET1 ratio hit from ECL norms and potential risk weight increase for PL/NBFC loans



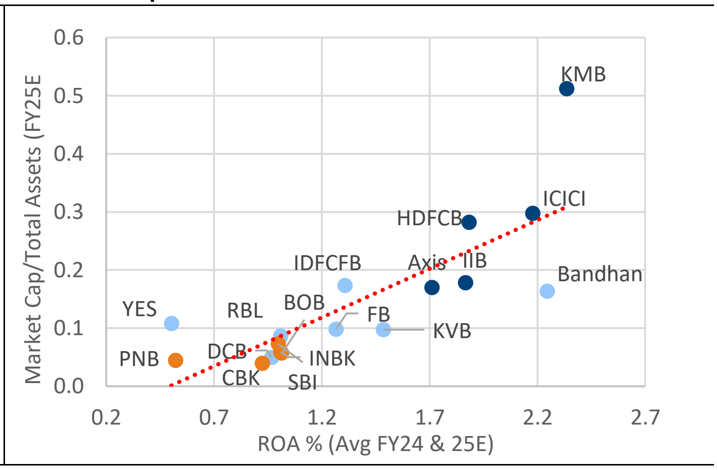
Source: Company, IIFL Research.

While PSU banks' valuations have moved in tandem with ROE improvement, this has decoupled for Private banks



Source: CMIE, Bloomberg, IIFL Research, Note: RoE for 4QFY23 has been adjusted for Citi goodwill write off by Axis bank

Public banks no longer cheap on P/Assets vs ROA framework; Kotak still expensive



Source: Company, IIFL Research.

Executive summary

HDFC Bank to ace the 'Race for Deposits'

Deposit deep-dive:

Banks' strategy in 19k+ Pin codes, 550+ districts and branch vintage analysed to identify the potential winners

With credit-deposit ratio at an all-time high, the long-term growth and profitability trajectory for banks will be underpinned by their success in deposit mobilisation. We have done a deep-dive to analyse factors weighing on deposit growth, and identify potential winners based on the individual banks' pin-code level, district-level strategy and vintage analysis of branches. Our liability franchise scorecard ranks covered banks on 15 comprehensive metrics.

Decline in HH financial savings and shift from deposits to physical assets weighing on deposit growth

Higher interest rates bode well for the ownership of financial assets (deposits)

We believe the weakness in household deposits (60% share), and the rural-semi-urban slowdown have weighed on the deposit growth. Incremental HH financial savings (5% of GDP) have fallen to a 50yr low; but it is mainly the shift in HH asset allocation from bank deposits to physical assets (homes, vehicles) that has dragged system deposit growth. With the share of physical savings in the overall household savings back to its previous FY12 peak, and the rise in interest rates making financial asset ownership more attractive vs physical assets, we expect household deposit growth to improve going forward.

HDFC to ace the 'Race for Deposits', followed by SBI, ICICI and Axis …

… Kotak a laggard

HDFC also ranks #1 on our liability franchise scorecard

Axis and IIB should progress well on liability turnaround

We expect HDFC Bank to ace the 'Race for Deposits', followed by SBI, ICICI and Axis. HDFC has gained 15 pp incremental deposit market share in the last five years, and we build 21% deposit Cagr driven by: (1) 2-5x branch addition vs peers in districts witnessing strong deposit growth. (2) 3-10x branch addition vs peers in 'high potential districts'. (3) Limited competition in SURU, as 45-50% of the pin codes where HDFC has opened branches, have no presence of ICICI/Axis. (4) Faster deposit compounding, as 60% of existing branches (one of the highest) are <10 years old. Kotak is a laggard among the larger peers, with a very concentrated branch strategy (no branches in 88% of pin codes where SBI has a presence) and high share of matured branches. Further, HDFC ranks #1 on our liability franchise scorecard led by deposit/ branch MS gains, leadership in capturing customers' transaction flows, government's agency business and the best productivity despite high branch expansion. Axis and IIB should be able to progress well on their liability turnaround and execution.

Holistic assessment of system credit shows no signs of exuberance

System credit at US$2.5 trn

At 77% of GDP, it is flat vs FY18 levels

We estimate India's system credit at US$2.5 trn, which includes banks, NBFCs, HFCs, ECB, corporate bonds and CPs. Our assessment shows no signs of exuberance, on the basis of: (1) Overall credit growth at 12% YoY (vs banking system loan growth of 16%) is still below the pre-2016 run-rate; is 77% of GDP and flat vs FY18 levels. (2) Banking system credit-multiplier of 1.0x is below the 25yr avg. of 1.3x and vs 1.2-1.5x for other countries.

Confluence of supply and demand side factors to drive mid-teens growth

Expect growth to become more broad-based

We believe the stars are aligned for credit growth to accelerate to mid-teens, thanks to the confluence of favourable supply-side (improving data availability, best-ever asset quality and bank capitalisation, end of capital market disintermediation) and demand-side factors (rising consumption led loan demand and shift from unorganised to formal financing). While banks' corporate loan growth has been weak and retail strong, we expect it to become more broad-based, thanks to: (1) Pick-up in corporate demand (but unlikely to be robust). (2) Sufficient growth headroom for retail loans, given the under-penetration in various segments. (3) Improving data availability and rising new-to-credit MSMEs presenting a secular growth opportunity.

No signs of deposit competition ebbing; expect divergent margin outcomes

Deposit competition has aggravated

Tight system liquidity and sluggish interbank market have pushed overnight call rates above the policy rate. Aggravated deposit competition is reflected in: (1) Select mid-sized Private banks' peak savings ROI now higher than larger banks' peak time deposit (TD) rates. (2) Banks augmenting funds by raising funds via short-duration certificate of deposits (CDs), despite being costlier than the TD rates.

Expect NIM divergence

Expansion: HDFC, IIB, RBL, BOB and FB

Contraction: ICICI, Kotak, SBI (higher) and Axis (lower)

Despite compression in the last two quarters, NIMs are still 10-70 bps above the 4QFY22 levels. Increase in unsecured loan mix has aided loan yields by 5-50 bps, out of the total 125-230 loan-yield expansion in this cycle. However, further increase on residual MCLR and fixed book re-pricing should be limited (10-15 bps). Our deposit re-pricing analysis based on the latest deposit rack rates shows cost of deposit to increase further by 5-50 bps. We expect divergent near-term margin outcomes – expansion for HDFC, IIB, Federal Bank, RBL and BOB; higher contraction for ICICI, Kotak and SBI; and lower for Axis.

Asset-quality outlook benign; delving into the pockets of potential stress

System impaired loans and credit cost at a 15yr low

Expect credit costs to inch up, but should still be <50% of the LTA

At 5.1%, system impaired loans are at the lowest level since FY09, and provision coverage has been beefed up with the larger banks still carrying 10-120 bps of buffer provisions. We expect a modest increase in credit costs (FY25-26 avg. of 75 bps) from the current decadal lows, but it should still be less than half of the past 15yr avg.

Pockets of potential stress

Unsecured loans – FinTechs, lenders relying on them for origination and 2nd tier Public banks

MSME loans – Public banks

Agri loans – Public banks

We do not foresee any systemic asset-quality risks on the horizon, but are of the view that pockets of potential stress can emanate from: **(1)** Unsecured loans – mainly in small-ticket personal loans (PL), where delinquencies are 5-9x of the big-ticket PLs and roll-backs lower. FinTechs, lenders who rely on them for sourcing, and second-tier of PSU banks to be mainly impacted. Early bucket delinquencies for HDFC, ICICI, BAF and SBI very low and below the pre-Covid levels. **(2)** MSME loans – Headline NPA ratio of 11% exaggerates the underlying stress (adjusted 90+ DPD of 4.4%). Vintage delinquencies high for PSU banks due to higher exposure to new-to-credit borrowers. **(3)** Agri loans - With pan-India monsoons 6% below LPA, and uneven distribution, it could lower agricultural output in FY24. Agri NPAs still high for Public banks at 7-18% vs. 3-5% for Private banks.

Prefer Private over Public banks

Decoupled fundamentals & valuations for Private banks

Expect Private banks to Outperform Public banks

In the last two years, while the valuations of Public banks have moved in tandem with their ROE improvement, the same have decoupled for Private banks. The latter underperformed due to confluence of narrowing ROE gap, cyclical vs structural drivers of profitability improvement, certain idiosyncratic factors and investor positioning. However, we expect Private banks to outperform PSU banks on the back of: (1) Higher credit cost increase for PSU banks as the environment normalises. (2) Potential capital raise by PSU banks if the RBI raises risk weights on personal and NBFC loans, and as the ECL provisioning norms kicks in. (3) Continued MS gains by Private banks as they make in-roads to the semi-urban and rural India.

Public banks no longer cheap on P/Asset vs ROA framework

Private banks are trading at 1.9x 1YF P/B (10% below LTA), and PSU banks are at 0.9x (in line with LTA). PSU banks are no longer cheap on P/Assets vs ROA framework. Initiate with **BUY** on Axis, HDFC, IIB and FB; **ADD** on ICICI, RBL and SBI; **REDUCE** on Kotak and BOB.

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Initiating coverage on banks – key stock calls

Axis Bank (BUY; TP: Rs1,260)

Significant turnaround in liability franchise; one of the best in class now

Expect highest PPOP ROA improvement vs. peers

Valuations below LTA for avg. ROA/ROE of 1.8%/18%

On the right axis; primed for re-rating. Axis Bank's 1.8% ROA is back to the heydays of FY11-16, but it belies the turnaround in franchise. The bank has made significant strides in improving the quality of loans, liabilities, NIM and fee income. Liability franchise has improved significantly, as reflected in: (i) Incremental CASA MS gain of 7% since FY19, led by micro-market-focused approach. (ii) Addition of new liability relationships at the same pace as HDFC. (iii) Increase in the share of retail deposits to 57% and decline in LCR run-off rates (one of the industry-best). We expect it to deliver the best PPOP ROA improvement vs peers, led by robust fee income gr. and operating-leverage benefit kicking in from 2HFY25 onwards. We expect core PPOP to grow at 19% Cagr, avg. ROA of 1.8% and ROE of 18%, and believe the narrowing of ROA gap vs peers should drive the re-rating.

HDFC Bank (BUY; TP: Rs1,930)

Expect HDFC to ace the 'Race for Deposits'

Ranks #1 on our liability franchise scorecard

Significant market share gain potential

Best-in class RoRWA at historical low valuations

The elephant shall dance again. Our deposit deep-dive shows that HDFC would ace the 'Race for Deposits', led by the bank's significant distribution expansion in the 'fast-growing districts', 'high-potential districts', room for MS gains in new geographies where competition from Private peers is absent and deposit compounding as the branches mature. HDFC ranks #1 on our liability franchise scorecard, thanks to the deposit/branch market share gains, leadership in capturing customers' transaction flows, government's agency business and the best productivity despite high branch expansion. We see a clear runway for the bank to gain loan/deposit MS over an extended period of time; led by expanding distribution network and cross-selling potential to its 90 mn+ customers. Historical low valuations are attractive in the context of its ability to deliver best-in-class RoRWA.

IndusInd Bank (BUY; TP: Rs1,770)

Potential to close the gap relative to larger peers

Only bank with ROA expansion over FY23-26E

Attractive valuations; potential MSCI inclusion

En route to the big boys' club. IIB has crafted a good turnaround in granulising liabilities, fee income and de-risking loan book, and has the potential to further close the gap relative to the larger peers. Under our coverage, IIB is the only bank that is expected to see ROA expansion, led by acceleration in loan growth, NIM expansion and lower credit cost — thanks to the late cycle recovery in key segments. With the stock trading at 1.6x FY25E P/B (~30% discount vs LTA) for 1.9% ROA and 16% ROEs, risk-reward is attractive. Potential MSCI inclusion is a near-term tactical catalyst.

Kotak Mahindra Bank (REDUCE; TP: Rs1,800)

Historical superior earnings drivers dissipating; franchise becoming homogenous vs peers

Kotak a laggard on our 'Race for Deposits' analysis; COF to cease to be the best

Valuations still expensive for declining ROAs

Dwindling fortunes. We believe Kotak's historically distinct and superior earnings drivers are dissipating; the franchise is becoming homogenous vs the larger peers, as reflected in the loan mix, share of unsecured loans, weakening liability franchise, and closing of credit cost gap vs peers. Based on our 'Race for Deposits' analysis, Kotak is a laggard among peers; we expect its COF to cease to be the best in class. NIM contraction and normalisation in credit cost should drive 20bps of ROA decline. While the stock has underperformed ~20% in the last one year, we find valuation of 2.5x core FY25E P/B and PEG ratio of 1.5 (vs 0.6-1.2x for peers) — still expensive in the context of lower ROAs and potential risk of senior management exits.

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ICICI Bank (ADD; TP: Rs1,070)

Running out of levers to sustain peak profitability

Profitability gap to narrow vs peers; better risk-reward elsewhere

From an ailing bank to sector bellwether. ICICI has staged an impressive turnaround in profitability, led by the highest NIM expansion among peers (thanks to the highest share of retail/SME loans, pursuing riskier but higher-yielding segments) and low credit costs. In the near term, we continue to see the bank delivering best-in-class return ratios, loan growth and stable asset-quality, which should help sustain the valuation premium. However, profitability gap should start to narrow over FY25-26E relative to HDFC (merger impact behind) and Axis (operating leverage from FY25E); resulting in a better risk-reward elsewhere.

Federal Bank (BUY; TP: Rs170)

Expect 1.2% ROA vs 10yr avg. of 0.9%

Inexpensive valuation; FedFina listing optionality

High growth and bottomed-out NIM. Federal Bank's profitability has improved, owing to the superior execution and macro tailwinds. Hereon, we expect FB to deliver 12% earnings Cagr over FY23-26, and 30bps higher ROA relative to the LT avg. This should be driven by further market share gains, improved efficiency and rising share of higher-yielding new products. As the bank continues to execute new businesses, we expect it to deliver an avg. ROA of 1.2% over FY24-26E vs the 10yr avg. of 0.9%. At 1.1x FY25E P/B, valuations are still inexpensive. FedFina listing can add around Rs8/share to SOTP.

State Bank of India (ADD; TP: Rs640)

Ranks #2 on our liability franchise scorecard

NIM pressure ahead

Expect ROAs to plateau at 1% and cap re-rating

Plateauing of ROAs to cap re-rating. SBI ranks 2nd on our liability franchise scorecard, thanks to its huge and mature distribution network that should keep it in a good stead amid the race for deposits. We build 14% loan growth, largely in line with the system. We expect NIMs to stay under pressure, due to limited scope for the MCLR-led yield increase and one of the highest residual funding cost hikes ahead. With sticky cost-efficiency ratios and normalisation in credit costs, we expect ROAs to peak at 1% in FY24E and see limited scope for re-rating.

Bank of Baroda (REDUCE; TP: Rs205)

RBI embargo and weaker liability franchise to weigh on growth prospects

RBI embargo to dampen profitability. BOB's good part of the last decade was marred by corporate NPA surge during the RBI's AQR, merger impact during FY19-20, and then Covid. However, FY23 was the best in terms of growth and profitability in the last decade. We expect stable margins from hereon, aided by higher share of MCLR book, lower liability re-pricing and faster retail/SME loan growth. We forecast lacklustre profit growth of 7% Cagr over FY24-26E and avg. RoA/RoE of 1%/15% respectively. The recent RBI embargo and relatively-weaker liability franchise (ranked #6 out of 9) should weigh on medium-term growth prospects and underpin our REDUCE rating.

RBL Bank (ADD; TP: Rs240)

Bank pivoting to multi-product retail franchise

Franchise investments to keep opex elevated and profitability subdued

All eyes on steadfast execution now. The new management is steering the bank to a multi-product retail franchise — granular and far-less volatile. Loan growth should be strong, aided by healthy momentum in cards, MFI, and the launch of new secured products. Liability franchise is the weakest (based on our scorecard ranking) and is a clear focus area for the bank to ensure business model sustainability. Early signs are encouraging, with improvement in retail deposits, CASA and falling deposit concentration. However, the investment in liability and distribution franchise should keep the opex elevated, even in the medium term. Valuations are also inexpensive at 0.8x FY25E P/B, but subdued return ratios (average RoA/ RoE of 1.2%/11% respectively over FY25-26E) keep us on the sidelines.

Figure 2: Banks sector valuation matrix

Company	CMP (Rs)	Market Cap (Rs bn)	P/B (x)			P/E (x)			RoA (%)			RoE (%)		
			FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
IIFL Covered														
HDFCB IN	1,463	11,095	2.3	2.0	1.7	15	13	11	1.9	1.8	1.9	15.3	16.3	17.3
ICICIBC IN	909	6,365	2.5	2.1	1.7	15	14	12	2.3	2.0	2.0	18.2	16.7	16.4
AXSB IN	972	2,996	1.9	1.6	1.3	11	10	8	1.8	1.8	1.8	17.9	17.4	17.2
KMB IN	1,695	3,369	2.9	2.4	2.0	21	19	16	2.5	2.3	2.2	14.8	13.9	13.4
IIB IN	1,415	1,099	1.8	1.5	1.3	12	10	9	1.8	1.9	1.9	15.5	16.1	16.4
FB IN	138	335	1.2	1.0	0.9	9	8	7	1.3	1.2	1.2	14.7	13.7	13.5
RBK IN	216	130	0.9	0.8	0.7	11	8	6	1.0	1.1	1.3	8.5	10.2	12.6
SBIN IN	547	4,882	1.1	0.9	0.7	7	6	5	1.0	0.9	0.9	16.3	15.7	15.6
BOB IN	189	978	0.9	0.8	0.7	6	6	6	1.1	1.0	0.9	15.6	14.8	13.2
Non Covered														
Private Banks														
CUBK IN	129	96	1.2	1.0	0.9	10	9	8	1.4	2.5	3.3	12.4	11.6	12.7
BANDHAN IN	212	342	1.5	1.3	1.1	10	8	6	2.2	2.3	2.3	17.0	18.0	17.9
CSBBANK IN	319	55	1.5	1.3	1.1	10	9	7	1.7	1.6	1.6	15.4	15.4	15.9
DCBB IN	113	35	0.7	0.7	0.6	7	6	4	0.9	1.0	1.0	11.6	12.5	13.5
IDFCFB IN	85	599	1.9	1.7	1.4	17	13	10	1.2	1.4	1.5	12.0	14.0	15.5
KVB IN	144	115	1.2	1.0	0.9	8	7	6	1.5	1.5	1.4	15.7	15.3	15.4
SIB IN	24	50	0.7	0.6		5	5		0.8	0.9		13.6	14.0	
YES IN	16	457	1.1	1.1	1.0	27	18	12	0.4	0.6		3.7	5.6	8.5
PSU Banks														
CBK IN	359	652	0.8	0.7	0.7	5	5	4	0.9	0.9	0.9	17.4	16.6	15.6
PNB IN	70	769	0.8	0.7	0.6	11	8	7	0.4	0.6	0.6	6.9	9.5	9.4
BOI IN	90	370	0.6	0.6	0.5	5	5	4	0.8	0.7		12.1	11.5	11.3
INBK IN	401	499	1.0	0.9	0.8	7	6	5	1.0	1.0	1.0	15.3	15.2	15.2
UNBK IN	95	702	0.8	0.7	0.6	5	5	5	0.9	1.0	0.9	15.5	15.4	14.2
SFB														
AUBANK IN	687	459	3.6	3.1	2.7	27	21	17	1.7	1.8	1.8	14.3	15.9	16.6
EQUITASB IN	94	105	1.8	1.6	1.3	13	10	8	2.0	2.0	2.1	14.7	16.4	18.4
UJJIVANS IN	53	104	2.1	1.7	1.4	9	8	7	3.2	2.9	2.5	25.8	22.8	21.0
SURYODAY IN	153	16	0.9	0.8		7	6		2.4	2.2		14.5	14.4	

Source: Bloomberg consensus for non-covered, Company, IIFL Research. Note: Price as of 26th Oct, 2023

HDFC Bank to ace the 'Race for Deposits'

Households behind the deposit growth slowdown; should improve from here

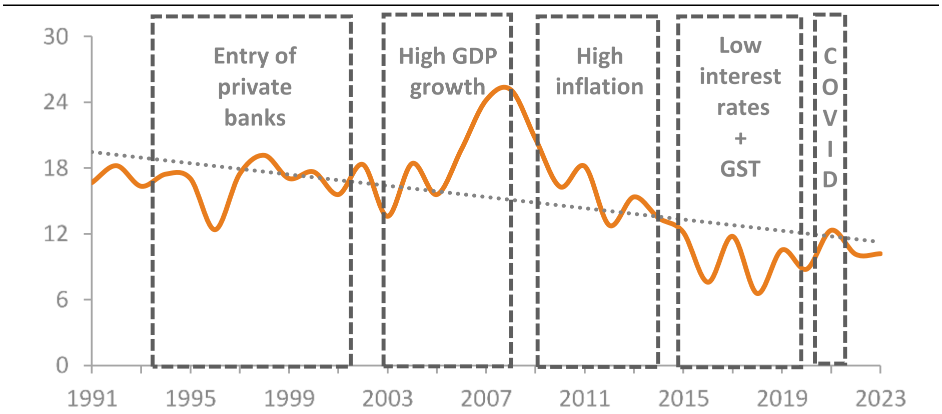
Banks' branch strategy in 19k+ Pin codes and 550+ districts analysed to identify potential winners

Comprehensive scorecard to assess the strength of banks' liability franchise

Slowdown in household (HH) savings growth and a shift in the HH asset allocation to physical assets have dragged the system deposit growth. But with higher rates making ownership of financial assets more attractive again, it should improve. Our bank-wise pin-code level, district-level and branch vintage analysis shows that HDFC Bank should ace the 'Race for Deposits', followed by SBI, ICICI and Axis. HDFCB's branch additions is 2-11x vs. peers in 'fast growing districts' and 'high potential districts', it has no competition from ICICI/Axis in ~50% of new pin codes entered, and has high share of younger branches (faster deposit compounding). On the other hand, Kotak is a laggard with a very concentrated strategy and high share of matured branches. We have developed a scorecard assessing banks' liability franchise strength on 15 metrics – HDFC ranks the highest, followed by SBI, ICICI, Kotak (falling) and Axis. Liability franchises of Axis and IIB are demonstrating a good turnaround, and should continue to improve.

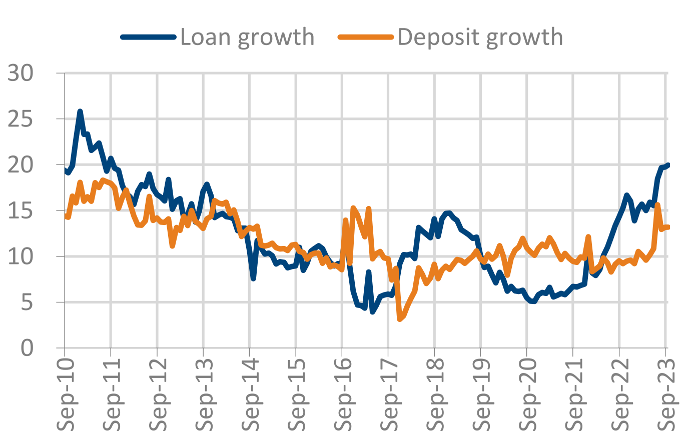
In this section, we discuss the factors weighing on deposit growth, the underlying deposit drivers and existing deposit/branch strategy of individual banks. But more interestingly, we are identifying the banks that could potentially gain deposit market share basis their **Pin code, district-level branch strategy** and **vintage analysis** of branches.

Figure 3: System deposit growth trending down over long term; current run-rate even lower than the trend



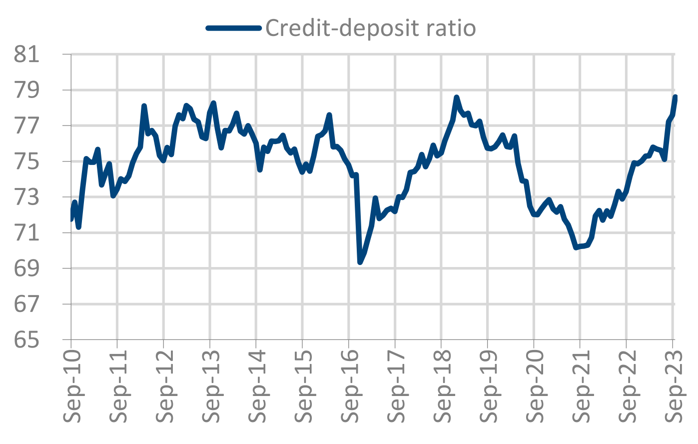
Source: RBI, IIFL Research

Figure 4: Rising wedge between credit & deposit growth...



Source: RBI, IIFL Research. Note: Excluding the impact of HDFC Ltd merger with HDFC Bank, loan growth is 15% and deposit gr. is 12%.

Figure 5: ... driving system credit-deposit ratio higher

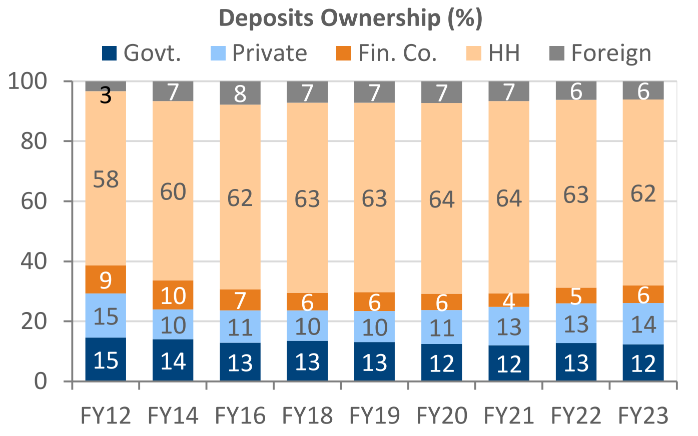


Source: RBI, IIFL Research. Note: Excluding the impact of HDFC Ltd merger with HDFC Bank, credit-deposit ratio is at 76%.

What is weighing on deposit growth?

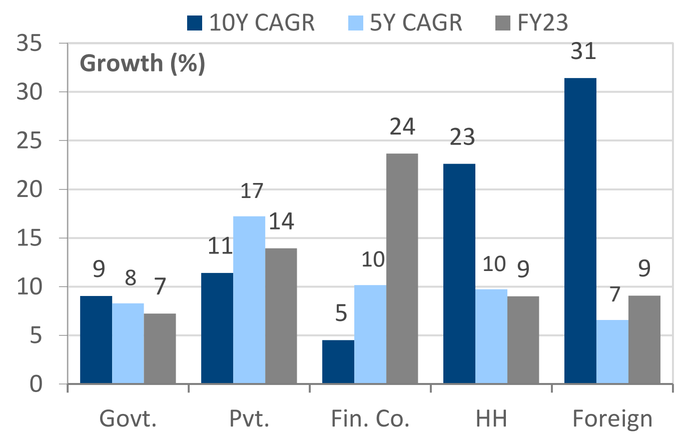
We slice-and-dice deposits to identify the underlying causes of sluggish deposit growth. From the ownership perspective, households constitute ~60 of total deposits (Fig. 6), and is thus the main driver of system deposits. Further, it is mainly the growth deceleration in this segment (9% in FY23 vs 23% 10yr Cagr), which has been a drag on the overall deposit growth. Government deposits (13% share) have also witnessed some slowdown, while the growth in deposits held by Private (14% share) and Financial corporates (6% share) has been stronger (Fig. 7).

Figure 6: Households own ~60% of system deposits …



Source: RBI, IIFL Research. Note: Govt. includes Public companies, Finance companies include banks, HFCs, NBFCs, MFs, etc.

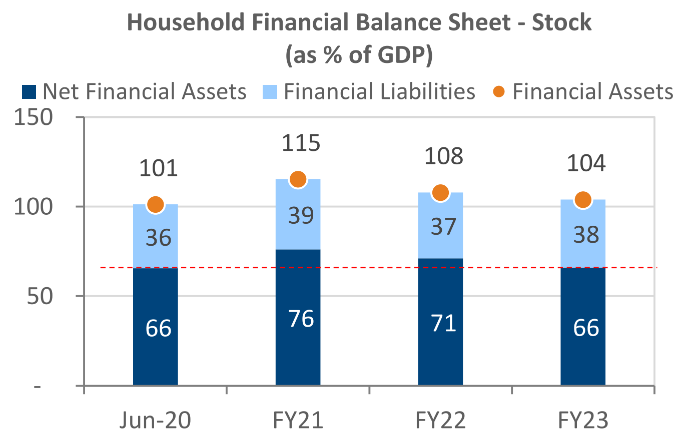
Figure 7: … and have been a drag on the overall deposit growth



Source: RBI, IIFL Research. Note: Govt. includes Public companies, Finance companies include banks, HFCs, NBFCs, MFs, etc.

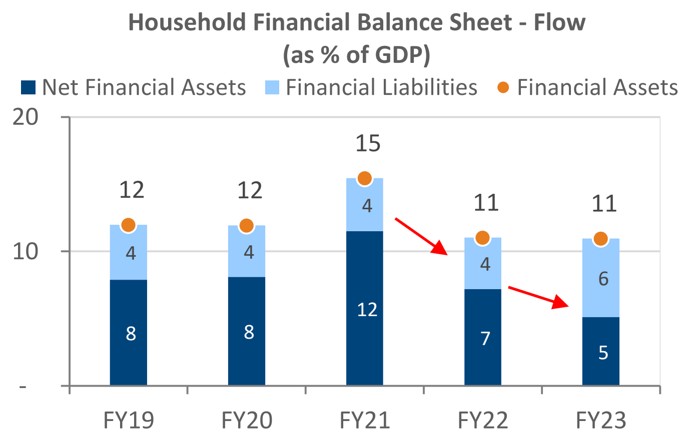
Household financial saving at 66% of GDP in FY23 has declined from the Covid peak, but is still at the same level as pre-Covid (Fig. 8). This is because incremental HH financial savings have been declining, and are at a five-decade low of 5% of GDP in FY23 (Fig. 9). In FY21, incremental HH financial savings rose to a record high of 12% of GDP, since the consumption dropped due to the pandemic-related lockdowns. However, in FY22, financial savings dropped sharply to 7% of GDP with reopening of the economy; and has further declined to 5% of GDP in FY23. Even as incremental financial assets were stable at 11% of GDP, savings declined in FY23 due to the increase in financial liabilities i.e. loans taken by the households from the banks/NBFCs.

Figure 8: At 66%, HH financial savings have declined from FY21 peak, but at same level as pre-Covid …



Source: RBI, IIFL Research

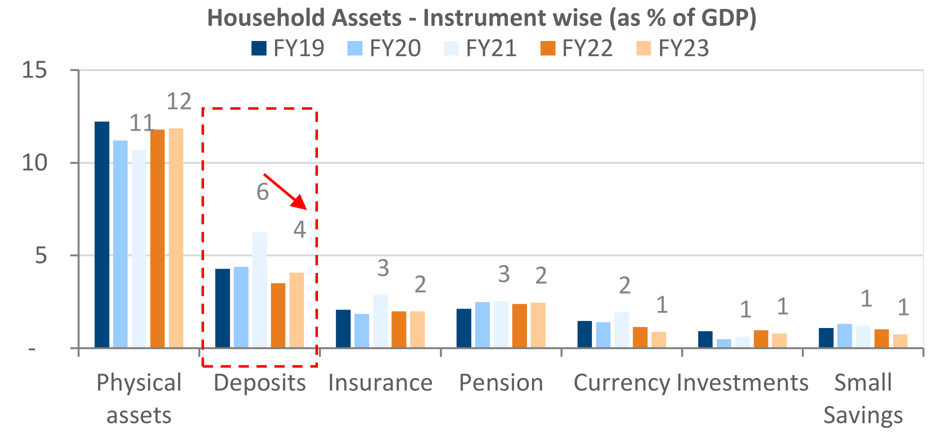
Figure 9: … as incremental HH financial savings fell to 50yr low, mainly due to rise in liabilities



Source: RBI, IIFL Research

In hindsight, the sharp rise in financial liabilities may reflect drawdown in precautionary saving during the pandemic. Also, some market observers interpret that the household's post-pandemic rise in consumption is being funded via borrowings amid stagnating income. However, this is a half-baked conclusion in our view, as it ignores the movement in HH's savings in physical assets (homes, vehicles, machinery, etc.), which isn't captured in financial assets. While the share of HH asset allocation to deposits has declined from 6.3% in FY21 to 4% in FY23, we have seen a concomitant increase in the allocation to physical assets (Fig. 10).

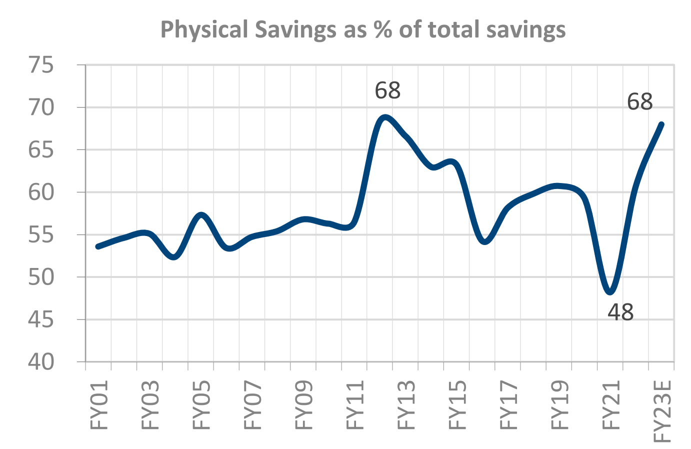
Figure 10: Total household asset (financial + physical) allocation has moved away from deposits to physical assets, in line with pre-Covid levels



Source: RBI, IIFL Research

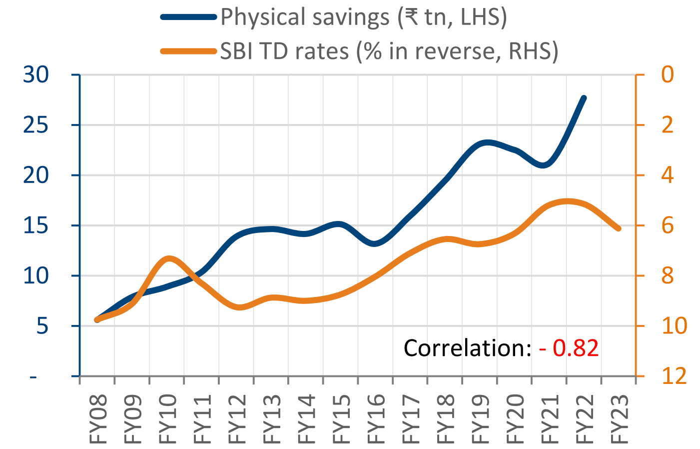
We believe that the shift to physical assets is also triggered by a recovery in the Real Estate sector and hike in property prices (~10% increase since March 2020).

Figure 11: Share of physical savings in overall HH savings back to the previous FY12 peak of 68%



Source: RBI, IIFL Research

Figure 12: High negative correlation between physical savings and TD rates historically; should aid deposit growth ahead

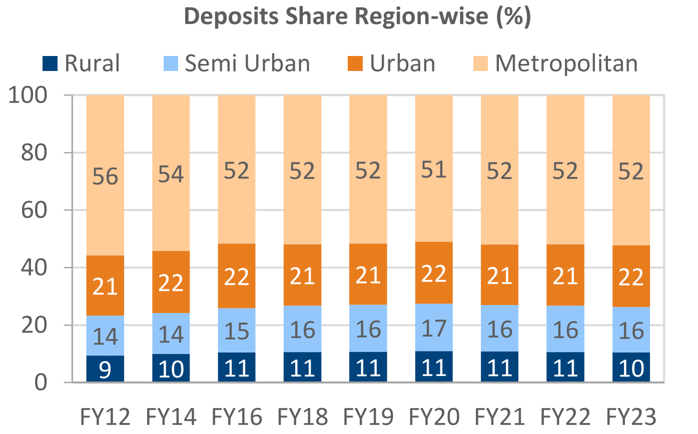


Source: RBI, IIFL Research

Thus, we conclude that the pace of increase in HH savings has decreased; but it is mainly the shift in HH asset allocation from bank deposits to physical assets (homes, vehicles) that has underpinned the deceleration in HH deposit growth. With the share of physical savings in the overall household savings back to its previous FY12 peak, and rise in interest rates making financial assets more attractive to owning physical assets, we expect household deposit growth to improve going forward.

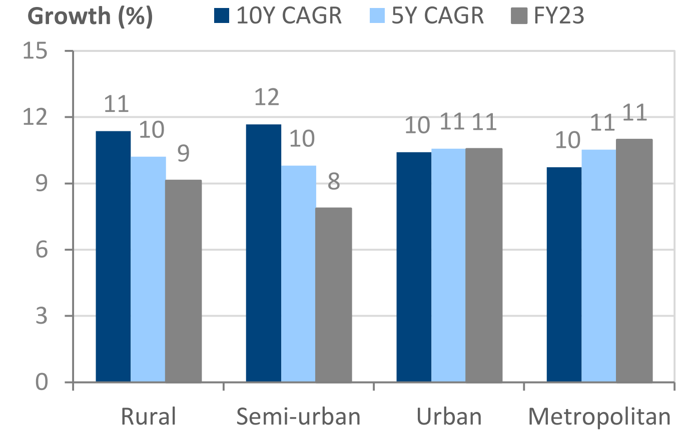
From the geographic perspective, semi-urban and rural (SURU) areas have witnessed greater slowdown in deposit growth, relative to their own long-term historical growth rates, as well as relative to the growth in urban and metro locations (Fig. 14). This is because: (a) Share of deposits owned by households in the rural and semi-urban areas is higher at 82% vs 62% at the pan-India level. (b) Savings erosion during Covid was higher in SURU relative to urban and metro areas. Furthermore, with Private banks' increasing focus on branch openings beyond the metro areas, the market share of metro has declined by 4pp in the last decade to 52% currently (Fig. 13). While only 37% of the banking system branches are in the urban and metro, these regions still constitute ~75% of system deposits.

Figure 13: Metro and urban areas have ~75% deposit market share, but have been declining gradually



Source: RBI, IIFL Research

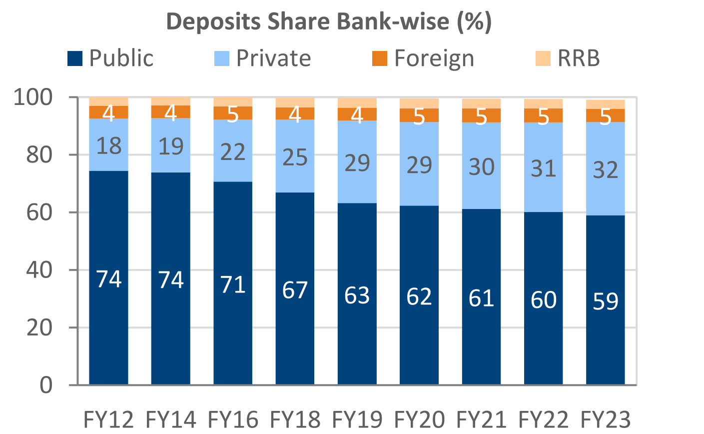
Figure 14: Deposit growth weak for rural and semi-urban regions, due to higher reliance on household deposits



Source: RBI, IIFL Research

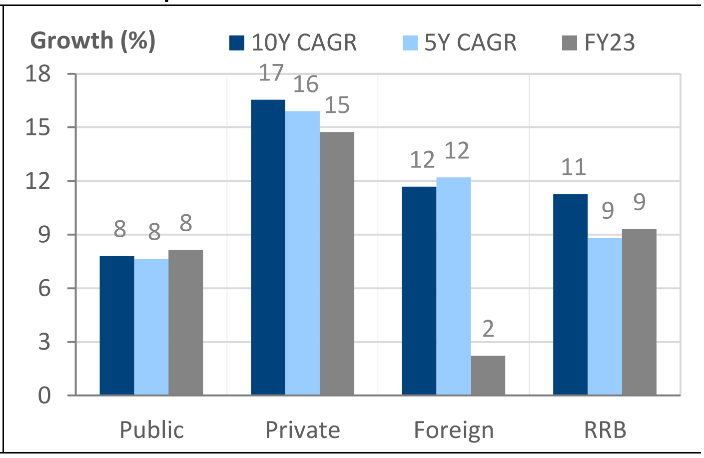
In FY23, Private banks witnessed modest growth deceleration relative to their historical run-rate. However, they are still growing deposits at almost 2x the rate of PSBs (Fig. 16), and thus, have seen market share rising from 18% to 32% in the last decade (Fig. 15).

Figure 15: Private banks steadily gaining deposit market share at the expense of Public banks …



Source: RBI, IIFL Research

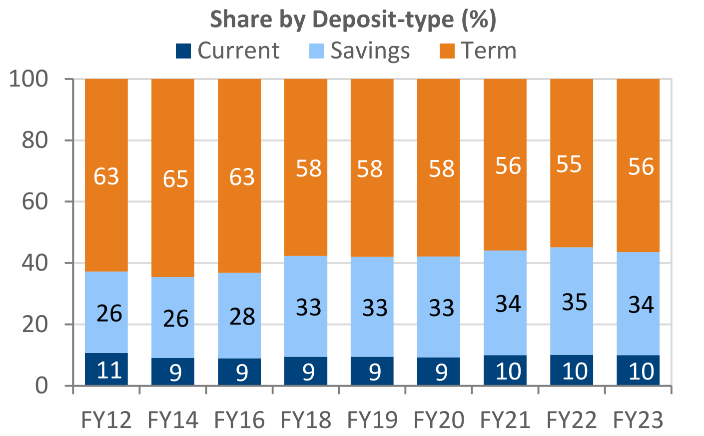
Figure 16: … as they have been able to grow deposits at almost 2x the pace of Public banks



Source: RBI, IIFL Research

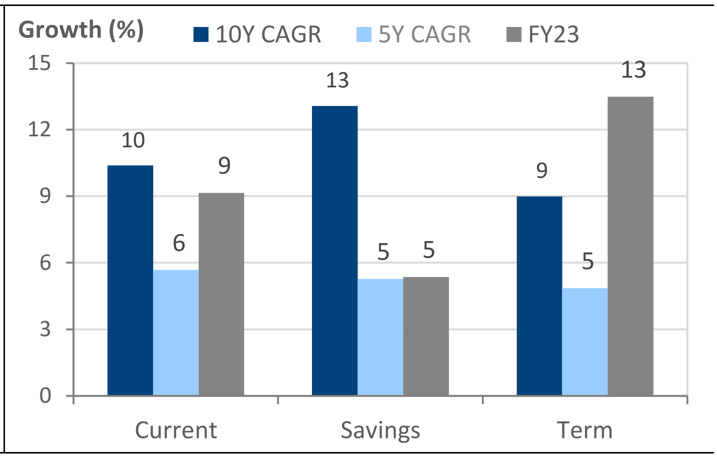
Similar to the previous rate-cycles, CASA deposit growth decelerated in FY23 (Fig. 18), as the banks started offering higher interest rates on term deposits from 2HFY23 onwards. However, on a longer-term view, CASA deposit share has been steadily inching up and has increased by 7pp in the last decade to 44% (Fig. 17).

Figure 17: Share of CASA deposits gradually rising and has increased by 7 pp in the last decade …



Source: RBI, IIFL Research

Figure 18: … except for higher growth in term deposits in FY23 on account of increase in interest rates

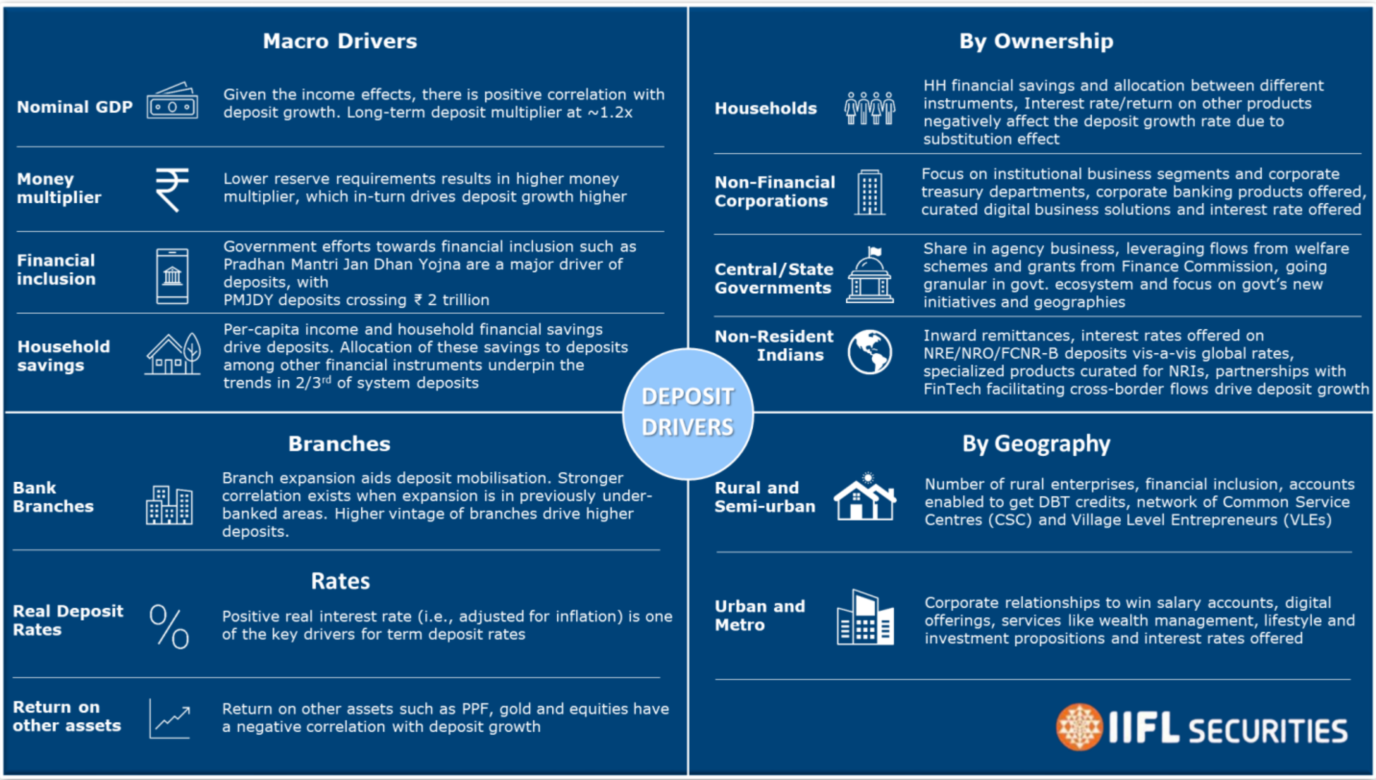


Source: RBI, IIFL Research

A comprehensive look at deposit drivers

Deposit drivers can broadly be bifurcated into macro (nominal GDP, money-multiplier, per-capita income, allocation of HH savings, rates, etc.) and micro (owners of deposits viz. households, corporates, government and NRIs, and geography-based). A bank typically deploys a multi-dimensional deposit strategy to mobilise deposits. We summarise the key deposit drivers in Fig. 19.

Figure 19: Looking under the hood of different deposit drivers



Source: IIFL Research

Delving into existing deposit strategy

Deposit market share across individual states is shown graphically in Annexure - Deposits. The table below shows system-level deposit and branch market share for individual states, which is further juxtaposed with banks' branches in individual states.

Figure 20: State-wise breakdown of branch MS at the system-level and for individual banks

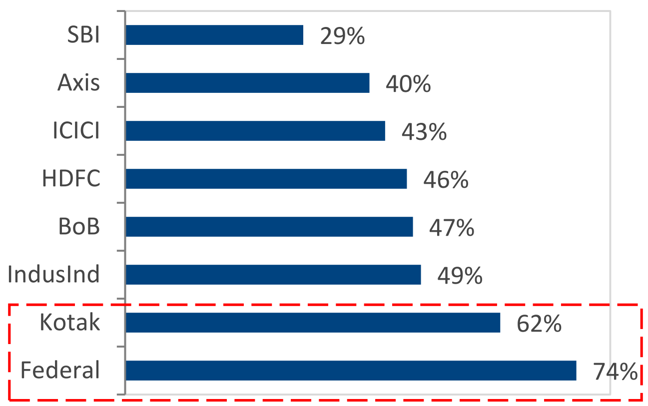
State	Branches	Deposits (₹ bn)	Branch share	Deposit Share	Deposit growth	HDFC	ICICI	Axis	Kotak	IIB	Fed	SBI	BoB
Maharashtra	13,560	39,229	8.7%	20.9%	12.3%	11.1%	12.9%	11.4%	20.3%	12.5%	7.7%	7.9%	10.1%
NCT of Delhi	3,608	16,589	2.3%	8.9%	11.3%	3.5%	3.6%	4.1%	5.7%	4.0%	2.1%	1.7%	2.4%
Uttar Pradesh	17,971	15,486	11.6%	8.3%	11.1%	9.8%	5.9%	7.3%	6.5%	6.8%	1.8%	10.0%	15.8%
Karnataka	10,785	14,853	7.0%	7.9%	7.4%	5.7%	7.2%	6.4%	10.8%	4.7%	8.1%	6.8%	8.4%
Tamil Nadu	12,137	12,114	7.8%	6.5%	8.4%	6.7%	9.9%	7.9%	5.9%	7.2%	14.4%	5.6%	3.9%
West Bengal	9,480	10,564	6.1%	5.6%	8.0%	3.9%	4.5%	6.5%	2.7%	5.4%	2.6%	5.6%	3.7%
Gujarat	8,718	10,275	5.6%	5.5%	10.7%	7.8%	7.3%	7.9%	10.5%	7.6%	3.9%	5.7%	18.2%
Kerala	6,793	7,240	4.4%	3.9%	8.0%	4.2%	3.3%	3.0%	2.0%	4.6%	43.7%	5.2%	2.7%
Haryana	5,201	7,024	3.4%	3.7%	14.4%	5.3%	4.3%	6.0%	4.4%	6.6%	1.8%	2.6%	1.9%
Telangana	5,706	6,939	3.7%	3.7%	8.6%	4.7%	4.7%	3.4%	5.5%	4.2%	1.9%	5.3%	2.0%
Rajasthan	8,166	5,944	5.3%	3.2%	12.0%	5.3%	9.1%	3.8%	4.3%	6.3%	0.6%	6.1%	8.1%
Punjab	6,475	5,603	4.2%	3.0%	9.8%	7.3%	4.9%	7.2%	5.1%	6.6%	2.1%	3.9%	2.1%
Madhya Pradesh	7,406	5,474	4.8%	2.9%	7.3%	4.4%	4.5%	4.2%	2.7%	4.8%	0.9%	5.2%	3.3%
Bihar	7,655	4,784	4.9%	2.6%	8.1%	1.9%	2.0%	2.7%	1.3%	1.7%	0.6%	4.4%	3.6%
Odisha	5,424	4,633	3.5%	2.5%	9.9%	2.6%	3.0%	3.9%	1.2%	2.5%	1.9%	4.0%	2.1%
Andhra Pradesh	7,623	4,297	4.9%	2.3%	11.4%	4.4%	3.7%	3.5%	6.0%	3.1%	2.3%	6.3%	2.9%
Jharkhand	3,210	3,040	2.1%	1.6%	7.4%	1.1%	1.2%	1.5%	0.9%	1.4%	0.6%	2.5%	1.5%
Chhattisgarh	2,969	2,164	1.9%	1.2%	9.7%	2.4%	1.8%	2.3%	1.7%	2.5%	0.2%	1.9%	2.5%
Assam	2,979	2,073	1.9%	1.1%	9.4%	1.4%	1.4%	1.9%	0.3%	1.7%	1.0%	1.8%	0.8%
Uttarakhand	2,140	2,004	1.4%	1.1%	10.9%	1.3%	0.7%	1.2%	0.6%	0.9%	0.1%	1.9%	1.6%
Jammu & Kashmir	1,839	1,629	1.2%	0.9%	6.3%	1.4%	0.9%	0.6%	0.2%	1.3%	0.1%	0.8%	0.1%
Himachal Pradesh	1,694	1,365	1.1%	0.7%	10.4%	1.3%	0.9%	0.5%	0.2%	0.6%	0.1%	1.5%	0.4%
Goa	649	1,020	0.4%	0.5%	9.8%	0.9%	0.6%	0.4%	0.4%	0.6%	0.4%	0.4%	0.6%
Chandigarh	391	999	0.3%	0.5%	11.3%	0.3%	0.4%	0.5%	0.6%	0.8%	0.3%	0.3%	0.2%
Tripura	588	341	0.4%	0.2%	8.8%	0.2%	0.2%	0.3%	0.1%	0.3%	0.1%	0.3%	0.1%
Meghalaya	368	313	0.2%	0.2%	6.2%	0.3%	0.2%	0.2%	0.1%	0.2%	0.1%	0.5%	0.1%
Arunachal Pradesh	184	267	0.1%	0.1%	10.5%	0.1%	0.2%	0.2%	0.0%	0.0%	0.0%	0.3%	0.1%
Puducherry	267	265	0.2%	0.1%	7.8%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%
Nagaland	189	156	0.1%	0.1%	6.9%	0.1%	0.1%	0.3%	0.0%	0.1%	0.1%	0.3%	0.2%
Manipur	229	149	0.1%	0.1%	7.5%	0.2%	0.2%	0.2%	0.0%	0.2%	0.0%	0.2%	0.2%
Mizoram	222	147	0.1%	0.1%	12.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.2%	0.1%
Dadra & Nagar	103	142	0.1%	0.1%	7.4%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%
Sikkim	170	136	0.1%	0.1%	9.2%	0.2%	0.1%	0.3%	0.1%	0.3%	0.0%	0.2%	0.1%
Ladakh	86	82	0.1%	0.0%	10.6%	0.0%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.0%
Andaman & Nicobar	68	71	0.0%	0.0%	5.2%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%	0.0%
Lakshadweep	12	14	0.0%	0.0%	14.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**155,065**	**187,423**	**100%**	**100%**		**7,895**	**5,787**	**5,088**	**1,943**	**2,353**	**1,407**	**25,086**	**8,453**

Source: RBI, IIFL Research. Note: Deposit growth in above table is for FY23 YoY.

Key observations are:

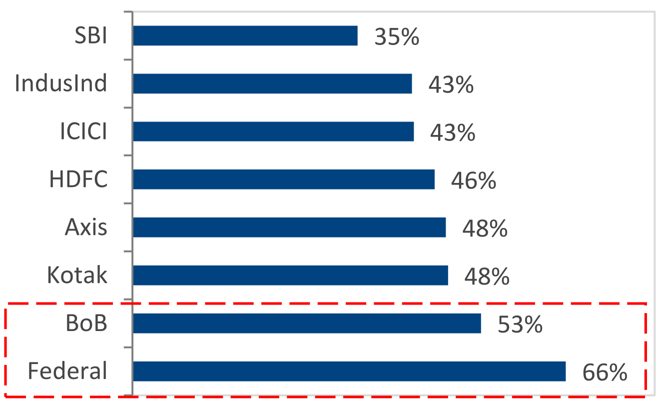
1. Top five states (MH, DL, UP, KN and TN) constitute 53% of system deposits and house 37% of total bank branches in India.
2. Only MH, DL and KN have higher share of system deposits relative to the branch concentration in those states.
3. **State-wise deposit concentration:** Kotak and Federal have very high deposit concentration with Top 3 states constituting 62-74% of their total deposits. While Federal is a regional bank and has 44% of its branches in Kerala; such a high deposit concentration of Kotak is surprising. For instance, it has one of the lowest shares of branches (along with ICICI) in a fast-growing state like Uttar Pradesh, which is expected to be a US$500 bn+ nominal GDP by FY28. Furthermore, as highlighted subsequently in Fig. 33, Kotak, Federal and RBL do not have any branches in 43-78% of 525+ districts under analysis. Even more strikingly, Kotak does not have any branch in 88% of Pin codes where SBI has presence (Fig. 42).

Figure 21: Deposit concentration in Top 3 states - Kotak and Federal have the highest concentration



Source: SLBC, IIFL Research

Figure 22: Credit concentration in Top 3 states - BOB and Federal have the highest concentration



Source: SLBC, IIFL Research

Fig. 23 shows that there is high credit and deposit concentration among states like MH, DL, KN, GJ and TN.

Figure 23: Credit and deposit concentration Top 3 states for select individual banks

	Deposits			Credit		
Axis	Maharashtra	Delhi	Karnataka	Maharashtra	Delhi	Gujarat
BoB	Maharashtra	Gujarat	Kerala	Maharashtra	Kerala	Gujarat
Federal	Kerala	Maharashtra	Karnataka	Kerala	Maharashtra	Tamil Nadu
HDFC	Maharashtra	Delhi	Karnataka	Maharashtra	Delhi	Tamil Nadu
ICICI	Maharashtra	Delhi	Karnataka	Maharashtra	Gujarat	Delhi
IndusInd	Maharashtra	Delhi	Gujarat	Maharashtra	Delhi	Tamil Nadu
Kotak	Maharashtra	Delhi	Karnataka	Maharashtra	Gujarat	Delhi
SBI	Maharashtra	Karnataka	Uttar Pradesh	Maharashtra	Delhi	Tamil Nadu

Source: RBI, IIFL Research

4. **Region-wise branch concentration:** In terms of regions, PSBs have 55-65% of their branches in semi-urban and rural region vs 30-50% for Private banks (Fig. 24). Again, Kotak has high branch concentration in the urban and metro region (70% of its branches vs 50-55% for other larger Private banks). More specifically, almost 50% of Kotak's branches are in the metro region vis-à-vis 28-32% for other larger Private banks.

Figure 24: Split of individual banks' branches across different regions (June 2023)

Bank	Rural	Semi-urban	Urban	Metro	SURU	Urban & Metro	Total
System	**35%**	**28%**	**18%**	**19%**	**63%**	**37%**	**155,759**
SBI	32%	29%	21%	18%	61%	39%	25,118
PNB	35%	23%	23%	20%	58%	42%	11,272
Canara	30%	27%	21%	21%	58%	42%	10,074
Union	29%	28%	21%	22%	57%	43%	8,847
BOB	34%	25%	19%	23%	58%	42%	8,458
HDFCB	18%	34%	20%	28%	52%	48%	7,935
Indian	32%	25%	22%	21%	57%	43%	6,157
ICICIB	21%	29%	20%	30%	50%	50%	5,961
BOI	34%	28%	18%	20%	62%	38%	5,416
AXISB	16%	29%	23%	32%	44%	56%	5,139
IIB	13%	23%	29%	36%	36%	64%	2,354
KMB	15%	16%	22%	48%	30%	70%	1,953
Federal	13%	50%	19%	18%	63%	37%	1,420
YESB	11%	26%	23%	40%	37%	63%	1,240
IDFCFB	5%	22%	31%	42%	27%	73%	1,138

Source: RBI, IIFL Research. Note: SURU refers to semi-urban and metro regions.

5. **Region-wise incremental branch additions:** Analysis of incremental branch openings show the following interesting trends:
   a. In the last one year, HDFC Bank has opened ~1,500 new branches — 3x of the branch additions by ICICI Bank and 6-7x of other larger Private banks and SBI.
   b. More importantly, 62% of HDFC Bank's new branches have been opened in semi-urban and rural region. Whereas for other Private banks, majority of new additions are still happening in urban and metro regions.
   c. While Kotak and IDFC FB already have high share of branch concentration in the metro region (42-48% of their total branches as per Fig. 24), the additions are still happening in the metro region (80-85% of incremental branches as per Fig. 25).
   d. In the last one year, PSBs like BOI, PNB, Canara and Union Bank have actually shut/merged 70-160 branches. Other Public banks are still adding new branches in SURU region. SBI's new 250 branches are split equally.
   e. Private banks are aggressive on branch expansion (10% Cagr since 2015), while PSBs are scaling digital operations (flat during the same period).

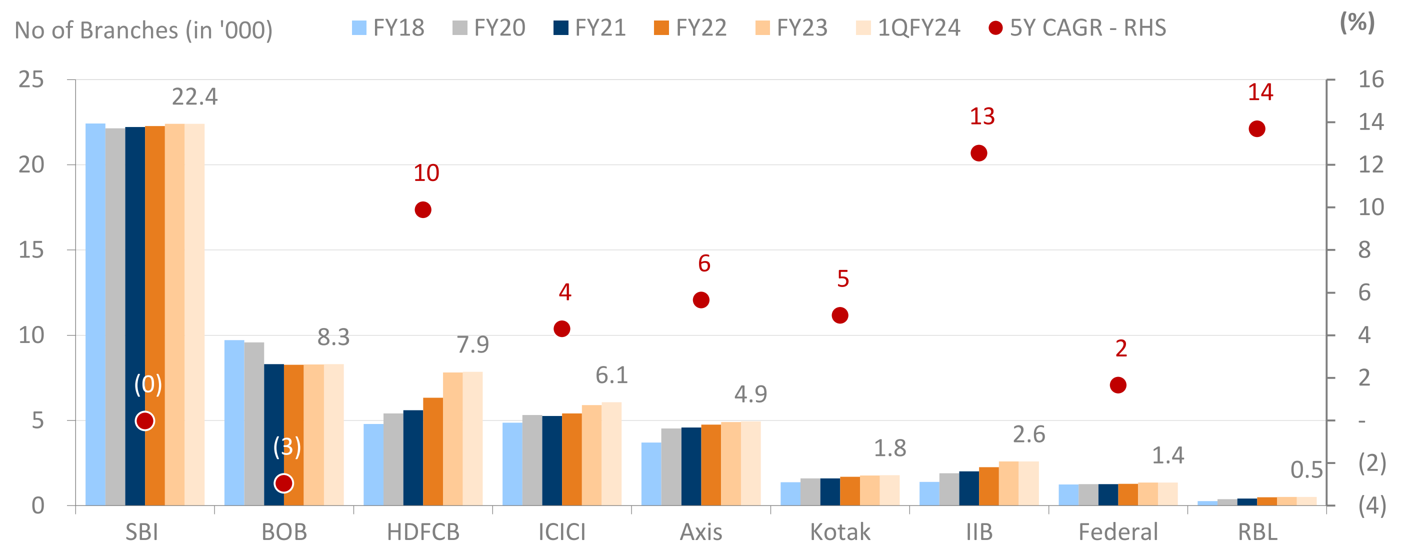
Figure 25: Split of individual banks' incremental branch additions across different regions (during Jun'22 – Jun'23)

Bank	Rural	Semi-urban	Urban	Metro	SURU	Urban & Metro	Total
System	**26%**	**33%**	**15%**	**26%**	**59%**	**41%**	**4,253**
HDFCB	18%	43%	17%	21%	62%	38%	1,484
ICICIB	17%	24%	23%	36%	41%	59%	486
IIB	1%	34%	37%	27%	36%	64%	261
SBI	35%	14%	38%	12%	50%	50%	252
AXISB	5%	20%	28%	47%	25%	75%	211
IDFCFB	2%	14%	41%	43%	16%	84%	202
KMB	18%	3%	29%	50%	21%	79%	112
YESB	-13%	8%	33%	73%	-6%	106%	89
Federal	21%	29%	25%	24%	51%	49%	75
Indian	50%	47%	2%	2%	97%	3%	60
BOB	87%	11%	-18%	21%	97%	3%	38

Source: RBI, IIFL Research. Note: Negative value indicates branches were shut in those regions during the above mentioned period.

Among the larger Private banks, HDFC Bank has been expanding its branch distribution network the fastest (5yr Cagr of 10%); select smaller Private banks (IIB and RBL) have also stepped up branch additions. On the other hand, PSBs with already a wide distribution network have been consolidating presence and rationalising branches, especially after consummating the mergers with smaller Public banks during FY18-21.

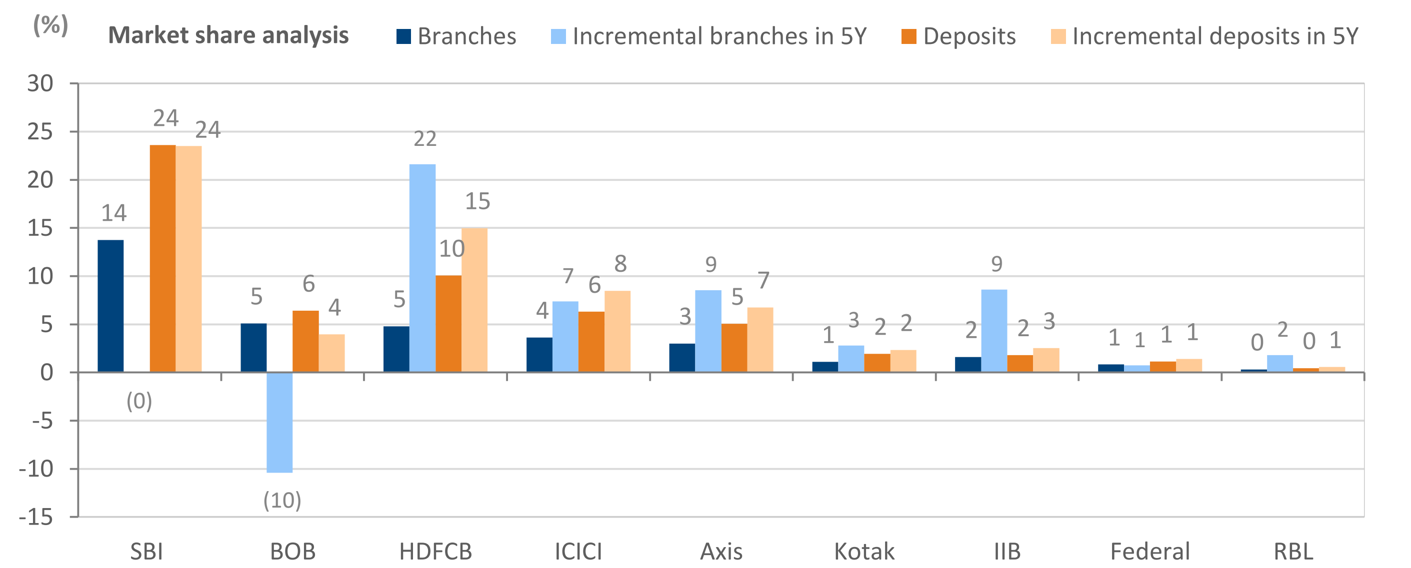
Figure 26: HDFCB expanding its branch distribution network the fastest (5yr Cagr of 10%) among the larger Private banks; newer private banks also adding branches from a low base; whereas Public banks are consolidating their physical presence



Source: Company, IIFL Research

In terms of branch and deposit MS analysis, we find that HDFC Banks' high share in incremental branches in the last five years has also enabled it to win 15% incremental system deposits during this period. Other Private banks have also gained modest MS. SBI has been able to maintain its deposit market share despite no net branch additions and BOB has lost the market share.

Figure 27: In the last five years, HDFC has the highest share in branch additions, which has aided it to capture 15% of incremental system deposits. Other Private banks also gaining modest deposit market share. SBI has maintained deposit market share but BOB has lost

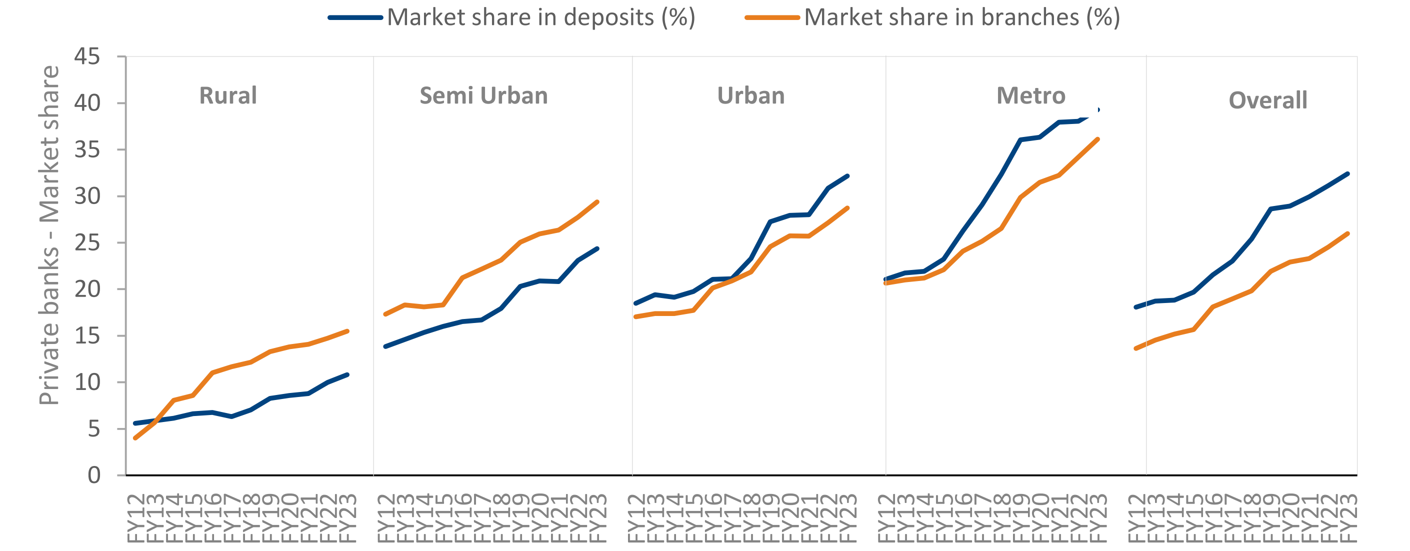


Source: Company, RBI, IIFL Research

Identifying winners in the 'Race for Deposits'

With system liquidity tightening and HDFC Bank's deposit aggression being led by distribution expansion, other Private banks have also embarked on branch expansion. Historically, there is a high correlation between deposit MS gains and branches, as shown in Fig. 28.

Figure 28: Branches are important - High correlation between branch additions and deposit market share of the banks



Source: RBI, IIFL Research

We adopt a three-pronged approach to identify banks with MS gain potential. Our analysis (summary in Fig. 29) is based on **Pin code (19k+) and district-level insights** (covering 550+ districts out of total 766 districts in India), rather than stopping at the state-level, given that banks' own strategies are now focused on micro-markets.

Figure 29: HDFC Bank to ace the 'Race for Deposits'; other winners would be SBI among Public banks, and ICICI/Axis among Private banks; Kotak a laggard among the larger Private banks

RACE FOR DEPOSITS

Which banks are better positioned?

Presence in districts witnessing stronger deposit growth

- Analysis of 550+ districts
- Top districts with >10% deposit CAGR are classified as **'districts witnessing fast deposit growth'**

Presence in districts with high deposit accretion potential

- Analysis of 300+ districts
- Districts with high nominal GDP, but low deposit/GDP ratio are classified as **'potential districts'**

Overall branch penetration pin code-wise

- Analysis of 19,000+ Pin codes for banks' branches
- Competitive landscape in pin codes where branch additions are being done

Branch Vintage and region-wise productivity analysis

- Vintage analysis for individual banks' branches
- Region-wise vintage analysis
- Region-wise branch productivity analysis

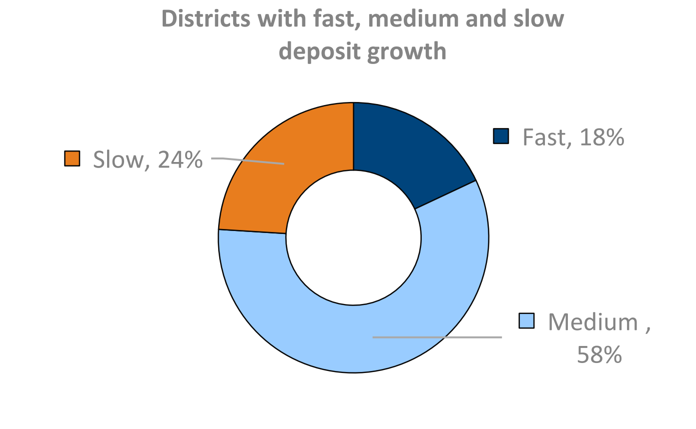
Branches opened in 'fast growing districts' since FY19		Branches opened in 'potential districts' since FY19		Branches / Pin-code		Developing branches (age <10 yrs) as % of total bank branches	
HDFC Bank	1,112	HDFC Bank	651	SBI	1.9	RBL Bank	83%
Axis Bank	547	SBI	248	Bank of Baroda	1.6	IndusInd Bank	78%
ICICI Bank	438	ICICI Bank	226	HDFC Bank	1.5	Axis Bank	62%
IndusInd Bank	380	Axis Bank	217	ICICI Bank	1.5	HDFC Bank	61%
SBI	290	IndusInd Bank	169	Axis Bank	1.4	ICICI Bank	49%
Kotak Mahindra Bank	210	Kotak Mahindra Bank	58	IndusInd Bank	1.4	Kotak Mahindra Bank	47%
RBL Bank	151	Federal Bank	50	Kotak Mahindra Bank	1.3	Bank of Baroda	34%

Source: IIFL Research

1. Presence in districts witnessing stronger deposit growth

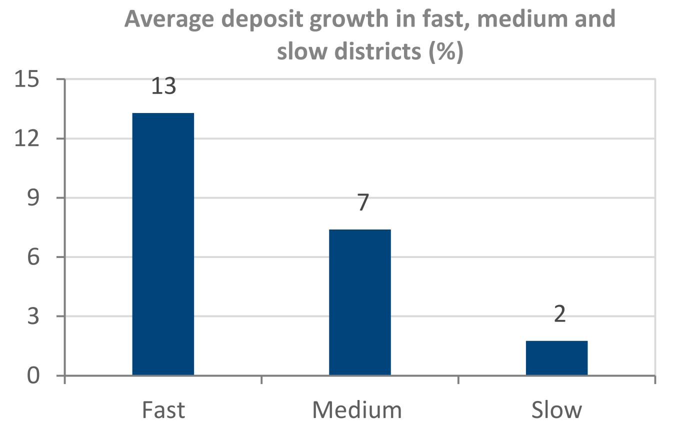
We analyse the data of banks' branches and deposits in 550+ districts in India (out of total 766 districts) to ascertain the branch strategies of individual banks. Around 20% of these districts under analysis with high deposit growth (5yr Cagr of >10%) are categorised as 'fast growing', ~25% of districts are witnessing slower deposit growth (5yr Cagr of <5%) and the balance 58% districts with 5Y deposit Cagr of 5-10% are 'medium growth districts'. Fast-growing districts (FGD) have seen avg. deposit growth of 13% Cagr in the last five years — almost double the growth-rate of 'medium growth districts' and significantly higher than 2% Cagr for 'slow growth districts'.

Figure 30: Around 20% of 550+ districts analysed with high deposit growth are categorised as 'fast growing'; ~25% of districts witnessing slower deposit growth



Source: RBI, SLBC, IIFL Research

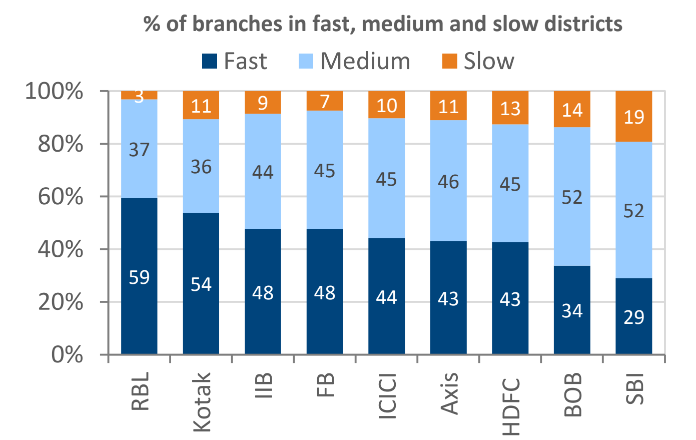
Figure 31: 'Fast growing' districts have seen deposit growth of 13% Cagr in the past five years vs 7% Cagr for 'medium' and a mere 2% Cagr for 'slow' growing districts



Source: RBI, SLBC, IIFL Research

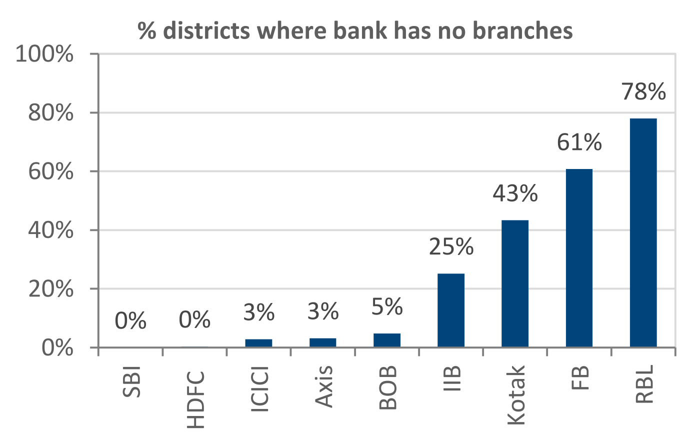
We find that Kotak, Federal and RBL are running a very concentrated branch strategy with no branches in 40-80% of 550 districts analysed (Fig. 33). On a more granular level, these banks do not have a branch in 85-95% of pin-codes where SBI has a presence (Fig. 42). However, their branch strategy is rightly geared towards districts witnessing fast deposit growth i.e. the share of branches in these districts is higher relative to other banks with larger distribution network (Fig. 32).

Figure 32: RBL, Kotak, IIB and Federal have higher share of their branches in districts seeing high deposit growth …



Source: RBI, SLBC, IIFL Research

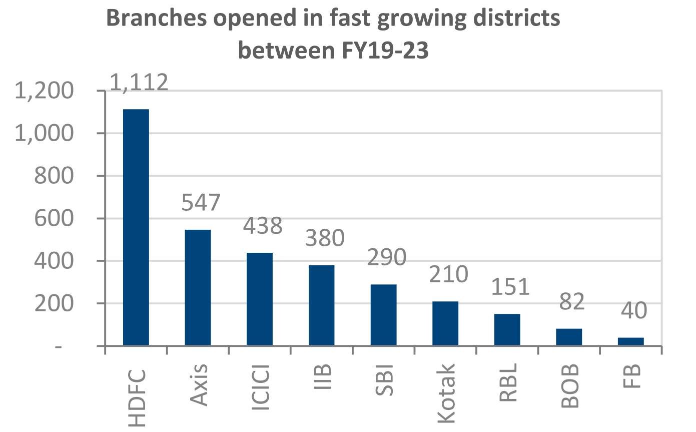
Figure 33: … but they still do not have any branch in 40-80% of 550 districts i.e. high branch concentration



Source: RBI, SLBC, IIFL Research

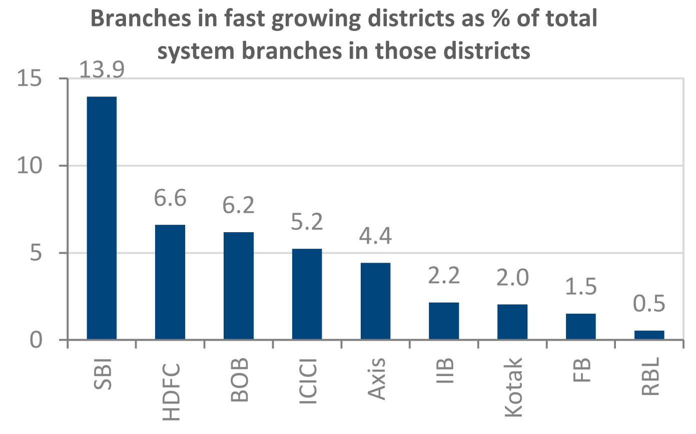
It is essential that banks have higher presence in districts exhibiting high deposit growth trends. HDFC has opened 1,100+ new branches in these fast growing districts in the last four years, which is 2-5x of the branches opened by larger peers (Fig. 34). Given the historically large network of PSU banks, we also analyse the total number of outstanding branches of individual banks as a % of total branches in these districts – SBI, BOB and HDFC have a dominant MS, while it is <1% for Kotak, IIB, Federal and RBL (Fig. 35).

Figure 34: HDFC has opened 1,100+ new branches in 'fast growing districts', which is 2-5x of that for larger peers



Source: RBI, SLBC, IIFL Research

Figure 35: SBI, BOB and HDFC have dominant branch MS in FGD; branch MS <1% for Kotak, IIB, Federal and RBL

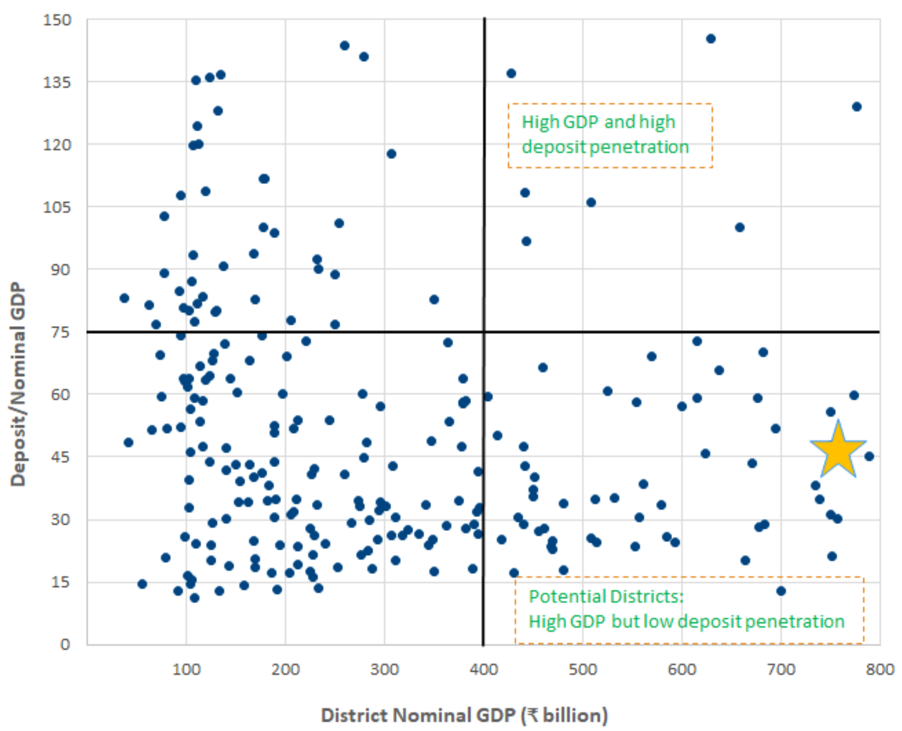


Source: RBI, SLBC, IIFL Research

2. Presence in districts with high deposit accretion potential

While having a higher branch presence in the 'fast growing districts' aid banks' deposit growth today, it is also necessary to build presence in the 'districts which have high deposit accretion potential' to sustain deposit growth momentum in the future. Districts with high nominal GDP (>Rs400 bn) but low deposit penetration (deposit/GDP <75%) i.e. 'High Potential Districts' account for 25% of total 300 districts that we have analysed.

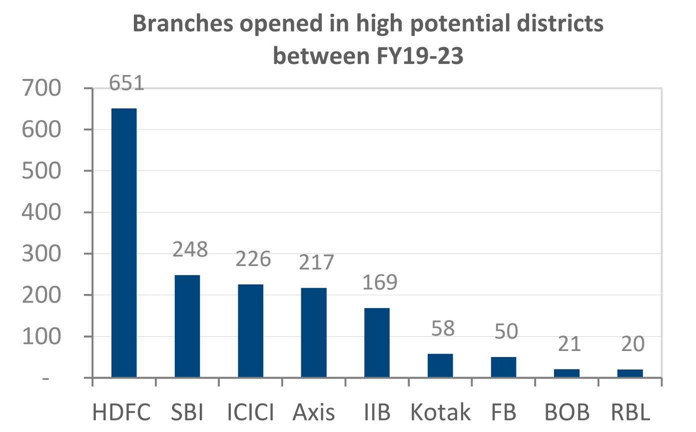
Figure 36: Around 25% of total 300 districts under analysis have high nominal GDP but low deposit penetration; thus, have high deposit accretion potential



Source: RBI, GOI, IIFL Research. Note: Districts with nominal GDP more than Rs800 bn or with deposit/GDP more than 150% excluded from the scatter chart.

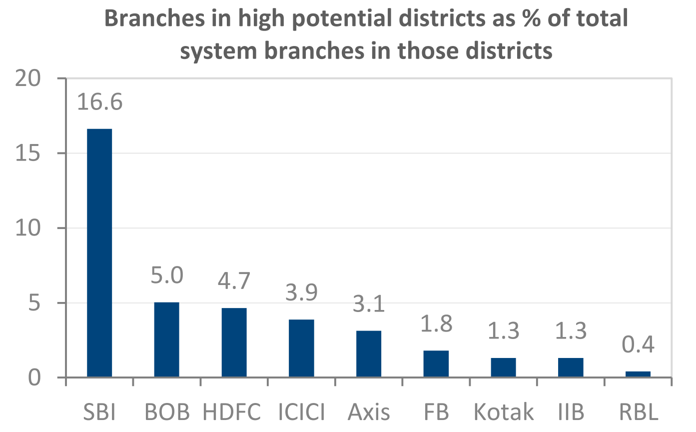
Since FY19, HDFC has opened 650+ branches in these 'high potential districts', which is 3-11x of branch additions by larger peers (Fig. 37). In terms of the overall presence in these districts (Fig. 38), SBI, BOB, HDFC, ICICI and Axis have relatively higher MS of 3%+, and thus, should be able to accrete more deposits relative to other banks in the medium-to-long term.

Figure 37: HDFC has opened 650+ branches since FY19 in 'high potential districts', which is 3-11x of that for the larger peers



Source: RBI, SLBC, IIFL Research

Figure 38: SBI, BOB, HDFC, ICICI and Axis have higher share of branches in the districts representing high deposit accretion potential

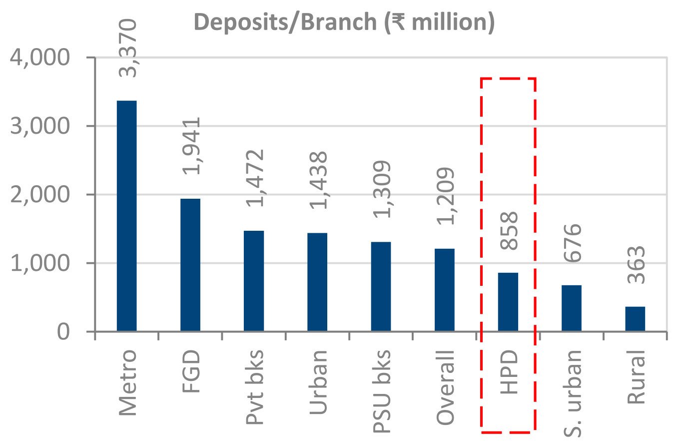


Source: RBI, SLBC, IIFL Research

'High potential districts' currently have low branch productivity (30% lower than that for the system), and have a scope for improvement with a more dedicated focus. On the other hand, 'fast growing districts' have higher branch productivity (60% higher than the system level), and can thus aid the near-term deposit growth momentum.

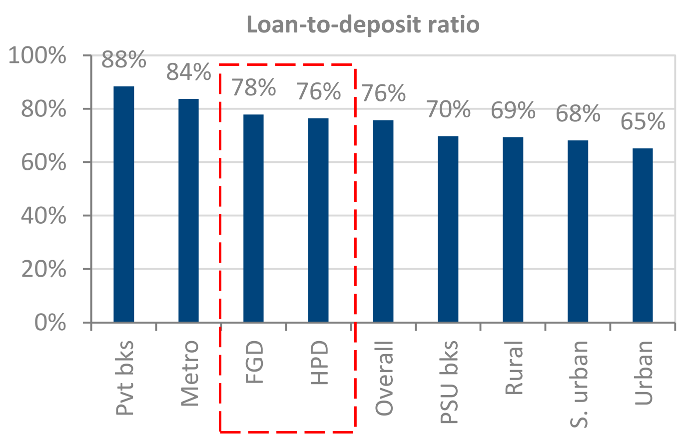
Also, 'high potential districts' and 'fast growing districts' have lower loan-to-deposit ratio (LDR) of 76-78% relative to the LDR for banks in the metro region and that for Private banks. Therefore, banks focused on these districts will not only succeed in higher deposit mobilisation, but also benefit from the lending and cross-sell opportunity.

Figure 39: 'High potential districts' currently have low branch productivity (30% lower than system) and has a scope for improvement with a more dedicated focus



Source: RBI, SLBC, IIFL Research. Note: FGD refers to fast growing districts and HPD refers to high potential districts

Figure 40: 'High potential districts' have relatively lower loan-to-deposit ratio and thus offers lending opportunity to the banks as well in these districts

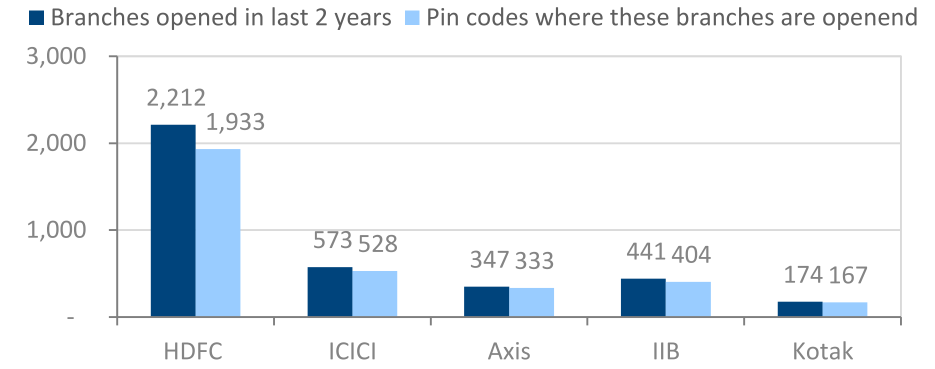


Source: RBI, SLBC, IIFL Research. Note: FGD refers to fast growing districts and HPD refers to high potential districts

3. Pin Code level branch strategy

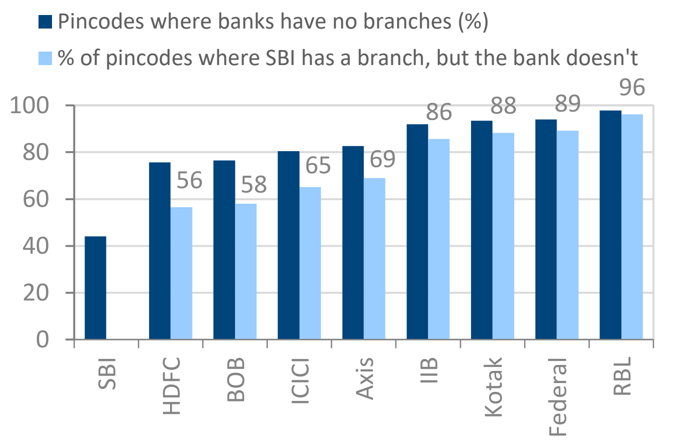
HDFC should benefit from early mover advantage as 45-50% of new branches are in the pin codes where ICICI/Axis are not present. The competition in these areas is mainly from the PSU banks, where making in-roads into loan and deposit products should be relatively easier due to HDFC's wider product suite and a strong brand name.

Figure 41: HDFC Bank opened 2,200+ branches in last two years in 1,900+ pin codes, which is 4-12x of that for the other large Private banks



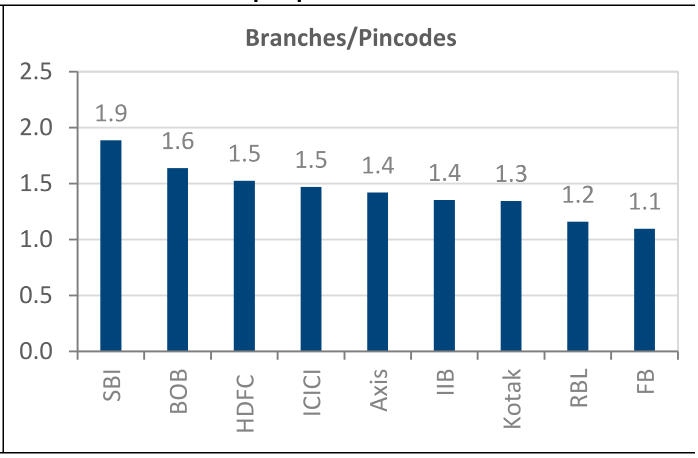
Source: RBI, IIFL Research

Figure 42: HDFC, ICICI, Axis, IIB and Kotak still do not have a branch in 55-90% of pin codes where SBI is present



Source: RBI, IIFL Research.

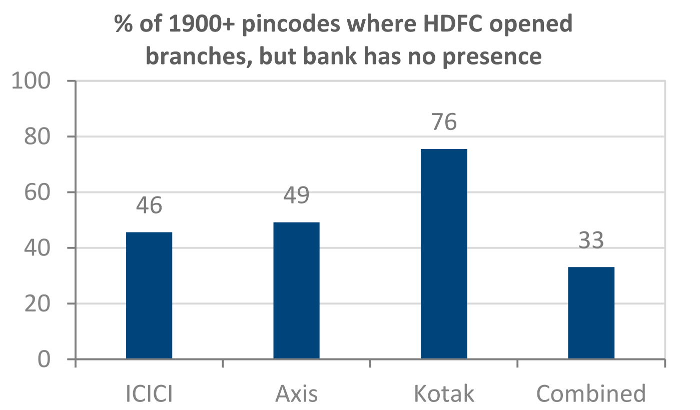
Figure 43: SBI and BOB have the most dense branch network with 1.6-1.9 branches per pin code



Source: RBI, IIFL Research.

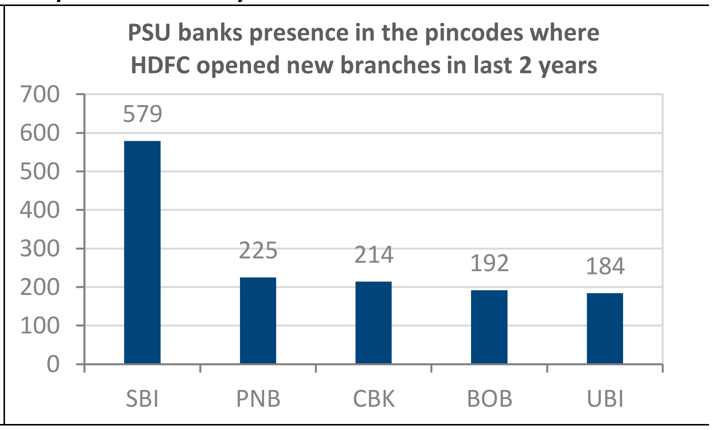
How is the competition in the pin codes where HDFC bank is opening new branches?

Figure 44: Out of 1,900+ pin codes where HDFC has opened branches in last two years, ICICI, Axis and Kotak do not have a presence in 45-75% of the pin codes



Source: RBI, IIFL Research. Note: Combined is ICICI + Axis + Kotak

Figure 45: Out of 700 pin codes, where HDFC Bank opened branches in last two years with no presence of ICICI and Axis, competition is mostly from SBI

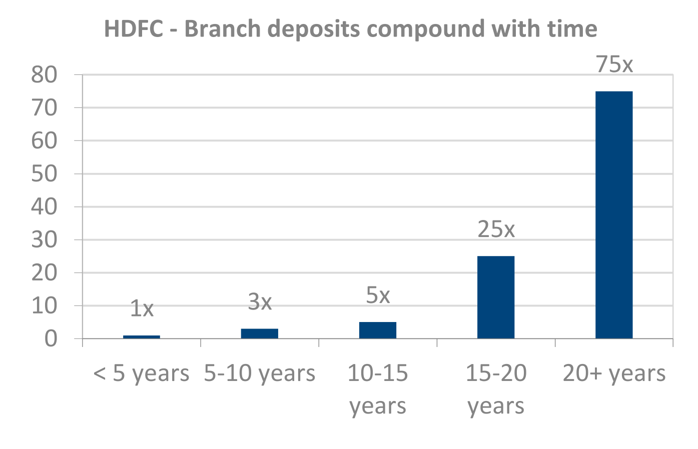


Source: RBI, IIFL Research.

4. Branch vintage and productivity analysis

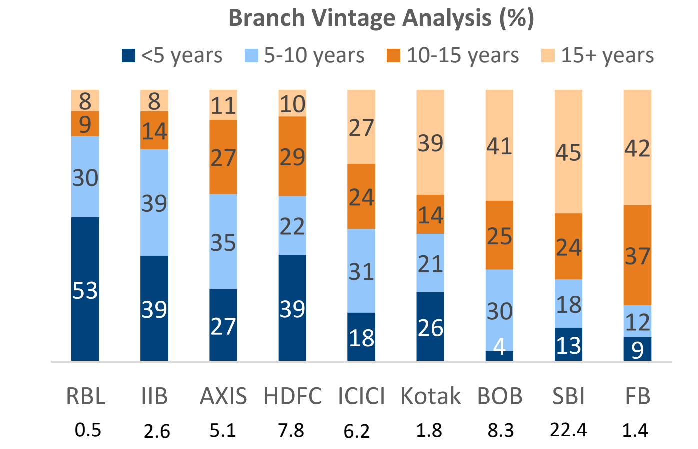
As the branches mature, deposits compound faster. For instance, HDFC Bank had disclosed that its >10yr old branches are able to garner 5-75x more deposits than <5yr old branches. Therefore, as the vintage of these 'developing branches' (we define as <10 years old) increases and they become 'matured branches' (defined as >10 years old), the deposit/branch should increase faster. In other words, while matured branches can deliver deposit growth in line with the nominal GDP growth, developing branches should be able to deliver deposit growth, which is significantly higher than the nominal GDP growth. Fig. 47 shows that 60-80% of RBL, IIB, Axis and HDFC's branches are developing branches; whereas, the share of matured branches at 50-80% is higher for Kotak, BOB, SBI and Federal.

Figure 46: Bank deposits compound faster as the branches mature i.e. branch/deposit increase significantly as the branch vintage increases



Source: Company data, IIFL Research

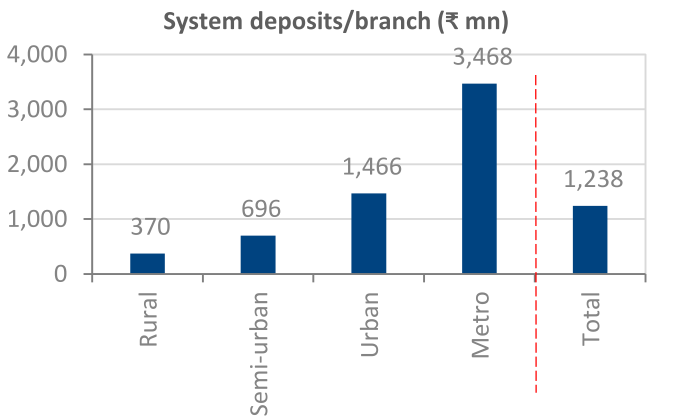
Figure 47: RBL, IIB, Axis and HDFC have higher share of 'developing' branches at 60-80%; Kotak, BOB, SBI and Federal have higher share of 'matured' branches



Source: Company data, IIFL Research. Note: No. of branches at bottom

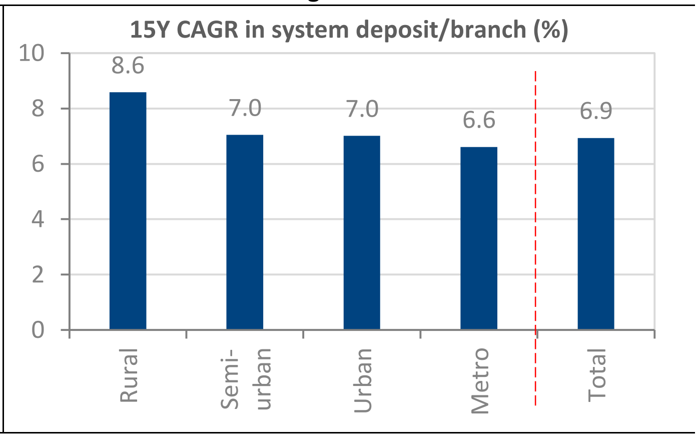
Of course, the deposit compounding in future will be lower vs that shown in Fig. 46, because the recent expansion has been mainly in SURU regions vs metro and urban regions during early 2000s. This is relevant because: (i) Deposit accretion potential is inherently higher in the metro/urban due to higher per capita income and savings - as corroborated by higher branch productivity (Fig. 48). (ii) High branch density today vs previously. However, deposits/branch in SURU have been growing at a faster clip vs that for urban/metro, suggesting there is long-term merit in deepening the SURU network.

Figure 48: Deposit accretion potential inherently higher in urban and metro regions …



Source: RBI, IIFL Research. Note: Branches are 1yr lagged.

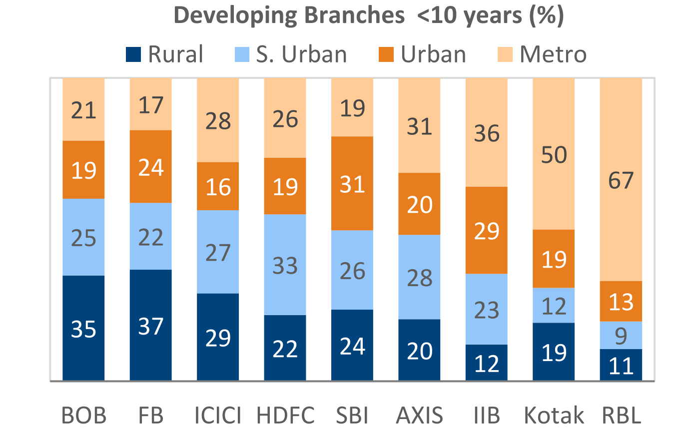
Figure 49: … but productivity growth (deposit/branch) higher for semi-urban and rural regions



Source: RBI, IIFL Research. Note: Branches are 1yr lagged.

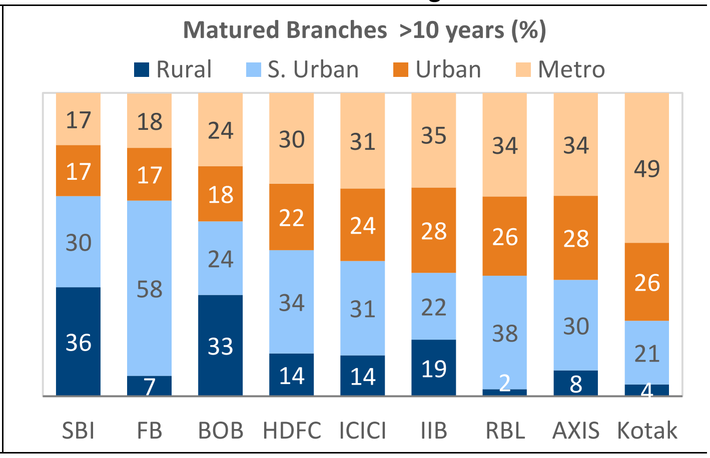
Consequently, we dig-deeper and assess where the banks' developing or matured branches are located. Banks with 'developing branches' in urban/metro regions should see higher deposit compounding, led by productivity improvement – RBL, IIB and Axis should be the key beneficiaries here. On the other hand – banks with higher share of 'matured branches' in urban/metro regions ala Kotak have already benefitted from higher deposit compounding, and will need to expand the branch distribution network to sustain the deposit growth.

Figure 50: 'Developing branches' in urban/metro regions should see higher deposit compounding due to better productivity – RBL, IIB and Axis to be the key beneficiaries



Source: Company data, IIFL Research

Figure 51: Banks with higher share of 'matured branches' in urban/metro regions have already benefitted – Kotak has high share of matured branches in these regions



Source: Company data, IIFL Research

So which banks will win the 'Race for Deposits'?

- **Key winners:** HDFC Bank to ace the 'Race for Deposits'; other winners would be SBI, ICICI and Axis; Kotak a **laggard** among the larger Private banks with a very concentrated branch strategy (no branches in 88% of pin codes where SBI has a presence, or no branches in 43% of districts under study). Axis and IIB should be able to progress well on their liability **turnaround** and execution.
- **Presence in 'fast growing districts'**: HDFC has opened 1,100+ new branches in fast growing districts in the last four years, which is 2-5x of the branches opened by larger peers. In terms of total branches, SBI, BOB and HDFC have a dominant market share of 3-10% in these districts, but Kotak, IIB and others have <1% branch MS each in these districts.
- **Presence in 'high potential districts'**: HDFC's branch opening strategy is more geared towards the 'potential' districts i.e. with high nominal GDP but low deposit penetration. Overall, SBI, BOB, HDFC, ICICI and Axis have higher share of their branches in these districts, with high deposit accretion potential.
- **Pin code level branch strategy**: HDFC should benefit from early mover advantage as a third of its branch additions in the last two years are in the pin codes where ICICI, Axis and Kotak are not present. The competition in these areas is mainly from the PSU banks, where making in-roads should be relatively easier due to HDFC's wider product suite and a strong brand name.
- **Branch vintage analysis**: RBL, IIB, Axis and HDFC have higher share of 'developing' branches at 60-80%, and with 45-80% of these developing branches in the metro/urban areas the deposit compounding should be relatively higher vis-a-vis the peers as they mature. On the other hand, 50-80% of Kotak, BOB, SBI and Federal's branches are 'matured'.

Strength of banks' existing liability franchise

We evaluate banks' liability franchise on the basis of comprehensive 15 metrics ranging across market share, mix, granularity, cost, productivity and district-level branch strategy. The key not-so-obvious observations are:

- BOB has lost MS in the overall deposits, and Kotak and SBI have lost CASA MS in the last three years.
- Private banks punch above their weight in capturing customers' transaction flows vs their deposit market share. HDFC Bank is the leader in both customer transaction flows and agency business.
- Axis, IIB and RBL have seen the highest improvement in liability granularisation (retail deposits, CASA ratio). Among the larger Private banks, Kotak has witnessed deterioration in both retail deposits and LCR; whereas it improved for HDFC and Axis.
- BOB is the only bank under our coverage that has witnessed deterioration in deposit productivity.

Figure 52: Analysis of strength of banks' existing liability franchise

(in %)	HDFCB	ICICI	Kotak	Axis	IIB	SBI	BOB	Federal	RBL
Market share									
Deposit market share	**10.0**	**6.3**	**1.9**	**5.1**	**1.8**	**23.6**	**6.4**	**1.1**	**0.5**
change in last 3Y	170bps	69bps	3bps	40bps	32bps	3bps	-46bps	3bps	3bps
CASA market share	**10.2**	**6.6**	**2.4**	**5.5**	**1.7**	**22.8**	**5.8**	**0.9**	**0.4**
change in last 3Y	188bps	63bps	-20bps	92bps	24bps	-153bps	6bps	5bps	9bps
Branch market share	**5**	**3.7**	**1.1**	**3.2**	**1.5**	**14.4**	**5.3**	**0.9**	**0.3**
change in last 3Y	165bps	31bps	12bps	27bps	35bps	15bps	-83bps	6bps	8bps
NEFT market share	**17.5**	**10.4**	**3.5**	**7.2**	**1.5**	**17.3**	**3.5**	**0.8**	**0.8**
change in last 4Y	379bps	212bps	26bps	122bps	0bps	119bps	97bps	14bps	26bps
RTGS market share	**20.2**	**9.9**	**2.5**	**8.8**	**1.8**	**12.4**	**1.6**	**0.5**	**0.7**
change in last 4Y	-391bps	206bps	4bps	54bps	84bps	207bps	84bps	15bps	45bps
Key liability ratios									
Liability mix									
share of deposits	90	92	95	85	88	92	91	91	85
share of borrowings	10	8	5	15	12	8	9	9	15
CASA ratio	**42.5**	**43.3**	**49.0**	**45.5**	**39.9**	**41.2**	**37.9**	**31.8**	**31.8**
change in last 3Y	26bps	-183bps	-716bps	434bps	-48bps	-234bps	261bps	134bps	225bps
Retail deposits (per LCR)	**61.0**	**57.7**	**56.1**	**55.9**	**43.0**	**67.6**	**59.6**	**73.0**	**42.2**
change in last 3Y	173bps	58bps	-236bps	227bps	1202bps	-481bps	-346bps	-942bps	787bps
Liquidity coverage ratio	**126**	**122**	**122**	**123**	**132**	**147**	**144**	**125**	**129**
Loan-to-deposit ratio	**84**	**85**	**85**	**91**	**87**	**71**	**80**	**82**	**85**
change in last 3Y	-214bps	168bps	146bps	190bps	-1553bp	-34bps	734bps	218bps	-1501bp
Cost of funds	**4.7**	**4.6**	**4.3**	**4.8**	**6.0**	**4.6**	**4.7**	**5.2**	**5.8**
change in last 3Y	0 bps	-3 bps	-28 bps	-21 bps	-29 bps	2 bps	5 bps	-32 bps	-45 bps
Cost of deposit	**4.5**	**4.3**	**4.3**	**4.6**	**6.1**	**4.5**	**4.7**	**5.3**	**6.1**
change in last 3Y	-41 bps	-47 bps	-64 bps	-39 bps	7 bps	-22 bps	-8 bps	-42 bps	-33 bps
Productivity ratios									
Deposit / Branch (in mn)	**3,000**	**2,238**	**2,269**	**1,979**	**1,518**	**2,032**	**1,451**	**1,723**	**1,706**
change in last 3Y (%)	33	42	30	25	25	38	-13	42	-4
CASA / Branch (Rs. mn)	**1,275**	**969**	**1,112**	**901**	**606**	**837**	**550**	**549**	**636**
change in last 3Y (%)	34	36	13	38	24	31	-7	48	20
Branch analysis									
Fast-growing districts	3	3	1	2	1	10	4	1	0
High Potential districts	5	4	1	3	1	17	5	2	0
Vintage analysis	61	49	47	62	78	30	34	21	83

Source: Company, IIFL Research. Note: Ratios as of 1QFY24. Productivity ratio is calculated using 1 year lagged branches.

We have developed a scorecard that ranks all individual banks on 15 comprehensive liability franchise metrics shown in the above table. **On our liability franchise scorecard, HDFC ranks the highest; followed by SBI and then ICICI.** While Axis is ranked number 5, its weighted average score of 5.4 has been improving and now nears Kotak's 5.3 (which has been deteriorating).

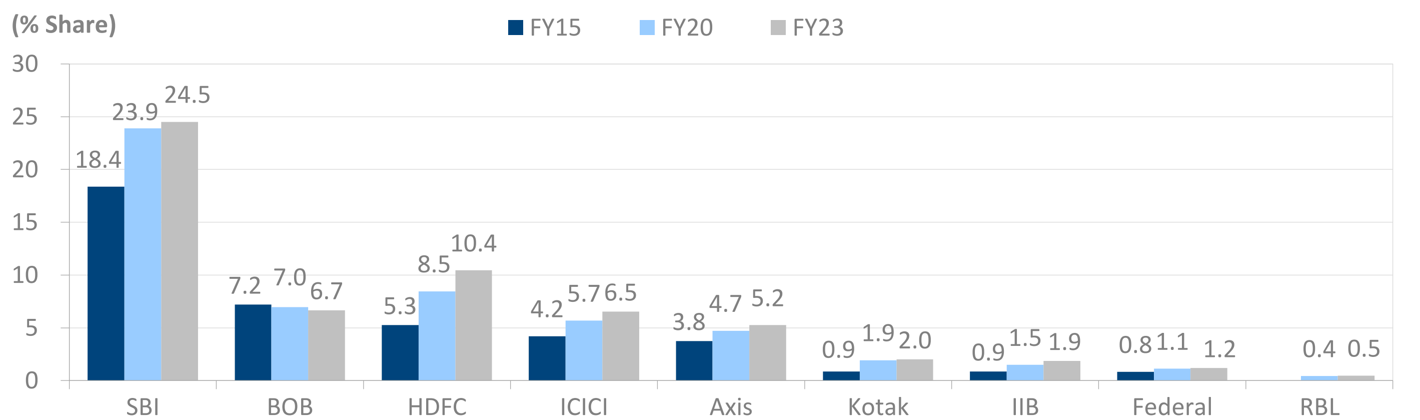
Figure 53: Scorecard ranking of the individual banks on 15 comprehensive liability franchise metrics

On a scale of (1-9)	Weights	HDFCB	ICICI	Kotak	Axis	IndusInd	SBI	BOB	Federal	RBL
Market share	20%									
Deposit market share	4%	8	6	4	5	3	9	7	2	1
change in last 3Y	4%	9	8	2	7	6	2	1	2	2
Branch market share	4%	7	6	3	5	4	9	8	2	1
change in last 3Y	4%	9	7	4	6	8	5	1	2	3
NEFT MS - Deposit MS	3%	9	8	6	7	4	1	2	3	5
RTGS MS - Deposit MS	3%	9	7	6	8	4	1	2	3	5
Key liability ratios	35%									
Liability mix - share of deposits	5%	4	8	9	1	3	7	5	6	2
CASA ratio	10%	6	7	9	8	4	5	3	1	1
Retail deposits (per LCR)	10%	7	5	4	3	2	8	6	9	1
Liquidity coverage ratio	5%	5	1	2	3	7	9	8	4	6
Cost of funds	5%	6	8	9	4	1	7	5	3	2
Productivity ratios	15%									
Deposit / Branch (Rs.mn)	8%	9	7	8	5	2	6	1	4	3
CASA / Branch (Rs. mn)	8%	9	7	8	6	3	5	2	1	4
Branch analysis	30%									
Fast-growing districts	10%	7	6	4	5	3	9	8	2	1
High Potential districts	10%	7	6	3	5	2	9	8	4	1
Vintage analysis	10%	6	5	4	7	8	2	3	1	9
Weighted Average scale	100%	7.1	6.2	5.4	5.3	3.8	6.3	4.7	3.2	2.8
Ranking		1	3	4	5	7	2	6	8	9

Source: Company, IIFL Research. Note: The ranking of each parameter is an ordinal ranking of 1-9 (9 being the best) on the 1QFY24 reported numbers. The rankings are not fractional rankings relative to each other.

Fig. 54 shows SBI and HDFC have been gaining deposit market share rapidly (5-6pp gain since FY15), gains are moderate for ICICI and Axis (1.5-2.5 pp gain) and weaker for Kotak and IIB (1pp). Only BOB has witnessed 50 bps of decline in deposit market share since FY15.

Figure 54: Deposit market share – high gains for SBI/HDFC, moderate for ICICI/Axis, lower for Kotak/IIB/Fed and decline for BOB

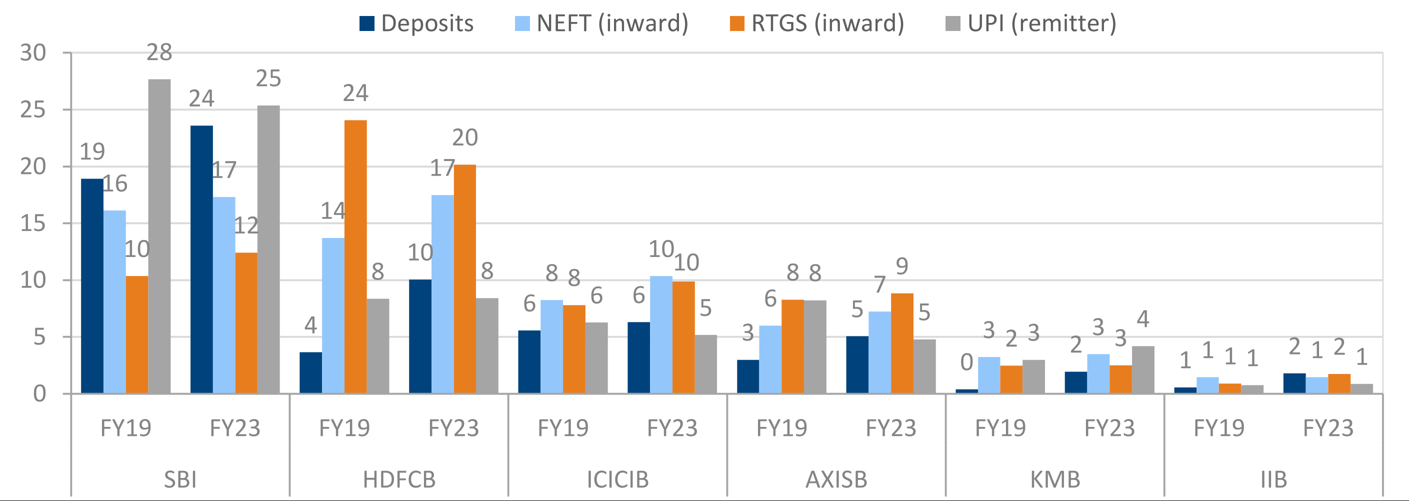


Source: Company, IIFL Research

HDFC has a dominant market share in customers' transaction flows and government's agency business

Not only are the larger private banks gaining deposit market share from public banks ex-SBI, but they are also punching above their weight in terms of capturing the customers' transaction flows. We have used NEFT inward, RTGS customer inward and UPI remitter bank market share (in volume terms) as a proxy to gauge this. HDFC Bank has the highest share in NEFT and RTGS market share among the individual banks, and also relative to banks' own deposit market share (i.e. NEFT share less deposit market share). As regards UPI, SBI has far higher market share than other banks, followed by HDFC Bank, and then ICICI/Axis.

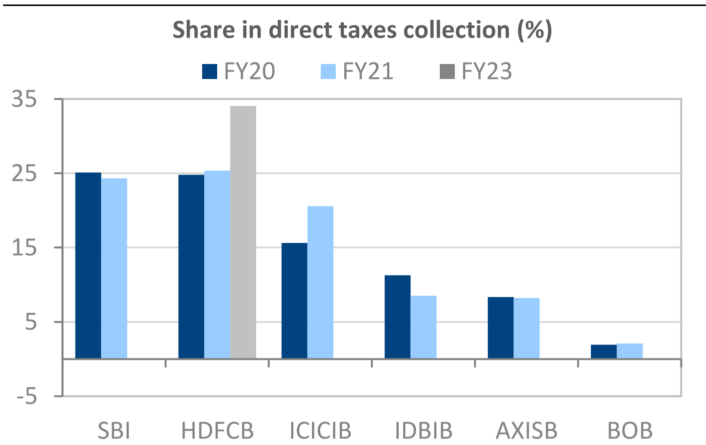
Figure 55: Larger private banks punching above their weight in capturing customers' transaction flows; HDFCB being the best



Source: RBI, NPCI, IIFL Research

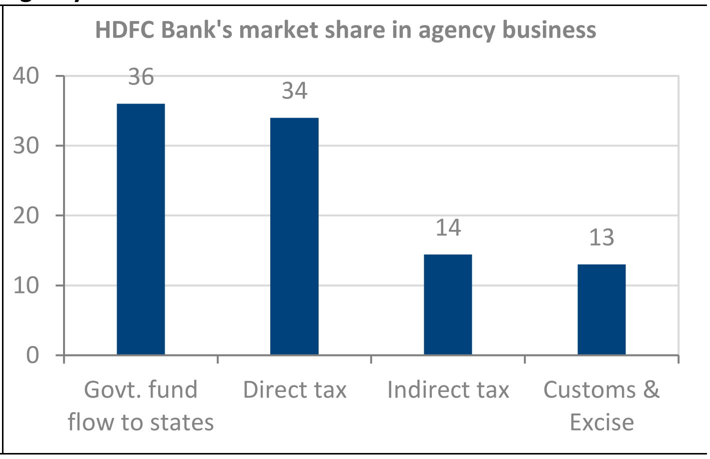
HDFCB has the highest market share in direct taxes collection at 34% as of FY23. Even in the government's other agency businesses, HDFCB has a dominant market share – 14% in GST, 13% in Customs and Central Excise Duty, and 36% in government fund flow to states.

Figure 56: HDFC Bank has the highest market share in direct taxes collections



Source: GOI, IIFL Research

Figure 57: HDFC Bank has a dominant market share in the agency business



Source: Company, IIFL Research

Federal and HDFC Bank have the best retail deposit franchise among private banks; Axis and IIB witnessing improvement in the run-off rates

In the rising interest rate cycle, wholesale rates increase more; hence, retail deposits turn more valuable. Further, retail deposits have much lower run-off rates than wholesale or government deposits, and thus amount available to lend (aka lendable deposits) is higher (Fig. 58). The wholesale deposits are not only less sticky, but are also costlier because the bank will have to additionally borrow equivalent to 4.5% of these deposits to place the CRR (in practice it will be even more if a bank is operating at 110% LCR and wants to maintain that level) and also pay 10-12 bps of deposit insurance. This would translate in total landed cost of 8.1%+ for a one-year wholesale deposit today.

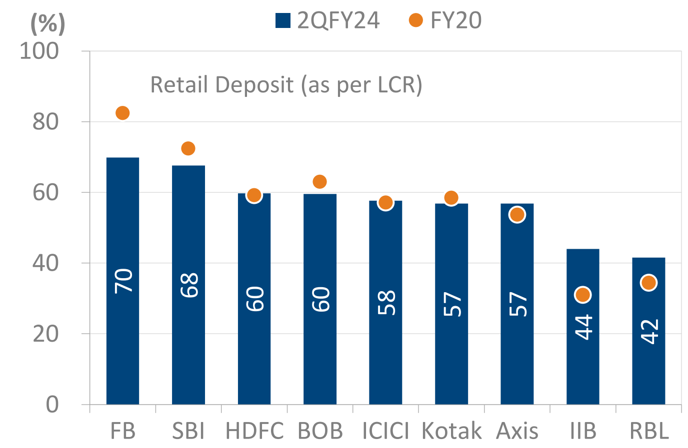
Figure 58: Retail deposits have much lower run-off rates than wholesale or government deposits

	Particulars	Retail Deposits - Stable	Retail Deposits - Less Stable	Corporate/ Government	Financial Sector
		Stable (%)	Less Stable (%)	Callable (%)	Callable (%)
A	Deposits Mobilized	100	100	100	100
B	Regulatory CRR Requirement	4.5	4.5	4.5	4.5
C	Regulatory SLR Requirement	18	18	18	18
D = B + C	Overall Regulatory Requirement	22.5	22.5	22.5	22.5
E	Run-off Rate (per LCR)	5	10	40	100
F = Max (D,E)	HQLA/CRR/SLR Required (higher of D or E)	22.5	22.5	40	100
G = A * F	Liquidity Requirements	22.5	22.5	40	100
H = A - G	**Amount Available to Lend**	**77.5**	**77.5**	**60**	**0**

Source: RBI, IIFL Research

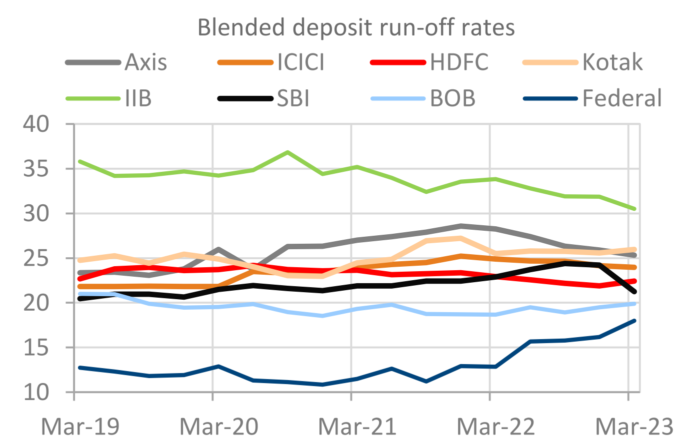
Among the banks under our coverage, Federal, SBI, HDFC and BOB have the highest share of retail deposits (Fig. 59). However, the ratio has declined for Federal, SBI, BOB and Kotak in the last few years; whereas it has improved for IIB and RBL from their historically low levels. As regards to the deposit run-off rates as per LCR (Fig. 60), HDFC Bank is better than Axis and ICICI. Axis and IndusInd Bank have seen an improvement in the run-off rate over the last couple of years; whereas, it has deteriorated for Kotak and Federal Bank (though Federal still remains the best placed).

Figure 59: Federal, SBI, HDFC and BOB have the highest share of retail deposits …



Source: Company, IIFL Research. Note: 1QFY24 for SBI and BOB.

Figure 60: … and also lower deposit run-off rates; Kotak seeing some uptick and IIB/Axis improvement

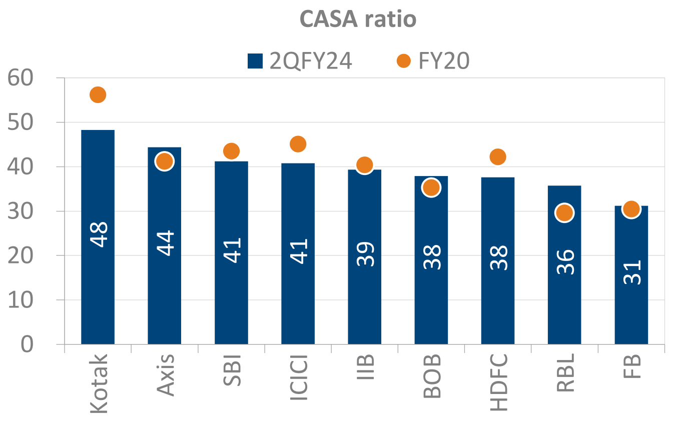


Source: Company, IIFL Research

Kotak has the highest CASA ratio of 48%, but it has declined the most by ~800 bps in the last three years (Fig. 61). Even IIB, ICICI and SBI have seen a decline of 100-235 bps during this period. Axis bank has witnessed the highest improvement of 325 bps and at 44% level, its CASA ratio is the second-best among the banks under our coverage. Other banks i.e. Federal, BOB and RBL have witnessed 70-600 bps of improvement in the CASA ratio.

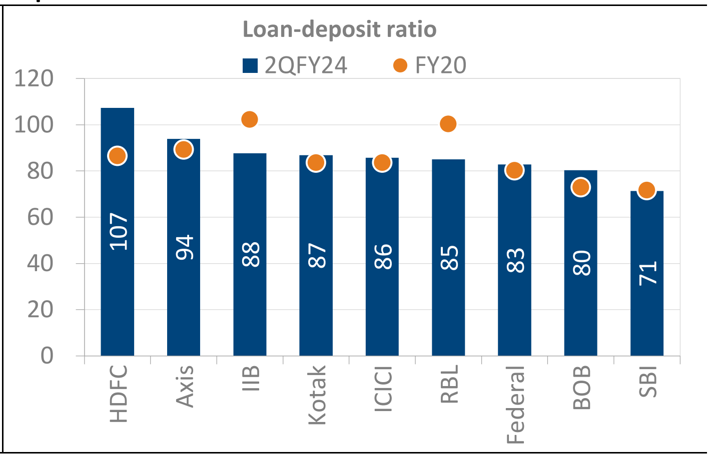
In terms of loan-to-deposit ratio (LDR), private banks have higher LDR of 85-90% vs. 70-80% for the public banks. Only IIB and RBL have seen their LDR easing in the last three years.

Figure 61: Kotak has the highest CASA ratio and Federal the lowest; however it has deteriorated sharply by 800 bps for Kotak, but Axis and RBL have seen improvement



Source: Company, IIFL Research. Note: 1QFY24 for SBI and BOB.

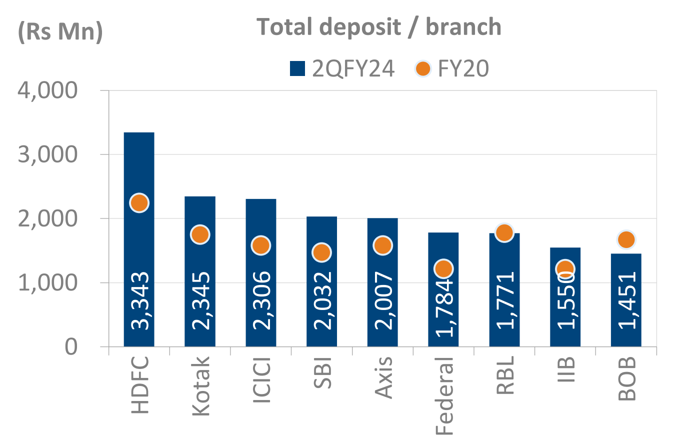
Figure 62: Private banks (ex HDFC) have higher LDR of 85-95% vs. 70-80% for public banks; IndusInd and RBL have seen improvement



Source: Company, IIFL Research. Note: 1QFY24 for SBI and BOB.

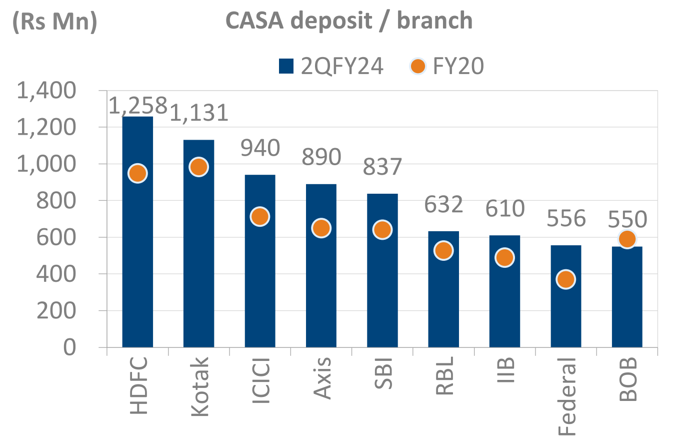
HDFC, Kotak and ICICI have high branch productivity, both in terms of total deposits per branch (Fig. 63), as well as CASA deposits per branch (Fig. 64). High branch productivity for Kotak is mainly due to higher share of matured branches (higher compounding) and that too in the metro and urban locations (higher per capita savings). Overall deposit productivity has improved by 7-10% CAGR since FY20, save for a decline at BOB (Fig. 63). Even CASA deposit productivity has improved by 5-13% CAGR during this period, with the fastest growth for Federal, slower for Kotak and a decline for BOB.

Figure 63: HDFC, Kotak and ICICI have the best branch productivity; RBL, IIB and BOB and have the lowest …



Source: Company, IIFL Research. Note: Branches are 1Y lagged. 1QFY24 for SBI and BOB.

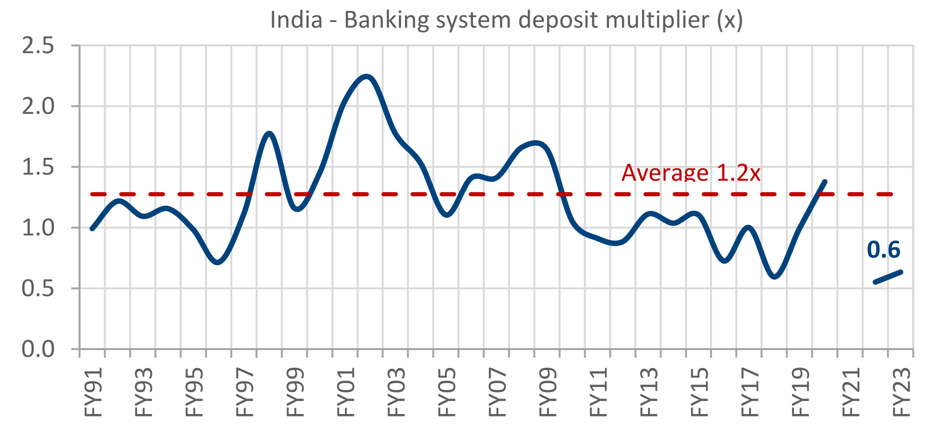
Figure 64: … and similar ranking of the banks based on CASA productivity ratio as well



Source: Company, IIFL Research. Note: Branches are 1Y lagged. 1QFY24 for SBI and BOB.

Given the volatile nominal GDP growth in last couple of years (negative in FY21 and a subsequent rebound in FY22 and FY23 due to low base), the deposit multiplier fell to 0.6x in FY23. However, on a normalised basis (based on 3Y CAGR) the deposit multiplier is still low at 1x (vs. long-term avg. of 1.2x) due to sluggish deposit growth. We expect the multiplier to increase to 1.2x, but it will be mainly due to lower nominal GDP growth in the base. With higher interest rates making financial asset ownership more attractive again vs. the physical assets, private banks' branch expansion and the relentless focus on mobilising deposits, we expect system deposit growth to improve to 13-14% CAGR over FY25-26E from 12.8% currently (ex-merger impact).

Figure 65: Deposit multiplier of 0.6x currently is one of the lowest in last 35 years (partly due to volatility in the nominal GDP growth); normalized deposit multiplier of 1x is still below the long-term average of 1.2x and should improve



Source: RBI, IIFL Research

Figure 66: Expect Private banks to grow deposits faster than Public banks led by distribution network expansion

Deposit Growth (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	18	20	24	23	21	18	23	17	24	16	17	21	29	21	20
ICICI	13	15	13	9	17	16	14	16	18	21	14	11	21	15	16
Axis	16	15	11	15	11	16	9	21	17	9	18	15	13	17	17
Kotak	32	32	16	27	85	14	22	17	16	7	11	16	20	16	15
IndusInd	23	28	12	23	25	36	20	29	4	27	15	15	17	17	18
Federal	14	18	4	19	12	23	15	21	13	13	5	17	18	17	17
RBL						42	27	33	-1	26	8	7	17	16	18
SBI	12	15	16	13	10	18	32	8	11	14	10	9	13	12	14
BOB	26	23	20	9	-7	5	-2	55	3	2	8	15	11	11	14

Source: Company, IIFL Research. Note: HDFC merged numbers from FY24 onwards.

Figure 67: Expect loan-to-deposit ratio to continue to inch-up; Public banks still have room to lever up unlike Private banks

Loan-deposit ratio	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	79	81	82	81	85	86	83	89	87	85	88	85	105	102	99
ICICI	99	99	102	107	103	95	91	90	84	79	81	86	85	87	88
Axis	77	78	82	87	95	90	97	90	89	88	86	89	92	93	93
Kotak	101	95	90	88	86	86	88	91	84	80	87	88	88	89	91
IndusInd	83	82	91	93	95	89	96	96	102	83	81	86	88	90	90
Federal	77	77	73	72	73	75	82	82	80	76	80	82	83	84	84
RBL					87	85	92	93	100	80	76	83	85	87	88
SBI	83	87	87	82	85	77	71	75	72	67	67	72	73	74	75
BOB	75	69	70	69	67	64	72	71	73	73	74	78	80	82	82

Source: Company, IIFL Research.

Holistic assessment of system credit shows no signs of exuberance

No signs of credit growth exuberance when analysed in a more holistic way

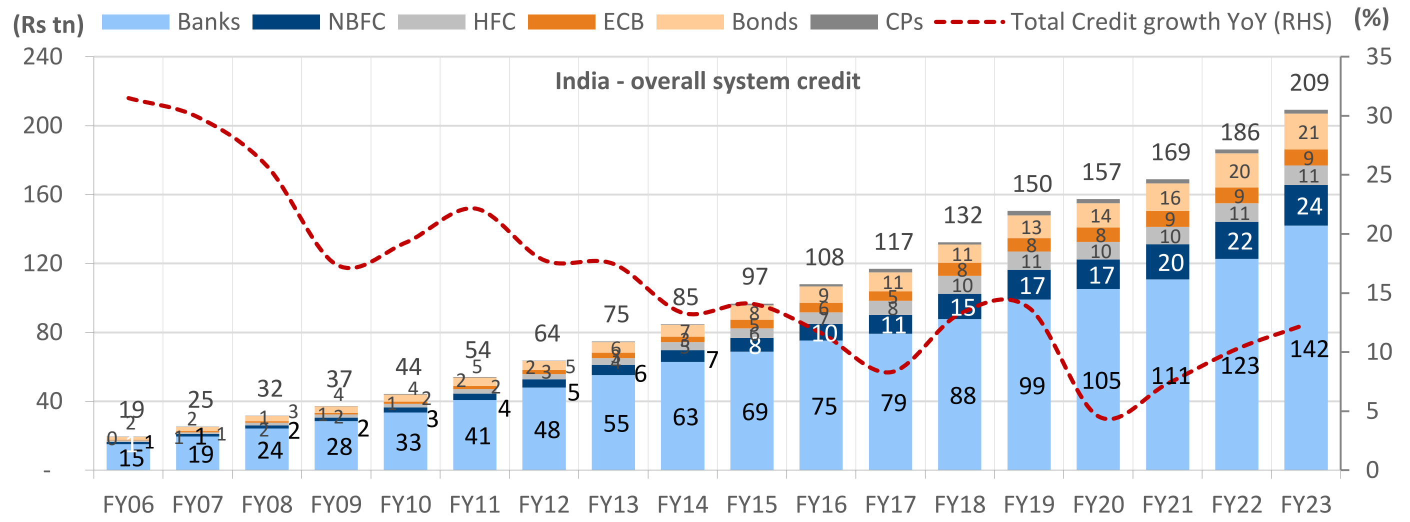
While system credit growth has picked-up (12% YoY), at 77% of GDP it is still at the FY18 levels and is not exuberant by any means. We believe the stars are aligned for credit growth to accelerate to mid-teens thanks to the confluence of favourable supply side (improving data availability with the lenders, best asset quality in the past 15-years, highest ever capitalisation, end of disintermediation from the capital market) and demand-side factors (rising consumption led loan-demand, shift from unorganised to formal financing and green shoots in capex).

Confluence of supply-side and demand-side factors should underpin mid-teens growth vs. 12% currently

Analysing system credit in a holistic manner

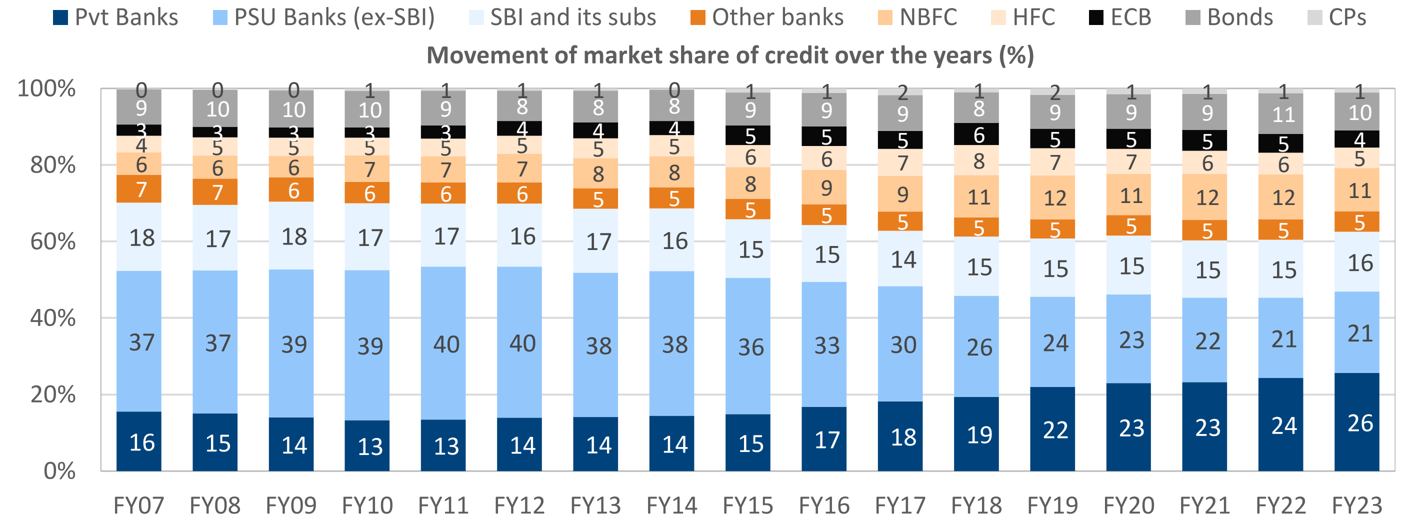
We calculate total credit in a holistic manner, which includes banks, NBFCs, HFCs, corporate bond issuances, ECB and commercial paper. India's total credit of Rs210 tn (US$2.5 tn) is 77% of nominal GDP, and is still at the same level as that in FY18.

Figure 68: India's total credit (US$2.5 tn; 77% of nominal GDP) picking-up, but the growth rate is still below the pre-2016 levels



Source: RBI, CMIE, IIFL Research. Note: (1) NBFCs and HFCs credit is net of their borrowings from the banks. (2) ECB, corporate bonds and CP is net of the issuances by banks and NBFCs.

Figure 69: Private banks/NBFCs have gained 10pp/5pp market share in the last 15 years, mainly from PSU banks (ex-SBI)

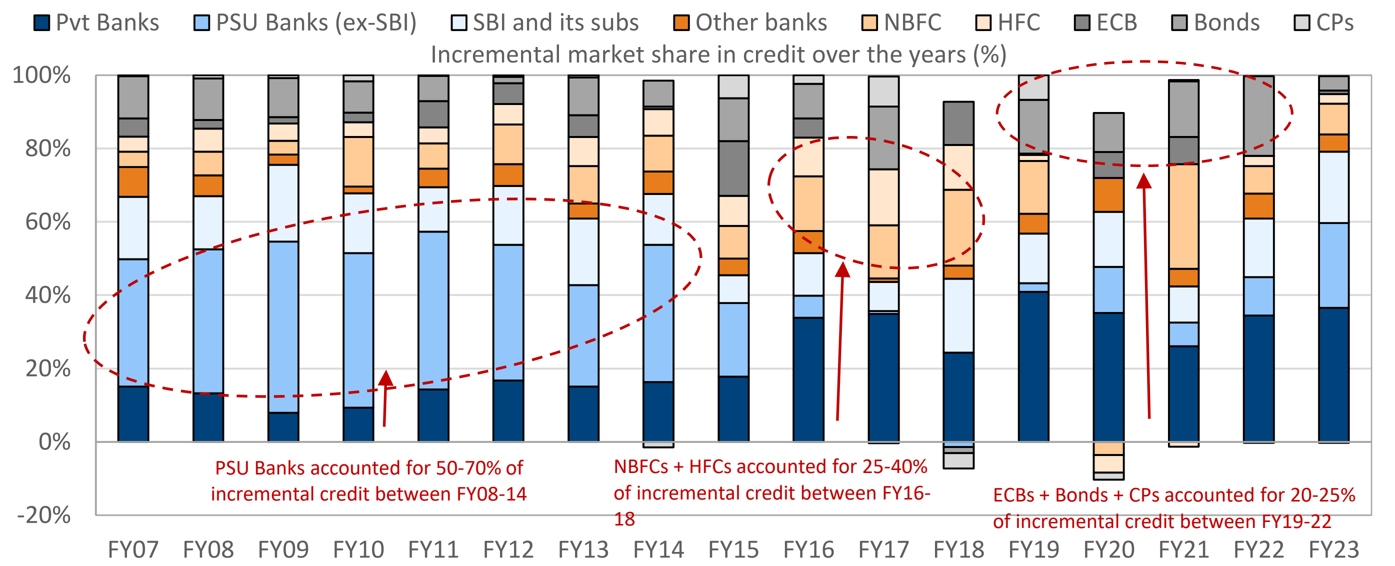


Source: RBI, CMIE, IIFL Research. Note: NBFCs and HFCs credit is net of their borrowings from the banks

For an economy growing at low-to-mid-teens, total credit growth of low-teens (Fig. 71) does not seem excessive by any means. Some interesting observations based on the below charts are:

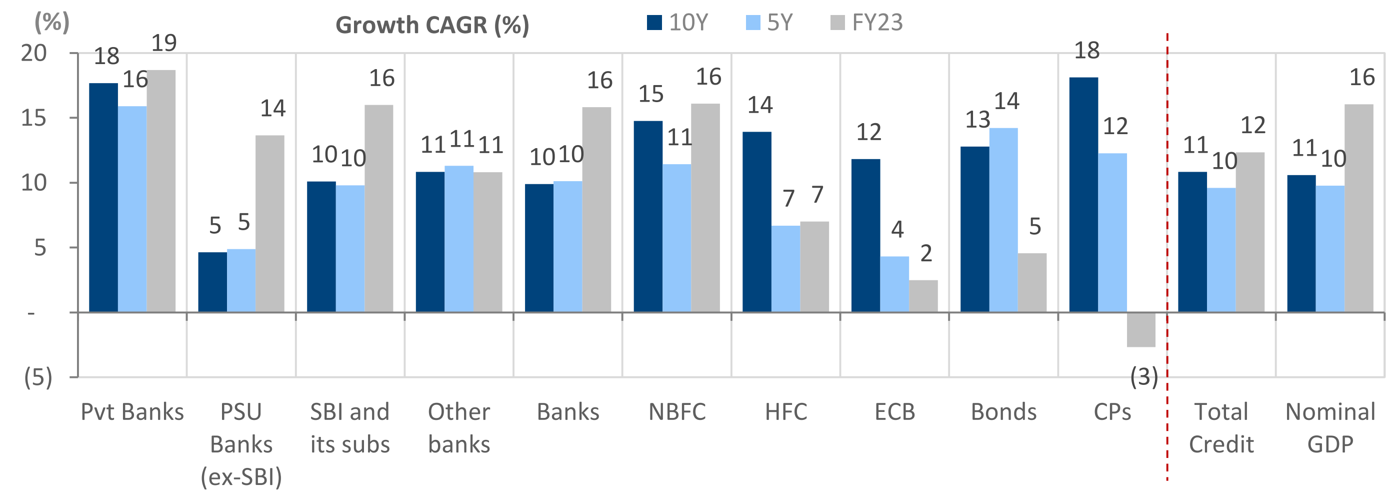
1. While India's total credit growth has been secular, the composition of the same has been volatile. Select categories of lenders have seen strong market share gains during certain periods followed by a sharp slowdown in subsequent periods due to idiosyncratic risks
2. For instance (a) public banks accounted for 50-70% of incremental credit between FY08-14 followed by corporate asset quality cycle; and (b) NBFCs and HFCs accounted for 25-40% of incremental credit between FY16-18 followed by slowdown due to IL&FS crisis.
3. With the lending capability of all the categories of lenders no longer impaired, end of disintermediation from capital market borrowings (ECBs, bonds and CPs constituted 20-25% of incremental credit between FY19-22), benign asset quality and improvement in the capitalisation level, formal lenders gained market share in FY23

Figure 70: With all the categories of lenders no longer impaired and end of disintermediation from the capital markets, formal lenders (i.e. banks and NBFCs/HFCs) gained incremental market share in FY23



Source: RBI, CMIE, IIFL Research. Note: NBFCs and HFCs credit is net of their borrowings from the banks

Figure 71: Total credit growth of 12% YoY in FY23 is largely in-line with the historical run-rate

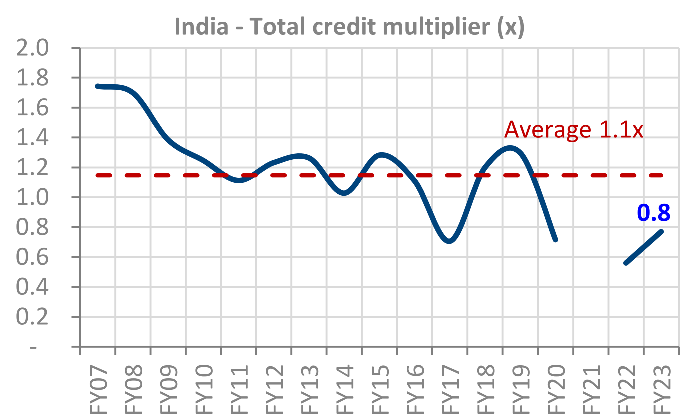


Source: RBI, CMIE, IIFL Research. Note: (1) NBFCs and HFCs credit is on gross basis; (2) 10Y CAGR for PSU Banks (ex-SBI) is a bit understated and that for SBI overstated on account of the merger of SBI with its associate in FY18.

Credit multiplier below long-term average

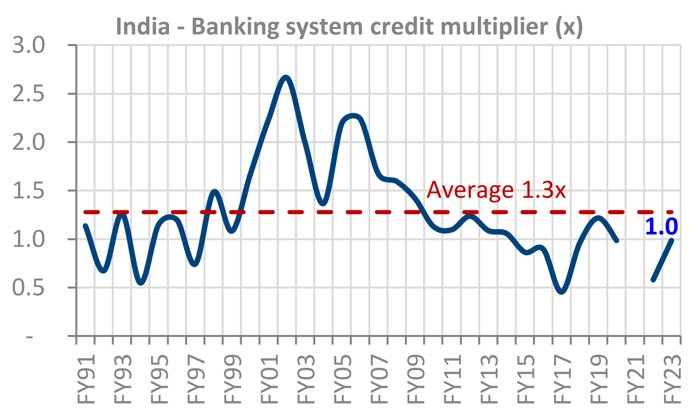
We further assess the trends in India's credit multiplier (credit growth to nominal GDP growth). India's credit multiplier is trending well below its long-term average, both on total credit basis as well as for banking system loans (Fig. 72 and 73). The banking system credit multiplier was comfortably above the 25-year average of 1.3x until the Global Financial Crisis (GFC). However, subdued corporate loan growth resulted in this ratio remaining well below its average since FY10. With robust demand trends, end of disintermediation from the bond market, benign asset quality environment and good capitalisation level of the banks, we expect a pick-up in this multiplier to ~1.3x over FY25-26E. This leads us to a ~15% loan CAGR estimate over FY25-26E, excluding the impact of the recent HDFC Ltd merger with HDFC Bank. Please note, reported loan growth is trending at 20% YoY (Fig. 4) due to the merger impact.

Figure 72: Credit multiplier based on total credit is at 0.8x vs. 15-year avg. of 1.1x



Source: RBI, CMIE, IIFL Research

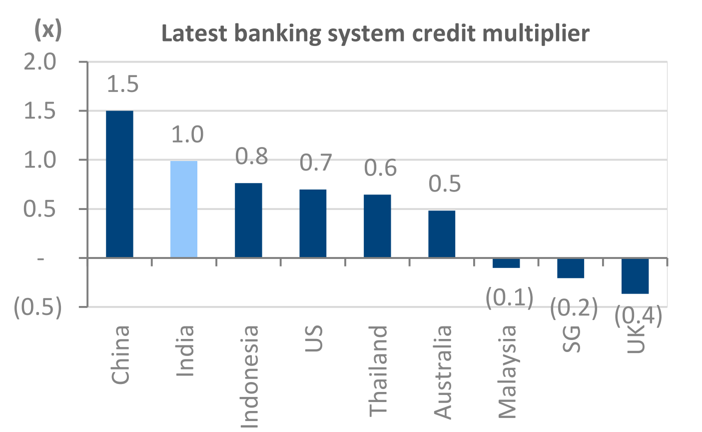
Figure 73: Banking system credit multiplier is at 1.0x vs. 25-year avg. of 1.3x



Source: RBI, IIFL Research

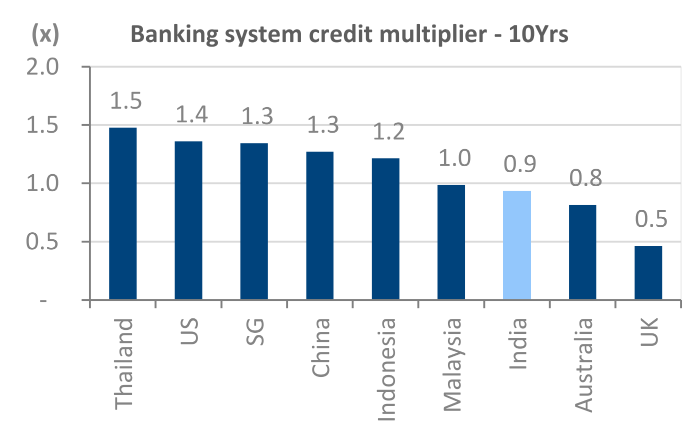
We also compare India's banking system credit multiplier with other countries. India's current credit-multiplier is higher relative to other countries (Fig. 74) as its loan growth has been stronger at 16% YoY in FY23 vs. low-teens for China and Indonesia, mid-single digit for the US, Thailand and Australia, and de-growth for Malaysia, Singapore and the UK. However, India's avg. credit multiplier of 0.9x for the last decade is still lower than most other countries (Fig. 75).

Figure 74: India is witnessing faster loan growth driving higher credit-multiplier relative to the peers …



Source: RBI, BIS, IIFL Research

Figure 75: … but India's avg. credit multiplier of 0.9x for the last decade is still lower than most other countries

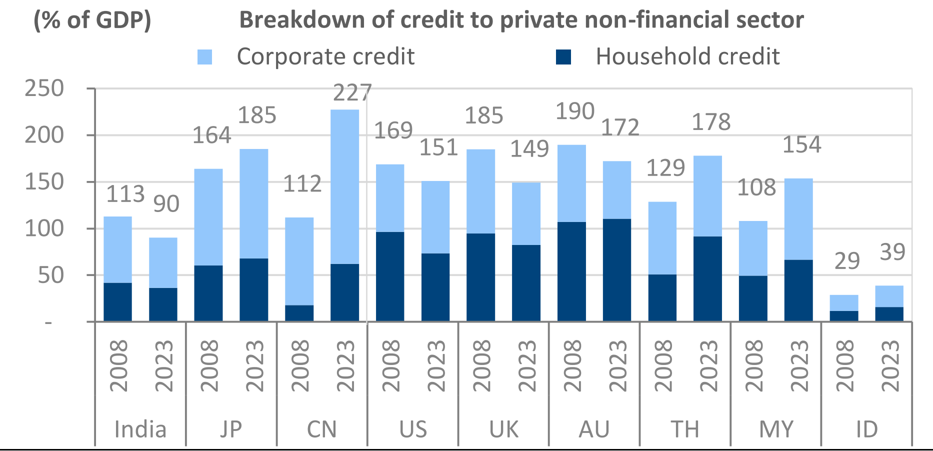


Source: RBI, BIS, IIFL Research

Credit penetration low relative to other countries

Data from the Bank of International Settlement (BIS) shows that the credit penetration in India is still lower than most other countries. India's credit to private non-financial sector at 90% of GDP is low vis-a-vis 150-200% of GDP for select other countries, and 155% for the emerging market economies (Fig. 76). Further, even relative to India's own history, the ratio has declined by 23pp since the Global Financial Crisis (GFC), suggesting absence of credit bubble at the system level.

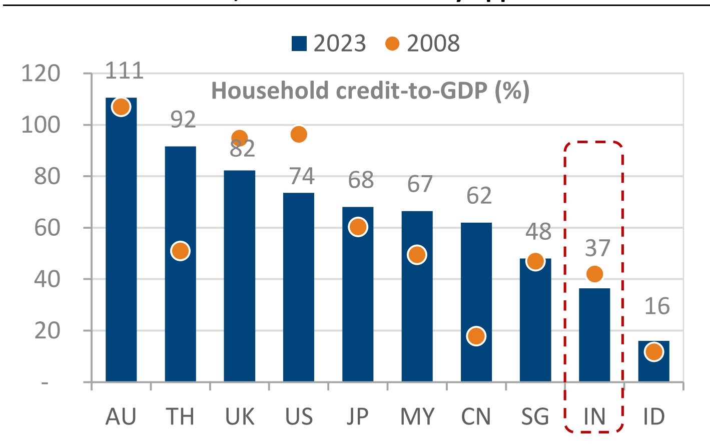
Figure 76: India's credit to private non-financial sector at 90% of GDP has declined by 23pp since the GFC, and is low vis-a-vis 150-200% of GDP for other countries



Source: Bank of International Settlement, IIFL Research

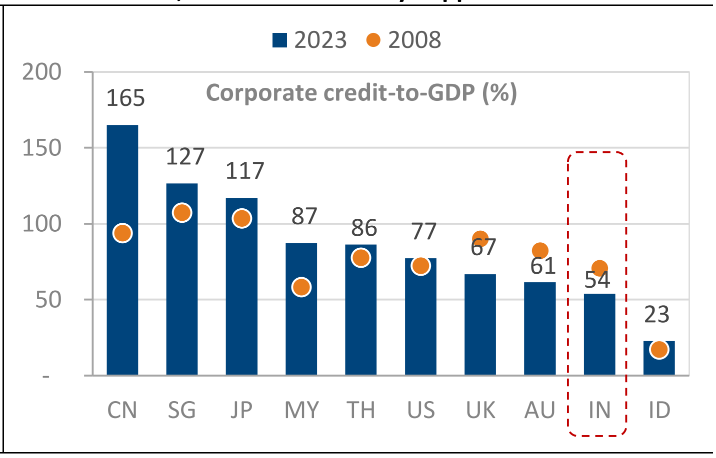
We further look at the split of private sector credit into household and corporate credit to gauge whether there is any exuberance in any particular segment. As Fig. 77 shows, India's household credit-to-GDP of 37% is meaningfully lower vs. 50-110% for other countries (46% for emerging markets) and has declined by 6pp since the GFC. Even India's corporate credit-to-GDP of ~55% (Fig. 78) is meaningfully lower vs. 60-160% for other countries (102% for emerging markets, mainly driven by China) and has declined by 17pp since the GFC.

Figure 77: India's household credit-to-GDP of 37% lower than other countries, and has declined by 6pp since GFC



Source: Bank of International Settlement, IIFL Research

Figure 78: India's corporate credit-to-GDP of 54% lower than other countries, and has declined by 17pp since GFC

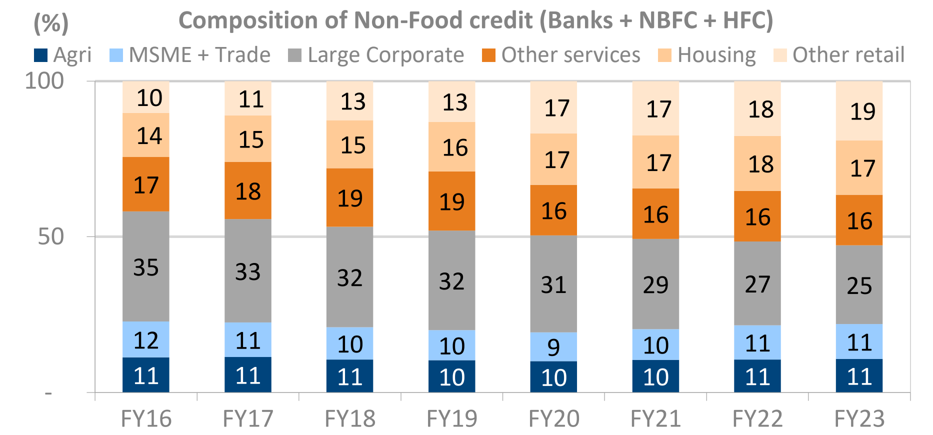


Source: Bank of International Settlement, IIFL Research

Credit growth outlook remains positive

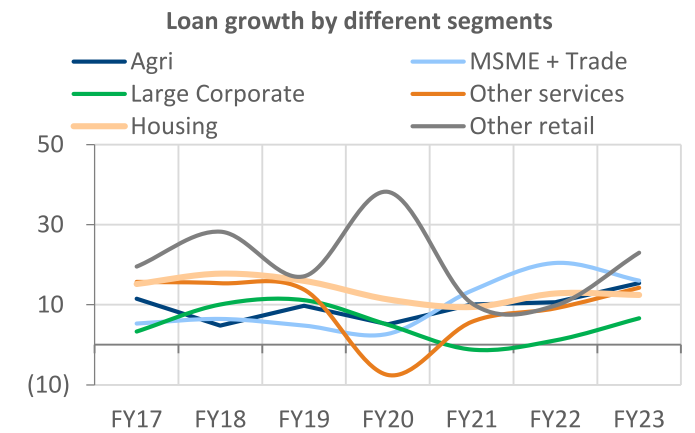
In terms of sectoral growth outlook, (i) capex green-shoots should be supportive of **corporate loan** demand, but it's unlikely to be very strong, (ii) unsecured loans have grown at a faster clip, but we see sufficient headroom available for the **retail loans** given the under-penetration in various segments, and (iii) improving data availability and rising new-to-credit **MSMEs** present a secular growth opportunity.

Figure 79: Share of retail loans rising at the expense of corporate loans



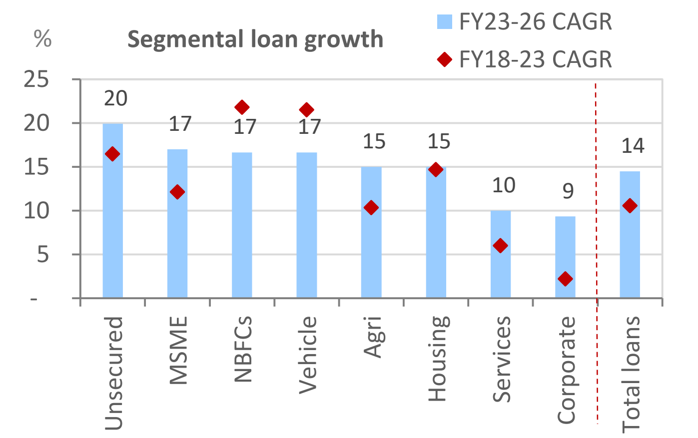
Source: RBI, IIFL Research. Note: Other services is net of borrowings by NBFCs and HFCs

Figure 80: Growth across loan segments accelerated YoY in FY23, save for some deceleration in MSME from high level



Source: RBI, IIFL Research. Note: For Banks + NBFCs + HFCs

Figure 81: Corporate and service loan growth weak, retail strong; expect it to become more broad-based going ahead



Source: RBI, IIFL Research. Note: For Banks only

Figure 82: Banking system loan growth forecast for different segments

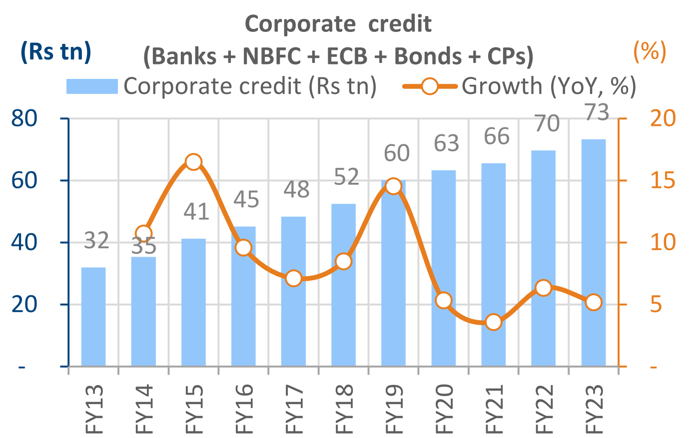
Loan gr. (%)	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22	'23	'24E	'25E	'26E
Agri	13	13	15	15	12	4	8	9	10	10	15	15	15	15
MSME + Trade	0	16	9	(1)	4	5	7	4	14	20	16	18	18	15
Large Industry	22	11	5	4	(2)	1	8	3	(5)	2	3	8	10	10
NBFCs	18	13	6	12	11	27	41	36	(1)	8	30	20	15	15
Other services	5	16	2	10	22	11	9	1	0	8	13	10	10	10
Retail	**18**	**15**	**15**	**16**	**16**	**18**	**16**	**22**	**11**	**13**	**21**	**19**	**17**	**15**
Housing	19	17	17	18	15	13	19	18	10	13	15	15	15	15
Vehicle	17	17	15	2	12	11	7	38	32	9	25	20	15	15
Gold								36	122	(1)	20	15	15	15
FD loans	(11)	6	(1)	8	(3)	10	14	(12)	6	8	44	15	15	15
Unsecured	25	12	17	21	24	28	12	28	3	15	26	25	20	15
Total loans	**14**	**14**	**9**	**8**	**8**	**8**	**12**	**11**	**5**	**10**	**15**	**15**	**15**	**14**

Source: RBI, IIFL Research. Note: System loan growth forecasts are excluding the impact from HDFC Ltd and HDFC Bank merger.

Capex green-shoots emerging, but capex-led corporate loan demand unlikely to be very strong and to reflect only with a lag

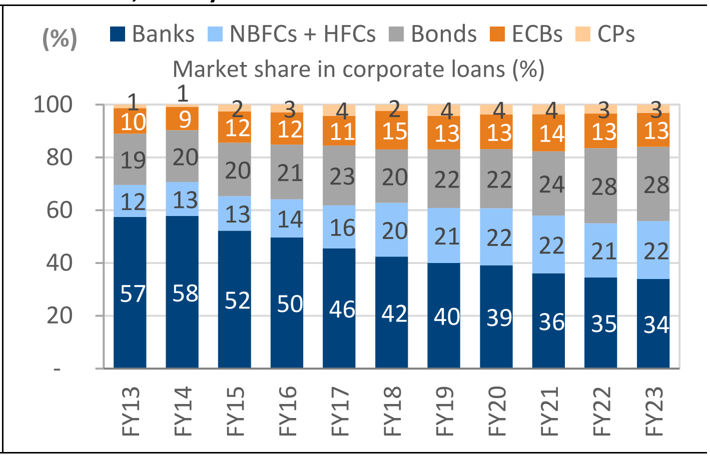
Corporate credit growth has been weak in most part of the last decade (Fig. 83), and we estimate that banks have lost 25pp of market share to NBFCs and the deepening bond market (Fig. 84).

Figure 83: Corporate credit (~US$875 bn) growth has been weak in most part of the last decade



Source: RBI, CMIE, IIFL Research. Note: For Banks + NBFCs + HFCs

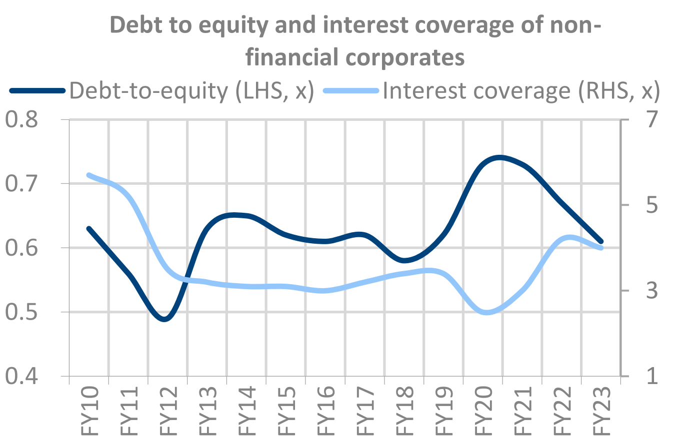
Figure 84: Banks have lost ~25pp of market share over the last decade, mainly to NBFCs and bond market



Source: RBI, CMIE, IIFL Research. Note: For Banks + NBFCs + HFCs

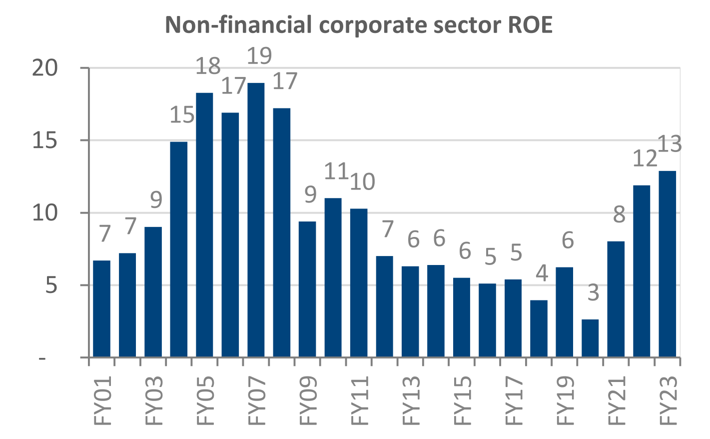
However in this backdrop of lacklustre corporate credit growth, we highlight that corporate India has been deleveraging in the last few years, as reflected in falling debt-to-equity and improving interest coverage ratios. The profitability has also improved with the non-financial corporate sector ROEs at the best levels since the GFC.

Figure 85: Corporate India deleveraging (decline in debt-to-equity) and interest coverage improving



Source: CMIE, IIFL Research

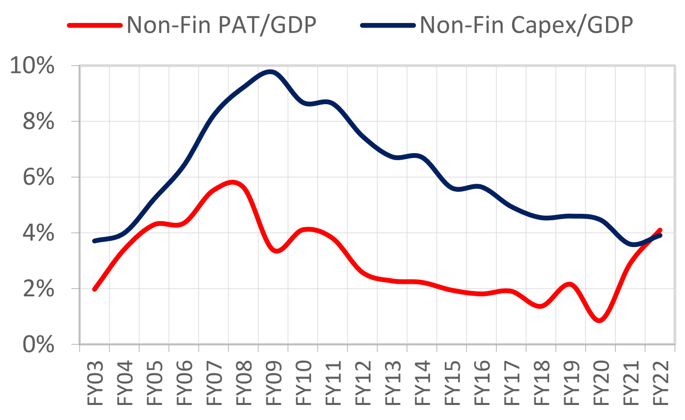
Figure 86: Corporate India's ROEs are at the best levels in the last 15-years



Source: CMIE, IIFL Research

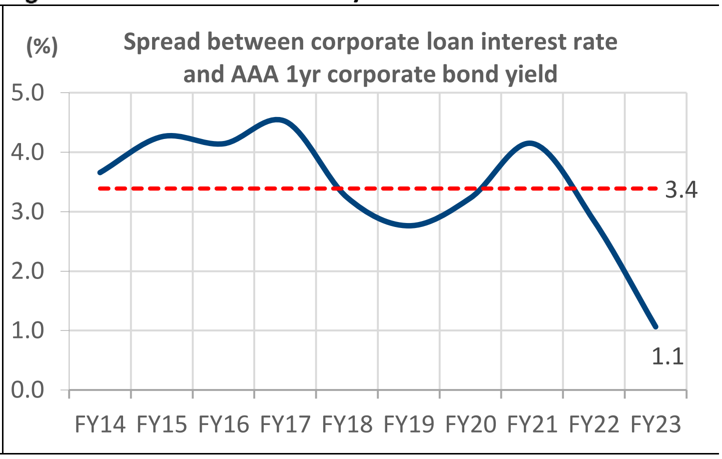
This is particularly important because capex is driven by the profit cycles. Fig. 87 shows that capex follows profits with some lag. Further, one of the key reasons for banking system's flat corporate loan book in last three years was disintermediation by the bond market. With the spread between corporate loan yields of banks and AAA 1-year corporate bond yield at 1.1% now vs. long-term avg. of 3.4%, we expect the disintermediation to slowdown (Fig. 88). In the medium term, our Strategist has highlighted many encouraging capex drivers, including low corporate debt in India, low bank leverage, better access to SME credit (which we estimate does 12-15% of the overall capex), and other domestic factors favouring India such as political stability, policy continuity (policy has been largely pro-business since the Sep-2019 corporate tax rate cuts), including likely more PLI schemes.

Figure 87: Capex follows profits with some lag



Source: CMIE, IIFL Research

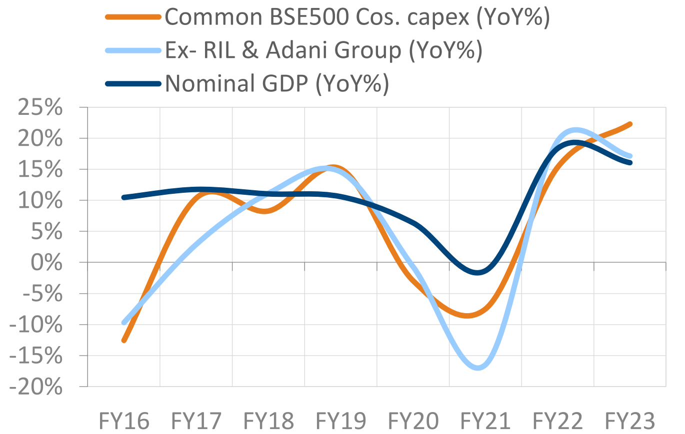
Figure 88: Disintermediation by bonds should slowdown



Source: Bloomberg, IIFL Research

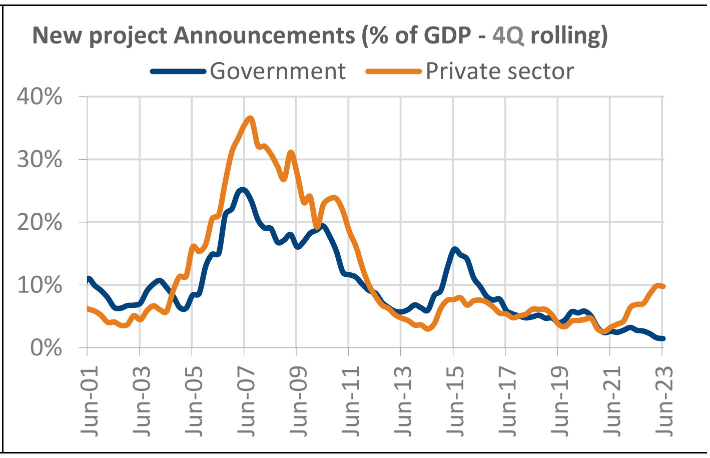
Some green-shoots are already visible with listed companies' capex growth surpassing nominal GDP growth in FY23 after remaining lower for many years (Fig. 89). New private sector project announcements have been rising in the last few quarters, and are at the decade-high levels. However, it is imperative to note that it is still nowhere near the peak levels witnessed during 2005-2010 (Fig. 90).

Figure 89: Listed cos capex growth surpassing GDP growth in FY23, after remaining lower for many years



Source: CMIE, IIFL Research

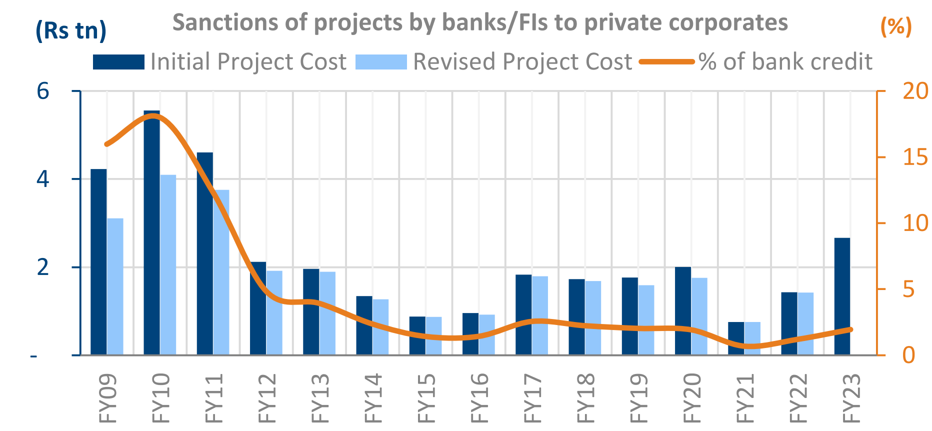
Figure 90: New private sector project announcements rising



Source: CMIE, IIFL Research

These project announcements are also accompanied with a pick-up in fresh sanctions of projects by banks/FIs.

Figure 91: Fresh sanctions of projects by banks/FIs to private corporates at decade high-level, but still below the peak and is still just 1.9% of bank loans



Source: Company, IIFL Research

While the fresh sanctions have inched up to 1.9% of banking system loans (Fig. 91), pending disbursements are at just 1.4% of loans (Fig. 92). While this is definitely some improvement from what we have seen in the past few years, it is a far cry from 5-10% levels witnessed during FY10-FY13.

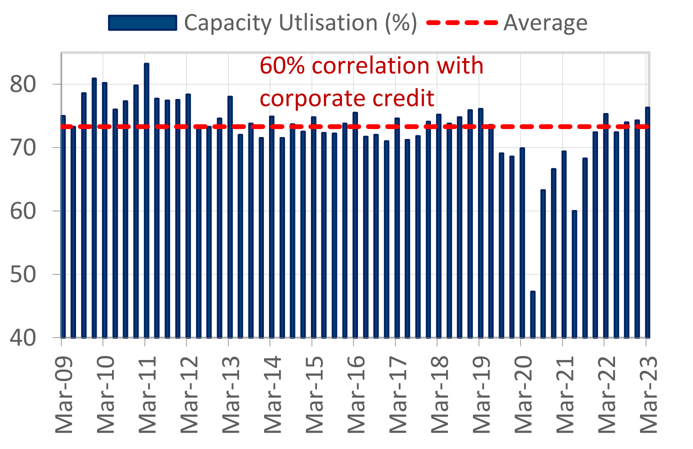
Figure 92: Phasing of Capital Expenditure of projects sanctioned assistance by Banks / FIs i.e. disbursement schedule across years – pending disbursements are at just 1.4% of banking system loans

Year of sanction	No of Projects	Initial Project Cost	Revised Project Cost	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Beyond FY24
Upto 2009-10	3,350	15,446	12,257	2,736	2,065	1,191	445	123	34	-	-	-	-	-	-	-	-	-	-
FY11	697	4,603	3,752	286	1,071	1,046	788	464	85	1	9	-	-	-	-	-	-	-	-
FY12	636	2,120	1,916	57	230	669	554	282	95	29	-	-	-	-	-	-	-	-	-
FY13	414	1,963	1,895	-	1	367	567	490	273	112	65	20	-	-	-	-	-	-	-
FY14	472	1,340	1,273	-	-	13	151	348	449	199	71	27	15	-	-	-	-	-	-
FY15	326	876	873	-	-	-	1	148	346	258	95	12	2	10	-	-	-	-	-
FY16	346	954	918	-	-	-	-	38	74	375	286	81	50	12	2	-	-	-	-
FY17	541	1,828	1,792	-	-	-	-	14	40	254	712	411	216	86	40	21	-	-	-
FY18	485	1,728	1,682	-	-	-	-	-	6	152	124	630	414	228	102	23	2	-	-
FY19	409	1,766	1,592	-	-	-	-	-	-	6	69	110	600	471	212	98	27	0	-
FY20	320	2,000	1,758	-	-	-	-	-	-	-	-	40	145	540	586	281	141	23	2
FY21	220	756	756	-	-	-	-	-	-	-	-	-	25	37	290	262	97	39	6
FY22	401	1,433	1,420	-	-	-	-	-	-	-	-	-	-	36	105	596	442	184	56
FY23	547	2,665	-	-	-	-	-	-	-	-	-	-	-	11	22	167	880	925	661
Grand Total				3,079	3,367	3,286	2,506	1,906	1,402	1,385	1,432	1,331	1,467	1,430	1,359	1,448	1,589	1,172	724

Source: RBI, IIFL Research. Note: Figures in Rs bn. Pending disbursements as of FY23 is Rs1,896 bn (i.e. 1,172 bn + 724 bn)

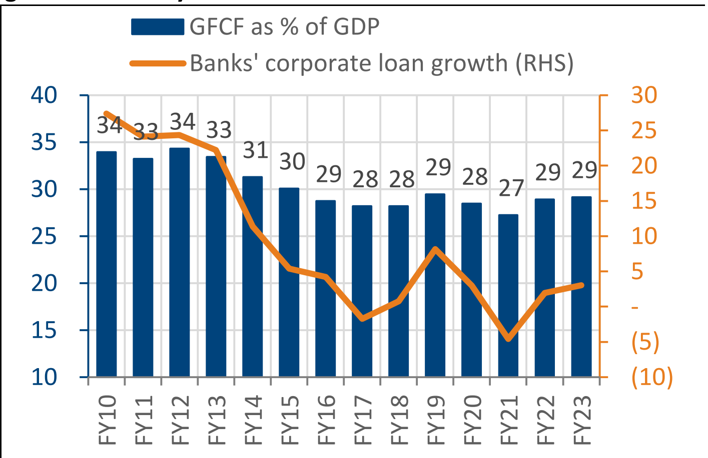
There has also been an improvement in capacity utilisation levels. At 76%, utilisation level is the best in the last decade. This is important because we find there is a reasonably good positive correlation (60%) between capacity utilisation and overall corporate credit growth. However, we believe improvement in capacity utilisation beyond 80% level (Fig. 93) and a sustained pick-up in GFCF (Fig. 94) is essential for a structural corporate loan growth recovery.

Figure 93: Capacity utilization at 15yr avg. levels – no tearing hurry for capex



Source: CMIE, IIFL Research

Figure 94: Sustained pick-up in GFCF essential for corporate growth recovery

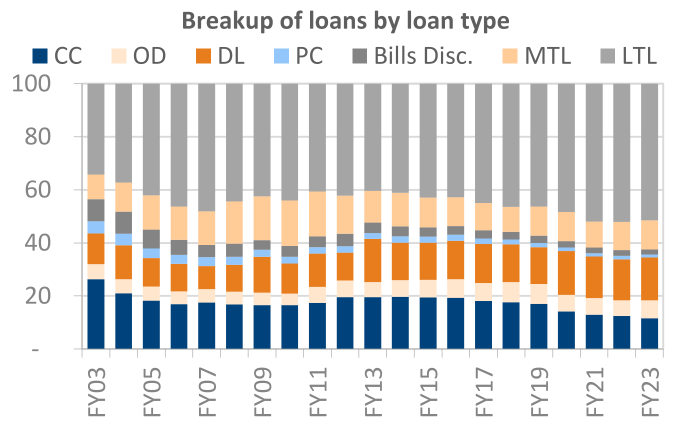


Source: CMIE, IIFL Research

Our analysis of loan split shows that there is a change in preference for medium to long term loans as compared to short term loans in the previous decade (Fig. 95). Cash credit has reduced to 12% of loans as compared to ~20% in the previous two decades. This has been offset by a higher increase in medium to long-term loans. This segment gives an indication whether a capex cycle is around the corner.

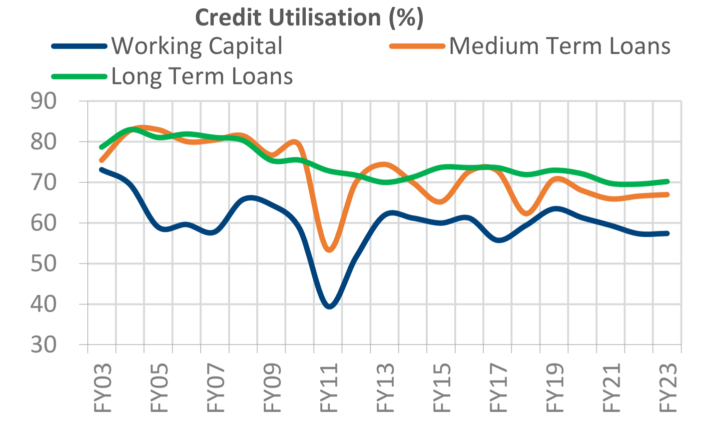
However, there are no such signs as yet. FY2009-11 was a period where the utilisation rate dropped quite sharply to ~55% levels. This was a period where there was a strong growth in fresh limits issued in the corporate sector, which ultimately led to the corporate asset quality cycle. However, credit utilisation has not picked up in the recent years, despite slower growth in loans sanctioned (Fig. 96). The sluggishness in credit utilisation rate is being led by lower credit growth (9% CAGR since FY19) as compared to higher sanctions (11% CAGR during this period).

Figure 95: Share of medium-to-long-term loans rising (aids in tracking whether capex cycle is around the corner)



Source: RBI, IIFL Research. Note: MTL refers to medium-term loans and LTL refers to long-term loans

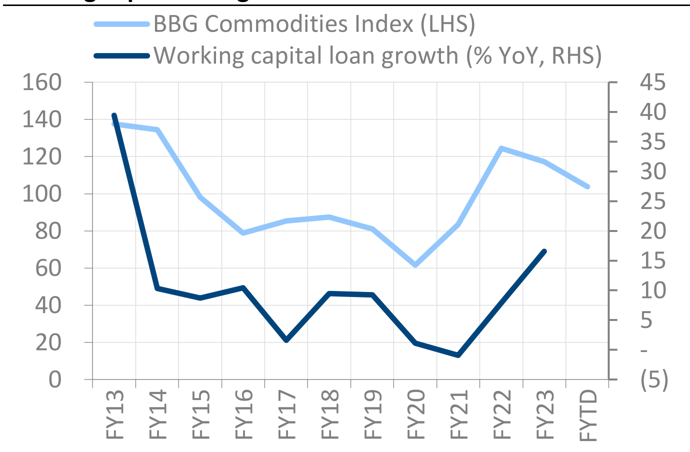
Figure 96: But utilization rate hasn't picked-up despite slower sanction growth (dip in FY11 due to surge in limits)



Source: RBI, IIFL Research

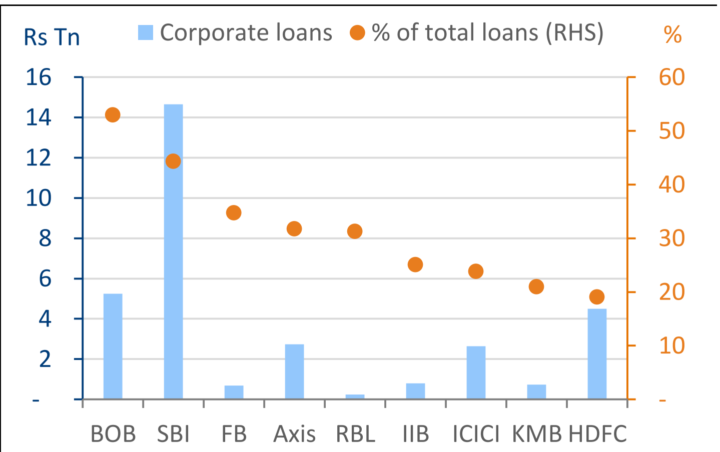
Furthermore, the recent commodity price weakness can also weigh on working capital loan growth of banks (Fig. 97). Therefore, we conclude that green shoots in capex should be supportive of corporate loan demand and drive some pick-up from current low levels. However, it is unlikely to be as strong as FY10-13 cycle, and will manifest only with a lag. Among the banks under our coverage, BOB and SBI have higher share of corporate loans in overall loan mix; whereas, it is lower for HDFC and Kotak (Fig. 98).

Figure 97: Commodity price weakness can weigh on working capital loan growth of banks



Source: RBI, IIFL Research

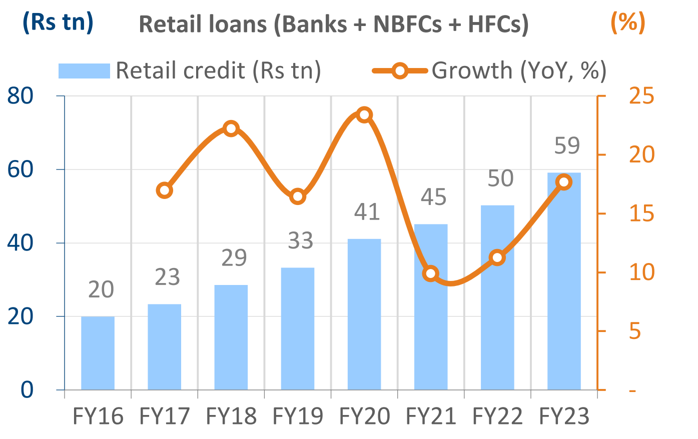
Figure 98: BOB and SBI have higher share of corporate loans; lower for HDFCB and Kotak



Source: Company, IIFL Research

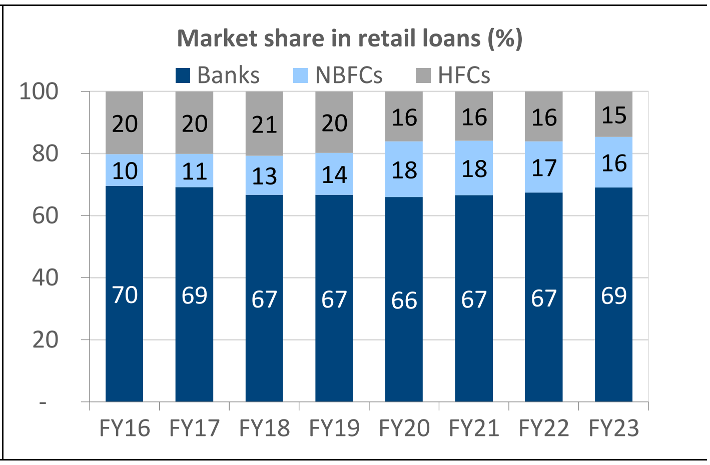
Retail loans growing at 15% Cagr (unsecured loans at 20% cagr); under-penetration presents sufficient growth headroom
System-wide retail loans have grown at 15% Cagr since FY16 (Fig. 99), but unsecured loans have grown faster at 20% Cagr (Fig. 112). Banks have maintained their 70% market share; whereas NBFCs have gained from the HFCs (Fig. 100).

Figure 99: Retail loans (US$ 725 bn) growing at high-teens, except for the slowdown witnessed during the Covid



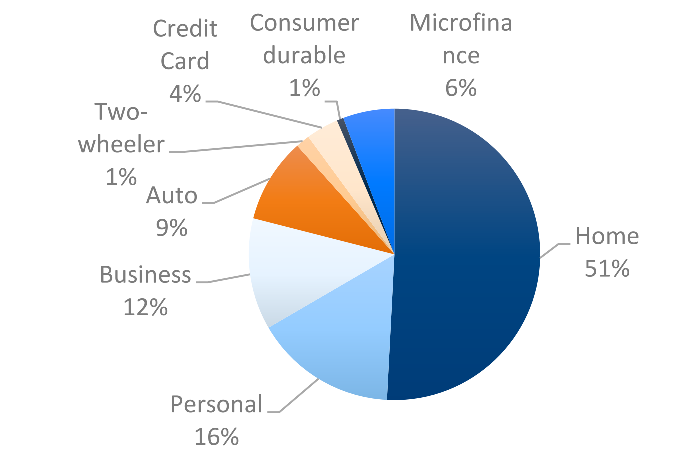
Source: RBI, IIFL Research.

Figure 100: Banks constitute 70% market share; NBFCs gaining market share from the HFCs



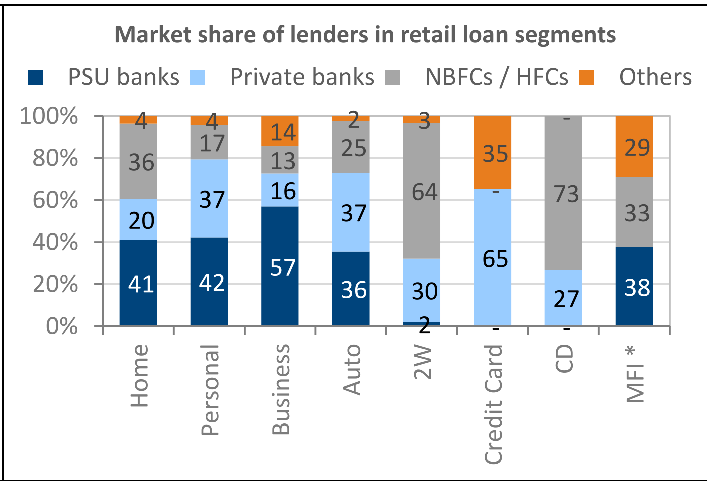
Source: RBI, IIFL Research

Figure 101: Home loans constitute 50% of retail loans, unsecured loans account for 25-30% of retail loans



Source: CRIF, IIFL Research. Note: For banks, NBFCs and HFCs

Figure 102: PSU banks have a dominant market share in home and personal loans; Private banks in credit card and NBFCs in 2W and consumer durable loans



Source: CRIF, IIFL Research. Note: For MFI it is private + PSU banks.

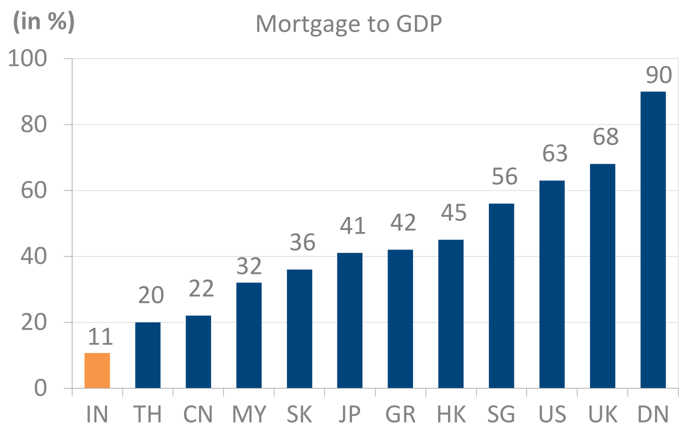
Figure 103: Breakdown of retail loan growth across different segments

Retail loan growth (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	7Y CAGR
Consumer Durables	27	7	(60)	208	1	47	26	18
Housing	15	18	16	11	9	13	12	14
Advances against FDs, shares	3	13	12	(18)	6	12	40	9
Credit Card	41	31	29	30	9	15	28	26
Education	4	3	(0)	(3)	17	11	17	7
Vehicle	2	29	14	51	19	2	21	19
Gold				339	72	3	17	
Other unsecured	36	35	19	32	(1)	15	23	22
Total retail loans	**17**	**22**	**16**	**23**	**10**	**11**	**18**	**17**

Source: RBI, NHB, IIFL Research. Note: For Banks, NBFCs and HFCs

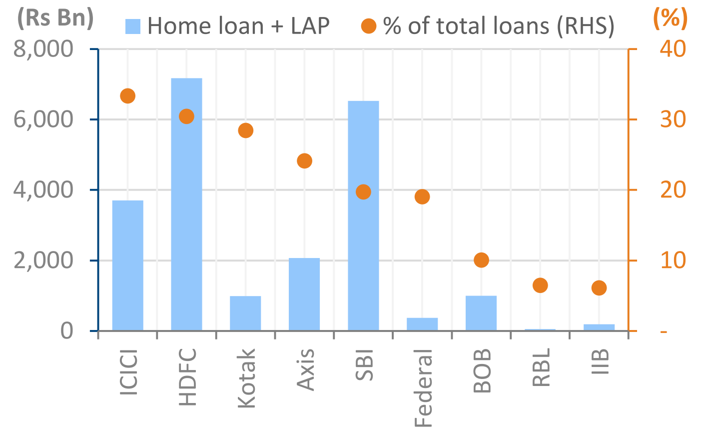
As discussed below, the penetration levels are still low in the segments like mortgages (Fig. 104), auto (Fig. 106), and personal loans (Fig. 111), and with enough growth headroom ahead (Fig. 108 and 109).

Figure 104: Despite housing loans growing at mid-teens cagr in the last decade, India's mortgages as % of GDP at 11% is far lower than other countries



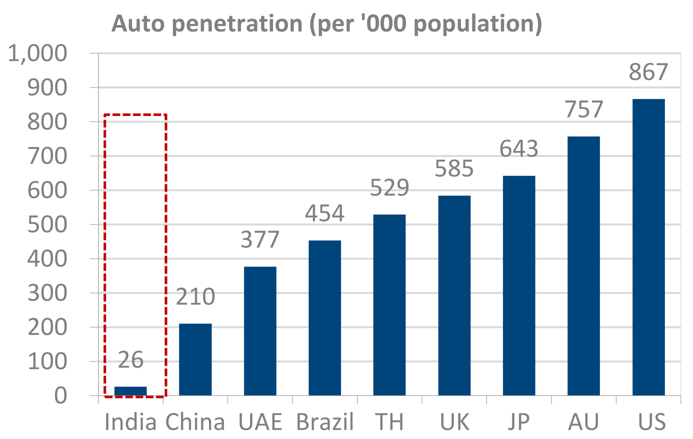
Source: HDFC Ltd., NHB, IIFL Research

Figure 105: Housing loans constitute 16% of bank loans; ICICI, HDFCB (post the merger) and Kotak have higher share of housing loans; BOB, RBL and IIB have lower share



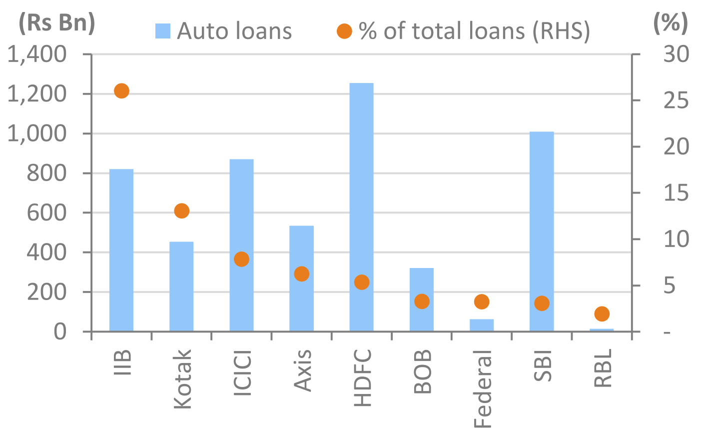
Source: Company data, IIFL Research

Figure 106: Auto penetration (per '000 penetration) is also far lower in India vis-à-vis other countries



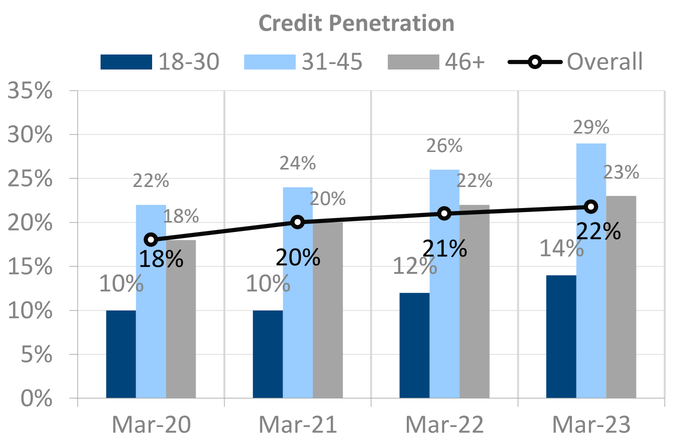
Source: Euromonitor, IIFL Research

Figure 107: Auto loans are 4% of bank's total loans; higher for IIB and Kotak at 13-25%



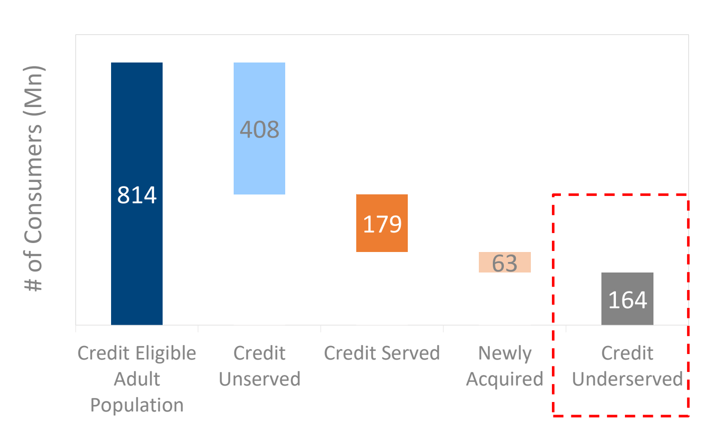
Source: Company data, IIFL Research

Figure 108: Only 22% credit penetration among the adult population



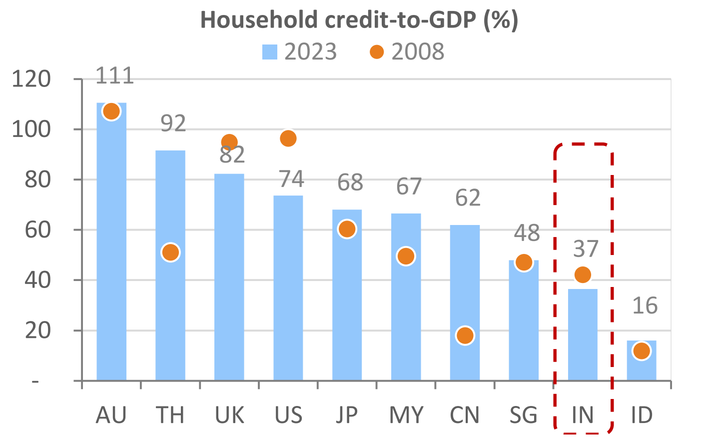
Source: TransUnion CIBIL, World Bank Database. IIFL Research.
Note: Credit penetration is the percentage of credit active population to the total adult population

Figure 109: More than 160 mn Indians with bureau records are credit underserved



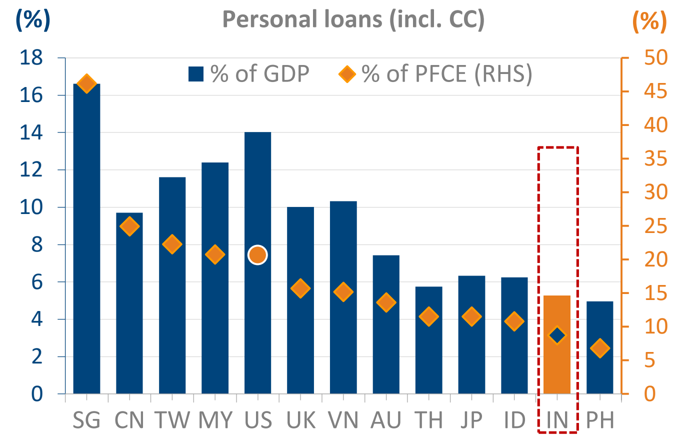
Source: TransUnion CIBIL, IIFL Research

Figure 110: India's household credit-to-GDP of 37% lower than other countries, and has declined by 6pp since GFC



Source: Bank of International Settlement, IIFL Research

Figure 111: Despite 20% Cagr in personal loans FY16, the penetration is still low for India relative to other countries

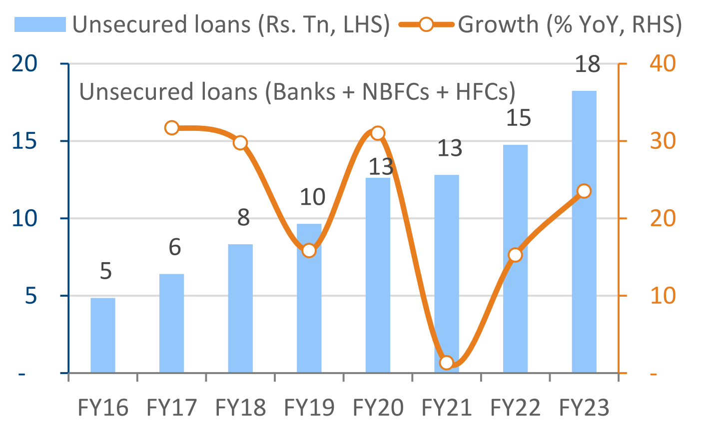


Source: Euromonitor, RBI, IIFL Research

The BIS data shows that household credit-to-GDP ratio for India has declined from 42% in 2008 to 36% in 2022. On the other hand, it has gone up by 5-45pp to 50-95% for other Asian countries during this period (Fig. 110). Even personal-loan penetration for India is lower at 9% of private final consumption expenditure (PFCE) vs 10-45% for other countries (Fig. 111). Thus, on a top-down basis, there seems to be an absence of exuberance in India's retail loans.

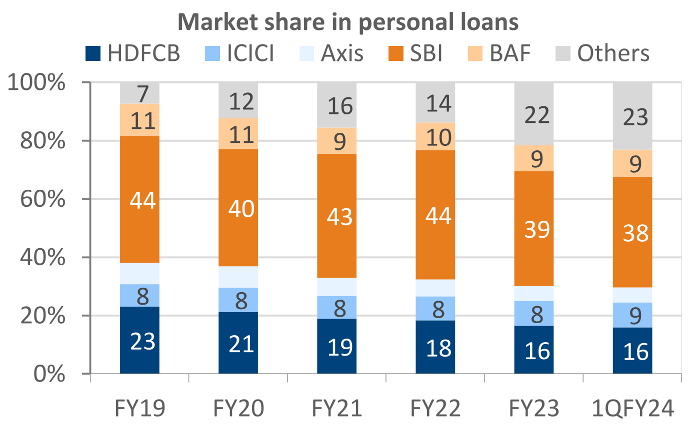
However, we believe that the cause of recent investor and regulator concerns is the strong pace of growth in unsecured retail loans. System-wide unsecured loans have been growing at 20% CAGR since FY16 and grew at ~25% YoY in FY23 (Fig. 112). Even within the unsecured loans, personal loans have been growing at a faster clip – where the NBFCs and FinTechs are rapidly gaining market share (Fig. 197) by disbursing smaller-ticket loans to Tier2 onward cities and to younger age customers. On the other hand, banks are focused on salaried middle-age borrowers with a higher share in Tier1 cities.

Figure 112: System-wide unsecured loans grew at 20% CAGR since FY16



Source: RBI, NHB, IIFL Research. Note: Includes consumer durable, credit card, education, personal loans and MFI.

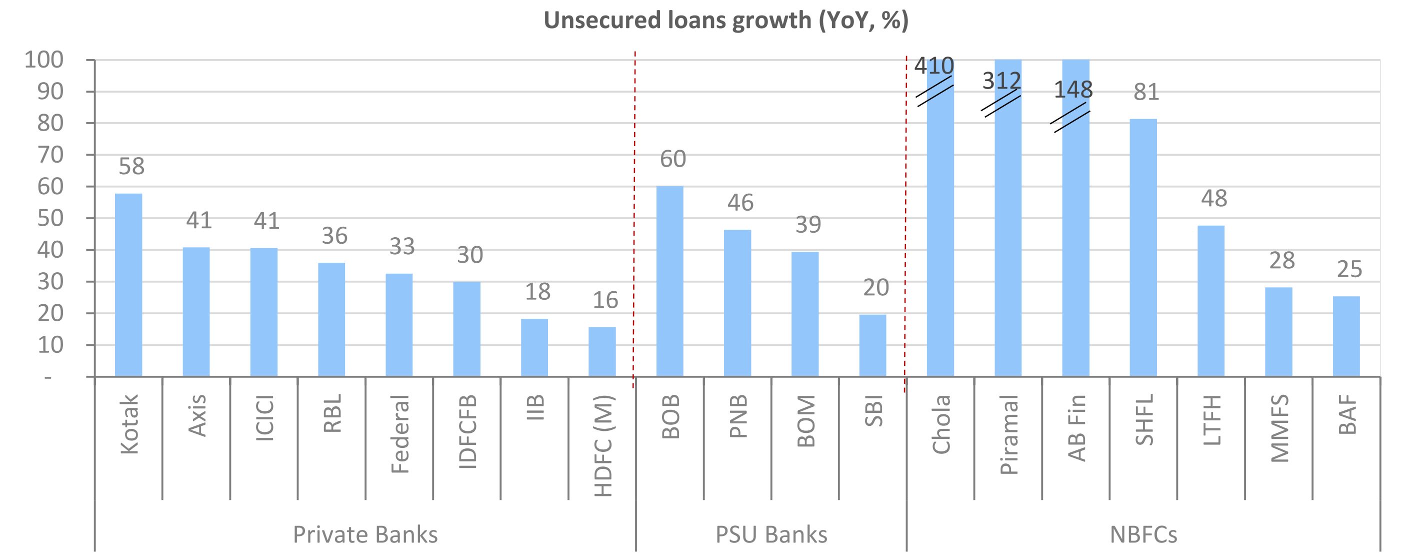
Figure 113: 'Others' led by FinTechs and NBFCs aggressively gaining market share in personal loans



Source: CRISIL, IIFL Research. Note: Includes personal loans and consumer durable.

For individual lenders, unsecured loans grew 20-60% for the banks, and 25-400% for select NBFCs (from lower base). At the system level, banks grew these loans by 27% in FY23 (vs overall loan growth of 15%) and NBFCs by 13% HoH (vs overall loan growth of 1%, as of 1HFY23). Among the banks, the growth has been the strongest for BOB, Kotak, PNB, Axis and ICICI; whereas it has been relatively slower for IIB and HDFC Bank (Fig. 114). NBFCs such as ala Chola, Piramal, AB Finance have seen their unsecured loans growing at 2-4x in FY23.

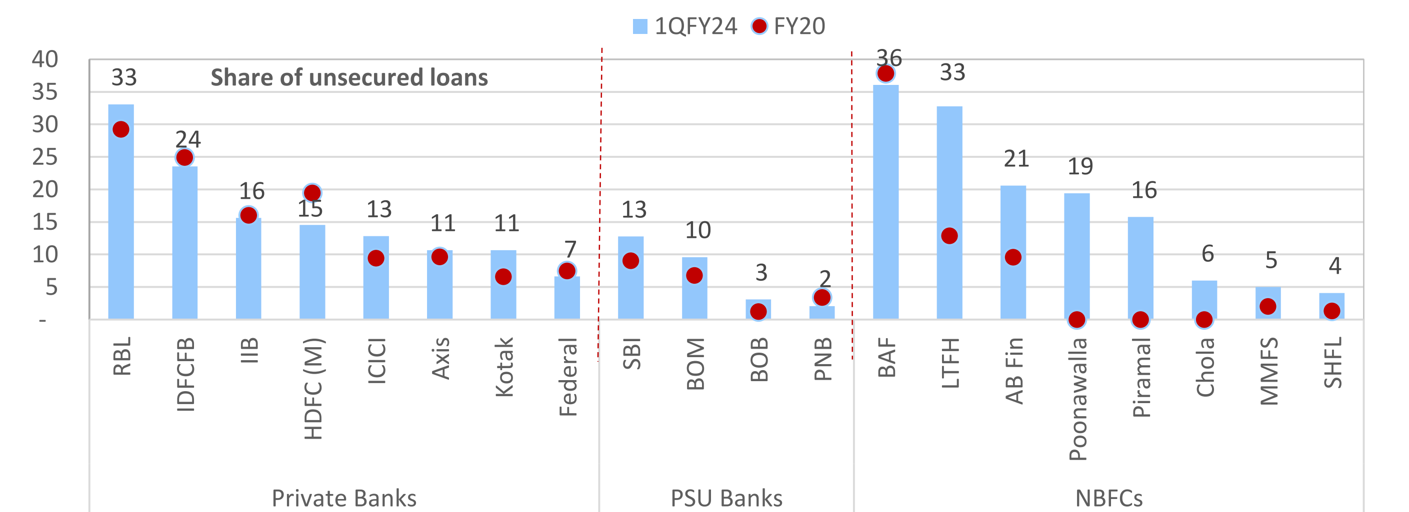
Figure 114: Scorching growth in unsecured loans recently – 20-60% YoY for banks and 25-400% for NBFCs



Source: Company, RBI, IIFL Research. Note: (1) Unsecured loans include consumer durable, personal loans, education, credit card, embedded finance and microfinance as of 1QFY24, (2) For NBFCs – it does not include unsecured business loans

We note that unsecured retail loans is a legacy segment for most banks (particularly Private banks); they continue to largely fund internal customers (existing-to-bank 70-85%). This is also evident in the movement in share of unsecured loans in their total loans, which has been flat to +4 pp since FY20, and now constitute 10-33% of their loan book. On the other hand, for most NBFCs (barring Bajaj Finance) this is largely a new segment, which has been scaled up post-pandemic. The share of unsecured loans has increased by 1-20 pp in the last three years to 5-35%. LTFH, Poonawalla, Piramal and AB Finance in particular have seen a very strong growth in a short span of time, as they have pivoted their business models in this direction.

Figure 115: Share of unsecured loans in banks' loan mix has been flat to up 4 pp since FY20 to 10-25%. However, the increase is much higher for the NBFCs at 1-20 pp to 5-35% ; the highest increase for LTFH, Poonawalla, Piramal and AB Cap

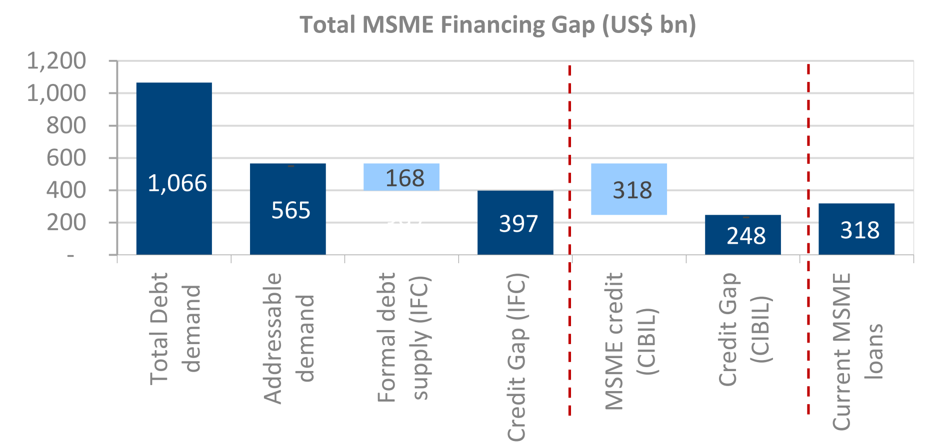


Source: Company, RBI, IIFL Research. Note: (1) Unsecured loans include consumer durable, personal loans, education, credit card, embedded finance and microfinance as of 1QFY24, (2) For NBFCs – it does not include unsecured business loans. If included the share of unsecured loans would further increase by 36% for Poonawalla, 17% for BAF, 10% for AB Finance and 5% for Piramal.

MSME loans – a secular growth runway built on improving data availability and rising number of new-to-credit MSMEs

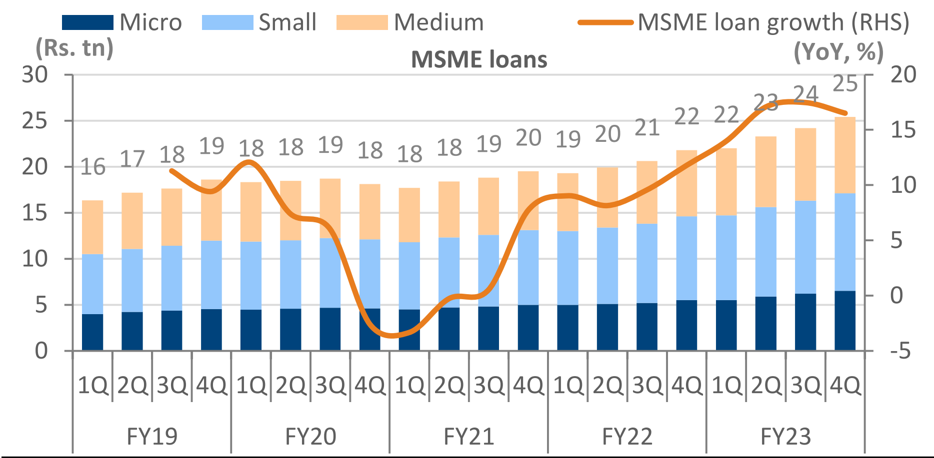
India has ~63 mn MSMEs, of which only ~40% have ever availed formal credit. MSME financing gap is of around US$250 bn, vis-à-vis the current outstanding of US$320 bn. Although banks' MSME loans have grown at mid-teens over the past few years, we expect this growth to hold steady, driven by improving penetration, digital public infrastructure for financial information and as the lenders shift away from collateral-based lending to cashflow-based lending.

Figure 116: Estimated MSME financing gap of US$250bn



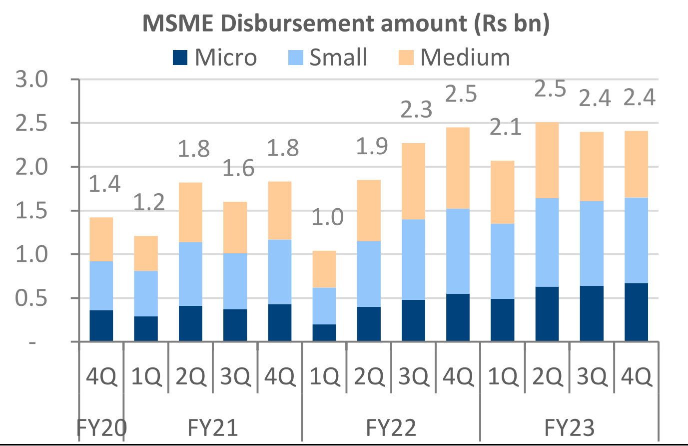
Source: IFC, TransUnion CIBIL, IIFL Research

Figure 117: In the last 3yrs, system-wide MSME loans grew at 12% Cagr



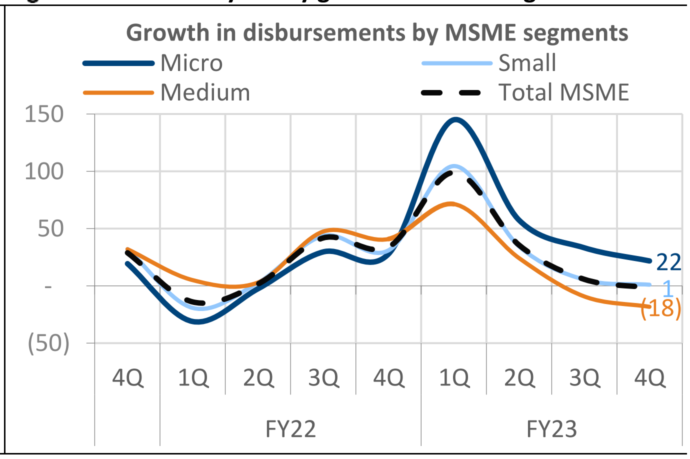
Source: TransUnion CIBIL, SIDBI, IIFL Research

Figure 118: Disbursements flattish since last few quarters …



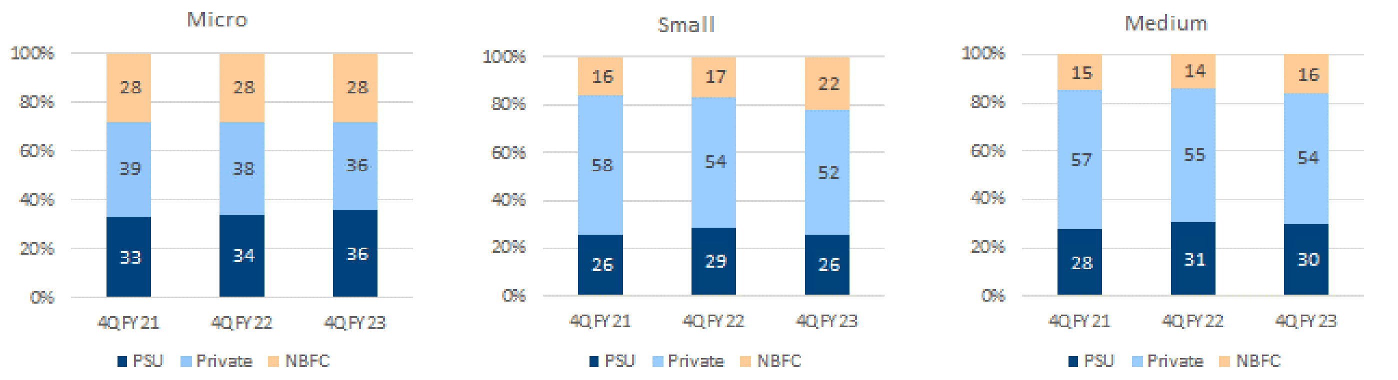
Source: TransUnion CIBIL, SIDBI, IIFL Research

Figure 119: … mainly led by growth in micro segment



Source: TransUnion CIBIL, SIDBI, IIFL Research

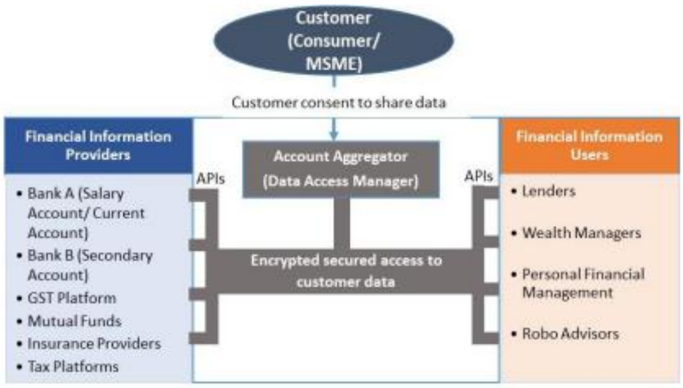
Figure 120: Private banks have higher disbursement share in small and medium segments; share in micro well distributed



Source: TransUnion CIBIL, SIDBI, IIFL Research. Note: Micro refers to credit exposure < Rs10 mn, small refers to exposure between Rs10-100 mn and medium segment refers to credit exposure between Rs100-500 mn.

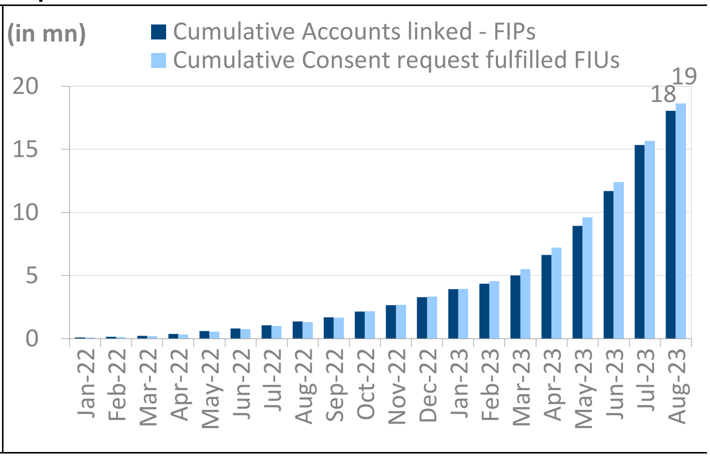
We like the progress of the account aggregator (AA) framework, as it provides lenders with powerful tools to build scalable lending models. Till date, 18 mn accounts have been linked to AAs and 19mn consent requests have been filed.

Figure 121: Snapshot of Account Aggregator framework



Source: IIFL Research

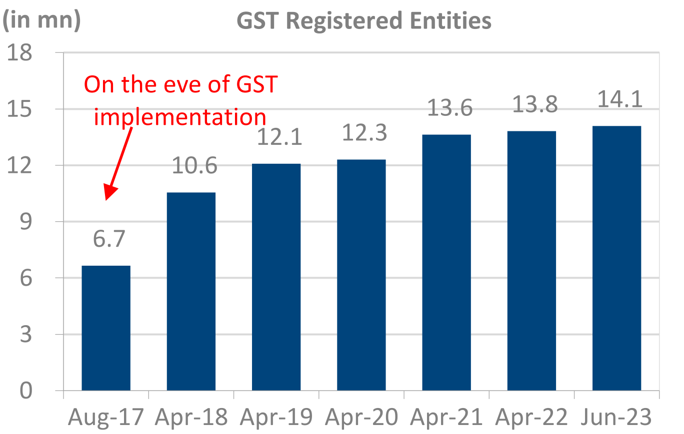
Figure 122: 18mn accounts linked to AAs so far; 19mn consent requests raised on AAs so far



Source: Sahamati, IIFL Research

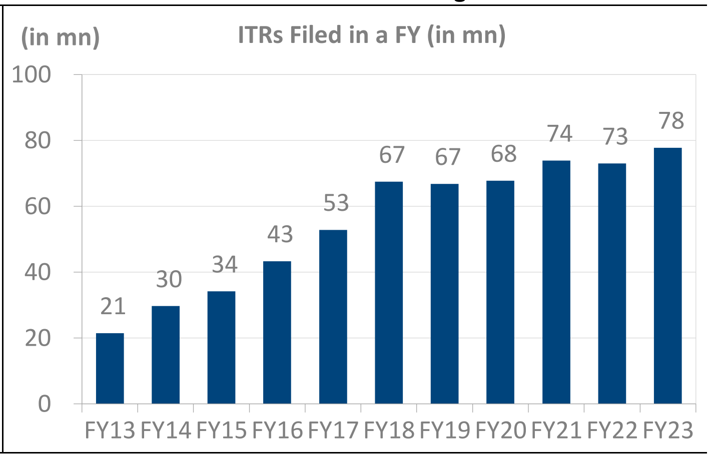
Though goods and services tax (GST) data was already accessible to lenders digitally outside of AA, the GST Network (GSTN) was separately integrated into the AA network in July 2023.

Figure 123: No. of GST registered entities have more than doubled since the introduction of GST in July'17



Source: CBIC, IIFL Research

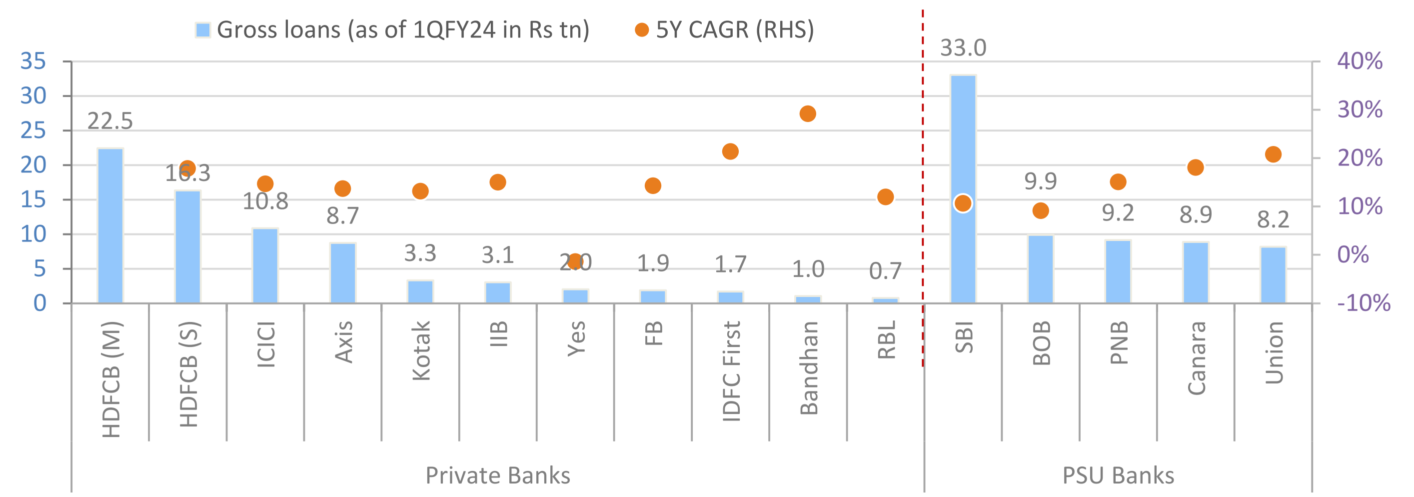
Figure 124: No. of direct income-tax return filers steadily rising = more data available to aid underwriting



Source: Incometax.gov.in, IIFL Research

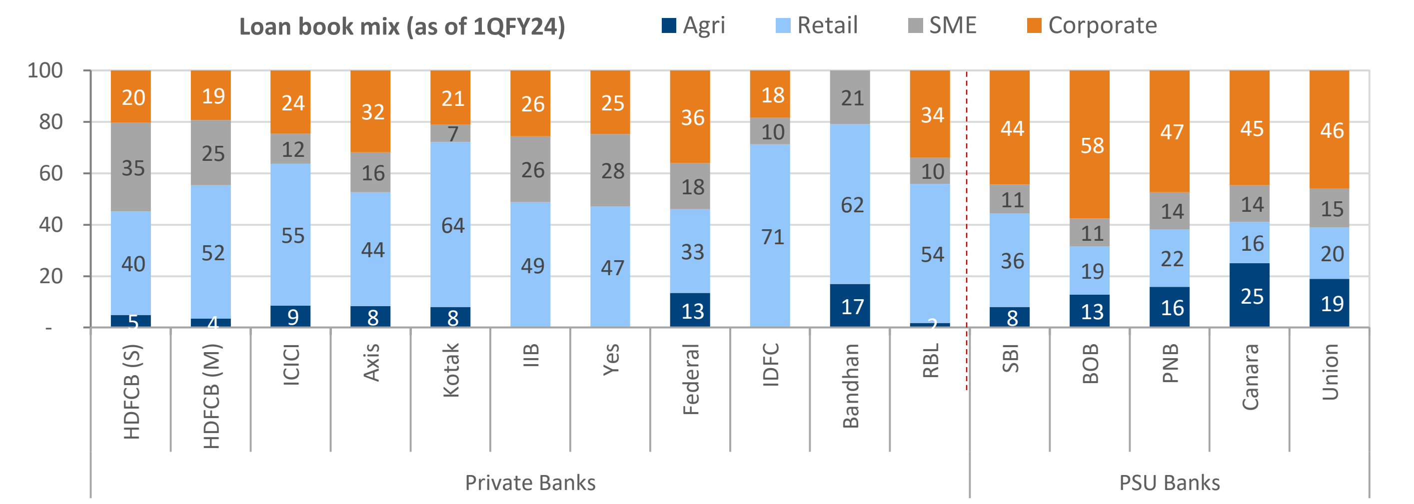
Loan growth forecasts for covered banks

Figure 125: Eight Indian banks have gross loan book of US$100 bn+; have grown at 15-20% Cagr in the last five years, save for Yes (flat), BOB, RBL, SBI and Kotak (all at low-teens)



Source: Company, IIFL Research. Note: For IDFC First Bank loan book as of Dec'18 (Merged) has been considered for CAGR calculation

Figure 126: Private banks have retail loans share of 45-70% (save for Federal Bank which is lower at 33%); SME exposure relatively higher for HDFCB, IIB and Yes at 25%+; public sector banks have higher exposure to corporate loans at ~45-50%



Source: Company, IIFL Research.

Figure 127: Expect high-teens loan growth for Private banks and mid-teens for Public banks

Loan growth (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	22	23	26	21	27	19	19	24	21	14	21	17	58	17	17
ICICI	17	14	17	14	12	7	10	14	10	14	17	19	19	18	17
Axis	19	16	17	22	21	10	18	13	15	8	15	19	17	18	17
Kotak	33	24	9	25	79	15	25	21	7	2	21	18	20	18	18
IndusInd	34	26	24	25	29	28	28	29	11	3	12	21	19	19	19
Federal	18	17	-1	18	13	26	25	20	11	8	10	20	20	18	17
RBL						39	37	35	7	1	2	17	20	19	19
SBI	15	21	16	7	13	7	23	13	6	5	12	17	14	14	14
BOB	26	14	21	8	-10	0	12	52	6	2	10	21	14	14	14

Source: Company, IIFL Research

No signs of deposit competition ebbing; expect divergent margin outcomes

Divergent NIM trajectory:

Expansion: HDFC, IIB, Federal, RBL and BOB

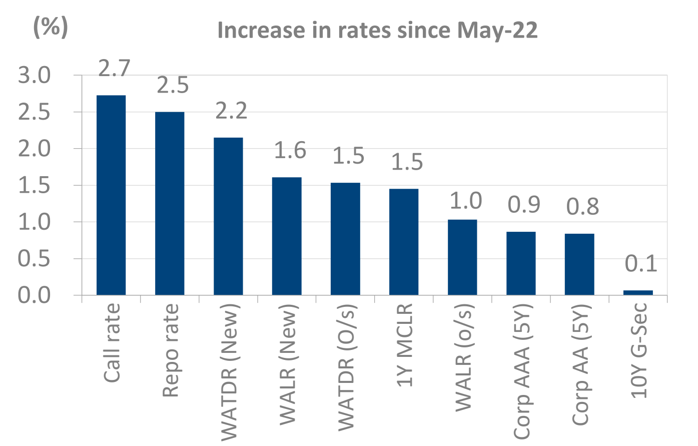
Higher decline: ICICI, Kotak and SBI

Lower decline: Axis

Flattening of the yield curve and lagged increase in funding costs have started to weigh on margins in the last few months. We expect loan yields to increase further only by 10-15 bps, on residual MCLR and fixed book re-pricing. Our analysis of banks' latest deposit rack rates shows cost of deposit to increase further by 5-50 bps. We expect divergent margin outcomes – expansion for HDFC, IIB, Federal, RBL and BOB; higher contraction for ICICI, Kotak and SBI; and lower for Axis.

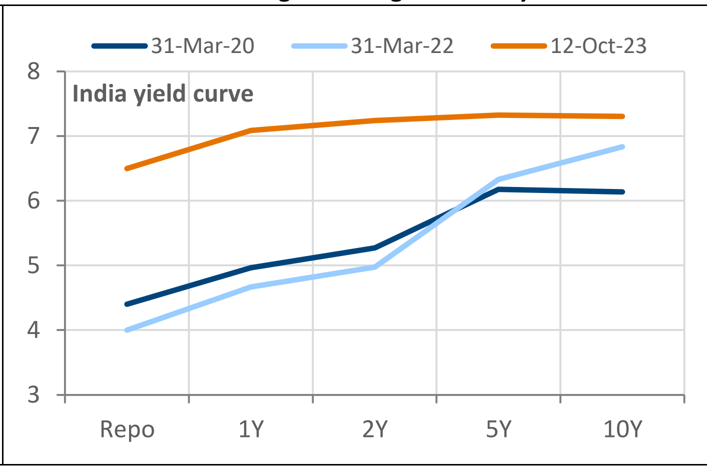
Against the policy rate increase of 250 bps since May'22, average call rate has increased by ~270 bps due to tighter system liquidity. While the increase in loan yields was front-ended (WALR on fresh loans up 160 bps), the quantum of increase in term deposits has been higher (WATDR up 220 bps). Flattening of yield curve, coupled with the lagged increase in funding cost has started weighing on NIMs.

Figure 128: Tight liquidity has led to delayed, but higher quantum of increase in the term deposit rates



Source: Bloomberg, IIFL Research

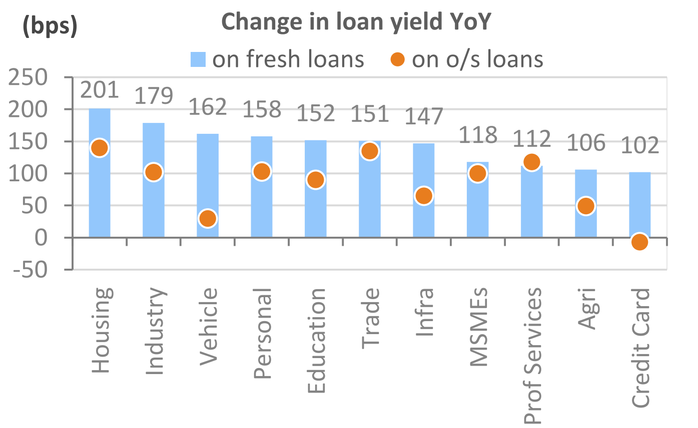
Figure 129: Yield curve has flattened in the last one year, which has started to weigh on margins recently



Source: Company, IIFL Research

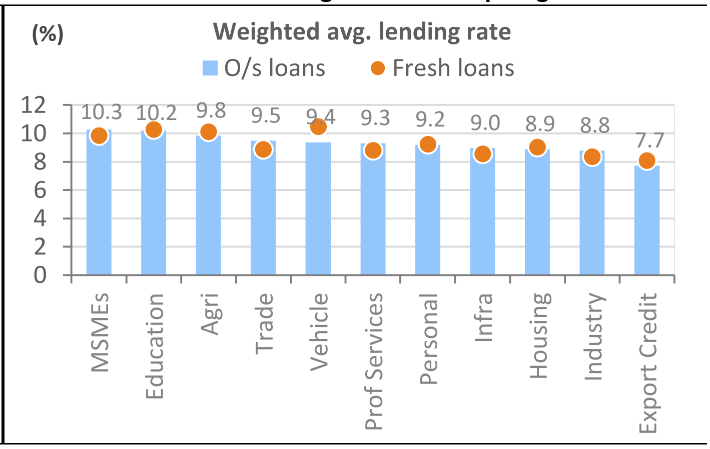
Interest rates on fresh loans have increased the most for housing, industry and vehicle loans. On the other hand, rate increase is lower for MSMEs (more willingness to lend), Agri and credit card (fixed rate). Vehicle loan yields should inch-up as new disbursements are being done at 100 bps above the rate on the existing book.

Figure 130: Loan yields on fresh housing, large industry and vehicle loans has increased the highest



Source: RBI, IIFL Research. Note: As of March-23

Figure 131: Loan yield for vehicle loans should trend higher as new disbursements are being done at 100bps higher



Source: RBI, IIFL Research. Note: As of March-23

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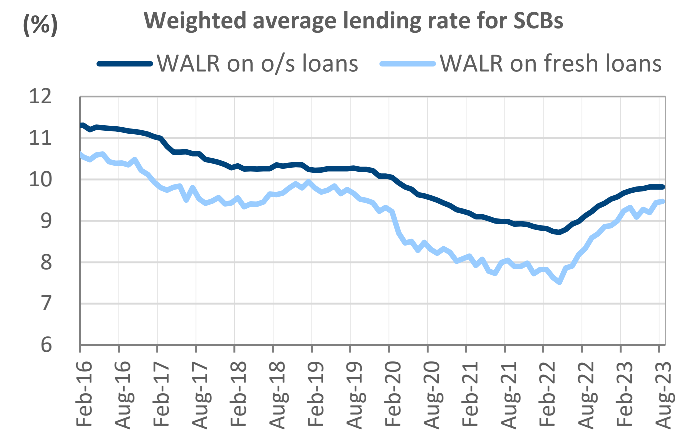
Since Mar'22, weighted average lending rate (WALR) on outstanding loans has increased by 108 bps and WALR on fresh loans by 184 bps. WALR on fresh loans for PSBs has increased by 190 bps vs 135 bps for Private banks. While WALR on o/s loans has been flat since the last five months, WALR on fresh loans has inched up by 38 bps; implying further room for loan yields to rise.

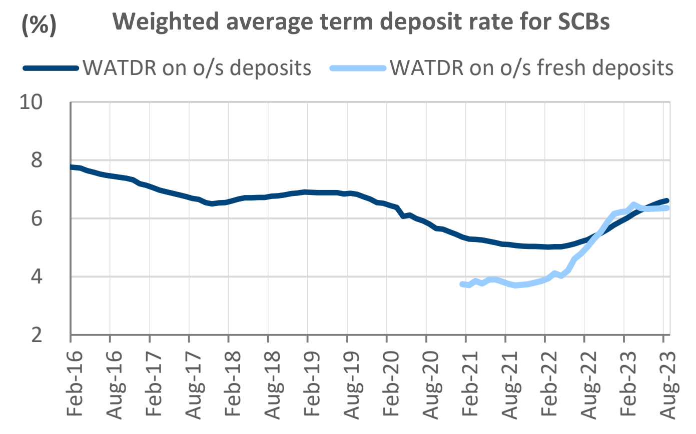
Weighted average term deposit rate (WATDR) on outstanding TDs has increased by 157 bps and WATDR on fresh TDs by 224 bps since Mar'22. WATDR on fresh TDs for Public banks has increased by 241bps vs 188 bps for Private banks, and is now 40 bps higher than that offered by Private banks. With WATDR on fresh TDs stabilising in last four months, and falling below the rate for outstanding TDs, the pace of increase in TD rates should slow down.

Figure 132: WALR for o/s loans up 108 bps since Mar-22; gap between o/s and fresh WALR narrowing



Source: RBI, IIFL Research. WALR refers to weighted average lending rate.

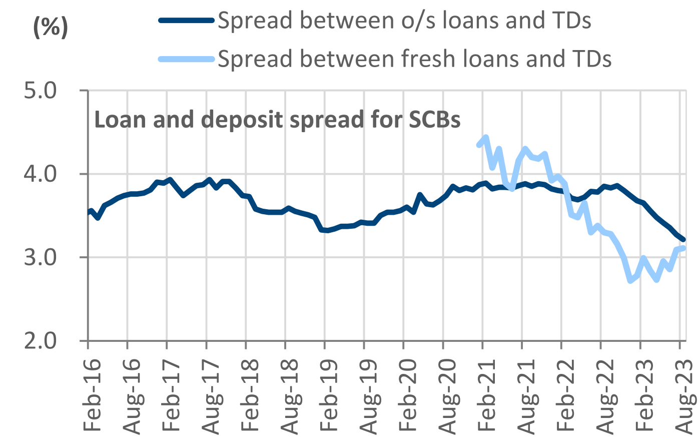
Figure 133: WATDR for o/s term deposits up 157 bps since Mar-22; WATDR for fresh deposits now lower than o/s



Source: RBI, IIFL Research. Note: WATDR refers to weighted average time deposit rate

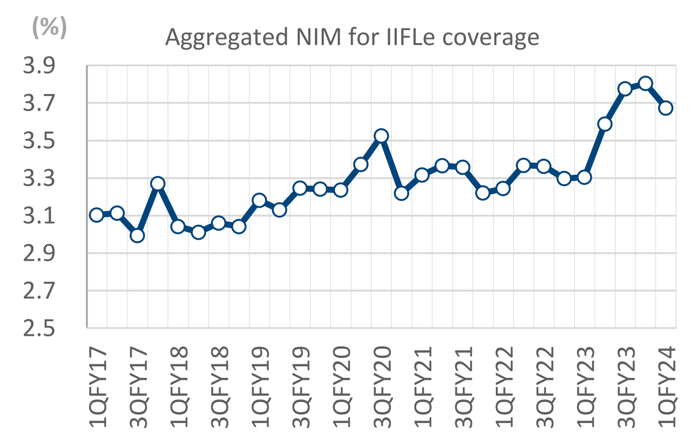
Spreads (WALR less WATDR) continued to rise until Oct'22, on the back of faster interest-rate transmission in loans, due to higher share of external benchmark-linked loans (EBLR) and lagged repricing in deposit rates. However, with the rapid increase in TD rates since 2HFY23, spreads declined sharply thereafter. We believe that with the spread between fresh WALR and WATDR inching up 30 bps FYTD, margins may bottom out in the next few quarters. NIMs of covered banks are still 5-90 bps (avg. of 40 bps) above 4QFY22 level.

Figure 134: Spread between rates on fresh loans and term deposits still lower than o/s, but has started rising recently



Source: RBI, IIFL Research

Figure 135: Banks' NIMs peaked in 4QFY23; expected to bottom out in next couple of quarters (assuming no rate-cuts)

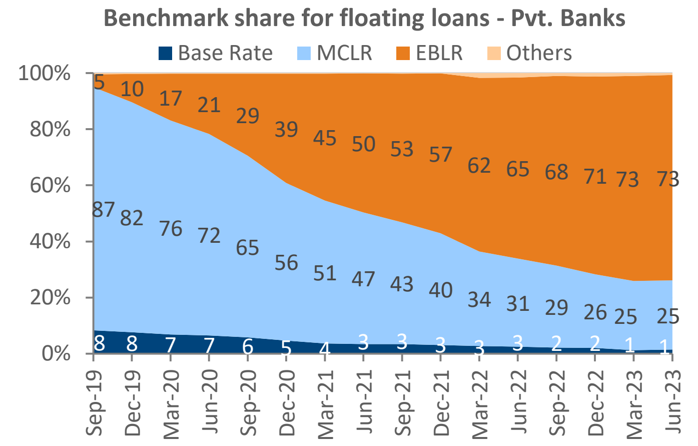


Source: Company, IIFL Research

Expect 10-15 bps of further loan yield rise

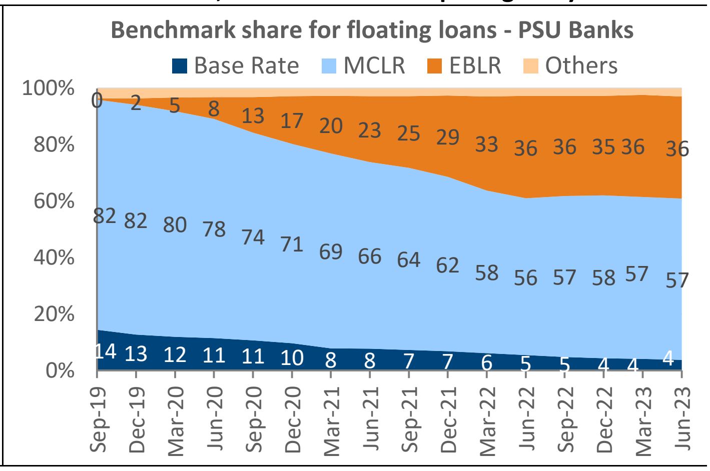
In Oct'19, RBI introduced a norm that all incremental floating rate loans in Retail and MSME segments have to be linked to the repo rate or other appropriate external benchmark interest rate (EBLR). As a result, around 75% of Private banks' and ~35% of PSBs' floating rate loans are now linked to EBLR, which has been repriced. For Public banks, three-fifth of floating rate loans are linked to MCLR, where some more residual repricing is likely in our opinion.

Figure 136: Around 75% of floating rate loans for Private banks are linked to EBLR, which have been repriced



Source: RBI, IIFL Research

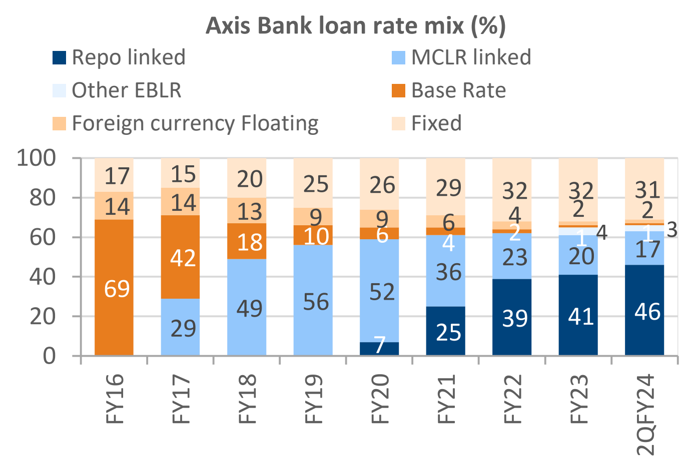
Figure 137: Around 60% of floating rate loans for Public banks are linked to MCLR, with some more repricing likely



Source: RBI, IIFL Research

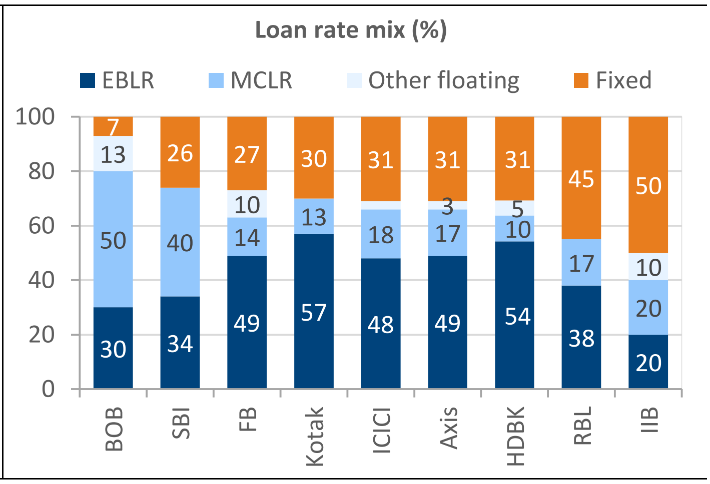
Following the RBI's norms on floating rate loans, there has been a marked shift away from the base-rate linked and MCLR to repo-linked loans – as seen for Axis (Fig. 138). Hence, Private banks now have 40-60% of their loan books linked to EBLR, which means that their lending yields are much more sensitive to the policy rates than before. Share of MCLR-linked loans is higher for Public banks at 40-50% of total loans, and share of fixed rate loans is higher for RBL and IIB (Fig. 139).

Figure 138: Axis Bank's loan book has shifted away from base-rate linked and MCLR to repo-linked loans



Source: Company, IIFL Research

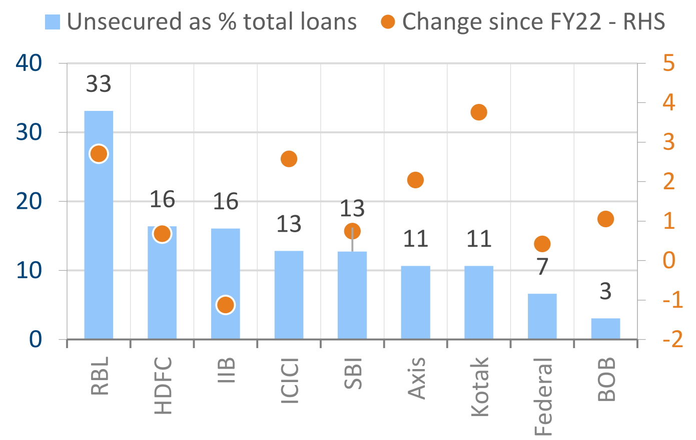
Figure 139: Large Private banks have 40-60% of their loan book linked to EBLR



Source: Company, IIFL Research, Note: HDBK based on our assumptions for the merged bank

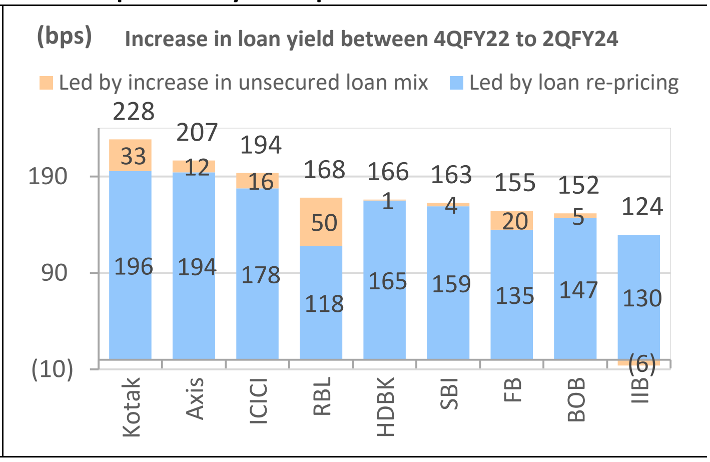
Increase in loan yield has been a function of both loan re-pricing, as well as rise in the share of higher-yielding unsecured loans in the banks' overall loan mix. Given the strong growth in unsecured loans, its share in the banks' loan mix has increased by 1-3 pp since 4QFY22. We estimate that 5-50 bps of loan yield expansion witnessed so far is on the back of this mix-change. Stripping out this yield benefit, we estimate that loan yields have risen by 130-200 bps so far in this cycle.

Figure 140: Share of higher-yielding unsecured loans has increased by 1-3 pp since FY22 …



Source: Company, IIFL Research. Note: As of 1QFY24

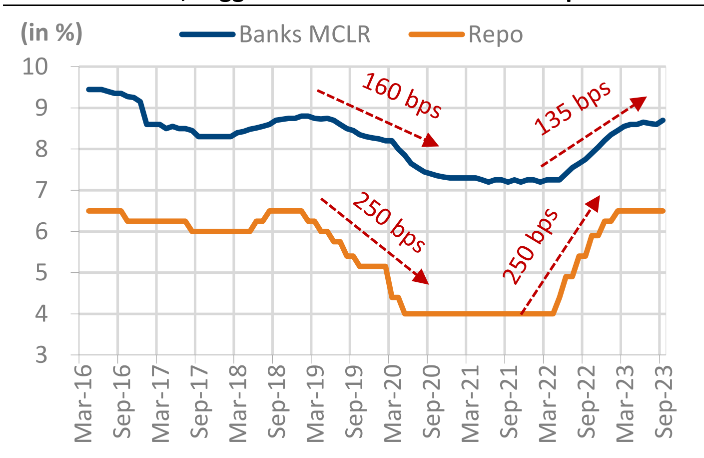
Figure 141: … which aided loan yields by 5-50 bps, out of total 125-230 bps of loan yield expansion



Source: Company, IIFL Research. Note: For SBI and BOB as of 1QFY24.

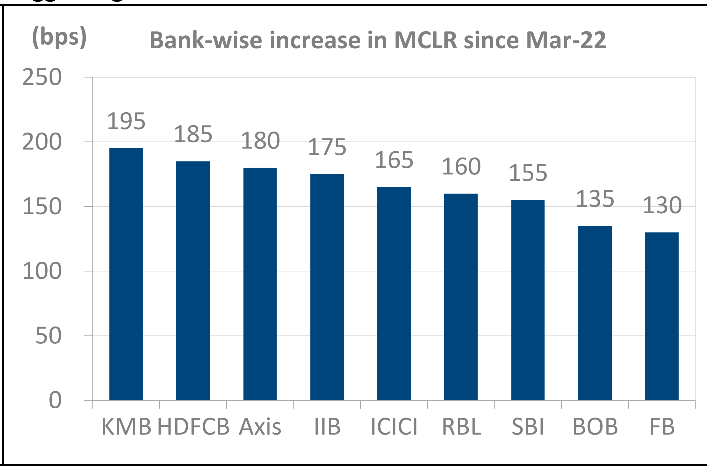
What happens to loan yield from here? Our analysis of the past rate-cycle shows that the typical pass-through of repo rate to MCLR is 60-65%, which suggests limited room for MCLR to increase (maximum 25 bps). Indeed, MCLR has been flattish for the last few months.

Figure 142: Typical pass-through of repo rate to the banks' MCLR is 60-65%; suggests further MCLR rise of 25bps max



Source: Bloomberg, IIFL Research.

Figure 143: Individual banks' MCLR rose by 130-195 bps, suggesting limited headroom to increase further



Source: RBI, IIFL Research

Basis our maturity analysis of MCLR book, we assume that 50% of the MCLR increase since Mar-23 for individual banks is yet to flow-through loan yields. We also assume only 25 bps of increase on fixed-rate book due to intense competition. We thus estimate further loan yield increase of only 10-15 bps.

Figure 144: Estimate loan yield to increase further by only 10-15 bps

		HDFC	ICICI	Axis	Kotak	IIB	FB	RBL	SBI	BOB
(a)	Loan yield re-pricing done, adjusted for mix change	163	178	194	196	130	135	118	159	147
(b)	Loan yield re-pricing done	166	194	207	228	124	155	168	163	152
(c)	Additional loan-yield increase on MCLR book	1	2	2	2	2	1	0	2	9
(d)	Additional 25 bps rate increase on fixed-rate book	8	8	8	8	13	7	11	7	2
e = c + d	**Additional loan-yield increase assumed**	**9**	**10**	**10**	**9**	**15**	**8**	**11**	**9**	**11**
b + e	Total loan yield increase in this cycle	175	203	216	237	138	163	179	171	163

Source: Company, IIFL Research. Note: For SBI and BOB as of 1QFY24, and as of 2QFY24 for other banks.

We have built decline in yields and funding cost from 2QFY25 onwards, on the expectations of first policy rate-cut in June-Sep'24.

Figure 145: Expect loan yield to remain largely stable in FY25 YoY

Yield on loans (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	11.7	12.3	11.7	11.1	10.8	10.2	10.3	10.5	10.1	8.9	7.9	8.6	9.4	9.5	9.3
ICICI	9.4	10.1	10.0	9.8	9.5	8.8	8.4	8.7	9.3	8.3	8.0	8.9	10.0	9.9	9.5
Axis	9.9	10.5	10.3	10.1	9.7	9.3	8.4	8.8	9.1	8.0	7.5	8.3	9.5	9.5	9.0
Kotak	14.2	14.0	13.2	12.5	13.5	10.5	9.6	9.8	9.9	8.4	7.8	9.1	10.2	10.1	9.8
IndusInd	13.8	14.1	13.3	12.5	11.8	11.4	10.6	11.0	12.2	11.5	11.1	11.3	12.1	12.1	11.7
Federal	12.0	11.3	11.4	11.5	10.4	10.0	9.1	9.0	9.2	8.5	7.8	8.4	9.3	9.3	8.9
RBL					9.2	10.4	9.8	10.7	12.3	11.2	10.6	11.8	12.9	13.1	13.1
SBI	10.0	9.5	9.1	9.0	8.4	7.9	8.1	7.8	8.0	7.2	6.6	7.5	8.4	8.4	8.1
BOB	8.7	8.4	7.7	7.5	7.3	7.2	7.2	9.5	8.1	7.2	6.6	7.5	8.4	8.5	8.1

Source: Company, IIFL Research

Figure 146: We build a decline in asset yields from 2HFY25 onwards on the rate-cut expectations

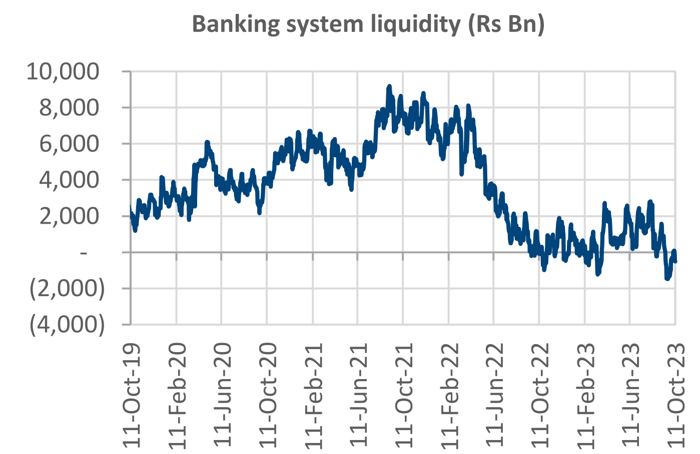
Yield on IEA (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	9.6	10.1	9.8	9.5	9.9	9.3	8.7	8.9	8.6	7.6	7.0	7.5	8.4	8.5	8.3
ICICI	8.0	8.4	8.3	8.6	8.5	8.0	7.3	7.6	7.9	7.3	7.0	7.7	8.7	8.6	8.3
Axis	8.6	8.9	8.7	8.8	8.8	8.5	7.7	8.0	8.0	7.3	6.7	7.3	8.2	8.3	7.9
Kotak	11.0	11.1	10.6	10.4	11.6	9.2	8.6	8.6	8.3	7.5	6.9	7.7	8.8	8.7	8.4
IndusInd	10.8	11.1	10.7	10.4	10.0	9.6	9.2	9.5	10.6	9.3	8.6	9.0	9.9	10.0	9.7
Federal	10.2	9.7	9.8	10.0	9.5	8.9	8.1	8.0	8.2	7.7	6.9	7.5	8.3	8.3	8.0
RBL						8.7	8.4	9.1	10.5	9.2	8.4	9.3	10.6	10.8	10.8
SBI	8.7	8.6	8.4	8.3	7.9	7.4	7.7	7.4	7.4	6.8	6.3	6.9	7.6	7.6	7.3
BOB	7.6	7.3	6.6	6.4	6.6	6.5	6.5	8.6	7.2	6.5	6.1	6.9	7.6	7.6	7.2

Source: Company, IIFL Research

No signs of deposit competition ebbing

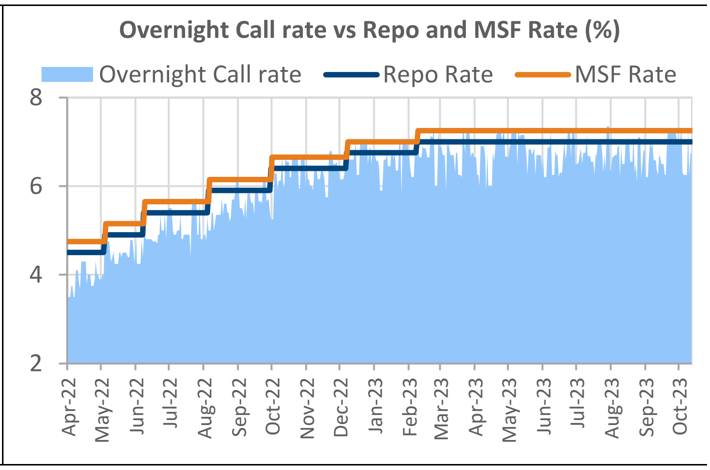
India's Banking system liquidity slipped into deficit for the first time during FY24 on 21st August. This was due to the RBI's temporary liquidity withdrawal (incremental CRR of 10%, which will be withdrawn in a phased manner by first week of October) and tax outflows. As a result the banks' borrowing has risen and has kept the overnight rates closer to the RBI's marginal standing facility (MSF) rate of 6.75% vis-à-vis repo rate of 6.5%.

Figure 147: Banking system liquidity has tightened post the ICRR and tax outflows vs surplus earlier ...



Source: CEIC, IIFL Research

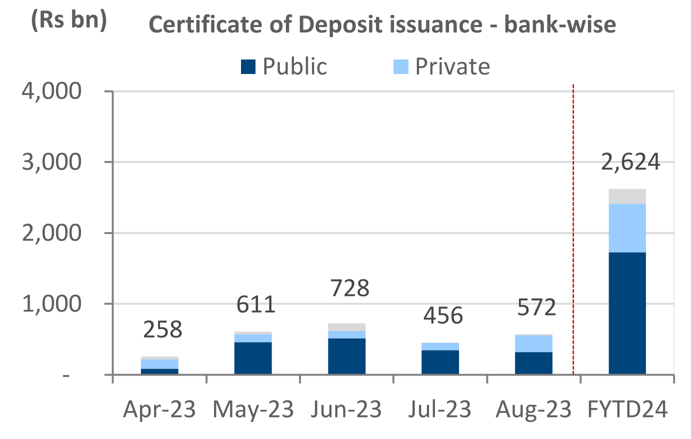
Figure 148: ... which has resulted in overnight call rates inching closer to MSF rate of 6.75%



Source: Company, IIFL Research

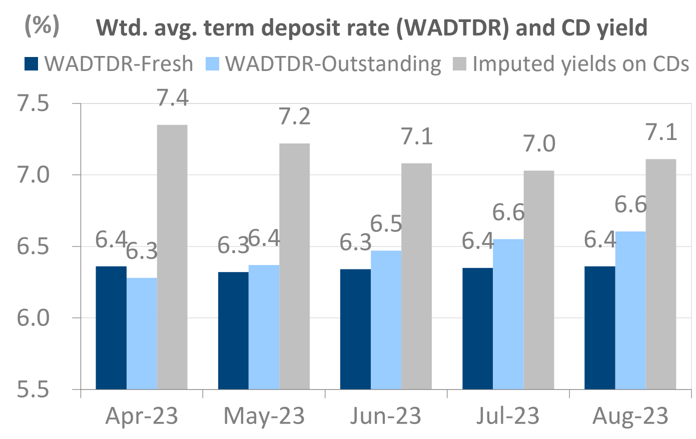
To augment funds, banks have relied on alternative sources such as Certificate of Deposits (CDs). Fig. 149 shows that CD issuances have gone up steadily in the last few months (except for in July when the system liquidity was in surplus). CD issuance of Rs2.6trn in FYTD24 is higher than Rs2.5trn during the same period last year. Further, 65% of the issuances are done by PSBs and are up 30% YoY. On the other hand, issuances by Private banks constituted 26% of the total and are down 25% YoY. Most of these issuances are done for short duration, with the share of CDs with maturity period <4 months being ~70%. Interestingly, we find that CD rates have been higher across all tenures vs WADTRD, on both outstanding as well as fresh term deposits in the past few months (Fig. 150). Despite this, banks have preferred to raise funds through CDs rather than TDs. In our view, the main reason is the ability to raise large amounts to meet business requirements at one point of time rather than wait to mobilise retail deposits, and to avoid locking in costly funds for a longer period.

Figure 149: Banks augmenting funds by raising funds via short-duration CDs …



Source: CCIL-F Trac Database, IIFL Research

Figure 150: … despite being costlier than TDs to avoid locking costly funds for longer period

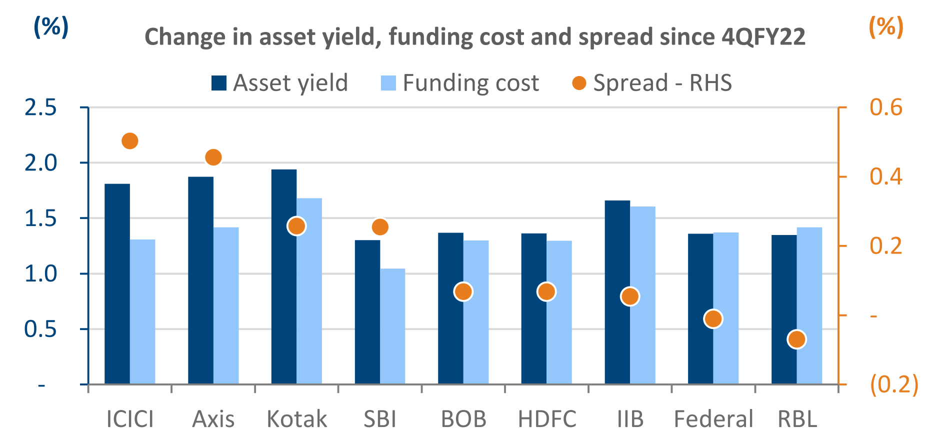


Source: RBI, CCIL-F Trac Database, IIFL Research

Estimating further funding cost increase

As against 140-200 bps of asset yield expansion since 4QFY22, cost of funds has increased by 125-170 bps for the banks under our coverage. As a result, interest spread widened by 10-50 bps during this period (save for flattish spreads for Federal and IIB).

Figure 151: Interest spread 10 to 50 bps higher since 4QFY22; highest expansion for ICICI, RBL and Axis; whereas lower for Federal and IIB



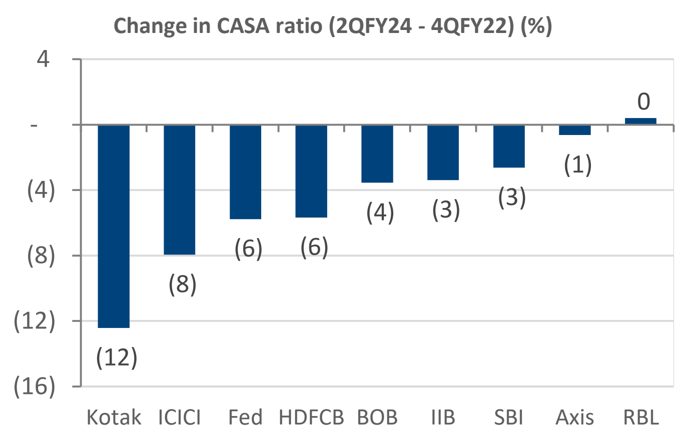
Source: Company, IIFL Research. Note: (1) For SBI and BOB as of 1QFY24, (2) HDFC standalone as of 1QFY24 for better comparison

We now assess potential further increase in funding costs from hereon.

Four important drivers that should dictate funding cost trajectory are: (1) Further change in the CASA ratio. (2) Interest-rate trend for fresh term deposits (TDs). (3) Further change in maturity mix of TDs. (4) Potential re-pricing from the maturing TDs.

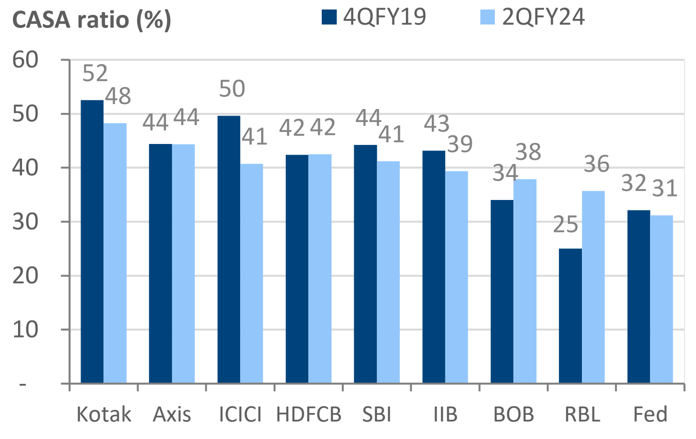
CASA ratio has already fallen by 3-12 pp (highest deterioration for Kotak) in this rate-cycle. However, with the current CASA ratio lower than levels during the previous peak TD interest rate cycle in 4QFY19, further decline in the CASA ratio of banks from hereon should be limited (we build further 100 bps of decline) and should not be as steep as witnessed in last few quarters.

Figure 152: CASA ratio has declined by 250-600 bps (higher decline for Kotak, stable for Axis and RBL) since the rate hikes started …



Source: Company, IIFL Research. Note: (1) For SBI and BOB as of 1QFY24, (2) HDFC standalone as of 1QFY24 for better comparison

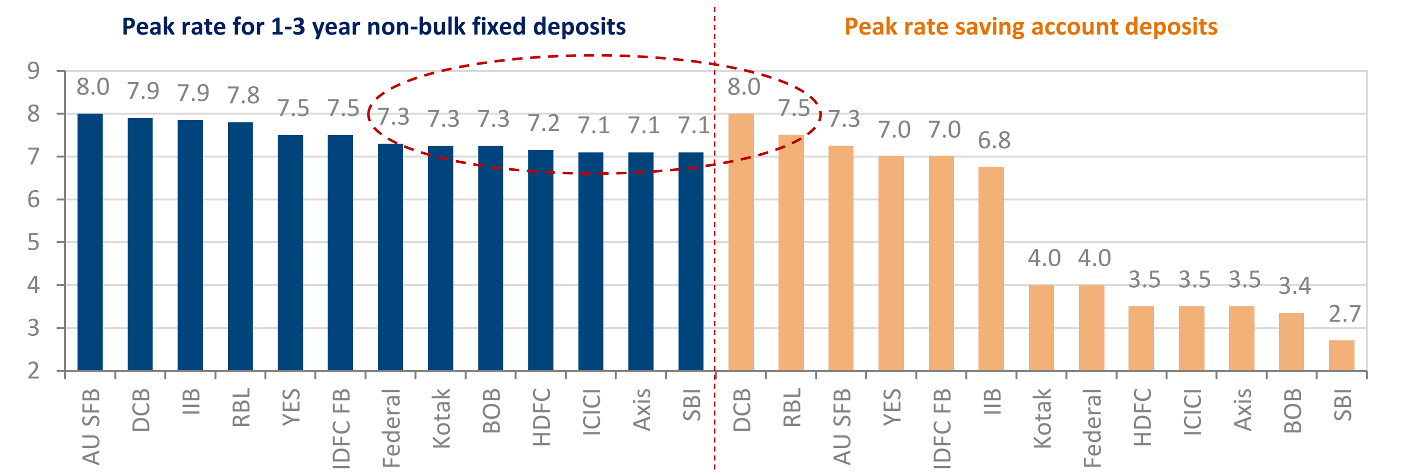
Figure 153: … and is below previous peak TD interest rate cycle in 4QFY19, suggesting further CASA decline should be limited from the current levels (we build further 1pp decline)



Source: Company, IIFL Research. Note: (1) For SBI and BOB as of 1QFY24, (2) HDFC standalone as of 1QFY24 for better comparison

Large private banks have cut non-bulk TD rates by 10-30 bps in the last six months, however the bulk TD rates have been revised upwards. This is because select mid-size private banks are now offering peak savings rate of 7-8% (vs. 2.7-4% for larger banks), which is even higher than the peak TD rates offered by larger banks.

Figure 154: Signs of irrational deposit pricing – Peak savings ROI offered by some mid-size private banks now higher than larger banks' peak time deposit rates

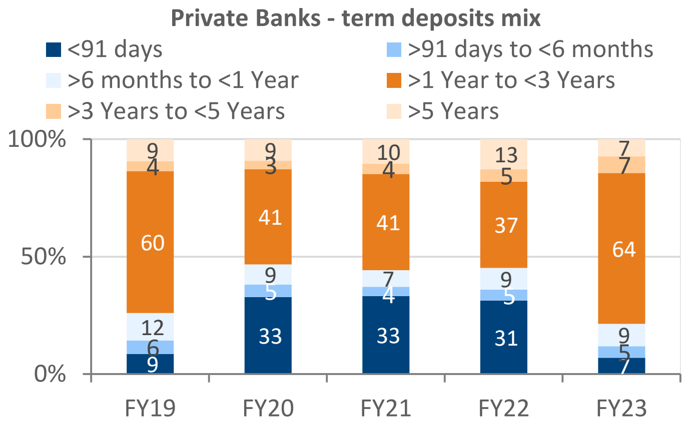


Source: Company, IIFL Research. Note: Interest rates as of 10th Oct, 2023

Analysis of TD maturity mix of banks shows that the share of shorter-tenure deposits (<1 year TDs) has declined from 45% in FY22 to 21% in FY23, and in the favour of medium-tenure deposits (1-3 year TDs).

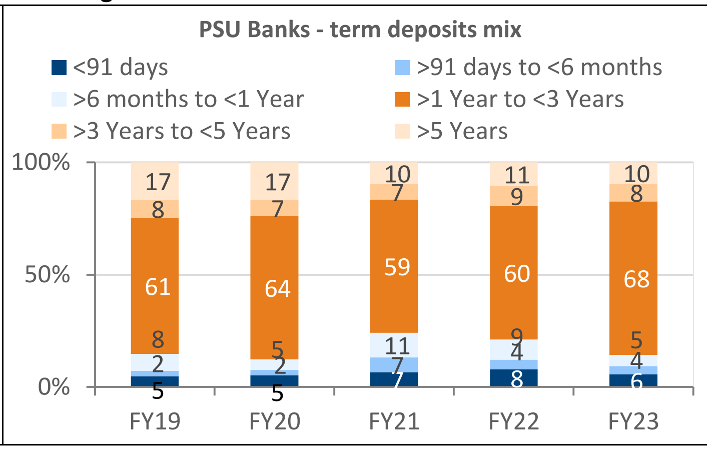
This has been not only due to higher rate increase in the 1-3yr bucket, but also because the rates in this bucket are higher than longer-tenure TDs (>5 years). With the share of medium-tenure TDs also now back to FY19 levels, we do not expect further meaningful change from hereon. Consequently, we believe that further increase in the cost of deposits should mainly be led by re-pricing of maturing term deposits and further decline in CASA ratio.

Figure 155: Share of TDs maturing in 1-3yr bucket has increased sharply for Private banks …



Source: RBI, IIFL Research

Figure 156: … as well as for Public banks (lesser increase), due to the highest interest rate offered in this bucket



Source: RBI, IIFL Research

Cost of deposits have already increased by 85-175 bps for the banks under our coverage – higher for IIB, RBL, Kotak and HDFC, but lower for ICICI, Axis and SBI. By comparing the current time deposit (TD) rack rates with the estimated flow-through of term-deposit hikes in the P&L, we estimate the TD re-pricing remaining. We further assume 100 bps of CASA ratio decline from the current levels. We thus estimate funding cost to increase further by 5-50 bps for the banks under our coverage; higher for ICICI, Kotak and SBI in our view.

Figure 157: Expect COF to increase the most for ICICI, Kotak and SBI; limited residual re-pricing for IIB, RBL, FB and BOB

		HDFC	ICICI	Axis	Kotak	IIB	FB	RBL	SBI	BOB
(a)	Cost of deposit re-pricing done	154	105	114	149	175	124	146	84	122
(b)	Terminal estimated cost of TD (%)	6.9	6.9	7.0	6.9	7.6	6.8	7.5	6.7	6.9
(c)	Estimated cost of TD as of 2QFY24 (%)	6.9	6.2	6.7	6.4	7.8	6.8	7.8	6.0	6.9
d = b - c	**Estimated TD re-pricing remaining**	**5**	**73**	**30**	**45**	**(24)**	**(0)**	**(25)**	**73**	**(2)**
(e)	Residual impact of TD re-pricing on COD	3	42	17	24	(15)	(0)	(16)	43	(1)
(f)	COD increase due to further 1pp of CASA decline	5	5	5	4	3	4	4	7	7
g = e + f	Estimated cost of deposit re-pricing remaining	**8**	**47**	**22**	**28**	**-**	**4**	**-**	**49**	**6**
h= a + g	Total cost of deposit increase in this cycle	162	152	136	177	175	128	146	133	128

Source: Company, IIFL Research. Note: For SBI and BOB as of 1QFY24, and as of 2QFY24 for other banks.

Figure 158: Expect funding cost to rise across banks except for HDFC (re-pricing benefit) and stable for IIB, Federal and RBL

Cost of deposit (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	5.6	6.0	5.7	5.7	5.9	5.3	4.6	4.8	4.9	4.0	3.4	3.6	4.8	4.7	4.5
ICICI	5.9	6.2	5.7	6.2	5.8	5.3	4.7	4.6	4.8	4.1	3.5	3.6	4.6	4.8	4.5
Axis	6.0	6.4	5.8	5.7	5.4	5.1	4.4	4.7	4.9	4.0	3.6	3.7	4.7	4.8	4.5
Kotak	7.4	7.5	6.9	6.8	7.4	5.6	5.1	5.3	4.9	3.7	3.1	3.5	4.7	4.8	4.6
IndusInd	8.0	8.5	7.9	7.8	7.2	6.5	6.0	6.4	6.8	5.4	4.8	5.3	6.3	6.3	6.1
Federal	7.4	7.2	7.2	7.1	6.8	6.2	5.5	5.6	5.7	4.9	4.2	4.5	5.5	5.5	5.2
RBL						6.8	6.2	6.5	7.1	5.8	4.9	5.2	6.1	6.1	5.9
SBI	5.6	6.0	6.0	6.0	6.0	5.6	5.7	5.0	4.8	4.1	3.7	3.8	4.7	4.8	4.4
BOB	5.4	5.5	5.1	5.0	5.1	4.6	4.4	4.3	4.7	3.9	3.3	3.7	4.6	4.6	4.4

Source: Company, IIFL Research

Basis our analysis of the potential residual loan and deposit re-pricing, we expect spreads to decline further by 10-40 bps. ICICI, Kotak and SBI should see the highest compression and Axis the least. On the other hand, it should improve for RBL, Federal, IIB and BOB.

Figure 159: Based on our re-pricing analysis, spreads likely to further decline the most for ICICI, SBI and Kotak; lower for Axis; expect improvement for RBL, BoB, Federal and IIB

		HDFC	ICICI	Axis	Kotak	IIB	FB	RBL	SBI	BOB
(a)	Additional loan re-pricing remaining	9	10	10	9	15	8	11	9	11
(b)	Additional cost of deposit re-pricing remaining	8	47	22	28	-	4	-	49	6
c = a - b	**Incremental loan-deposit spread**	**2**	**(37)**	**(12)**	**(19)**	**15**	**4**	**11**	**(41)**	**6**

Source: Company, IIFL Research, Note: For SBI and BOB as of 1QFY24, and as of 2QFY24 for other banks.

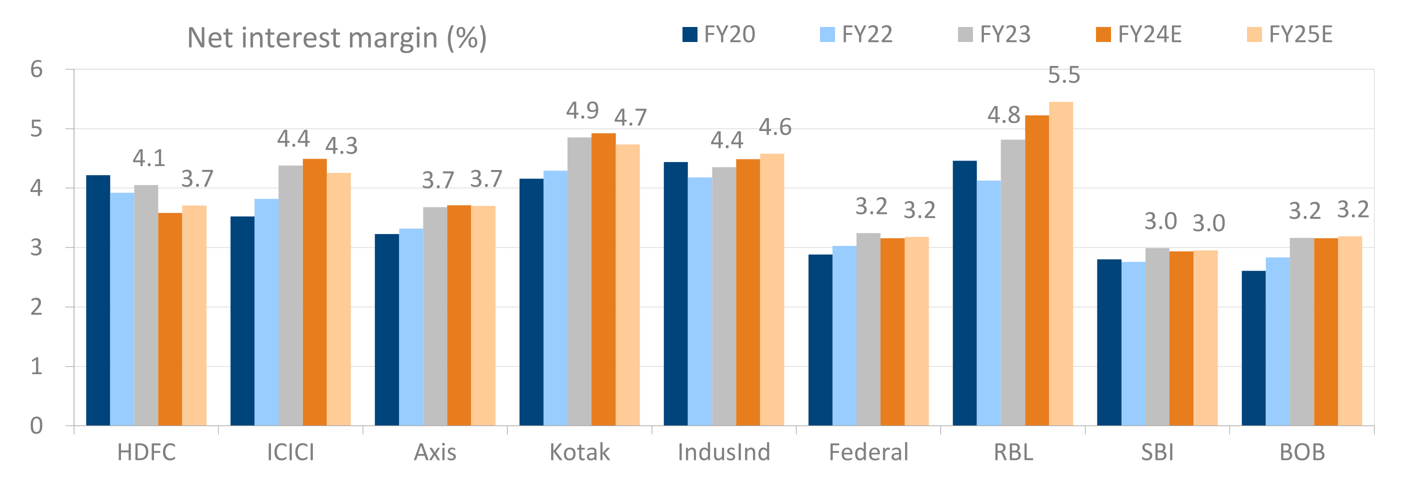
Figure 160: Net interest margin for individual banks

NIM (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	4.3	4.6	4.4	4.4	4.5	4.5	4.4	4.4	4.2	4.1	3.9	4.1	3.6	3.7	3.8
ICICI	2.6	2.9	3.1	3.3	3.4	3.2	3.1	3.2	3.5	3.6	3.8	4.4	4.5	4.3	4.2
Axis	3.1	3.2	3.4	3.5	3.6	3.5	3.1	3.2	3.2	3.4	3.3	3.7	3.8	3.7	3.7
Kotak	4.5	4.4	4.5	4.5	4.9	4.2	4.2	4.0	4.2	4.3	4.3	4.9	4.9	4.7	4.6
IndusInd	3.4	3.5	3.7	3.7	3.9	4.1	4.0	3.8	4.4	4.4	4.2	4.4	4.5	4.6	4.5
Federal	3.6	3.1	3.2	3.2	3.1	3.1	3.0	2.9	2.9	3.1	3.0	3.2	3.2	3.2	3.1
RBL						2.9	3.3	3.7	4.5	4.2	4.1	4.8	5.2	5.5	5.6
SBI	3.5	3.2	3.0	3.0	2.8	2.6	2.6	2.7	2.8	2.9	2.8	3.0	2.9	3.0	2.9
BOB	2.6	2.3	2.0	2.0	1.9	2.1	2.3	3.0	2.6	2.6	2.8	3.2	3.2	3.2	3.0

Source: Company, IIFL Research

We expect divergent margin outcomes going ahead - expansion for HDFC, IIB, Federal and RBL; higher contraction for ICICI, Kotak and SBI; and lower for Axis and BOB.

Figure 161: Expect divergent margin outcomes – FY25 NIMs to be better than FY24 for HDFC, IIB, Federal and RBL. Also pertinent to note that our FY25 NIM estimates for the rest of the banks is also only marginally below FY23 levels i.e. NIMs would moderate but remain close to cyclical peak levels unless there are meaningful rate-cuts

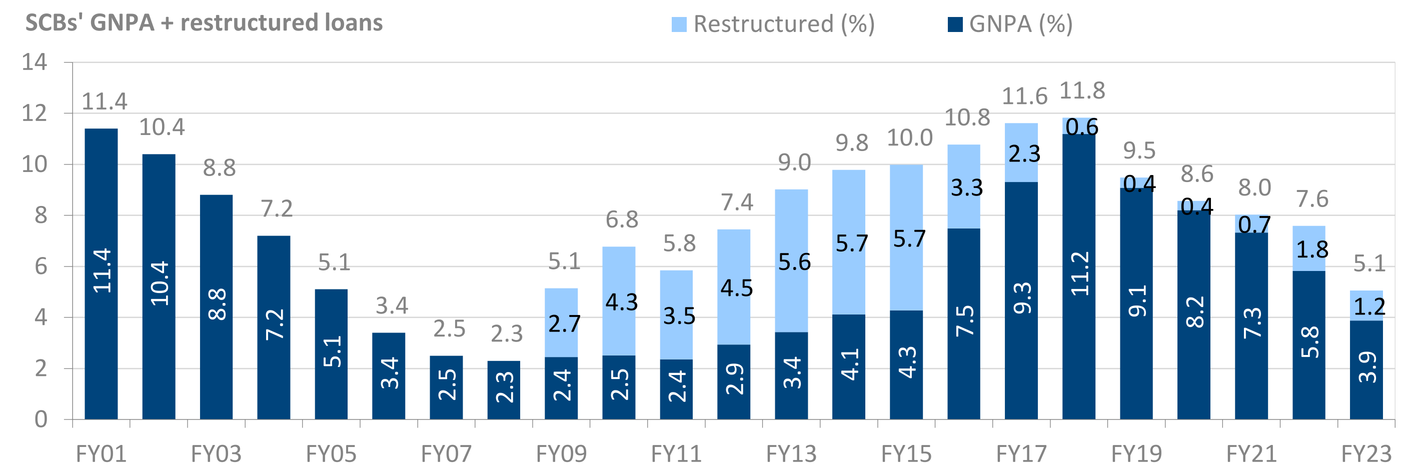


Source: Company, IIFL Research

Asset quality outlook benign; delving into pockets of potential stress

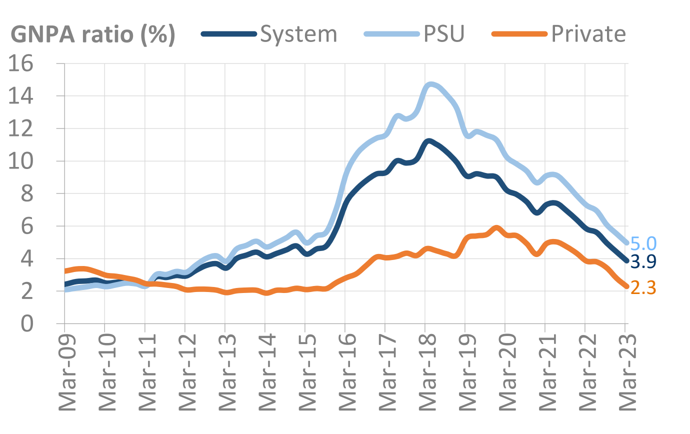
At 5.1%, banks' impaired loans are at the lowest level since FY09 with improvement across both Private and Public banks. NNPA ratio is also very low, at 0.5% for Private banks and 1.2% for Public banks.

Figure 162: At 5.1%, system-wide impaired loan ratio is at 15yr lows



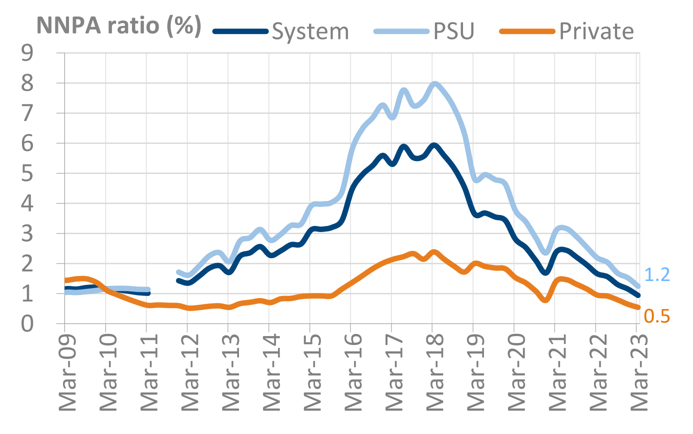
Source: Company, IIFL Research

Figure 163: GNPA ratio improving across both Private and Public sector banks ...



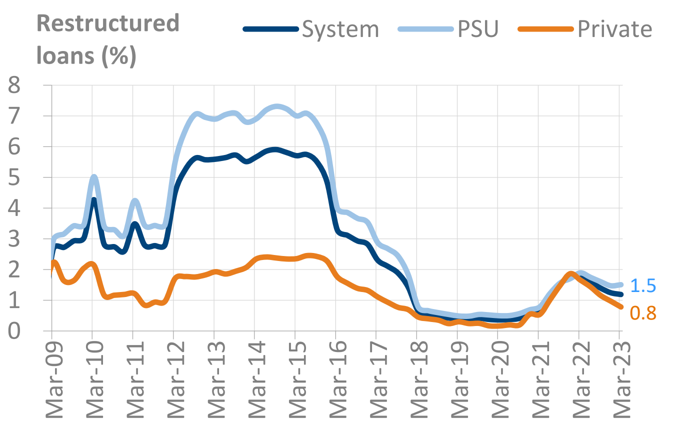
Source: RBI, IIFL Research

Figure 164: ... similarly, NNPA ratio has also improved with lower GNPA and higher PCR



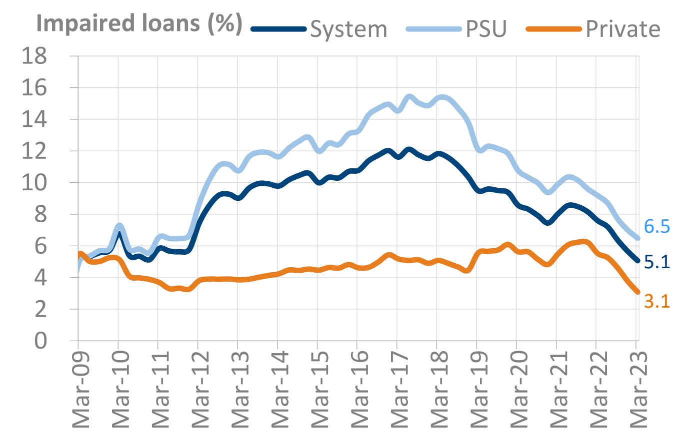
Source: RBI, IIFL Research

Figure 165: Restructured loan ratio has also improved ...



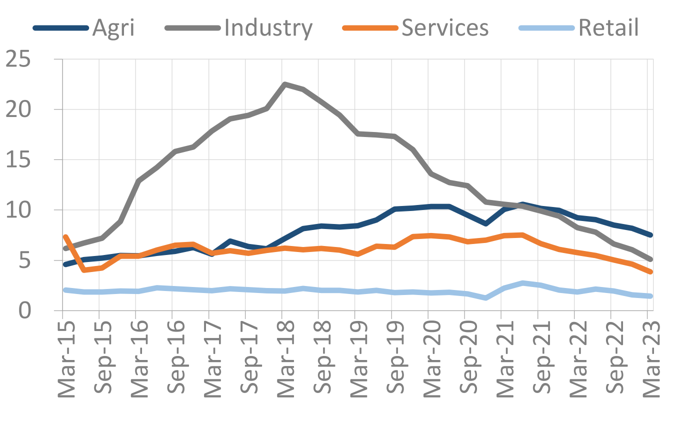
Source: RBI, IIFL Research

Figure 166: ... resulting in lower overall impaired loans



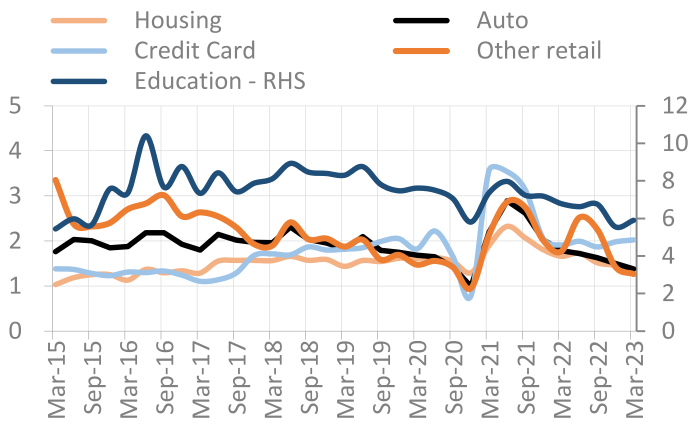
Source: RBI, IIFL Research

Figure 167: Agri NPAs still higher, led by PSU banks; steady improvement in corporate NPAs since FY18 peak; services and retail NPAs remain low



Source: RBI, IIFL Research

Figure 168: Retail loans NPA ratio is 30-60 bps below Covid levels, except for credit-card (flat); education NPA ratio relatively higher at 6%

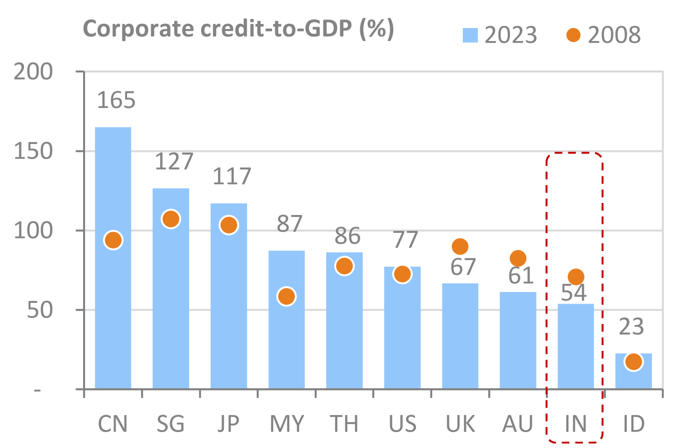


Source: RBI, IIFL Research

How is corporate India's health?

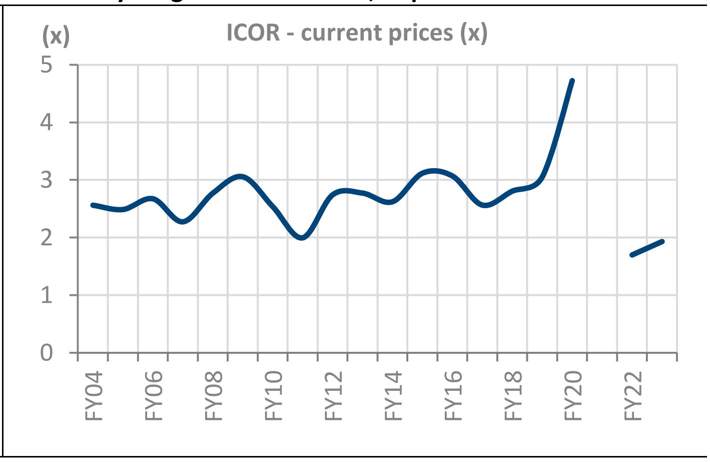
India's corporate credit-to-GDP has declined since GFC and is lower relative to other countries. Productivity of capital, as reflected in lower ICOR, has also improved in recent years. With delevered balance sheets and improved ROEs, the health of corporates is good.

Figure 169: India's corporate credit-to-GDP of 54% lower than other countries, and has declined by 17pp since GFC



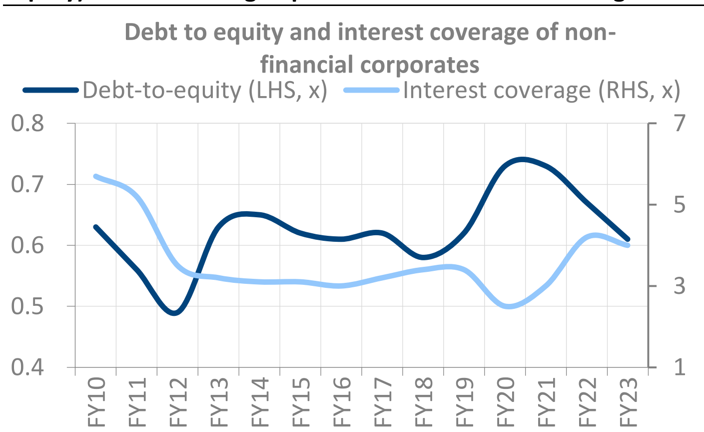
Source: Bank of International Settlement, IIFL Research

Figure 170: India's incremental capital output ratio (ICOR) historically ranged between 2-3x; improved to 2x in FY23



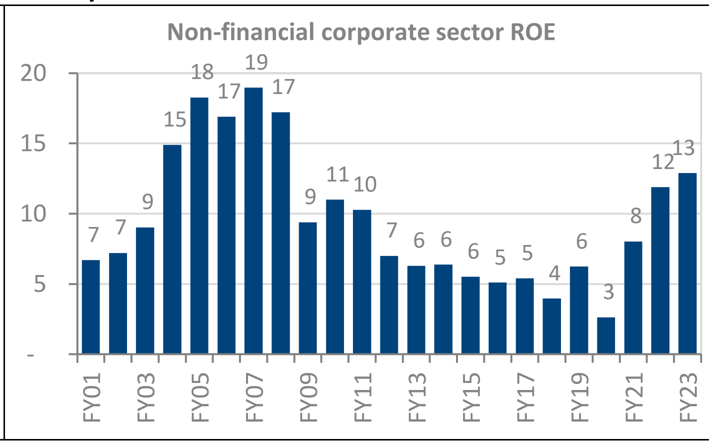
Source: CEIC, IIFL Research

Figure 171: Corporates deleveraging (decline in debt-to-equity) and witnessing improvement in interest coverage



Source: CMIE, IIFL Research

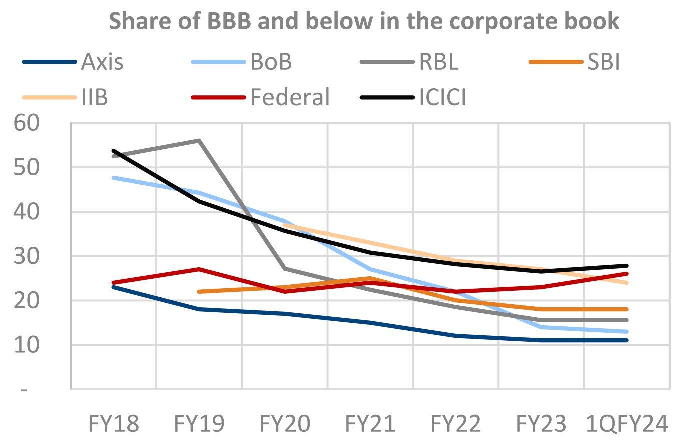
Figure 172: Corporate India's ROEs are at the best levels since last 15 years



Source: CMIE, IIFL Research

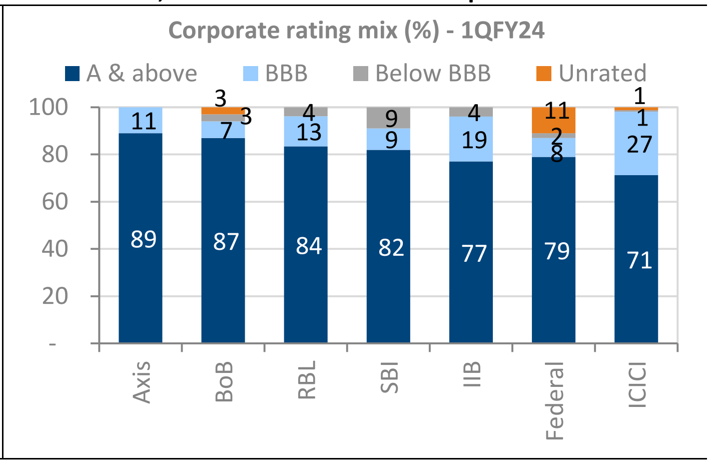
Following the corporate asset quality cycle of the last decade, Indian banks have been steadily reducing their exposure to riskier category of corporate borrowers. In the last five years, share of 'BBB and below' rated book has declined by 5-35 pp. Axis has the highest share of corporates rated 'A and above'; ICICI Bank has the lowest.

Figure 173: Since the peak of corporate stress in FY18, exposure to lower-rated corporates declined by 5-35 pp



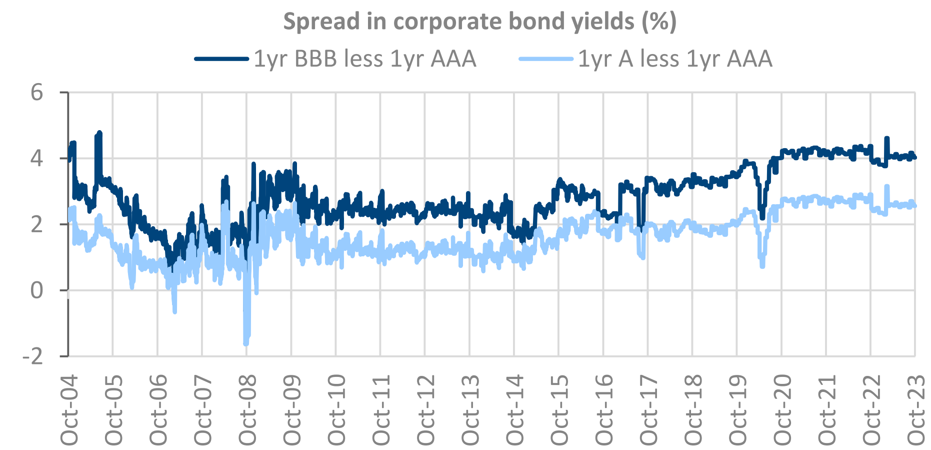
Source: Company, IIFL Research

Figure 174: Axis has the highest exposure to corporates rated 'A and above', and ICICI has the lowest exposure



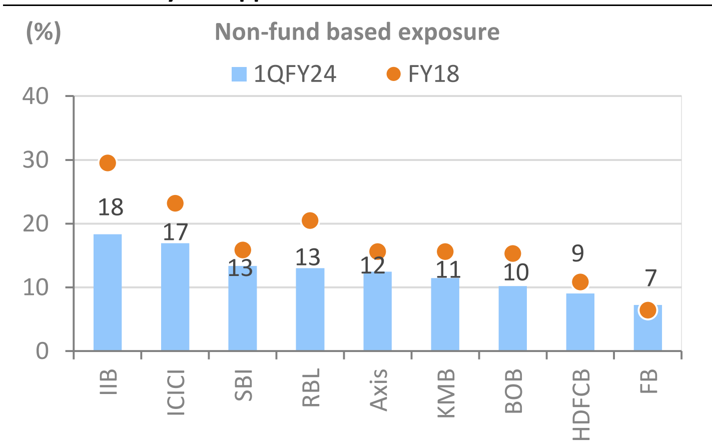
Source: Company, IIFL Research

Figure 175: Spreads elevated for riskier corporates, implying continued conservative underwriting practices by banks



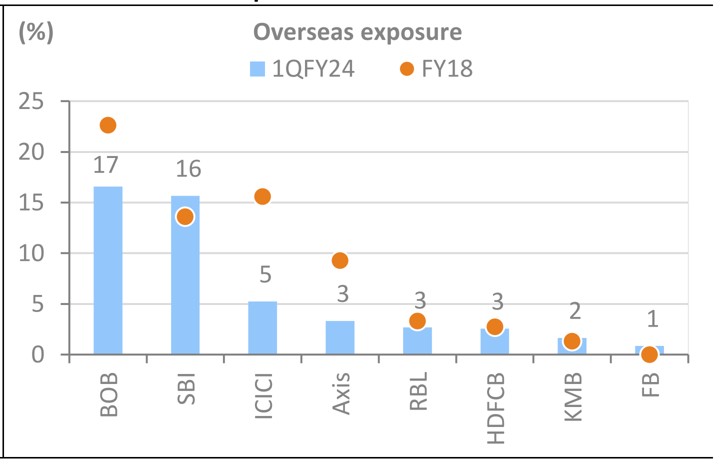
Source: Bloomberg, IIFL Research

Figure 176: In the last 5yrs, non-funded exposure of banks has declined by 2-10 pp to 7-18% now



Source: Company, IIFL Research

Figure 177: In the last 5yrs, ICICI, Axis and BOB have scaled back their overseas exposure

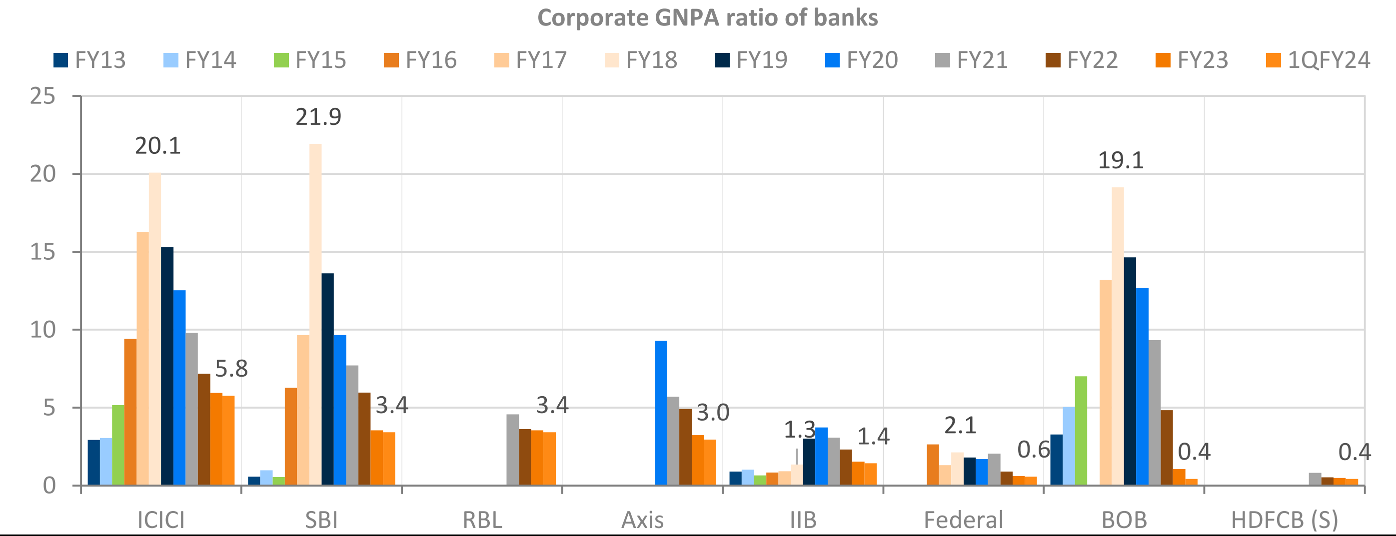


Source: Company, IIFL Research

Further, as shown in Fig. 175, spreads for riskier corporates have been elevated; implying continued conservative corporate underwriting practices by the banks. However, we believe that credit to better-rated corporates is still being mispriced (though better than the pricing war witnessed during 1HCY22), as banks are lending to them at MCLR less 50-100 bps, or at a spread of only 50-100 bps above the G-sec rates. Banks are trying to partly compensate this by sourcing other businesses such as transaction banking, current accounts, payments and salary accounts.

Nonetheless, the corporate asset quality of banks remains very benign at this juncture. We have seen the corporate GNPA ratio of banks improving from the peak of 20%+ in FY18 to 0.5-3.5% now.

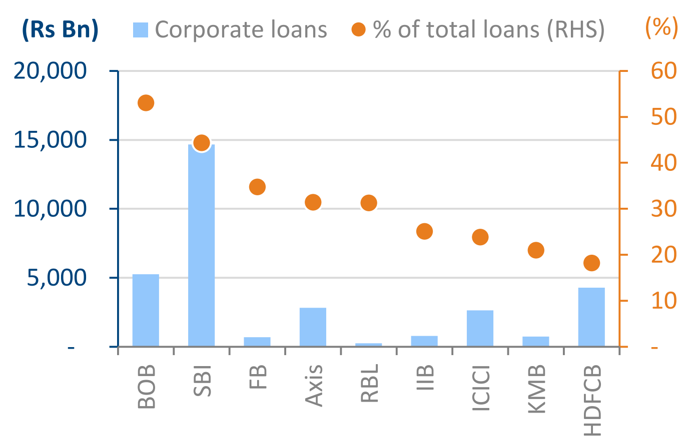
Figure 178: Following the clean-up in FY18, corporate GNPA ratio for banks have improved from 20%+ level to 0.5-3.5% now



Source: Company, IIFL Research. Note: For ICICI Bank, corporate and SME GNPA ratio is shown

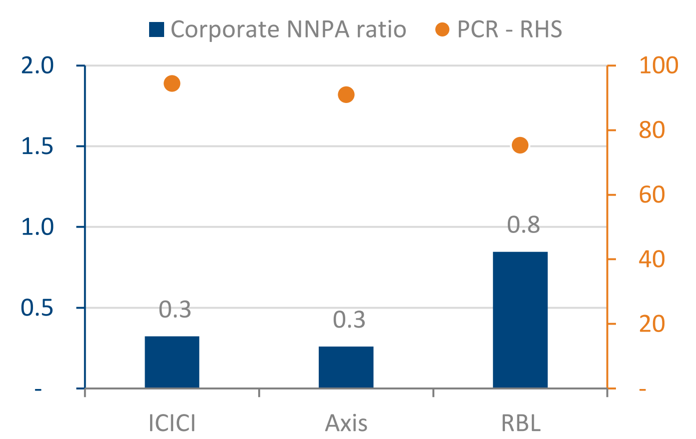
Not only has the corporate GNPA ratio trended down, banks have increased the provision coverage meaningfully (75-90% for ICICI, Axis and RBL) as shown in Fig. 180. Consequently, corporate NNPA ratio is as low as 0.3-0.8% for the select Private banks. We highlight that PSBs (SBI, BOB) continue to have higher proportion of corporate loans (45-50% of total loans), relative to the Private sector peers.

Figure 179: BOB and SBI have higher share of corporate loans; lower for HDFCB and Kotak



Source: Company, IIFL Research. Note: 1QFY24 data for SBI & BOB

Figure 180: With 75-90% PCR on corporate loans, NNPA ratio is low at 0.3-0.8%



Source: Company, IIFL Research. Note: For ICICI Bank, corporate and SME GNPA ratio is shown

What are the pockets of potential stress?

We believe the risk of a renewed corporate asset quality cycle for banks is low at this juncture, given the delevered corporate balance-sheets, improved profitability, distributed exposure between the banks and bond market, decline in banks' exposure to riskier corporates, scale-back of non-fund based exposure and overseas loans, low slippages and high provision coverage on the NPAs.

While we do not foresee any systemic asset quality risks on horizon, we think the pockets of potential stress can emanate from unsecured loans (personal and credit card), MSME and agri segments. We discuss them at length below. Key conclusions are:

a. **Unsecured loans** – Runaway growth in system-wide PLs (27% Cagr in the last four years and 36% YoY in FY23; even higher for NBFCs) has been the cause of regulator and investor concerns. We see rising vintage delinquencies for unsecured loans, small-ticket personal loan (PL) delinquencies that are 5-9x of big-ticket PL and falling approval rates by lenders as signs of brewing stress. **We expect the FinTechs, lenders who rely on them for sourcing (ala Piramal, AB Finance, etc.) and second-tier of Public banks to be mainly impacted.** This is because delinquencies for the FinTechs are 2-3x of that for other lenders, roll-backs are lower due to weaker collection infrastructure, and have higher exposure to younger borrowers who mainly avail small-ticket PLs where both delinquencies and leverage (avg. loan per borrower) are higher. HDFCB, ICICI, SBI and BAF have only low-single digit 30+ DPD in unsecured loans as they mainly focus on lower-risk ETB borrowers (60-85% share in PL).

b. **MSME loans** – Adjusted 90+ DPD (ex. loans that were NPAs even in FY19 i.e. legacy stress which obscures analysis of incremental delinquency trends) of 4.4% is meaningfully lower than 11% reported 90+ DPD. Vintage delinquency for recent originations is higher than pre-Covid level, but is steadily improving. Higher vintage delinquencies is mainly in the 'micro' segment, where 60% disbursements is to the new-to-credit (NTC) segment and is mainly due to public sector banks' origination in the semi-urban areas. Private banks have 45% share in MSME loans, but any potential stress **may manifest mainly in the public sector banks** due to higher exposure to the NTC borrowers, where the risk is higher.

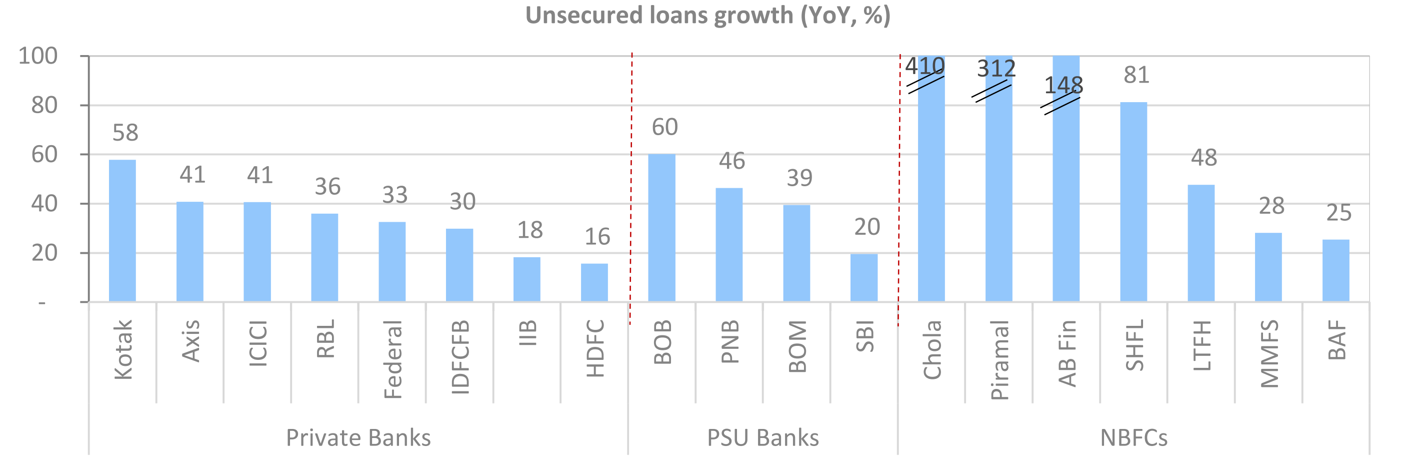
c. **Agri loans** – With pan-India monsoons 6% below LPA and uneven distribution, it could lower agricultural output and impact Agri GDP in FY24. Our analysis of historical relationship between monsoons and Agri NPAs suggest that we may see an uptick in the Agri NPAs, which otherwise has been improving in the past few years. Any farm loan waivers (unlikely in our view), may further accentuate the pain for banks, particularly for **Public banks where the Agri NPAs are still high at 7-18% vs. 3-5% for Private banks**.

A. Unsecured loans – risks should first emanate for FinTechs and lenders with higher share of sourcing through them

1. What are the concerns in unsecured loans?

The RBI has been sounding caution with the runaway growth in unsecured loans in recent quarters. Media reports (link) have indicated that the RBI may even consider raising the risk-weight on personal loans. While earlier in the report we had discussed how retail penetration in India is low and there is absence of any exuberance from the top-down perspective, we believe that the cause of recent investor and regulator concerns is the strong pace of growth in unsecured PLs. For individual lenders, unsecured loans (including MFI) grew 20-60% for banks, and 25-400% for select NBFCs (from lower base). Growth has been the strongest for BOB, Kotak, PNB, Axis and ICICI; whereas it has been relatively slower for IIB and HDFC Bank (Fig. 181). NBFCs such as ala Chola, Piramal, AB Finance have seen their unsecured loans growing by 2-4x in FY23.

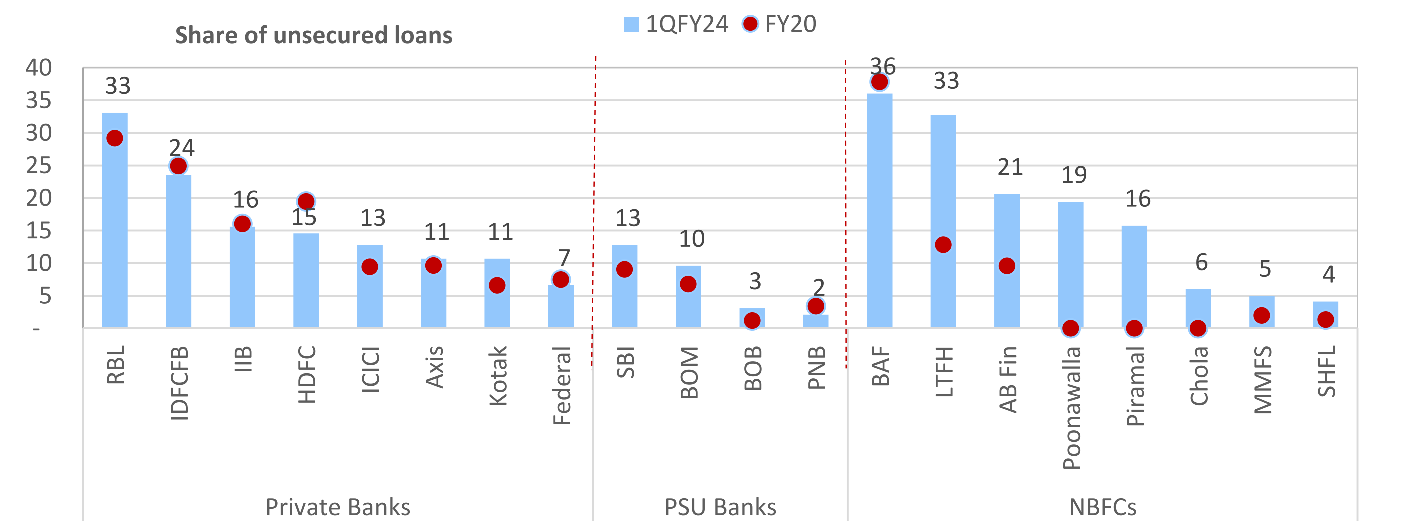
Figure 181: Scorching growth in unsecured loans recently – 20-60% YoY for banks and 25-400% for NBFCs



Source: Company, RBI, IIFL Research. Note: (1) Unsecured loans include consumer durable, personal loans, education, credit card, embedded finance and microfinance as of 1QFY24, (2) For NBFCs – it does not include unsecured business loans

We note that unsecured retail loans is a legacy segment for most banks (particularly Private) and they continue to largely fund internal customers. This is also evident in the movement in share of unsecured loans in their total loans, which has been flat to +4 pp since FY20, and now constitute 10-33% of their loan book. On the other hand, for most NBFCs (barring Bajaj Finance) this is largely a new segment, which has been scaled up post-pandemic. The share of unsecured loans has increased by 1-20 pp in the last three years to 5-35%. LTFH, Poonawalla, Piramal and AB Finance in particular, have seen a very strong growth in a short span of time; given that they have pivoted their business models in this direction.

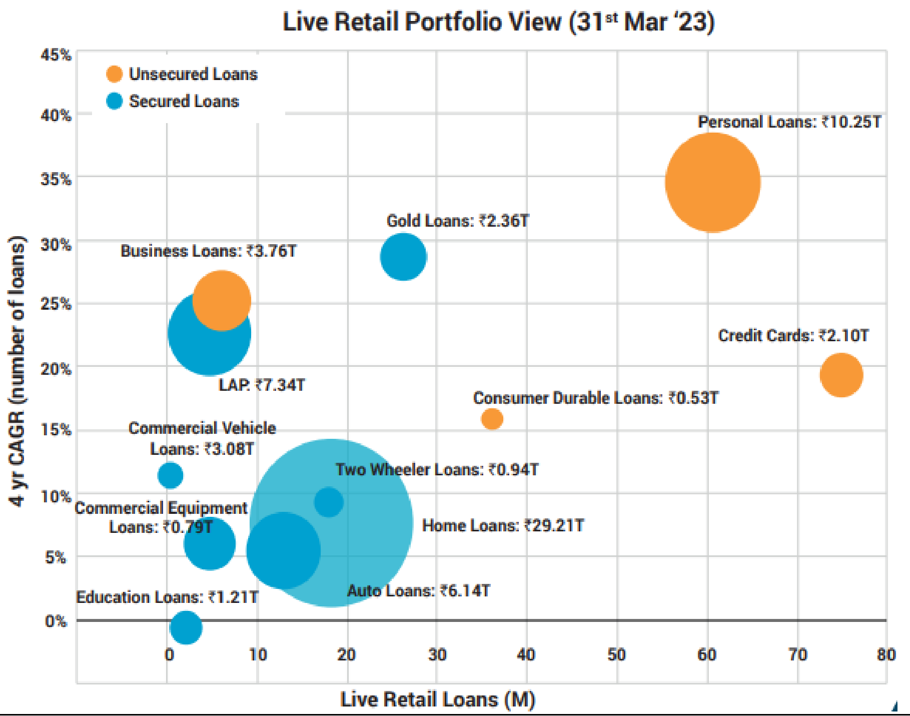
Figure 182: Share of unsecured loans in banks' loan mix has been flat to up 4 pp since FY20 to 10-25%. However, the increase is much higher for the NBFCs at 1-20 pp to 5-35% ; the highest increase for LTFH, Poonawalla, Piramal and AB Cap



Source: Company, RBI, IIFL Research. Note: (1) Unsecured loans include consumer durable, personal loans, education, credit card, embedded finance and microfinance as of 1QFY24, (2) For NBFCs – it does not include unsecured business loans. If included the share of unsecured loans would further increase by 36% for Poonawalla, 17% for BAF, 10% for AB Finance and 5% for Piramal.

Fig. 183 below shows how unsecured loans (PLs, credit cards and consumer durable loans) have been growing at a much faster clip in the last few years, relative to the other retail lending products.

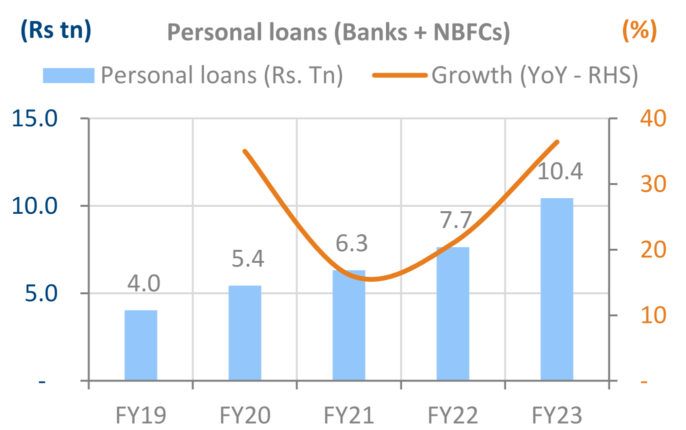
Figure 183: Unsecured loans growing the fastest among retail loans



Source: TransUnion CIBIL, IIFL Research. Note: Size of bubble indicates outstanding balance.

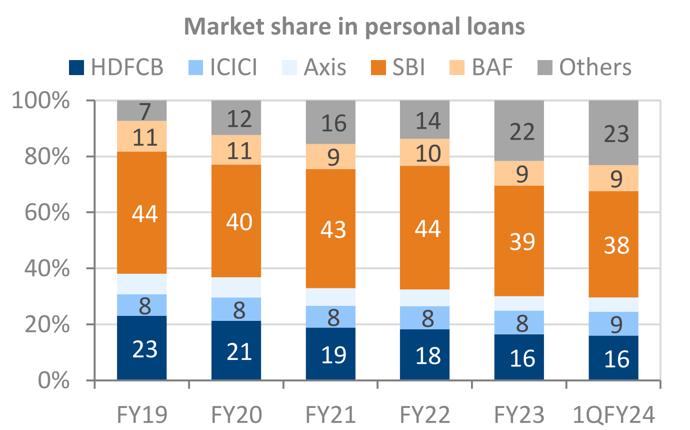
In the last four years, system-wide PLs have grown at 27% Cagr with the growth rate in FY23 being 36% YoY. NBFCs have grown at even faster clip of 39% YoY, and constitute 20% of total PLs outstanding. Even on a 4yr basis, NBFC's growth rate of 28% Cagr is 5pp higher than 23% Cagr, clocked by the banks. Consequently, the NBFCs and FinTechs are rapidly gaining MS (Fig. 197) by disbursing smaller-ticket loans to Tier2 onward cities and by mainly catering to self-employed, low-income and younger-age customers. On the other hand, banks are focused on salaried middle-age borrowers with a higher share in Tier1 cities.

Figure 184: In the last 4yrs, PLs grew at 27% Cagr with 80/20 market share split between banks and NBFCs



Source: CRISIL, IIFL Research

Figure 185: 'Others' led by FinTechs and NBFCs, aggressively gaining MS in personal loans

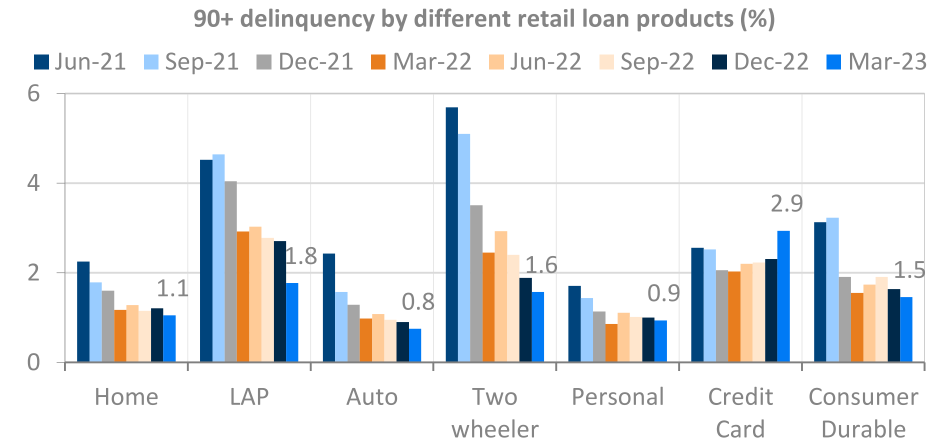


Source: Company, IIFL Research

2. Are there any signs of distress in this segment as yet?

Unsurprisingly, the 90+ delinquency across retail loan products is showing an improving trend over the last two years, as collection efficiencies normalised. However, as shown in Fig. 186 credit card delinquencies have been gradually inching up in the last four quarters.

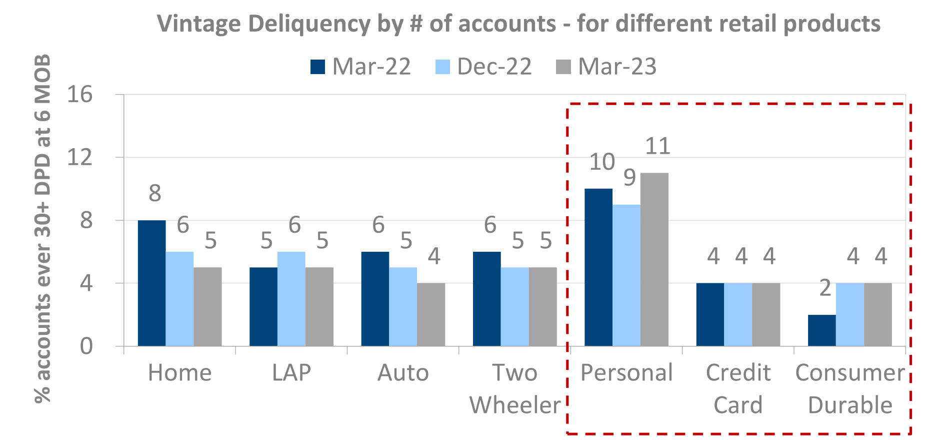
Figure 186: 90+ DPD improving across retail products, except for credit cards, for which it is rising since the last four quarters



Source: TransUnion CIBIL, IIFL Research

But more importantly, vintage delinquency analysis (by number of accounts) shows that early delinquency trends are still stable-to-rising for unsecured loans vis-à-vis improvement witnessed in other secured retail loan products (Fig. 187). For PLs, 11% of accounts have crossed 30+ DPD after being six months-on-book (MOB) vs only 4-5% of accounts for other retail loan products.

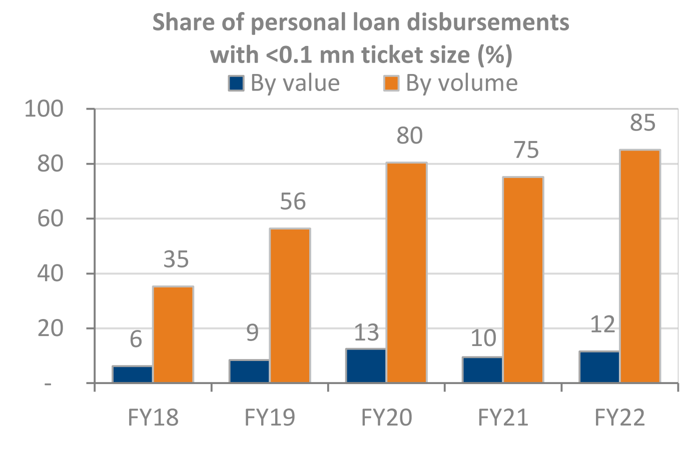
Figure 187: Vintage delinquency improving for all retail loan products, barring unsecured loans where it is stable-to-rising



Source: TransUnion CIBIL, IIFL Research. Note: Vintage delinquency based on no. of accounts

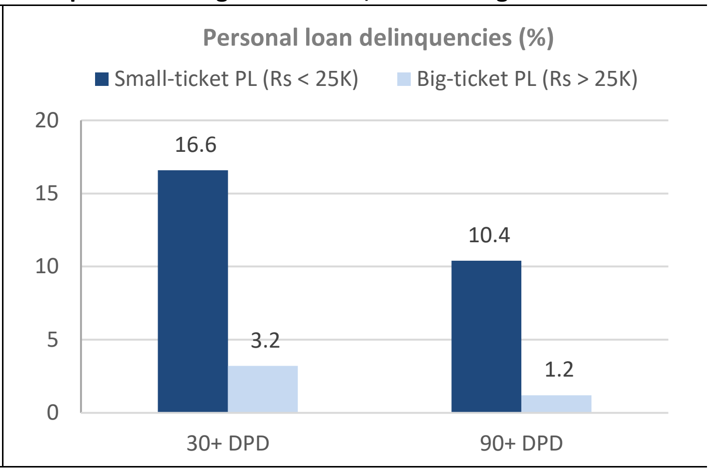
With the FinTechs and NBFCs capturing market share, supported by digital penetration, the share of small-ticket personal loans is rapidly increasing, and constitutes 80%+ of disbursements by volume and 10%+ by value (Fig. 188). Growth has been driven by significant increase in transaction volume. As NBFCs and FinTechs focus more on this bucket of personal loans, the average ticket size will continue to decline. However, it is noteworthy that delinquencies for small-ticket personal loans (ticket-size <Rs25K) is not only rising, but is 5-9x more than the delinquencies for big-ticket loans (ticket-size >Rs25K) as shown in Fig. 189.

Figure 188: Proportion of lower-ticket size PLs rising; 85% of total PL distribution, as per volume



Source: CRIF, IIFL Research

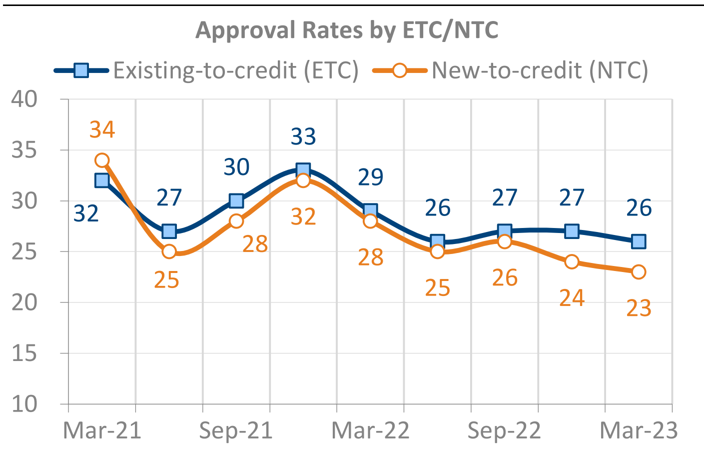
Figure 189: Small-ticket personal loans have 5-9x higher delinquencies vs big-ticket loans, and is rising



Source: TransUnion CIBIL, IIFL Research

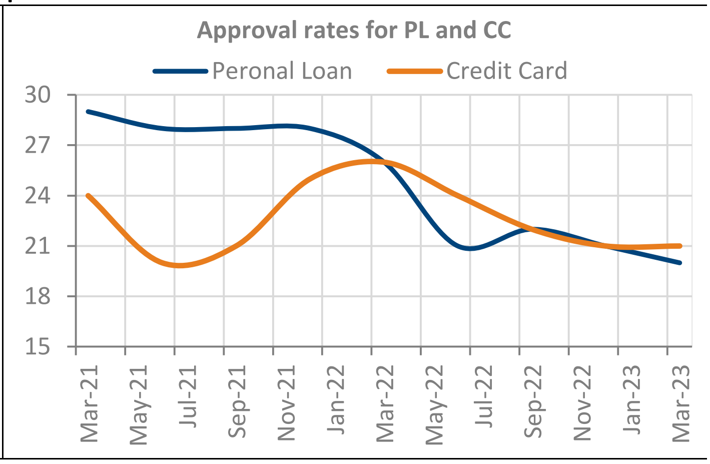
Given the uptick in delinquencies, lenders have started tightening underwriting standards for both existing-to-credit (ETC) and new-to-credit (NTC) customers (Fig. 190). Despite the strong growth rates, we note that the approval rates for both PLs and credit cards has been steadily declining in the last few quarters (Fig. 191).

Figure 190: Lenders have started tightening underwriting for both ETC and NTC customers …



Source: TransUnion CIBIL, IIFL Research

Figure 191: … reflected in the falling approval rates for both personal loans and credit cards



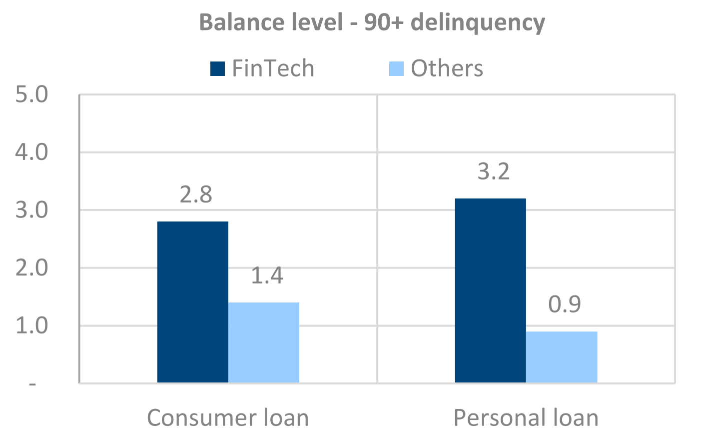
Source: TransUnion CIBIL, IIFL Research

3. Which lenders could be more impacted?

Having discussed the signs of incipient stress in personal loans, we next address the most pertinent question – which lenders will be the most impacted if the stress continues to build-up further? We believe the stress would first emanate in the FinTechs, then in the lenders who have higher share of their disbursements sourced from these FinTechs and also for second-tier PSU banks where the book is unseasoned.

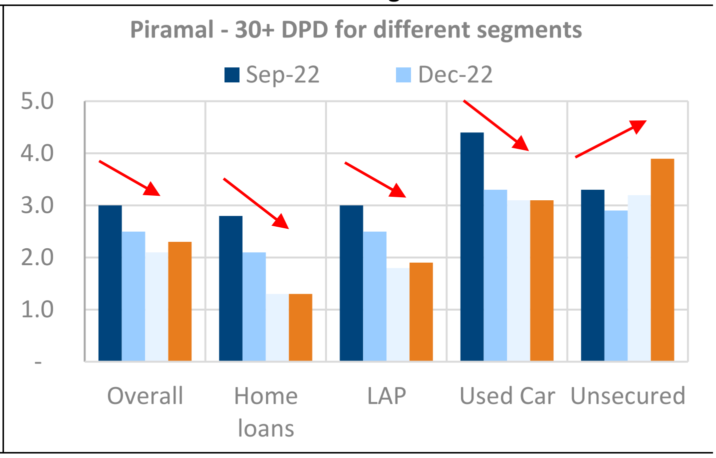
We note that delinquencies for the FinTech lenders is already 2-3x of that witnessed by other lenders. Fig. 192 shows that 90+ delinquency is 2.8-3.2% for the FinTechs vs. 0.9-1.4% observed by other lenders. On the similar lines, Piramal – one of the NBFCs which has a FinTech led sourcing model (almost a quarter of retail loan disbursements are from its digital embedded finance book i.e. in partnership with FinTechs) – has also witnessed asset quality deterioration in its unsecured loans. Fig. 193 shows that 30+ DPD in Piramal's unsecured business has gone up by 100 bps in the last two quarters vs. 20-80 bps of improvement in its other segments.

Figure 192: Unsecured loan delinquencies for FinTech lenders are 2-3x vs other lenders….



Source: TransUnion CIBIL, IIFL Research

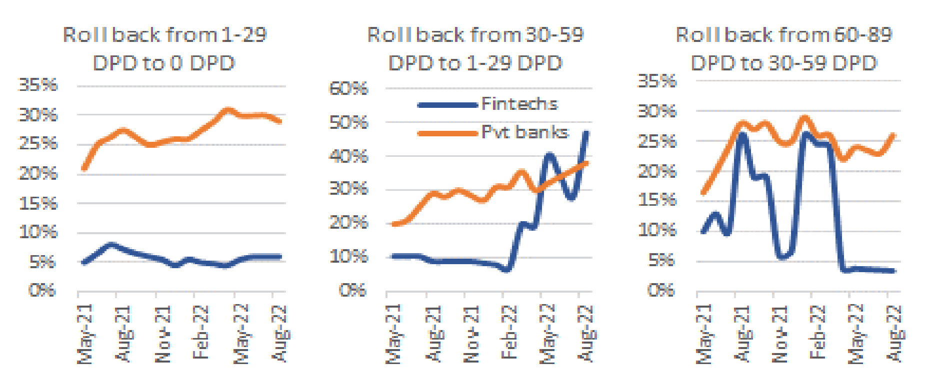
Figure 193: … and unsecured loan NPAs for NBFCs sourcing from FinTechs have also been rising



Source: Company, IIFL Research

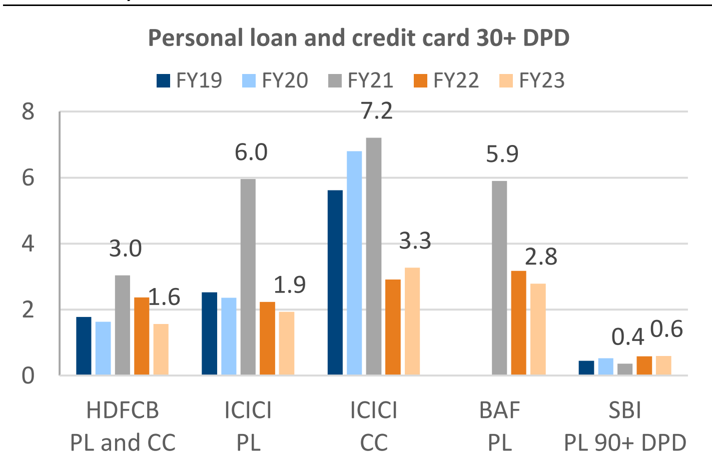
While recovery rates are anyways generally lower for unsecured loans, we find that even the roll-backs are lower for FinTechs, once these loans slip (Fig. 194). This is on account of exposure to riskier category of customers and weaker collection infrastructure.

Figure 194: For FinTechs, not only the delinquencies are higher, but even the roll-backs are lower due to weaker collection infra and exposure to riskier customers



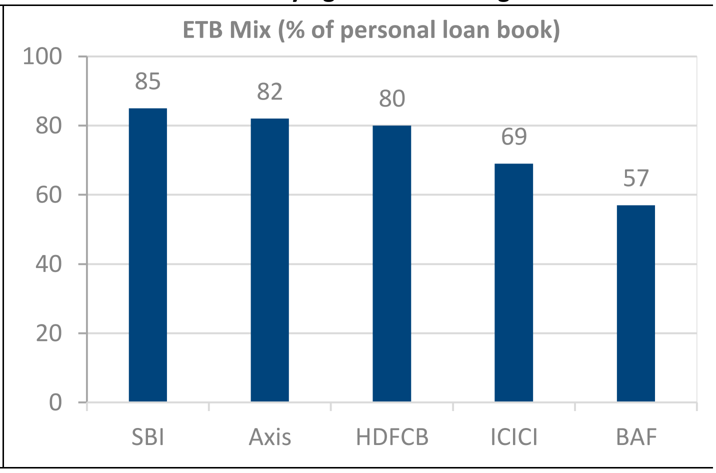
Source: Experian, IIFL Research. Note: Based on sample of data for personal loans

Figure 195: HDFCB, ICICI and BAF's 30+ DPD back to pre-Covid level, and lower than lenders like Piramal …



Source: Company, IIFL Research. Note: SBI not directly comparable in the above chart as it is 90+ DPD vs. 30+ DPD for the others

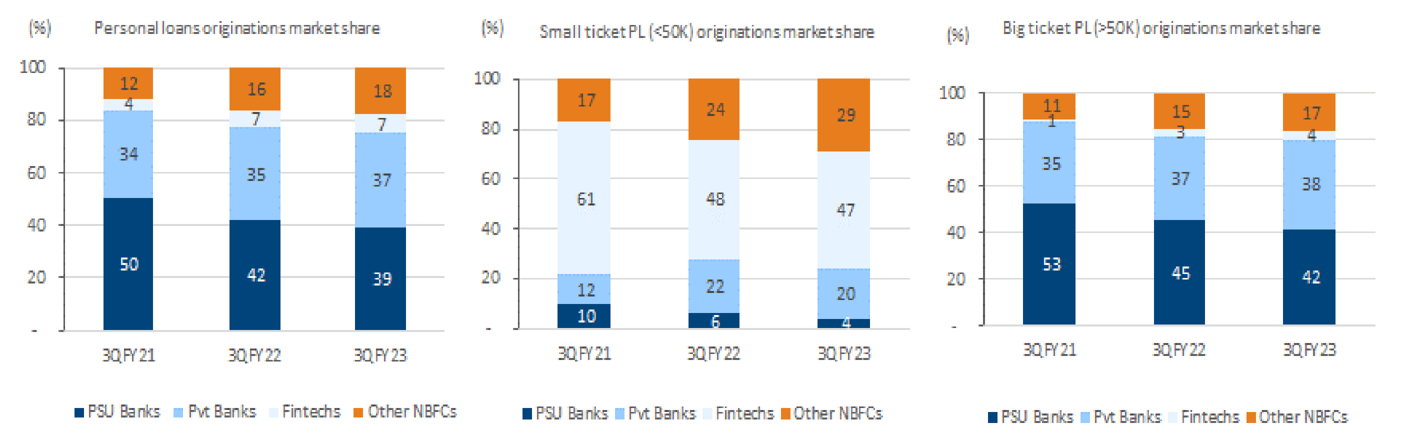
Figure 196: … mainly due to the focus on existing-to-bank (ETB) customers rather than relying on FinTech originations



Source: Company, IIFL Research

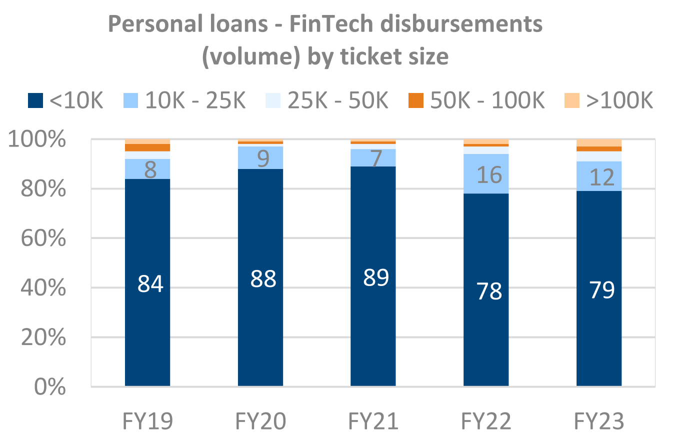
So what explains the higher delinquencies for FinTechs relative to other lenders? Fig. 197 shows that FinTechs originate ~50% of riskier personal loans vs. 30% by the NBFCs and 20% by the banks; 90% of disbursements are <Rs25k (by volume; Fig. 198) and have higher exposure to younger customers who not only have higher delinquencies (Fig. 200), but also are more levered (Fig. 201).

Figure 197: FinTechs originate half of smaller-ticket personal loans, but have a meagre low-single digit share in big ticket PL



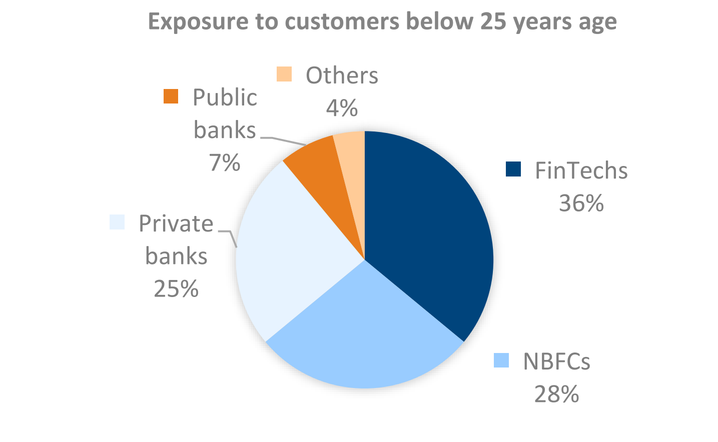
Source: TransUnion CIBIL, IIFL Research

Figure 198: 80% of loans originated by FinTechs are <Rs10k …



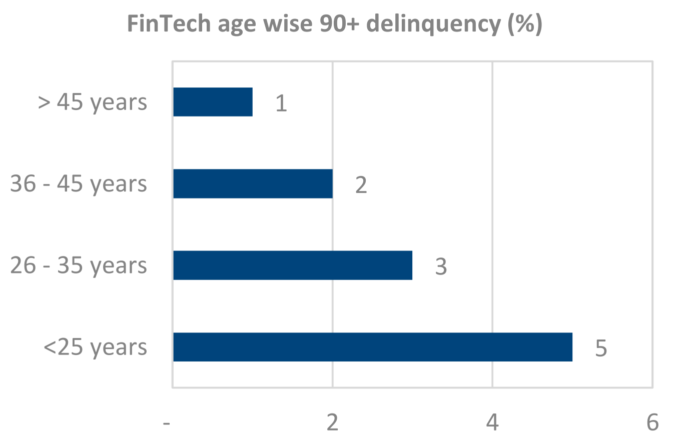
Source: TransUnion CIBIL, IIFL Research

Figure 199: … exposure is high to younger borrowers



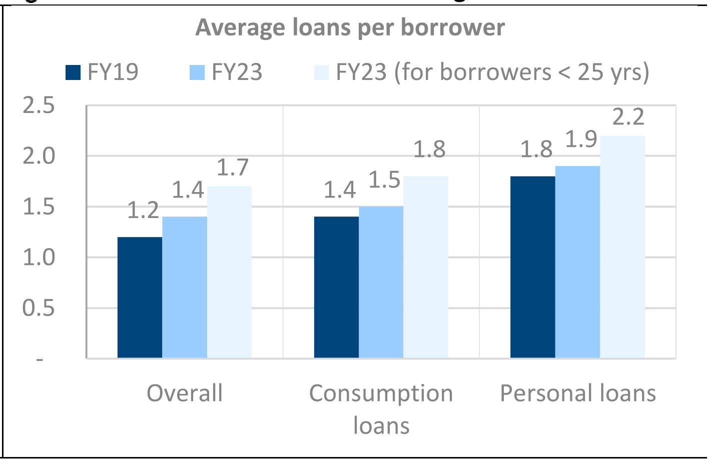
Source: TransUnion CIBIL, IIFL Research

Figure 200: Younger borrowers have higher delinquencies



Source: TransUnion CIBIL, IIFL Research

Figure 201: … and also have more leverage



Source: TransUnion CIBIL, IIFL Research

Fig. 202 highlights some of the FinTech partnerships (not an exhaustive list) forged by banks and NBFCs. It shows that lenders ala Piramal, AB Finance and IDFC FB have far more number of FinTech partnerships for sourcing unsecured loans. As highlighted earlier in Fig. 196, banks cater mainly to the existing-to-bank customers (60-85%); whereas, lenders like Piramal source ~25% of retail disbursements through these FinTechs.

Figure 202: Lenders ala Piramal, AB Finance and IDFC FB have higher number of partnerships with the FinTechs

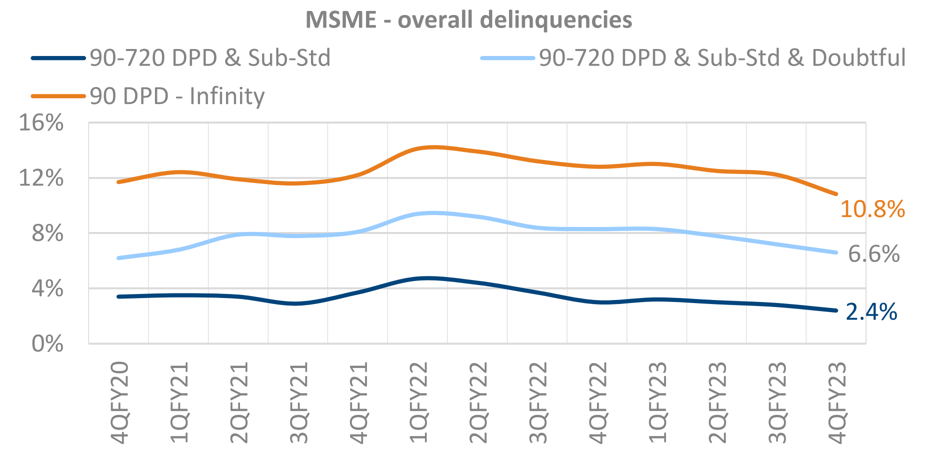
FinTech/FI	HDFC Bank	ICICI Bank	Axis Bank	Kotak	SBI	Federal Bank	RBL Bank	IDFC First Bank	Piramal Finance	AB Finance	Bajaj Finance	Poonawalla	IIFL Finance	L&T Finance	Chola	Urgo Capital
PaisaBazaar	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓					
MyMoneyMantra	✓	✓	✓	✓	✓	✓				✓	✓		✓	✓		
Paytm	✓			✓	✓				✓	✓						
Lendingkart									✓	✓					✓	✓
Indifi								✓	✓	✓			✓			✓
Paytail		✓							✓						✓	
INDMoney				✓		✓		✓	✓						✓	
CreditMantri	✓		✓		✓		✓	✓			✓		✓	✓		
Credilio	✓		✓	✓				✓		✓						
Exuberant	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓			✓		✓	
Fibe									✓	✓					✓	
Moneyview								✓	✓	✓			✓		✓	
FinAGG								✓		✓					✓	✓
Indialends	✓	✓	✓	✓				✓	✓		✓		✓	✓		
KreditBee									✓			✓	✓		✓	
Navi									✓	✓					✓	
Wishfin	✓	✓	✓	✓	✓			✓	✓		✓		✓			
Zestmoney		✓							✓	✓			✓			
PineLabs	✓	✓	✓	✓	✓	✓	✓	✓			✓					

Source: Company, IIFL Research. Note: The above partnership list of banks/NBFCs with the FinTechs is not an exhaustive one

B. MSME loans – headline NPA ratio exaggerates underlying delinquency trends

Given the strong growth in system MSME loans (17% YoY in FY23), micro and small loans coming out of ECLGS principal moratorium and rising inflation — there are some concerns pertaining to the health of MSMEs and therefore, asset-quality-deterioration risk for lenders. However, Fig. 204 shows that MSME delinquencies are actually improving across buckets; the estimated 90+ DPD infinity has declined by 200 bps YoY and is 100 bps below the pre-Covid levels.

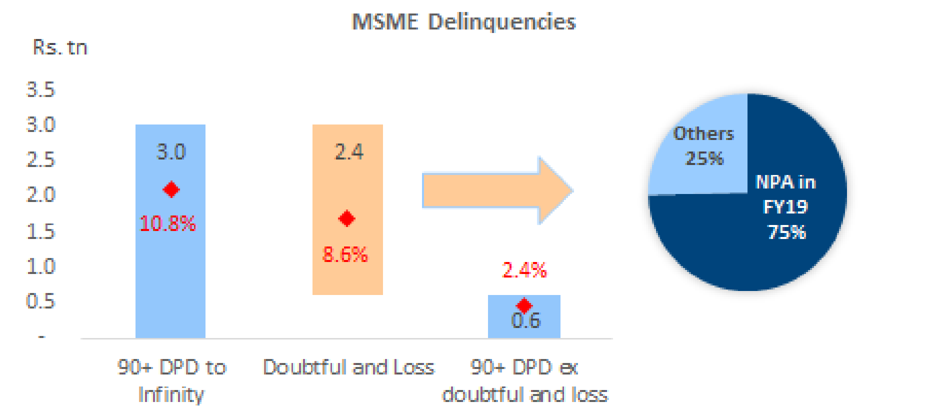
Figure 203: MSME delinquencies improving and below pre-Covid level



Source: TransUnion CIBIL, SIDBI, IIFL Research

The headline MSME GNPA ratio of ~11% is obviously too high for the comfort. However, on further analysis, we find that around 40% of the outstanding MSME NPAs (or in other words, 75% of MSME loans classified under doubtful and loss categories) are legacy accounts, and were NPAs even in FY19. This obviously obscures the analysis of incremental delinquency trends, which is more critical to understand the developing sector trends. Adjusted for these loans, 90+ DPD stands at 4.4% as of FY23 (vs the reported ~11%), and is 2.4% for 90+ DPD, ex doubtful and loss loans.

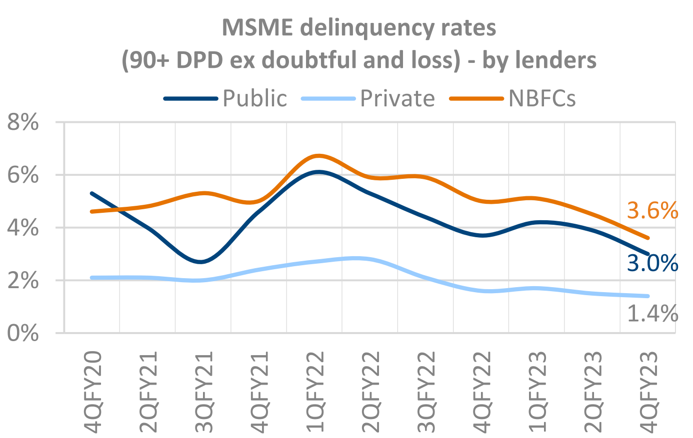
Figure 204: Around 40% of 90+ DPD (10.8% currently) was NPA even back in FY19 (thus legacy); adjusted 90+ DPD is 4.4% and 90+ DPD ex doubtful and loss is 2.4%



Source: TransUnion CIBIL, SIDBI, IIFL Research

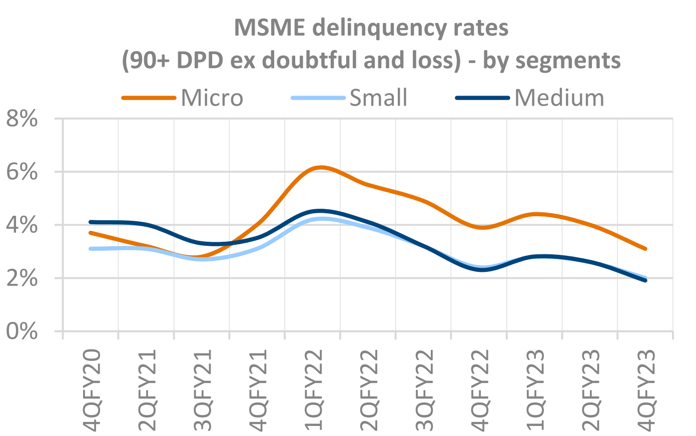
Following the pandemic-induced stress, delinquency rates had surged. They have gradually declined through the quarters as MSMEs continued to serve their credit obligations well. Delinquency rates have dropped across all the three lender categories (highest improvement for the NBFCs), with Private banks being the lowest at 1.4% (Fig. 205). Further sub-segment-wise breakup shows that the highest delinquency rate of 3.1% in the 'micro' segment is due to the rising share of new-to-credit borrowers (Fig. 206), which we further elaborate on later.

Figure 205: Relative to Private banks, MSME delinquencies for Public banks and NBFCs (though improving) are still higher



Source: TransUnion CIBIL, SIDBI, IIFL Research

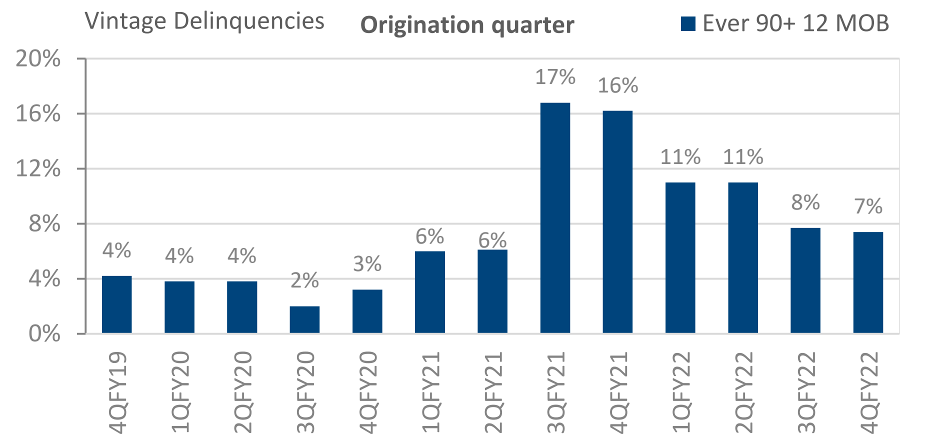
Figure 206: Delinquency is higher for the micro segment (credit exposure of <Rs10 mn) relative to small (Rs10-100 mn) and medium (Rs100-500mn)



Source: TransUnion CIBIL, SIDBI, IIFL Research

Vintage analysis shows early delinquency peaked in 3QFY21. Though vintage delinquency for originations in FY22-23 remained elevated vs pre-Covid originations, there is a modest improvement observed for loans originated in 4QFY22 (Fig. 207).

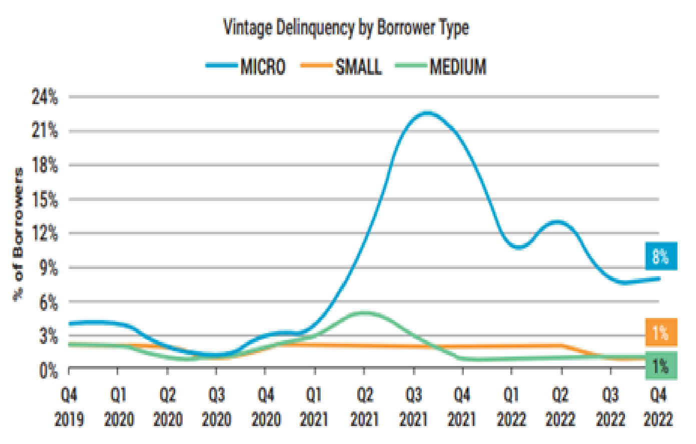
Figure 207: Vintage delinquency for originations in FY22-23 remained elevated vs pre-Covid originations; but there is a slight indication of improvement observed for loans originated in 4QFY22



Source: TransUnion CIBIL, SIDBI, IIFL Research

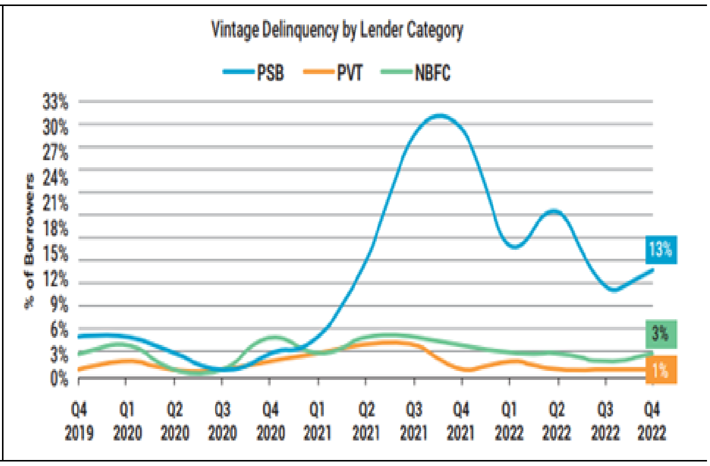
At 8%, vintage delinquency is the highest for the 'micro' segment, contributed mainly due to Public banks' origination in semi-urban area.

Figure 208: At 8%, vintage delinquency stands highest for the 'micro' segment…



Source: TransUnion CIBIL, SIDBI, IIFL Research

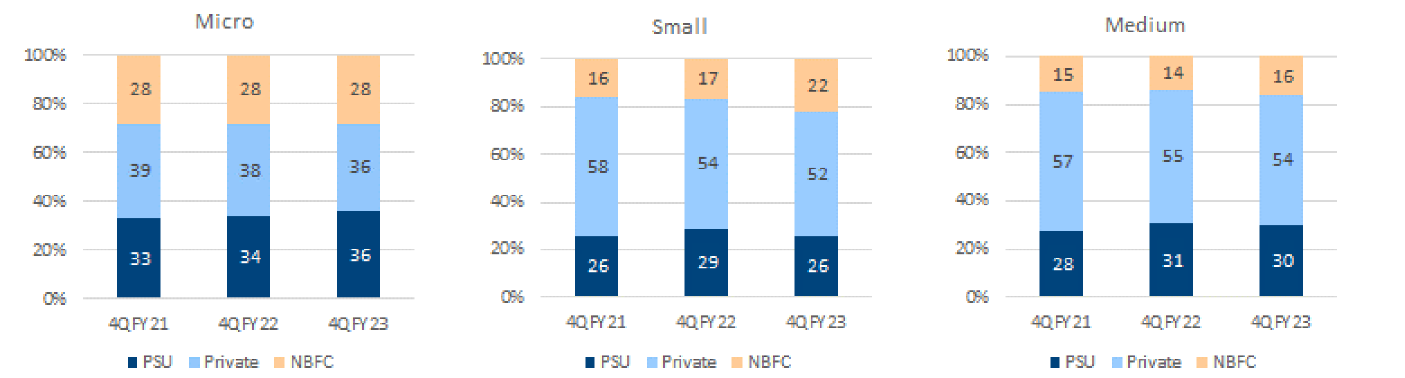
Figure 209: … mainly due to PSBs origination in semi-urban area



Source: TransUnion CIBIL, SIDBI, IIFL Research

While the share in 'micro' segment is well distributed between different lenders, public sector banks are more dominant in lending to the NTC borrowers seeking loans up to Rs5 mn.

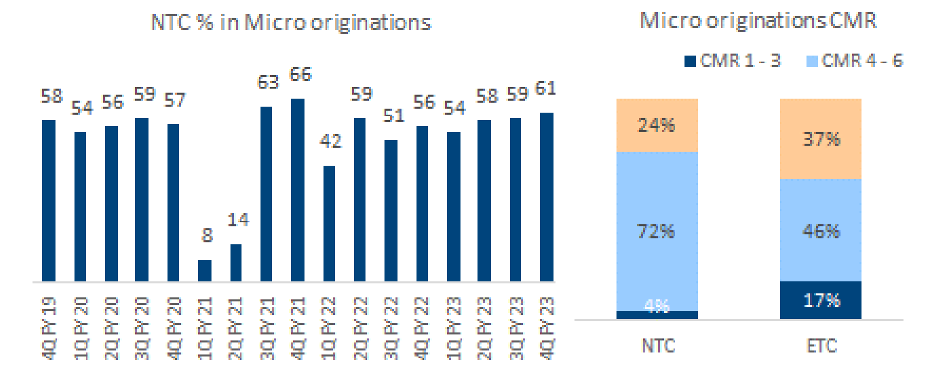
Figure 210: Private banks have higher disbursement share in small and medium segments; share in micro well distributed



Source: TransUnion CIBIL, SIDBI, IIFL Research. Note: Micro refers to credit exposure < Rs10 mn, small refers to exposure between Rs10-100 mn and medium segment refers to credit exposure between Rs100-500 mn.

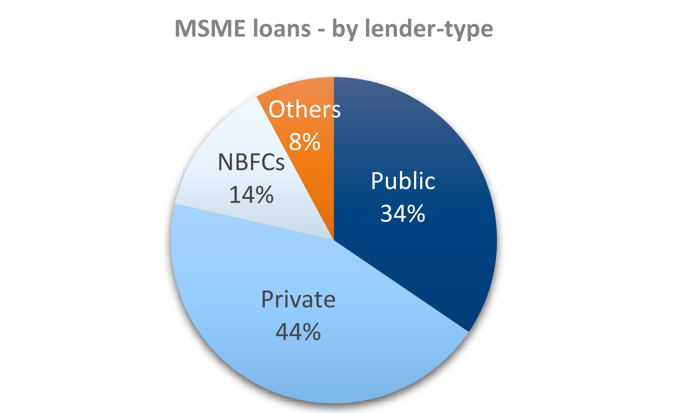
At 60%, the share of NTC borrowers in 'micro' MSME segment is high (and at 75% for 'very small' micro segment). These borrowers naturally have higher risk relative to the existing-to-credit borrowers.

Figure 211: NTC borrowers constitute 60% of originations in the 'micro' MSME segment, and also have higher risk-profile relative to ETC borrowers



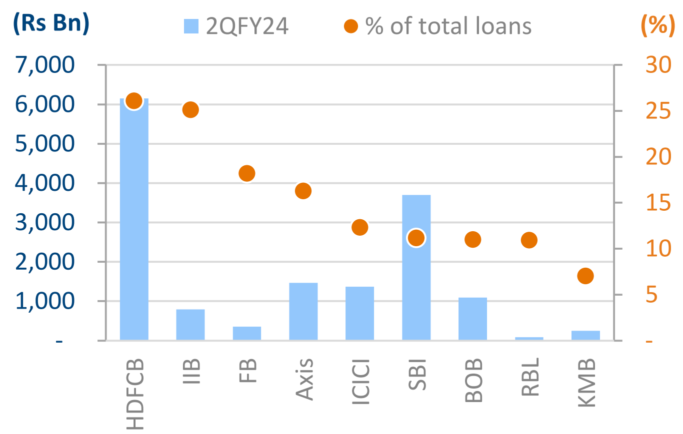
Source: TransUnion CIBIL, SIDBI, IIFL Research

Figure 212: Private banks have 45% share in MSME loans; public banks have a third and NBFCs at ~15%



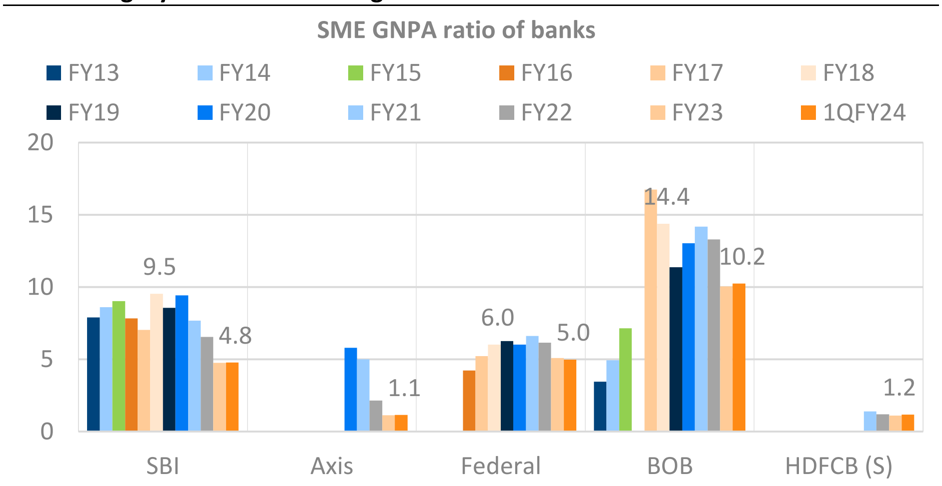
Source: TransUnion CIBIL, SIDBI, IIFL Research.
Note: As of 1HFY23 and excluding loans that are doubtful and loss

Figure 213: HDFCB and IIB have higher proportion of SME loans; RBL and Kotak have lower exposure



Source: Company, IIFL Research. Note: For HDFCB it includes Commercial and Rural Banking (ex Agri and CV). Note: 1QFY24 data for SBI & BOB

Figure 214: Public banks' SME GNPA ratio higher, likely due to higher exposure to NTC customers in 'micro' segment and also perhaps due to higher proportion of stressed legacy assets outstanding in the book



Source: Company, IIFL Research. Note: For HDFCB it refers to CRB GNPA ratio

C. Agri loans – deficient monsoons and uneven distribution may increase Agri NPAs

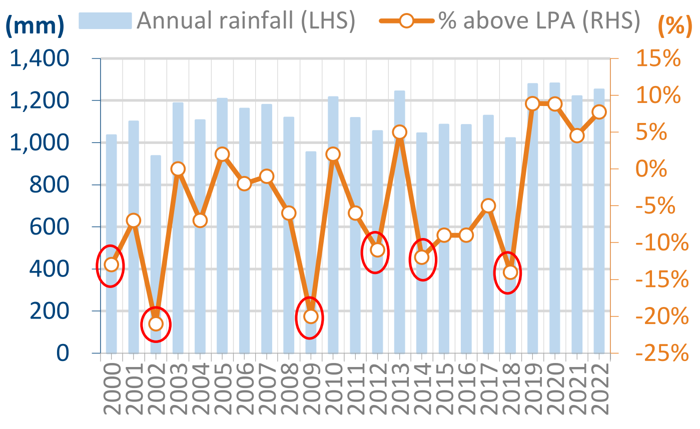
Though pan-India monsoons ended at 94% of LPA, the deficit was much wider over South peninsula and North-East, at 8% and 12% resp. The impact of lower rainfall is likely to affect the output in sugarcane, rice and some coarse cereals. In the South Peninsula, Rabi sowing is at risk, as the reservoir levels at 50% are down sharply 46% YoY. Reservoir levels in Maharashtra too, are down 15% YoY.

Figure 215: In July-Sep quarter, rainfall ended 4% below LPA

	2023 (mm)	LPA (mm)	vs LPA
Rainfall in July	293.7	249.4	17.8%
Rainfall in Aug	208.4	294.7	-29.3%
Rainfall in Sept	191.3	174.7	9.5%
Rainfall from July-Sept	693.4	718.8	-3.5%

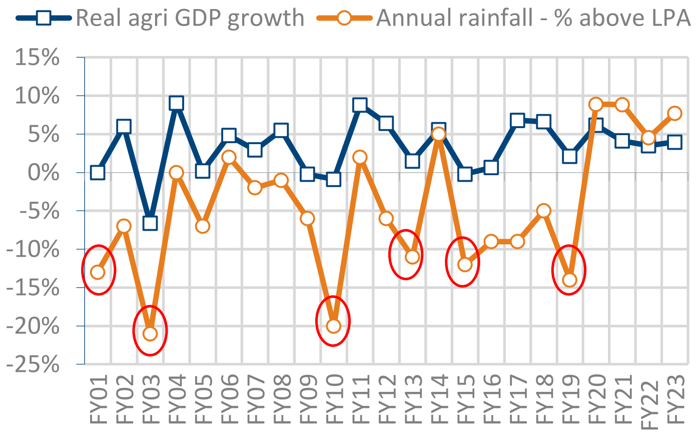
Source: IMD, IIFL Research. Note: LPA refers to long period average.

Figure 216: Overall annual rainfall has finished 10% below LPA in six out of the past 23 years



Source: IMD, IIFL Research

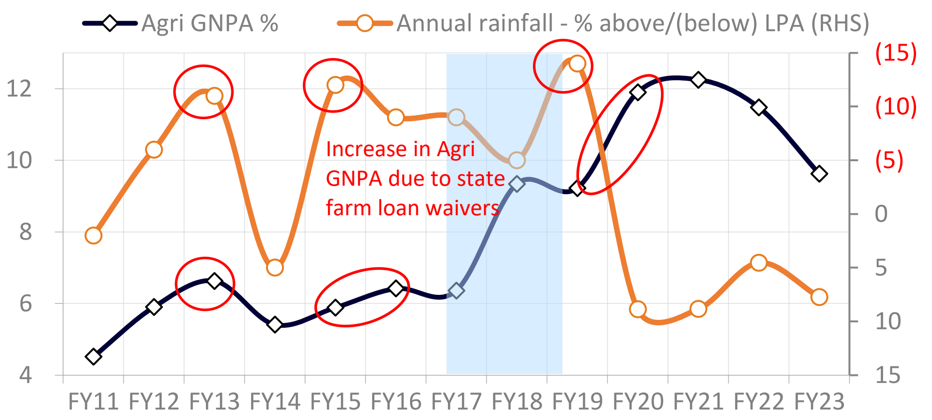
Figure 217: Real agri GDP growth has been impacted in all the years of low rainfall



Source: CEIC, IMD, IIFL Research

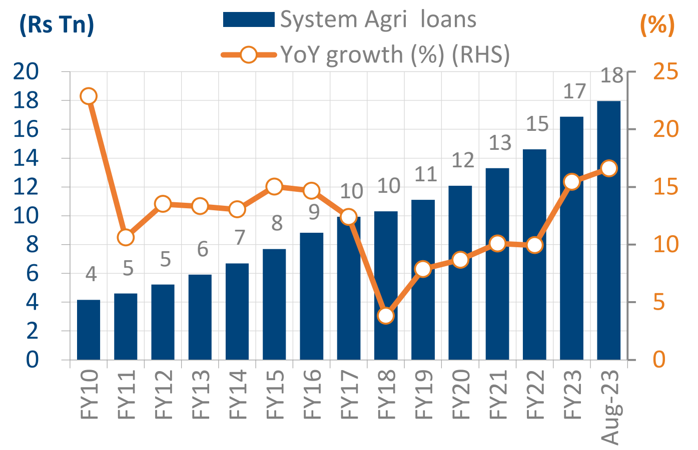
Historical relationship between monsoons and Agri NPAs suggest that we may see an uptick in the Agri NPAs. Any farm loan waivers (unlikely in our view), may further accentuate the pain for banks, particularly for public banks where the Agri NPAs are still high at 7-18% vs. 3-5% for private sector banks.

Figure 218: Agri NPAs have spiked in all the periods of significant monsoon shortfall



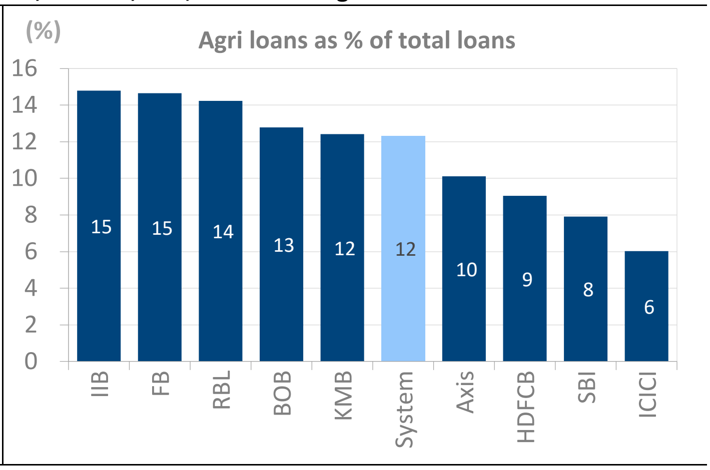
Source: Company, IIFL Research. Note: Agri GNPA ratio is based on Top 5 public sector banks

Figure 219: Agri loan (Rs18trn; US$215bn) growth has picked up in past few years and is growing at 17% YoY



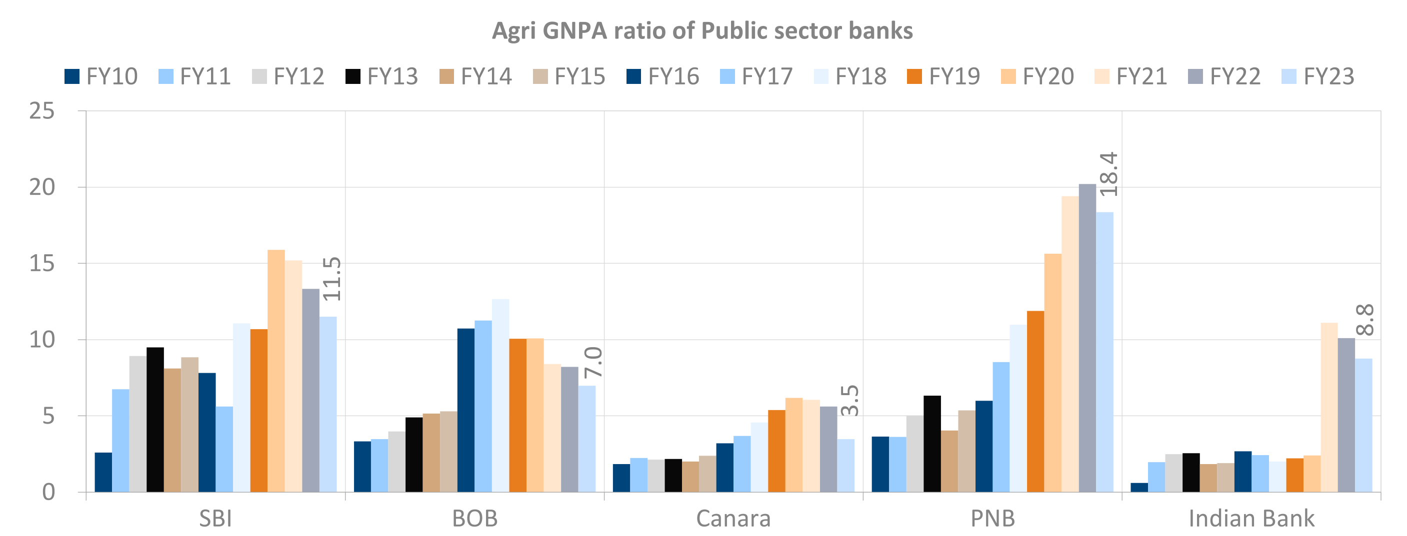
Source: Company, IIFL Research

Figure 220: Agri loans 12% of system loans; share higher for IIB, Federal, RBL; lower for larger Private banks and SBI



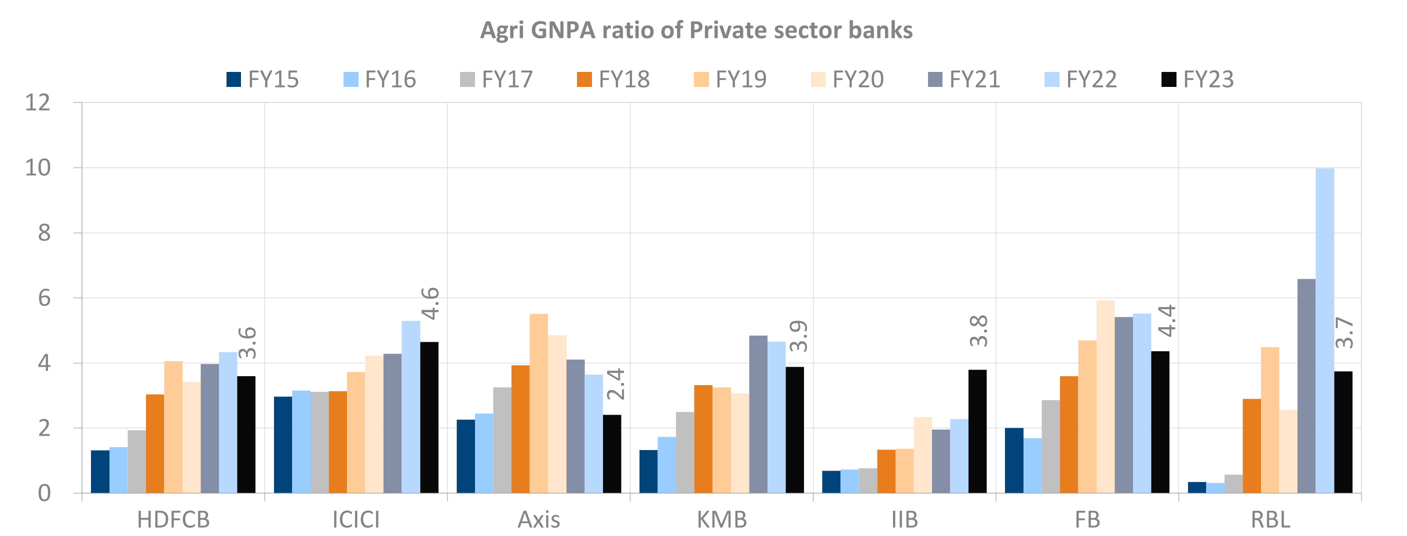
Source: Company, IIFL Research

Figure 221: PSBs have Agri GNPA ratio ranging from 4-20% and it has been stubbornly higher in last few years



Source: Company, IIFL Research

Figure 222: Private banks have lower Agri GNPA ratio ranging between 3-5%

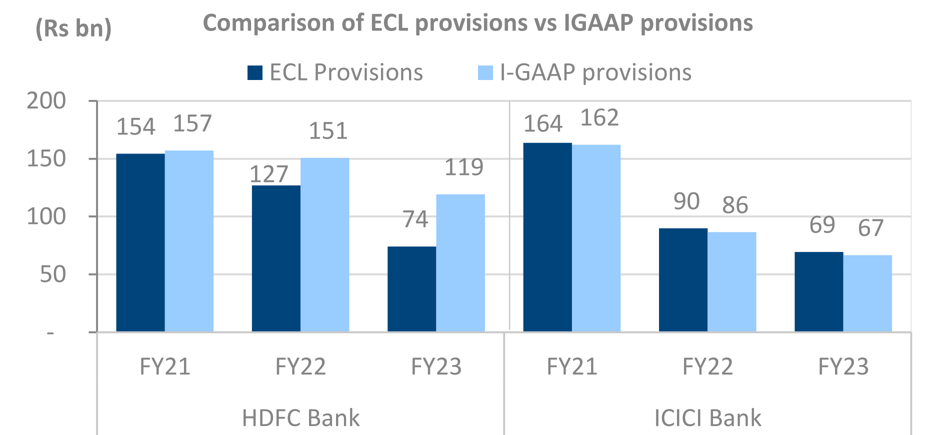


Source: Company, IIFL Research

Implication of transition to ECL-based provisioning

In Feb'23, RBI published discussion paper for transitioning banks to expected-credit-loss (ECL) provisioning from the existing rule-based norms. Based on 20F filings, we find that ECL provisions are lower for HDFCB and similar for ICICI vis-à-vis their reported IGAAP provisions.

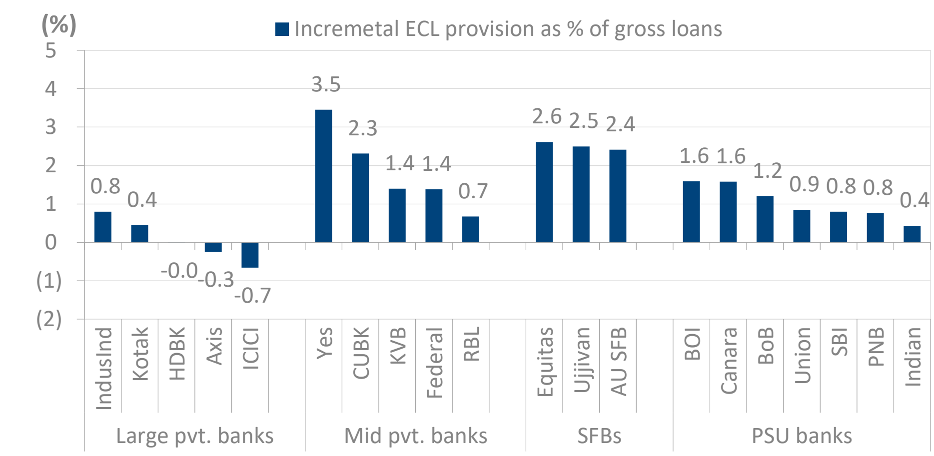
Figure 223: ECL vis-à-vis IGAAP provisions lower for HDFCB and similar for ICICI



Source: Company, IIFL Research

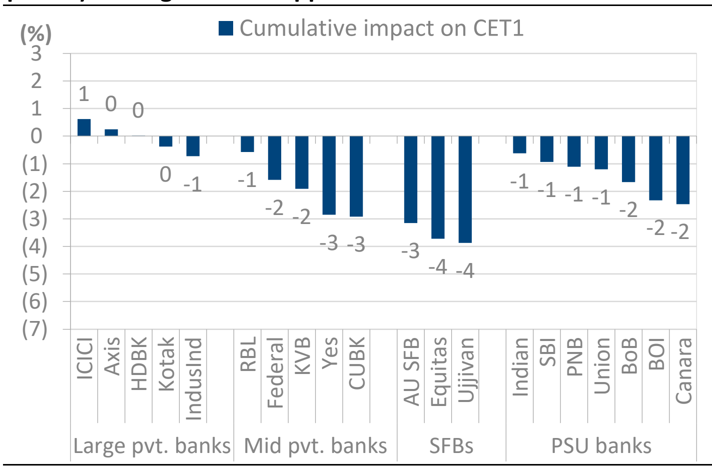
We estimate incremental ECL provision requirement of 1-3%.

Figure 224: Incremental ECL provision requirement minimal for the larger Private banks, 1-3% for mid-Private banks, 2.5% for SFBs and 1-2% for PSBs



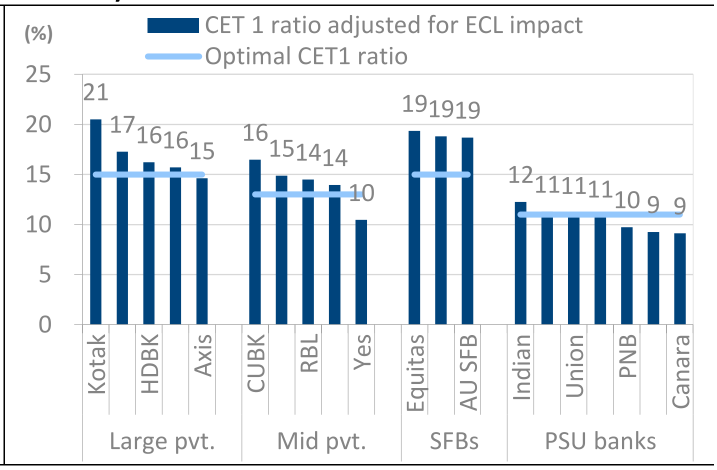
Source: IIFL Research

Figure 225: Cumulative CET1 impact (assuming no transition period) to range from 1-4 pp …



Source: IIFL Research

Figure 226: … resulting in CET1 ratio falling below optimal levels only for select PSU banks

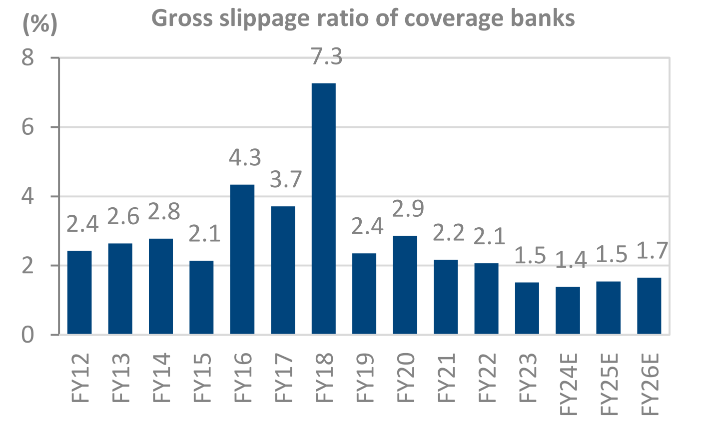


Source: IIFL Research

Forecasting asset quality for the individual banks

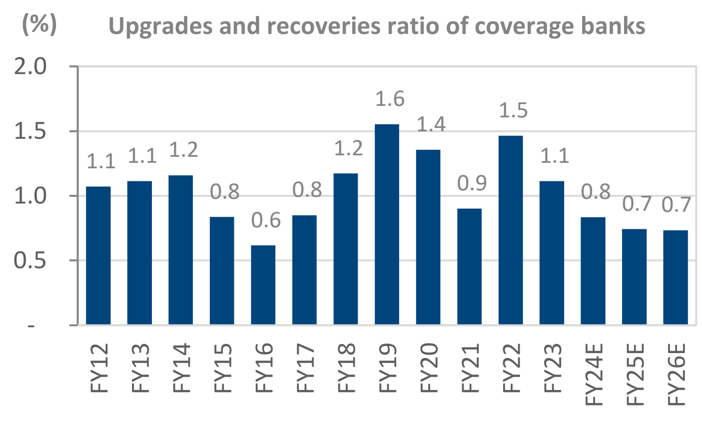
Overall asset quality outlook remains benign, barring the pockets of potential stress: (1) Rising exposure to unsecured loans across banks. (2) High vintage MSME delinquencies for PSBs. (3) risk of higher Agri NPAs, particularly for the public banks. We expect gross slippages to inch up marginally from the decade-low level witnessed in FY23, and upgrades/recoveries to normalise lower. Individual bank-wise asset quality trends are shown in the Annexure.

Figure 227: Expect gross slippage ratio to increase marginally …



Source: Company, IIFL Research

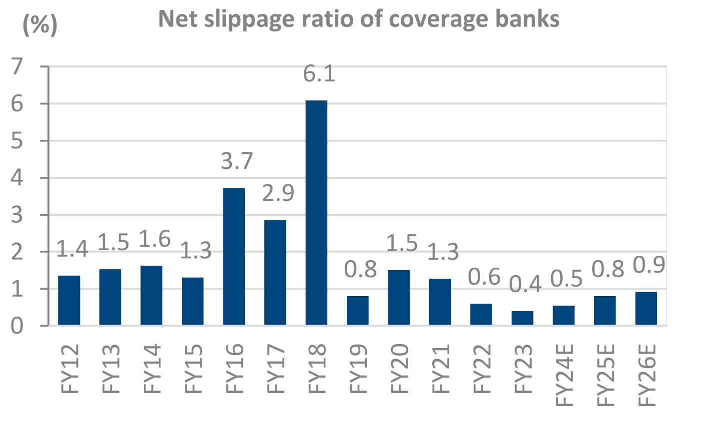
Figure 228: … and upgrades/recoveries to normalise lower



Source: Company, IIFL Research

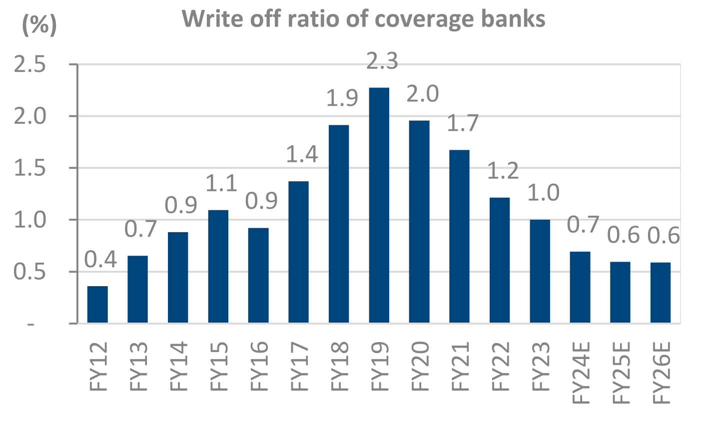
This should drive net slippages higher, but should still be meaningfully lower than the last decade's average.

Figure 229: … resulting in net slippage ratio to inch-up



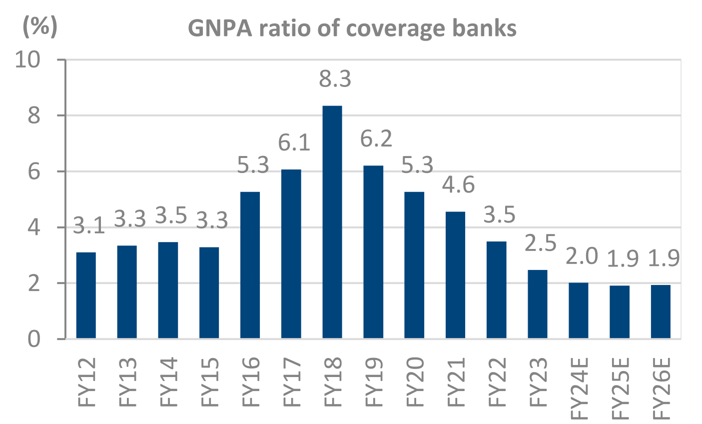
Source: Company, IIFL Research

Figure 230: Write-off ratio should remain low



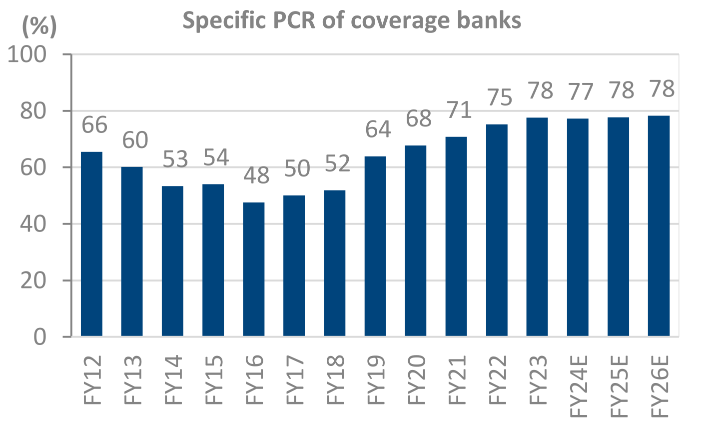
Source: Company, IIFL Research

Figure 231: Expect GNPA ratio to remain largely stable …



Source: Company, IIFL Research

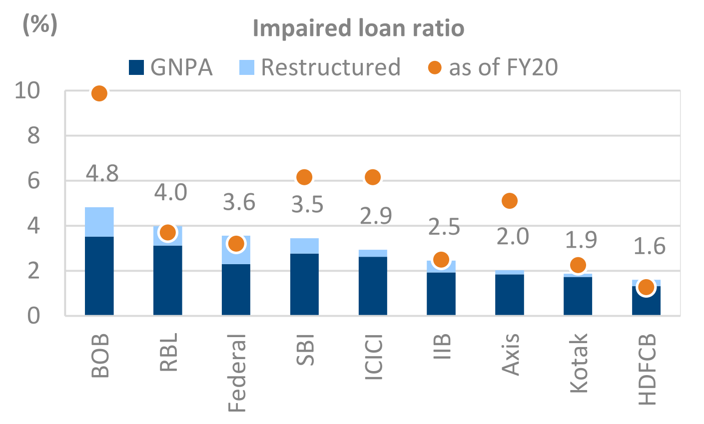
Figure 232: … and banks continuing to hold high PCR



Source: Company, IIFL Research

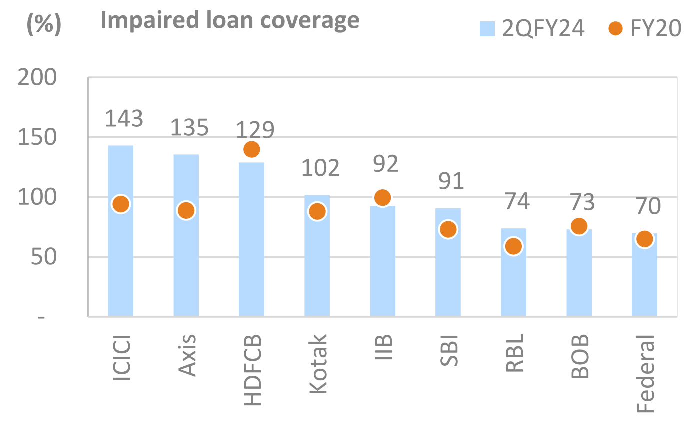
Improvement in the asset quality and accelerated write-offs in the last few years have underpinned 30-500 bps decline in the impaired loans (GNPA + restructured loans) across banks (flat for RBL and Federal) vis-à-vis pre-Covid level. Provision coverage has improved significantly, and is meaningfully higher for the larger Private banks.

Figure 233: Impaired loans lower vs pre-Covid for all banks, flat for RBL and Federal



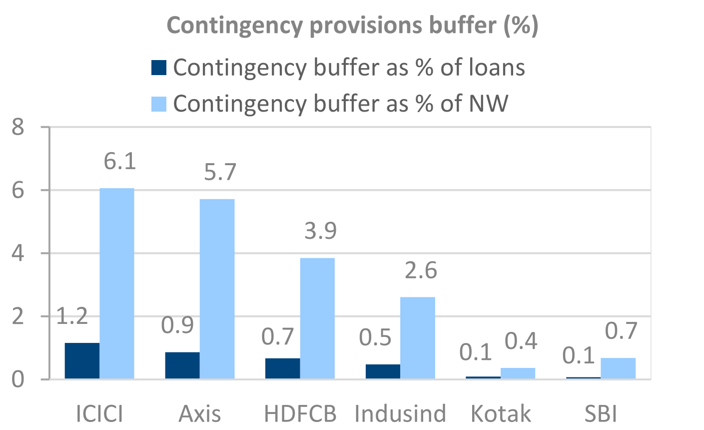
Source: Company, IIFL Research. Note: Impaired loan ratio = GNPA ratio + Restructured loan ratio. As of 1QFY24 for SBI and BOB

Figure 234: Larger Private banks have high coverage on impaired loans, but low for RBL, BOB and Federal



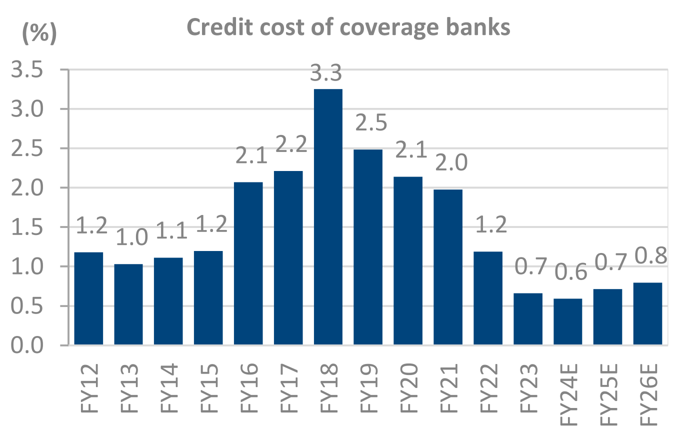
Source: Company, IIFL Research. Note: Impaired loan coverage = Total provisions / Impaired loans. As of 1QFY24 for SBI and BOB

Figure 235: Banks holding contingency provision buffer of 10-120 bps of loans …



Source: Company, IIFL Research.

Figure 236: … which should keep the credit costs lower than the historical levels, despite the marginal increase from lows



Source: Company, IIFL Research.

Figure 237: Expect modest increase in credit costs, but should still be less than half of the long-term average

Credit cost (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	0.9	0.8	0.6	0.6	0.7	0.7	1.0	1.0	1.3	1.5	1.2	0.8	0.6	0.7	0.7
ICICI	0.7	0.7	0.8	1.1	2.8	3.4	3.5	3.6	2.3	2.4	1.1	0.7	0.5	0.6	0.7
Axis	0.7	1.0	1.0	0.9	1.2	3.4	3.8	2.6	3.5	2.4	1.1	0.3	0.5	0.6	0.7
Kotak	0.2	0.4	0.6	0.3	1.0	0.7	0.6	0.5	1.0	1.1	0.3	0.2	0.5	0.6	0.6
IndusInd	0.6	0.7	0.9	0.6	0.9	1.1	0.9	1.9	2.4	3.8	2.9	1.7	1.3	1.3	1.4
Federal	1.0	0.6	0.6	0.2	1.3	0.9	1.1	0.8	1.0	1.3	0.9	0.5	0.3	0.6	0.7
RBL						0.9	1.0	1.4	3.5	3.8	4.8	1.6	2.0	1.7	1.7
SBI	1.6	1.2	1.4	1.6	2.1	2.4	4.3	2.6	1.9	1.8	0.9	0.6	0.5	0.6	0.7
BOB	1.0	1.4	1.0	1.1	3.8	2.2	3.7	4.1	3.2	2.2	1.8	0.8	0.9	1.0	1.0

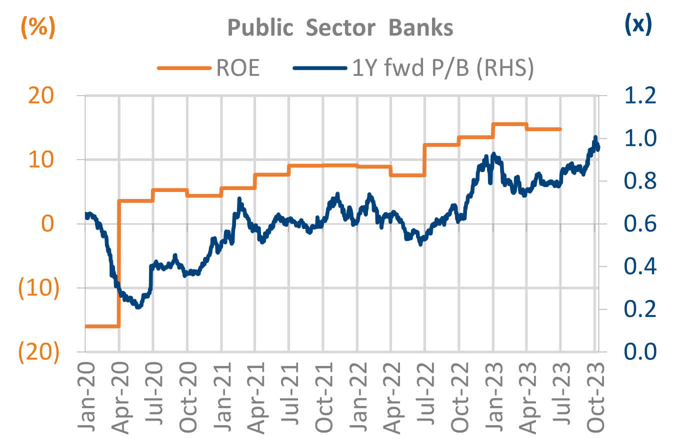
Source: Company, IIFL Research

Prefer Private over Public banks

Decoupled fundamentals and valuations

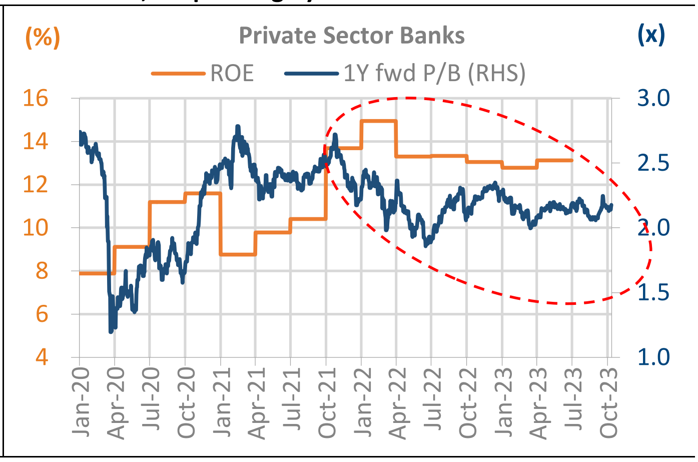
In the last two years, the valuations of Private sector banks have decoupled from their profitability. While the valuations of Public sector banks (1YF P/B of 0.96x) have moved in tandem with their ROE improvement (mid-teens now), we note that Private banks have de-rated by 20% since Oct'21, despite largely stable ROEs.

Figure 238: Valuations of Public sector banks have moved in tandem with their ROE improvement …



Source: CMIE, Bloomberg, IIFL Research

Figure 239: … however, Private banks have de-rated by 20% since Oct'21, despite largely stable ROEs



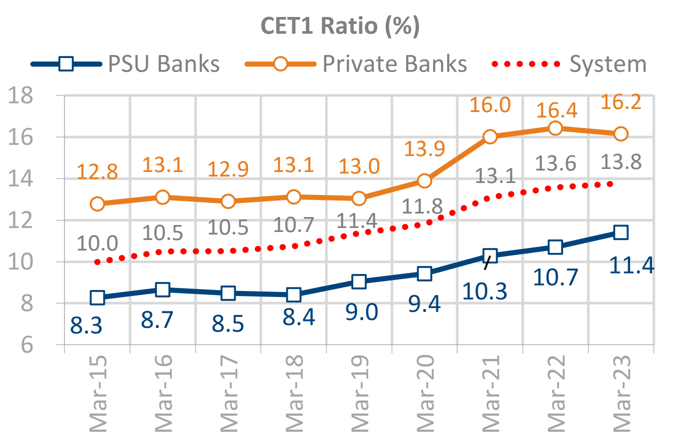
Source: CMIE, Bloomberg, IIFL Research, Note: RoE for 4QFY23 has been adjusted for Citi goodwill write off by Axis bank

Balance sheet strongest in the last decade …

Banks are in their best shape as reflected in their highest capitalisation levels in the past decade (Fig. 240), liquidity coverage ratio well above the regulatory threshold of 100% (Fig. 241), lowest ever impaired loan ratio (Fig. 242) and credit costs (Fig. 243), high contingency provision buffer (Fig. 245) and improved ROEs (Fig. 246 and 247).

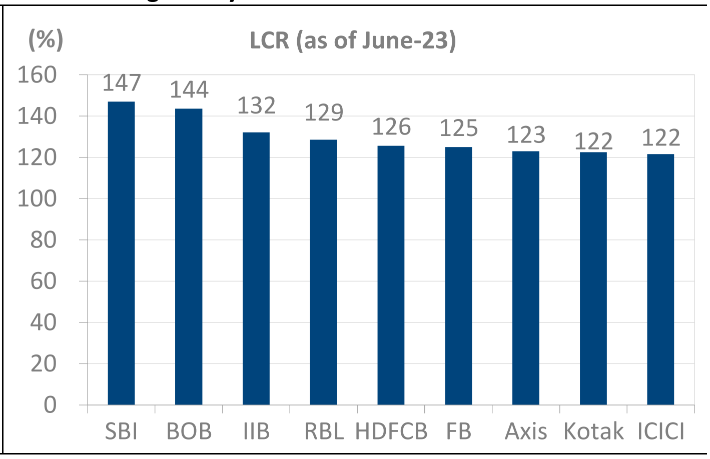
CET1 ratio of Private banks have improved from 13.9% in FY20 to 16.2%, partly aided by capital raise due to uncertainty during Covid and improving profitability thereafter. Even the Public banks have witnessed improvement in their CET1 ratio to 11.4%, but some of them may need to raise capital given the strong loan growth, impact from transition to ECL provisioning and against any potential risk-weight increase by the RBI for unsecured loans.

Figure 240: Capitalisation level for both Private and Public banks is the highest in the last decade



Source: CMIE, IIFL Research

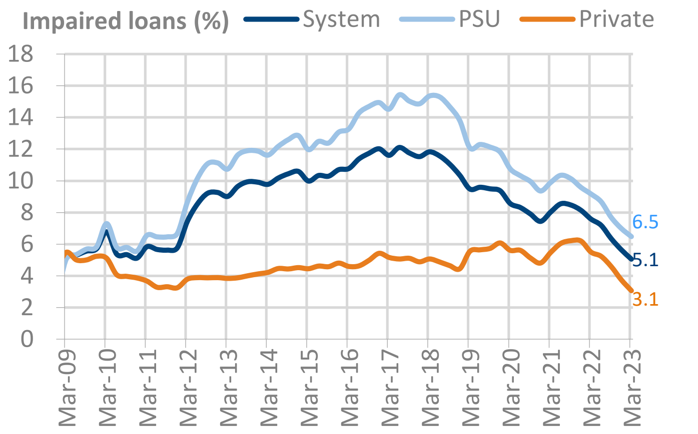
Figure 241: For all the banks, liquidity coverage ratio is well-above the regulatory minimum of 100%



Source: Company, IIFL Research

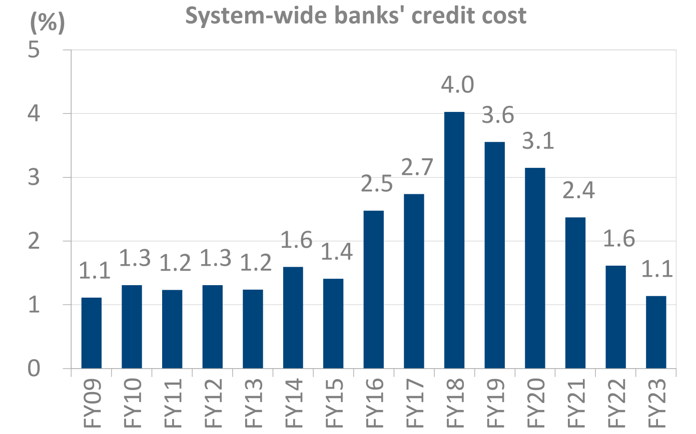
At 5.1%, banks' impaired loan ratio is the lowest in the last 15 years, and provision coverage is also at the highest levels. This has underpinned very low credit cost of 1.1% for the system.

Figure 242: Banks' impaired loans at 15yr lows, with improvement across both Private and Public banks …



Source: RBI, IIFL Research

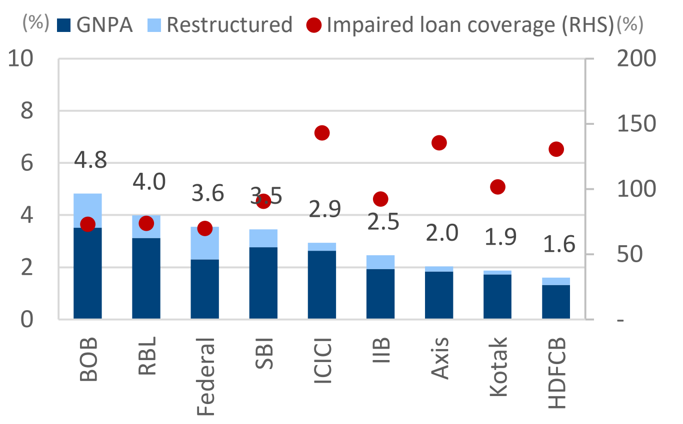
Figure 243: … which has resulted in the lowest credit cost in the last 15yrs



Source: RBI, IIFL Research

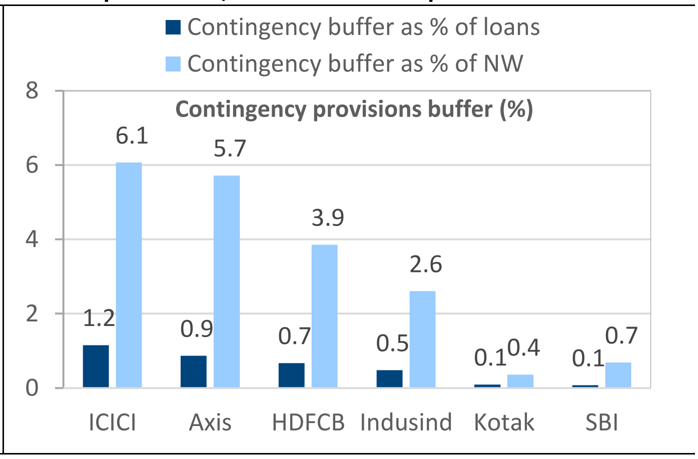
Larger Private banks have low impaired loans and high provision coverage, on the back of high contingency provision buffers.

Figure 244: Impaired loans lower vs pre-Covid; provision coverage higher for all banks (except for RBL and Federal)



Source: Company, IIFL Research. As of 1QFY24 for SBI and BOB

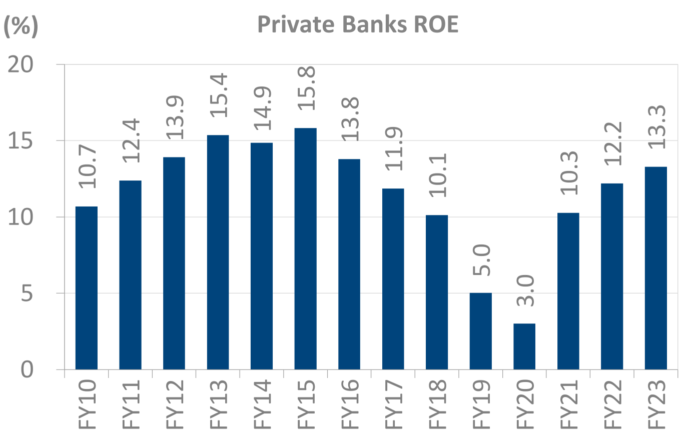
Figure 245: Banks holding contingency provision buffer of 10-120 bps of loans, which should keep credit costs low



Source: Company, IIFL Research. As of 1QFY24 for SBI and BOB

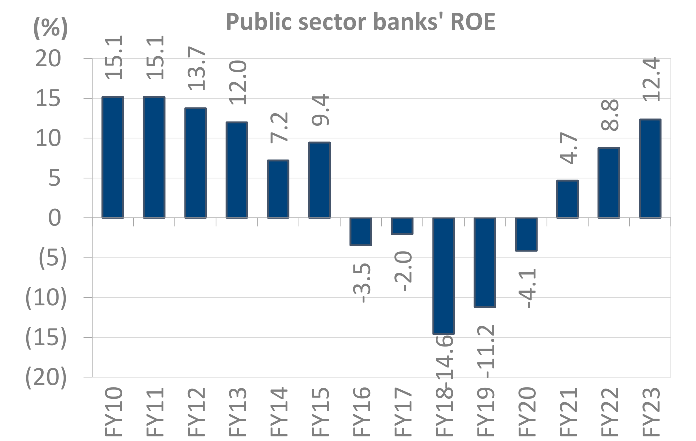
Cyclically, high net-interest margins and benign asset quality have led to sharp improvement in the banks' ROEs.

Figure 246: In FY23, Private banks' ROEs improved to 13%...



Source: RBI, IIFL Research

Figure 247: …and Public banks' ROEs also improved to 12%

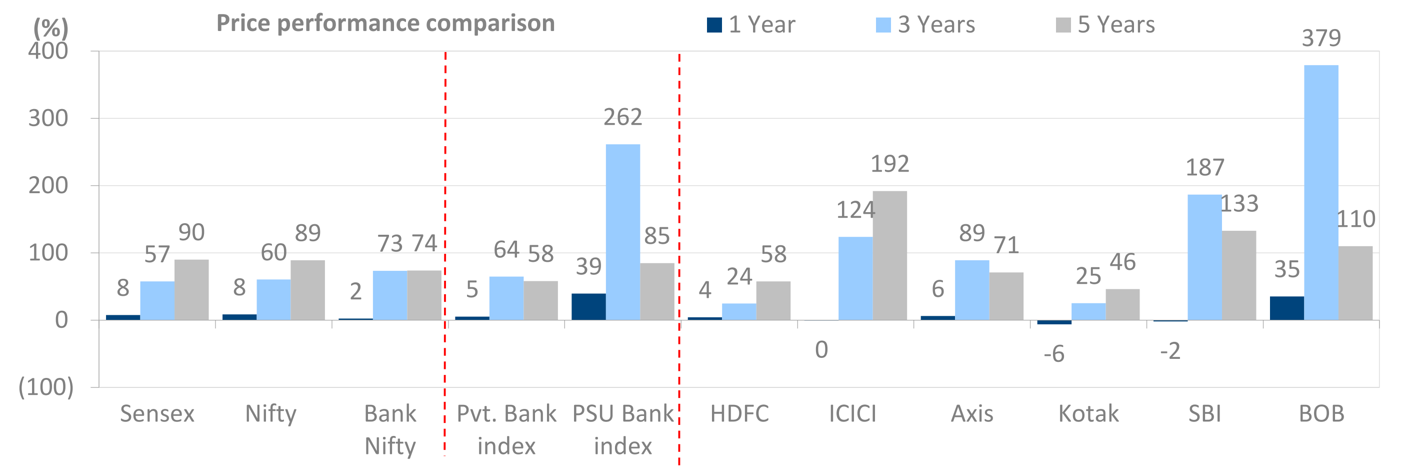


Source: RBI, IIFL Research

… but, the stock price performance of Private banks has lagged

Stock price performance of Private banks has lagged vis-à-vis Public bank peers, as also the broader market in the last one to five years.

Figure 248: Private banks have underperformed PSBs and the broader market, in the last 1Y/3Y/5Y



Source: Bloomberg, IIFL Research. Note: Price as of 25th Oct, 2023.

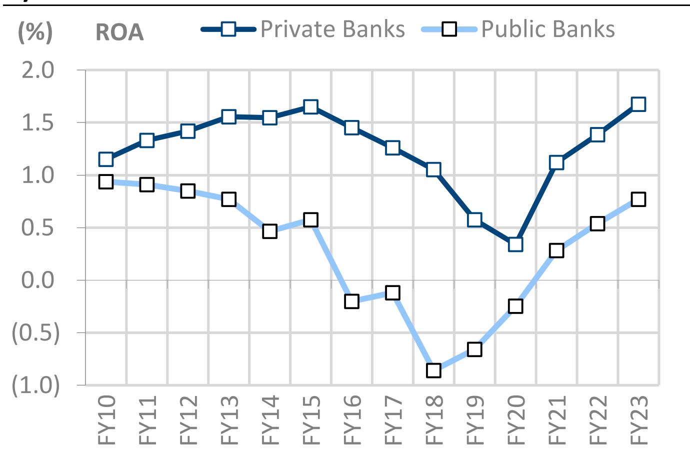
What explains Private banks' underperformance?

We believe the stock price underperformance of Private banks has been a confluence of narrowing profitability gap; cyclical vs structural drivers of improvement in profitability; certain idiosyncratic factors and investor positioning.

1. Narrowing profitability gap

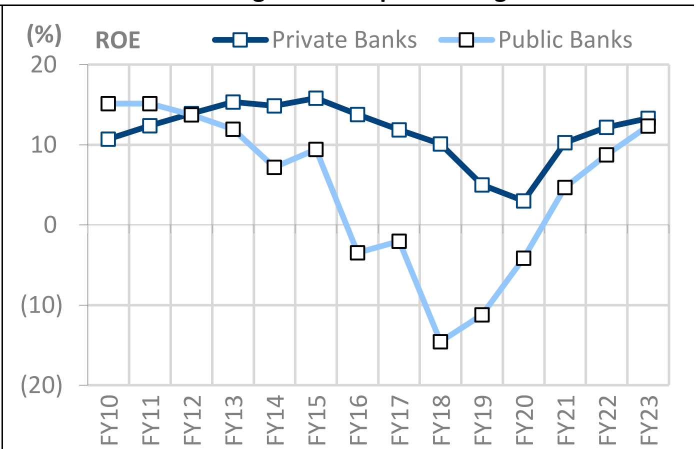
In the last three years, the 200%+ stock price underperformance of Private banks vis-a-vis Public banks is mainly due to the narrowing of ROE differential. While ROAs for both have improved by 100-130 bps in the last three years, Private banks' ROAs are still 2x of that of Public banks. However, their capital raise during Covid has narrowed the ROE differential vs Public banks. The Public banks re-rated sharply as they were able to finally deliver higher ROEs than their COE.

Figure 249: ROAs have improved by 100-130 bps in the last 3yrs for both Private and Public banks …



Source: RBI, IIFL Research

Figure 250: … however, the ROE differential has narrowed, as Private banks raised significant capital during Covid

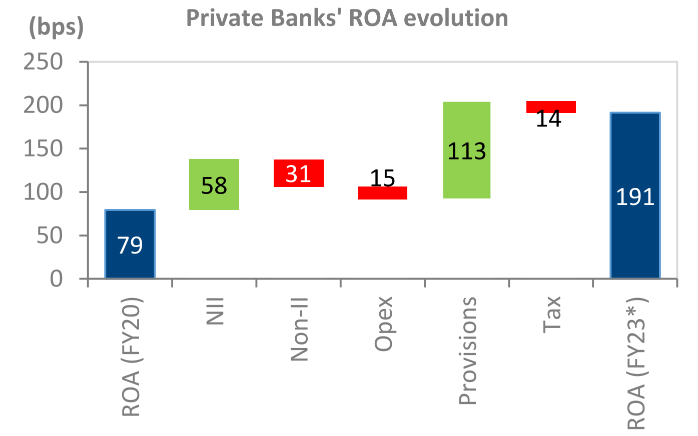


Source: RBI, IIFL Research

2. Perceived cyclical vs structural drivers of underlying profitability improvement

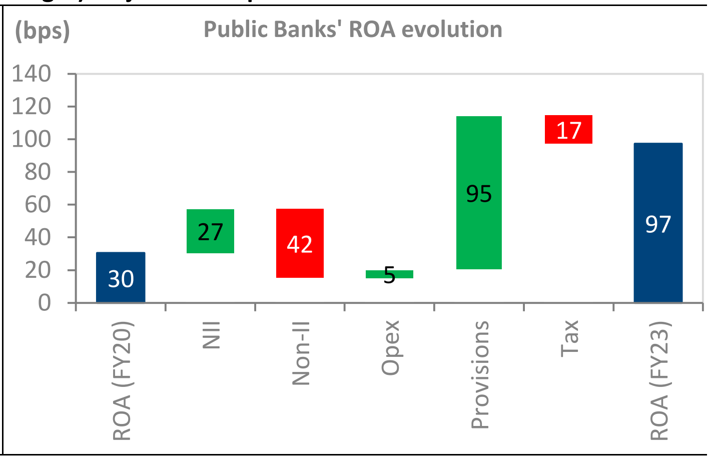
In the last three years, ROAs for Private and Public sector banks have improved by 60-110 bps. This has been mainly on the back of higher margins and decline in credit costs. However, margin contribution (perceived cyclical and not sustainable) to ROA improvement is higher for Private banks at ~50% vs 40% for Public banks. On the other hand, lower provisions (perceived by the market to last longer) have been the major contributor to the Public banks' ROA improvement.

Figure 251: Margin contribution (perceived cyclical) to ROA improvement higher for Private banks vs Public banks



Source: Company data, IIFL Research. Note: FY23 ROA excludes the extraordinary loss for Axis Bank on Citi's retail portfolio acquisition.

Figure 252: Sharp decline in credit costs (perceived to last longer) major ROA improvement driver for Public banks



Source: Company data, IIFL Research

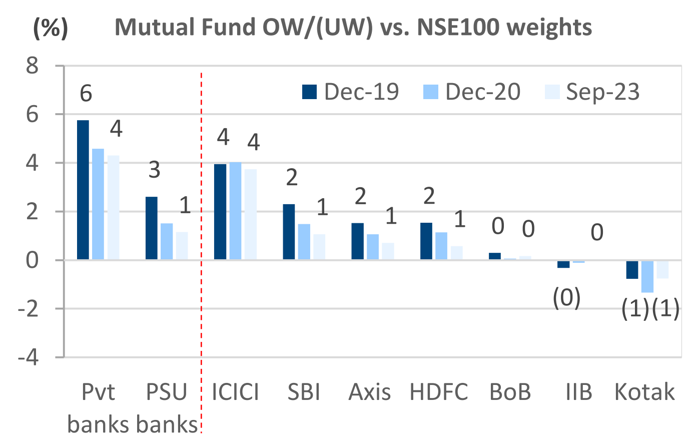
3. Idiosyncratic factors

Larger Private banks have also been impacted by idiosyncratic factors such as the merger of HDFC Ltd with HDFC Bank, CEO transition overhang for Kotak and the uncertainty around Axis's acquisition of Citi India's retail portfolio.

4. Investor positioning

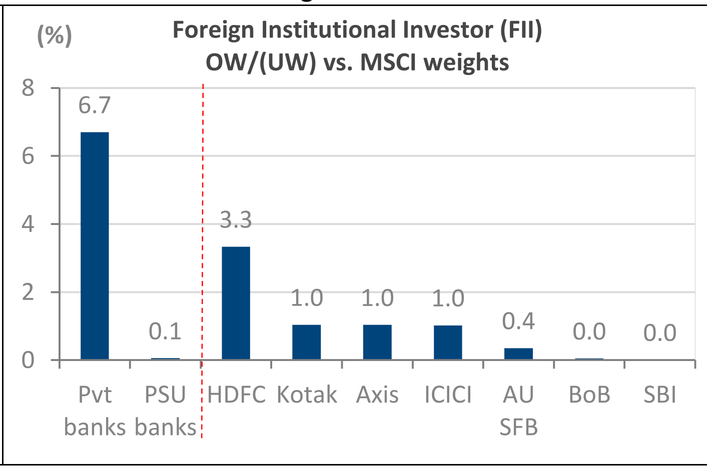
Both domestic and foreign investors have been overweight (OW) on Private banks by 5-7 pp (portfolio allocation of 23-30% for the Pvt banks) vs their respective benchmarks, thereby restraining further allocation. On the other hand, for PSBs, domestic MFs are OW only by 1% and the FIIs are at the benchmark.

Figure 253: Domestic MFs have been overweight (OW) on Private banks by 4-6pp vs 1-3 pp on PSBs relative to NSE100 weights



Source: Company, IIFL Research

Figure 254: Foreign Institutional Investors (FIIs) are OW on Private banks by 7pp and at benchmark weight on Public banks relative to MSCI weights



Source: Company, IIFL Research

Expect Private banks' underperformance to reverse

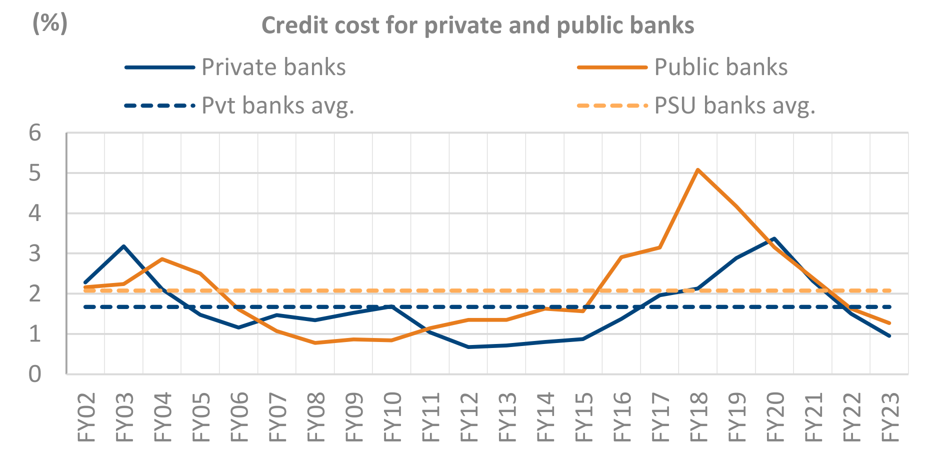
We believe Private banks' are primed for resurgence and expect them to Outperform Public sector banks on the back of following:

a. Increase in credit costs to be higher for Public banks

As discussed earlier, current low credit costs are expected to remain low in the medium-term given the benign asset quality outlook. While we concur with this view, we expect higher increase in credit costs for Public banks when the environment normalises. This is because:

(i) Strong recoveries and benign corporate asset quality have benefitted PSU banks relatively more (Fig. 255). As a result, PSU banks' FY23 credit cost of 1.3% was significantly lower than the last two decade avg. of 2.1% vis-à-vis Private banks (1% in FY23 and 20yr avg. of 1.7%) (Fig. 255). With the expected slowdown in recoveries, we expect net credit costs to inch-up faster for PSU banks.

Figure 255: Public banks' credit cost much lower than their LT avg. vis-à-vis Private banks; with the slowdown in recoveries and normalisation, expect higher credit cost increase for PSU banks in the medium-term

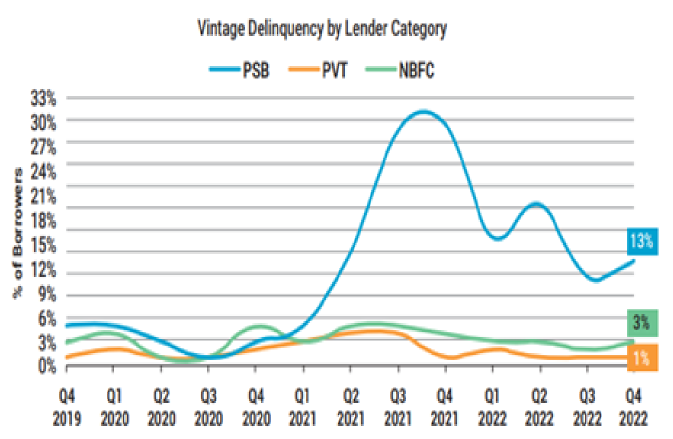


Source: Company, IIFL Research

(ii) Higher vintage delinquencies in the Micro SME loan segment

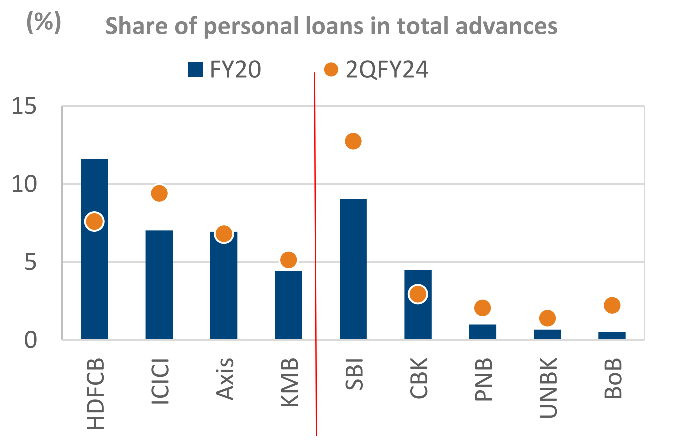
(iii) Unseasoned unsecured loan portfolio for the second tier of Public banks. Please note we are not worried about SBI here.

Figure 256: Vintage delinquencies higher in the micro SME loan segment for Public banks, which can keep SME NPAs stubbornly high



Source: Company, IIFL Research

Figure 257: Unsecured loan portfolio of the second-tier PSU banks is unseasoned, and can potentially see higher stress when the asset quality starts deteriorating in this segment

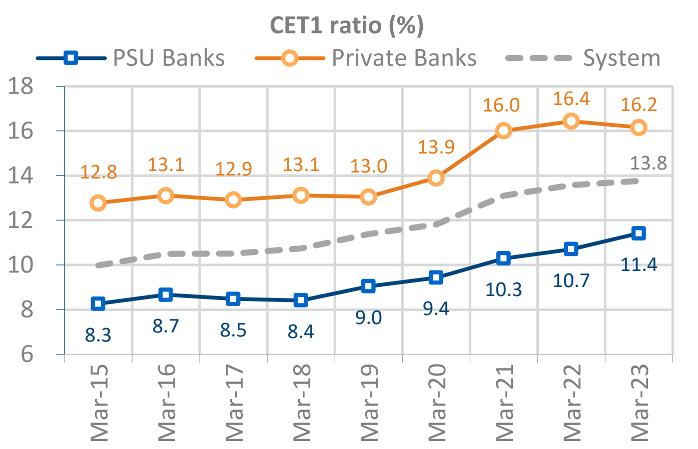


Source: Company, IIFL Research

b. Potential capital raise by Public banks if the RBI raises risk weights on personal and NBFC loans, and as ECL kicks in

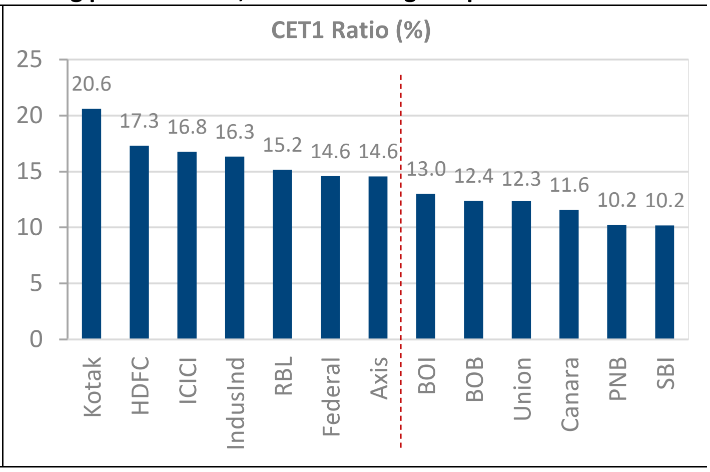
With improved profitability, end of corporate asset quality cycle and the capital raise during the Covid, capitalization level for both private and public sector banks is the highest in the last decade. Axis and Federal have relatively lower CET1 ratio of ~14.5% among the private banks and SBI among the public banks (regulatory minimum of 8%).

Figure 258: Capitalization level for both private and public banks highest in the last decade



Source: RBI, IIFL Research

Figure 259: Axis and Federal have relatively lower CET1 ratio among private banks, and SBI among the public banks



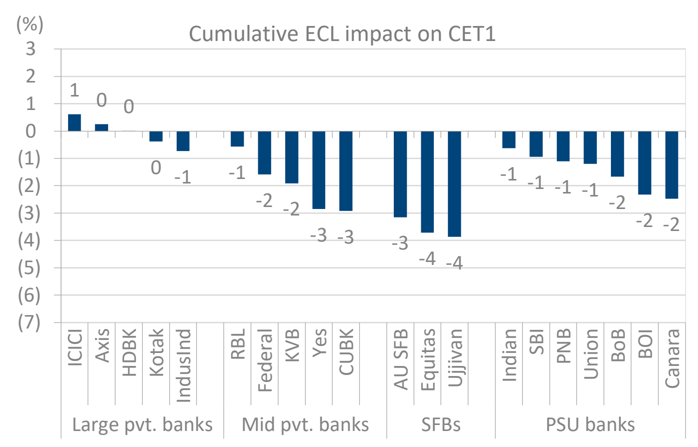
Source: Company, IIFL Research. Note: As of 1QFY24 for SBI, BOB, BOI & Union Bank

We see three potential areas which could impact capital ratios of Public banks and may trigger capital raise if implemented.

(i) **Transition to ECL-based provisioning norms** should have a cumulative CET1 impact (assuming no transition period) of 1-2 pp for PSU banks vs. insignificant impact for large Private banks, 1-3 pp for mid-size Pvt. banks and 3-4 pp for the SFBs

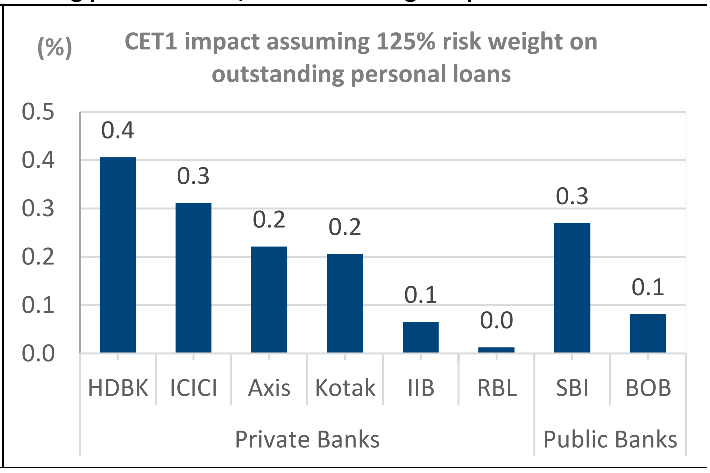
(ii) **Increase in risk-weights on personal loans.** Strong growth in unsecured loans has also emerged as a cause of concern for the regulator. The RBI had cut risk weights on personal loans from 125% to 100% in Sep'19 for banks. Assuming the risk-weights increase by 25% for the banks' personal loans, we estimate 10-40 bps of impact to the CET1 ratio (Fig. 261).

Figure 260: CET1 impact could be of 1-2 pp for PSU banks vs insignificant impact for large private banks



Source: RBI, IIFL Research

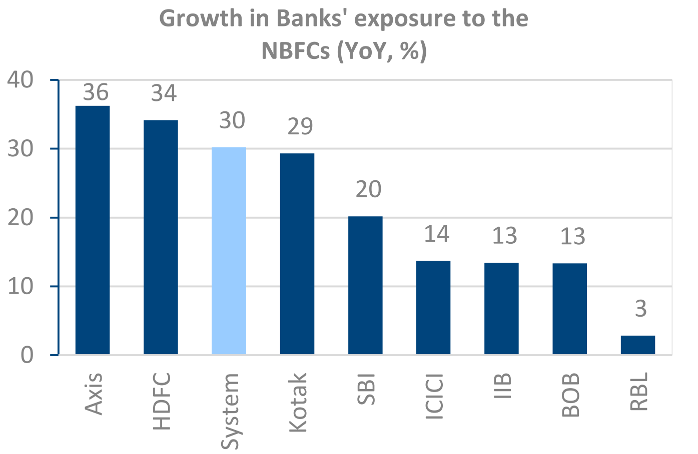
Figure 261: Axis and Federal have relatively lower CET1 ratio among private banks, and SBI among the public banks



Source: Company, IIFL Research.

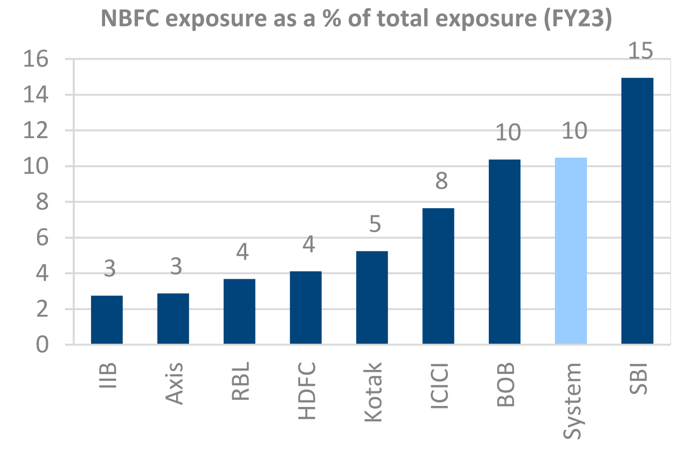
(iii) **Banks' lending to the NBFCs** has also been under the RBI scanner recently, given the strong 30% growth (Fig. 262). The exposure to NBFCs is now 5-15% of banks' total exposure (Fig. 263). In fact, the RBI has nudged the NBFCs to diversify their sources and reduce the reliance on bank borrowings.

Figure 262: Banks' lending to NBFCs growing at 30% YoY …



Source: Company, RBI, IIFL Research. Note: As of FY23

Figure 263: … and constitute 3-15% of total exposure



Source: Company, RBI, IIFL Research

The RBI can potentially rein in by either increasing the provisioning on these loans or by increasing the risk weights.

Higher provisioning on loans given to the NBFCs: Loans to NBFCs are categorised as 'secured' by the banks as they are often backed by liquid collaterals, including receivables. However, with the rising number of NBFCs operating in the non-housing segments (business, personal loans) which are often unsecured, there is a debate on how these loans should be treated. The regulator can potentially insist that banks take contingent provisioning against loans given to the NBFCs.

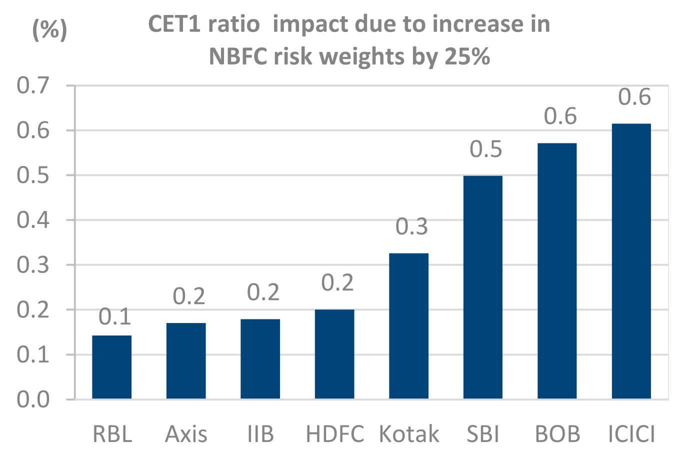
Higher risk weights for loans given to the NBFCs: Currently, the risk weights for bank lending to NBFCs is linked to the credit rating of NBFCs, and ranges from 20-150% (Fig. 264). While banks do not breakdown their NBFC book by credit rating, the public sector banks mainly lend to the government-owned NBFCs that enjoy high credit ratings. Assuming the risk-weights increase uniformly by 25% for the banks' exposure to NBFCs (funded + non-funded), we estimate 20-60 bps of impact to the CET1 ratio (Fig. 265).

Figure 264: Risk weights for bank lending to NBFCs are linked to credit rating of NBFCs

For Banks		
Long term	Short Term	Risk Weight%
AAA	A1+	20%
AA	A1	30%
A	A2	50%
BBB	A3	100%
BB & Below	A4	150%
Unrated	Unrated	100%

Source: RBI, IIFL Research

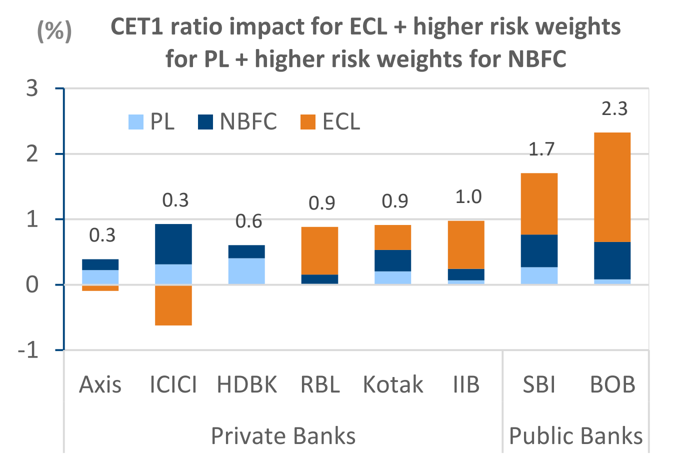
Figure 265: CET1 impact of 20-60 bps if the RBI increases risk weight on banks' exposure to the NBFCs by 25%



Source: Company, IIFL Research

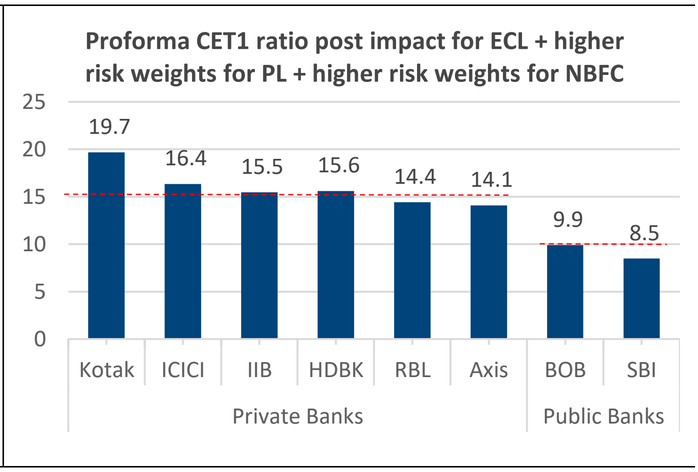
In a worst-case scenario (assuming all the above three scenarios play out and there is no transition period allowed), the cumulative impact on CET1 ratio would be 30-100 bps for Private banks and 170-230 bps for Public banks. Consequently, on the proforma basis, CET1 ratio of RBL, Axis and SBI shall fall below the optimal threshold levels (10% for PSU banks and 15% for Private banks in our view vs. regulatory threshold of 8%), and may thus trigger capital raise.

Figure 266: ECL transition, potential increase in risk weights for personal and NBFC loans shall have higher cumulative CET1 impact for Public banks



Source: Company, IIFL Research

Figure 267: PSU banks may need to raise capital as proforma CET1 ratio would fall below optimal threshold levels

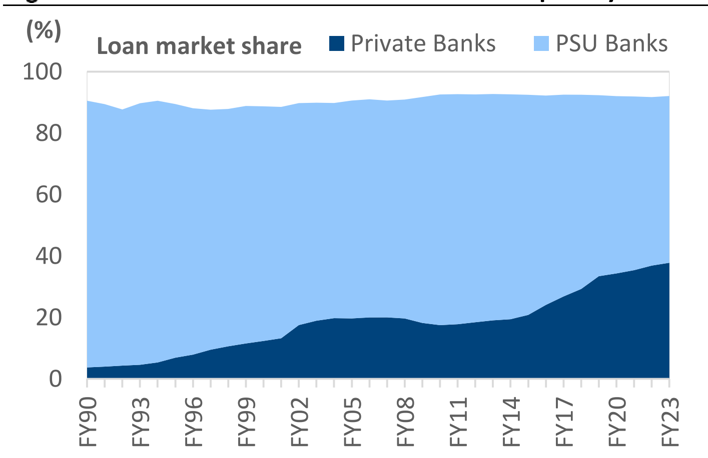


Source: Company, IIFL Research

c. **Expect Private banks to continue chipping away loan and deposit market share from Public banks over the long-term**

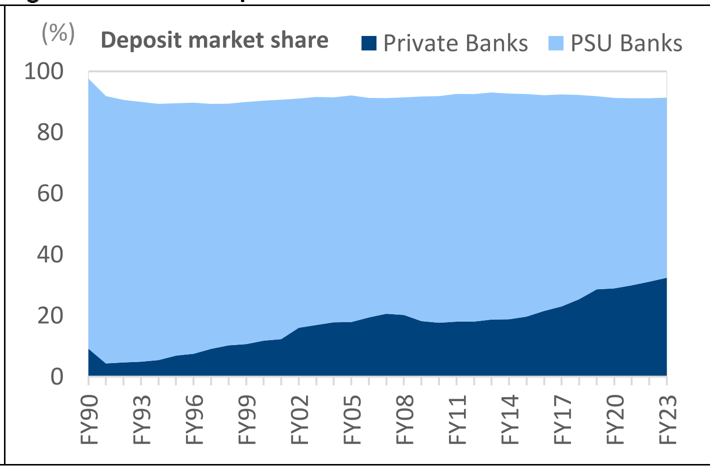
We believe the longer-term investment thesis of Private banks chipping away loan and deposit market share from the PSBs remain intact. Consequently, we expect the underperformance of Private banks to reverse going ahead.

Figure 268: Private banks should continue to chip away loan ...



Source: RBI, IIFL Research

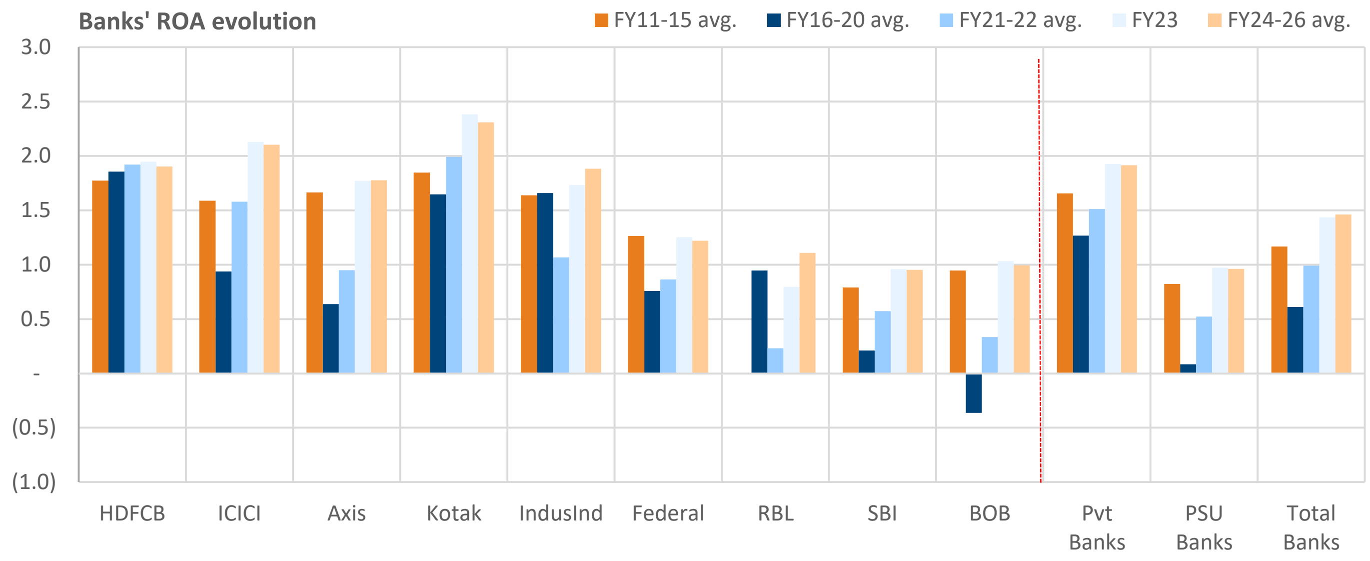
Figure 269: ... and deposit market share from Public banks



Source: RBI, IIFL Research.

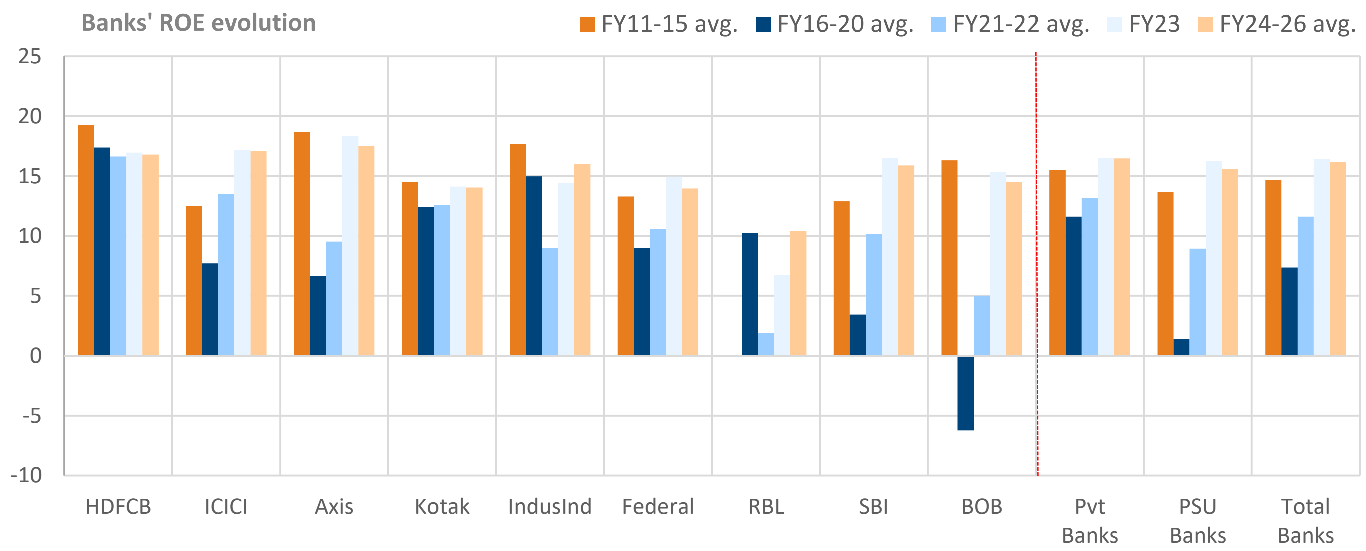
Although RoAs for both Private and Public banks peaked in FY23 (still significantly higher than historical avg.), we expect Private banks to be more resilient vis-a-vis Public banks in case of any unanticipated shocks.

Figure 270: Although RoAs for both Private and Public banks peaked in FY23 (still significantly higher than historical avg.), we expect Private banks to be more resilient vis-a-vis Public banks in case of any unanticipated shocks



Source: Company, IIFL Research

Figure 271: Risks of capital raise due to impact of ECL transition and potential increase in the risk weights could result in lower RoEs for PSU banks compared to private banks which are better capitalised

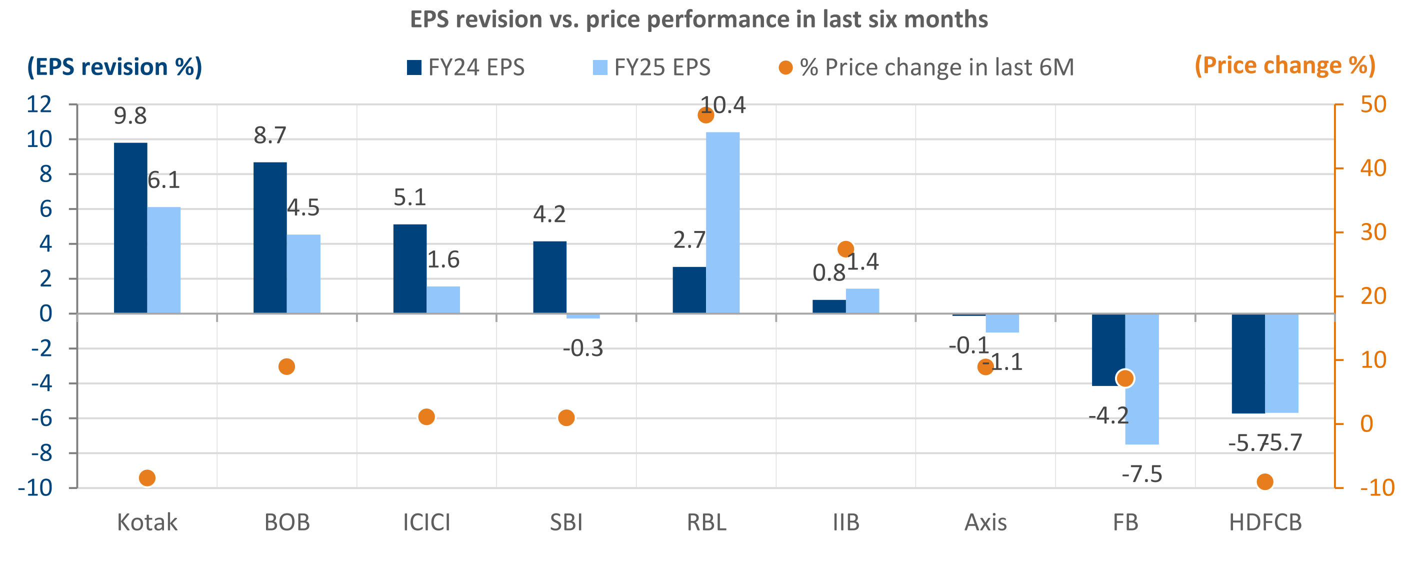


Source: Company, IIFL Research

Earnings revision vs. price performance

Kotak and BOB have seen the highest consensus earnings upgrade in the past 6 months, mainly due to slower NIM contraction and better growth outlook for BoB. HDFCB's earnings have been downgraded by 6% downgrade due to merger related impact. ICICI, SBI and RBL have seen some upgrades, while IIB and Axis were in line with expectations. However, there has been a dichotomy in earnings revision vs. price performance for Kotak, BOB, ICICI and SBI.

Figure 272: Kotak, BOB, ICICI and SBI saw positive earnings revision, but price performance was negative. No dichotomy in earnings revision vs. price performance for the rest of the banks

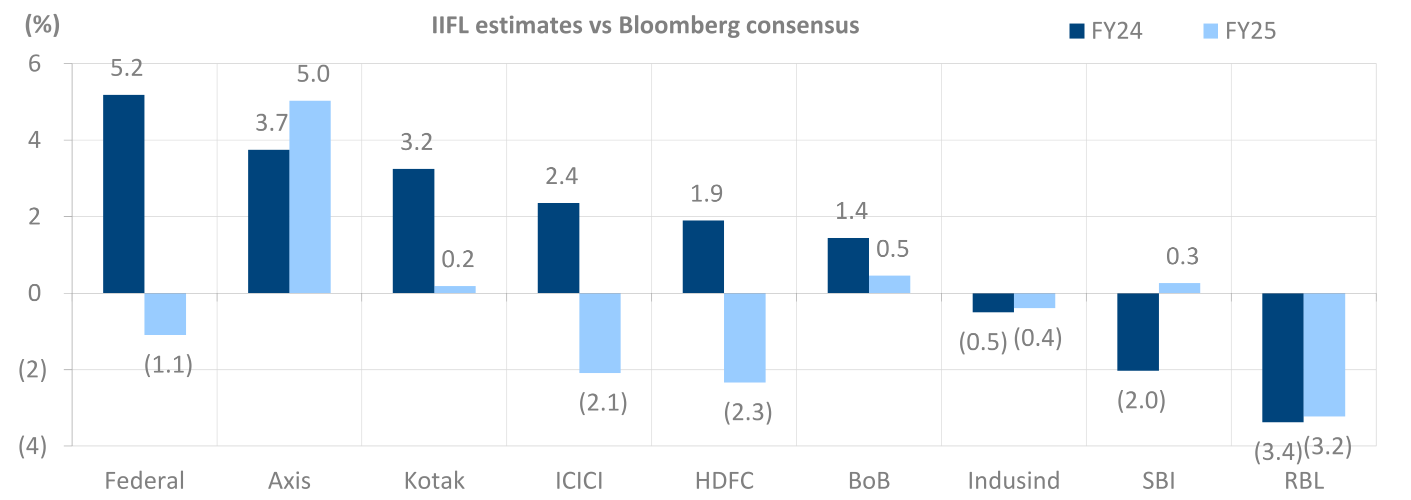


Source: Bloomberg, IIFL Research

IIFLe vs. Consensus

Our FY24E earnings estimates are 2-5% above consensus, except for SBI and RBL where we are 2-3% below the Street. However in FY25E, we are 1-3% below the Street as we have built rate-cut expectation from 2HFY25 onwards. Our estimates for Axis are 5% above the consensus, mainly on the back of higher net interest income due to higher loan growth and margins basis our residual re-pricing analysis.

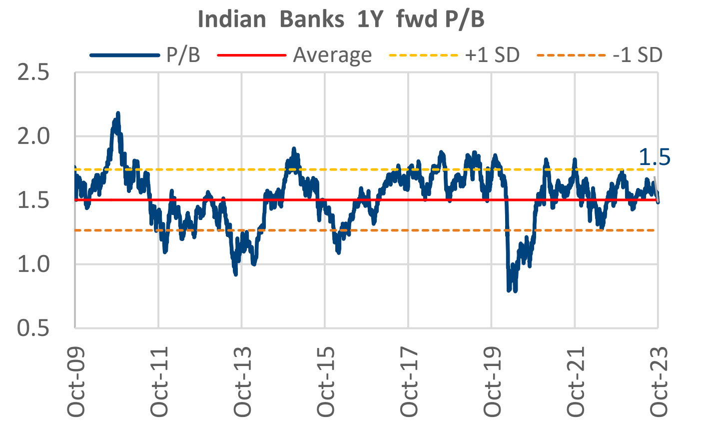
Figure 273: IIFLe for FY24 2-5% above consensus (except for SBI and RBL), but 1-3% below for FY25E as we have built rate-cut expectation from 2HFY25 onwards. Our estimates are 4-5% higher for Axis vs. consensus



Source: Bloomberg, IIFL Research

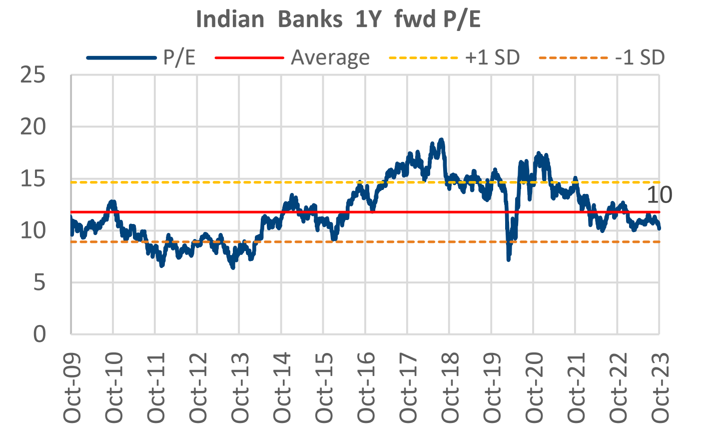
How are the valuations looking?

Figure 274: Indian banks are trading at 1.5x 1Y fwd P/B, which is in-line with the long-term average



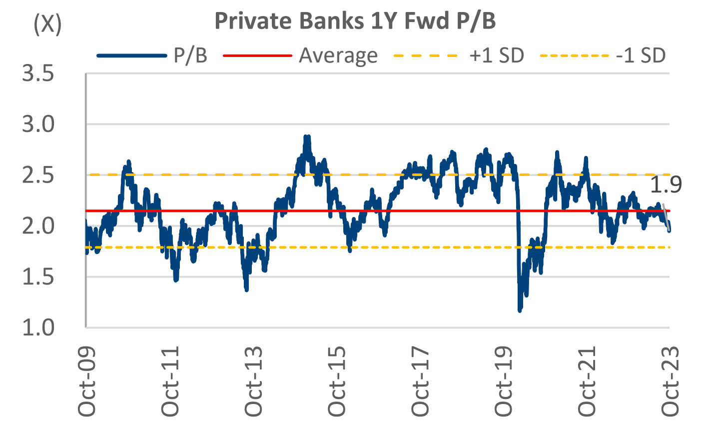
Source: Bloomberg, IIFL Research

Figure 275: Indian banks are trading at 10x 1Y fwd P/E, which is 13% below the long-term average



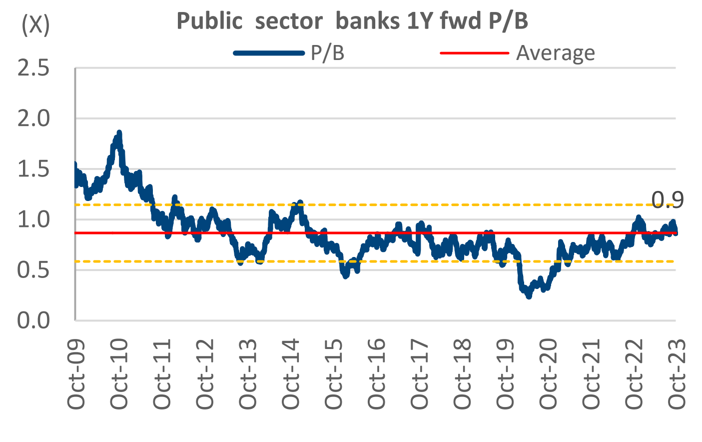
Source: Bloomberg, IIFL Research

Figure 276: Private sector banks are trading at 1.9x 1YF P/B, which is 9% below the long-term average



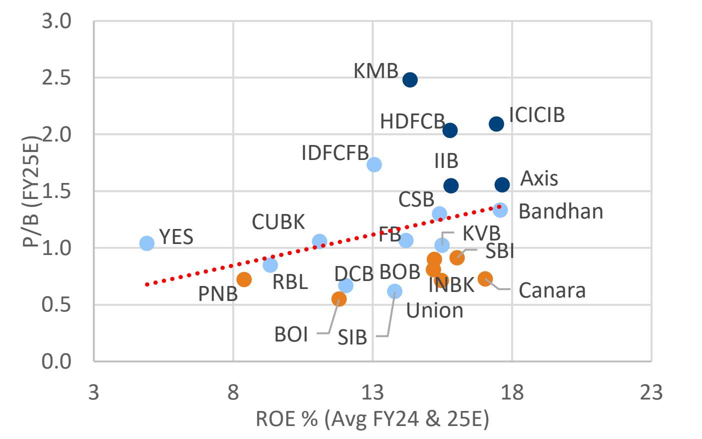
Source: Bloomberg, IIFL Research

Figure 277: Public sector banks are trading at 0.9x 1YF P/B — in-line with long-term average



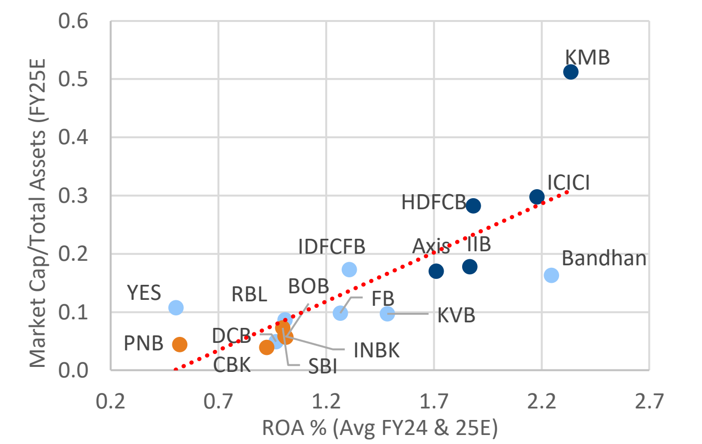
Source: Bloomberg, IIFL Research

Figure 278: Public banks seem cheap on P/B vs. ROE framework given elevated ROEs due to high leverage …



Source: Bloomberg, IIFL Research, Color coding – Dark Blue for large private banks, light blue for midsize pvt banks, orange for PSU Banks

Figure 279: … however, are fairly valued when looked on our preferred P/Assets vs. ROA framework; Kotak expensive



Source: Bloomberg, IIFL Research, Color coding – Dark Blue for large private banks, light blue for midsize pvt banks, orange for PSU Banks

Large private banks except ICICI/Axis are trading 30-40% below 10Y avg. P/B despite improvement in profitability. ICICI is trading at 36% premium to its 10Y avg. as the franchise has delivered superlative performance (currently best among peers). We believe de-rating for Kotak is justified as superior earnings drivers are dissipating and the franchise is becoming more homogenous vs larger peers. Axis, IIB and HDFCB should re-rate back closer to their LTA as they continue to deliver superior profitability. Public banks' valuation have tracked their earnings improvement, with SBI trading at its 10Y avg. and BoB at a 30% premium.

Figure 280: Large private banks except ICICI are trading below 10Y avg. P/B multiple, we expect this gap to close as banks continue to deliver superior earnings

	Price/Core PPOP			EPS			P/E			P/B			ROE			ROA		
	1Y fwd P/Core PPOP	Deviation from 5Y avg	Deviation from 10Y avg	FY23-26E CAGR	5Y CAGR	10Y CAGR	1Y fwd P/E	Deviation from 5Y avg	Deviation from 10Y avg	1Y fwd P/B	Deviation from 5Y avg	Deviation from 10Y avg	ROE FY24E	Deviation from 5Y avg	Deviation from 10Y avg	ROA FY24E	Deviation from 5Y avg	Deviation from 10Y avg
HDFCB	13.5	-6	-5	14	19	19	14	-21	-20	2.1	-25	-30	17.1	3.0	-3.7	2.0	3	4
ICICI	11.7	-2	6	13	33	12	13	-10	7	2.1	14	36	18.2	67	63.4	2.3	76	67
Axis	8.1	-9	-6	52	12	3	11	-27	-22	1.7	-5	-6	17.9	146	87.2	1.8	152	88
KMB	22.2	-22	-25	13	20	12	18	-40	-37	2.4	-38	-38	14.8	15	14.7	2.5	26	35
IIB	7.1	-16	-37	19	10	16	11	-19	-31	1.6	-17	-34	15.5	29	8.7	1.8	38	17
FB	6.4	11	-7	10	25	4	9	-4	-10	1.1	12	3	14.7	29	37.1	14.7	29	37
RBL	5.0	-37	0	34	-2	0	9	-31	0	0.9	-36	0	8.5	50		1.0	56	0
SBI	5.7	10	8	11	33	10	6	-22	-30	1.0	10	1	16.3	88	119.1	1.0	95	117
BOB	3.5	48	8	7	35	2	6	-13	-18	0.9	56	29	15.6	672	839.7	1.1	561	838

Source: Bloomberg, Company, IIFL Research

Figure 281: We expect Axis, IIB and HDFCB should re-rate back closer to their LTA as they continue to deliver superior profitability

Banks	CMP	Current P/ABV			Historical P/ABV			FY25E vs 10Y avg. (%)	Target P/ABV	Target vs 10Y avg. (%)
		FY24ii	FY25ii	FY26ii	3Y avg.	5Y avg.	10Y avg.		FY25ii	
HDFCB	1,463	2.3	2.0	1.7	2.8	2.8	3.0	(34)	2.5	(17)
ICICI	909	2.5	2.1	1.7	2.3	2.0	1.7	24	2.3	38
Axis	972	1.9	1.6	1.3	1.7	1.8	1.8	(13)	1.9	4
Kotak	1,695	2.9	2.4	2.0	3.5	3.7	3.9	(38)	2.4	(39)
IIB	1,415	1.8	1.5	1.3	1.5	1.8	2.5	(37)	1.8	(27)
Federal	138	1.2	1.0	0.9	1.0	1.0	1.1	(6)	1.2	9
RBL	216	0.9	0.8	0.7	0.7	1.2		(31)	0.9	(28)
SBIN	547	1.1	0.9	0.7	1.0	0.9	0.9	(6)	1.0	5
BOB	189	0.9	0.8	0.7	0.6	0.6	0.7	14	0.8	16

Source: Bloomberg, IIFL Research. Note: Prices are as of 26th Oct, 2023

Companies

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IIFL SECURITIES

CMP	**Rs972**
Target 12m	**Rs1260 (30%)**
Market cap (US$ m)	**35,852**
Bloomberg	**AXSB IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	1041/823
Shares o/s (m)	3082
Daily volume (US$ m)	114
Dividend yield FY25ii (%)	0.1
Free float (%)	92.0

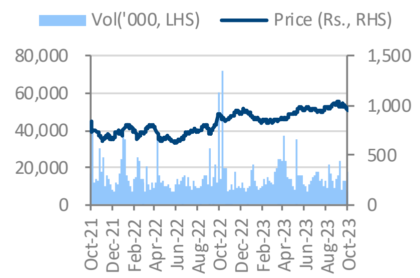
Shareholding pattern (%)

Promoters	8.0
Pledged (as % of promoter share)	0.0
FII	54.4
DII	30.2

Price performance (%)

	1M	3M	1Y
Axis Bank	(4.2)	(0.5)	7.8
Absolute (US$)	(4.1)	(2.0)	7.1
Rel.to Nifty	0.0	4.2	1.0
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		72.9	94.8

Stock movement



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Axis Bank BUY

On the right axis; primed for re-rating

Axis Bank's 1.8% ROA is back to the heydays of FY11-16, but it belies the turnaround in franchise. It has made significant strides in improving the quality of, loans, liabilities, NIM and fee income. We expect it to deliver the best PPOP ROA improvement vs peers, led by robust fee income growth and operating-leverage benefit kicking in from FY25 onwards. We expect core PPOP to grow at 19% Cagr, avg. ROA of 1.8% and ROE of 18%. We believe the narrowing of ROA gap vs peers should drive the re-rating. Initiate with BUY and SOTP-based TP of Rs1,260 (30% upside).

Better-quality, granular and more sustainable profitability: ROAs of 1.8% are back to the heydays of FY11-16, but the quality is far superior and more sustainable. Liability franchise has improved significantly as reflected in: (i) Incremental CASA market share (MS) gain of 7% since FY19, led by micro-market-focused approach. (ii) Addition of new liability relationships at the same pace as HDFC. (iii) Increase in the share of retail deposits to 57% (+258 bps in four years) and decline in LCR run-off rates. Share of corporate loans, 'BBB and below' exposure (lowest among peers) and lumpy fees have declined sharply. NIMs have structurally improved, with increase in the share of retail and SBB book, decline in lower-yielding RIDF bonds and non-INR book.

Cost efficiencies to drive the highest PPOP ROA improvement: We expect loans and deposits to grow at high-teens, and fee income at 20% Cagr, led by acceleration in retail (Citi acquisition) and transaction fees (NEO app for MSMEs launched in June'23). Opex should remain elevated in FY24 due to integration expenses; but we expect operating leverage to kick in from FY25 and cost-to-asset ratio to improve to 2.3% by 4QFY25 (guidance of 2.15%). Consequently, PPOP ROA should increase by 33 bps over FY23-26E vs -15 bps to +15 bps for peers. With the lowest-ever stressed loan ratio of 2.6% (-5pp since 1QFY20), high PCR of 79%, benign asset quality outlook and a contingency buffer of 0.9% of loans, we build avg. credit cost of 60 bps over FY24-26E vs the long-term avg. of ~100 bps.

Valuation gap to narrow vs larger peers; initiate with BUY: We expect Axis's ROA gap to narrow vs the larger peers, which in turn should drive the re-rating. The stock is currently trading at 1.7x 1YF P/B, which is 10% below LTA for the average RoA/RoE 1.8%/18% over FY25-26E. We value the bank at 1.9x Sep'25 P/ABV and subs at ~Rs75/share, resulting in SOTP-based TP of Rs1,260 (30% upside from CMP). Key risks are higher-than-expected NIM contraction and slower growth due to demand softness or capital constrain (current CET1 ratio of 14.6% - lowest among peers).

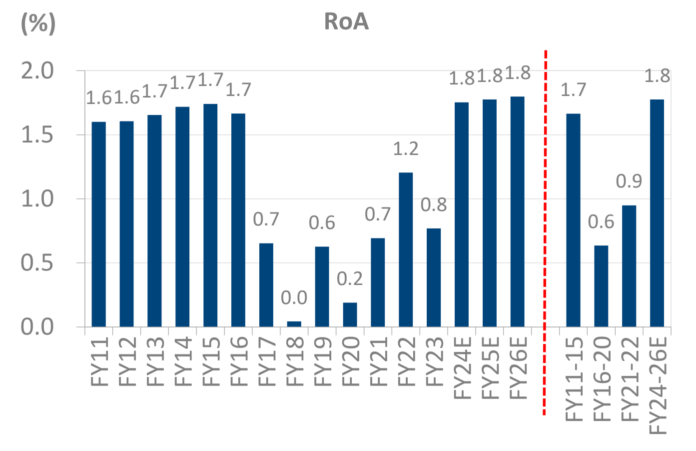
Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	331.3	429.5	501.5	576.8	663.1
PPOP	247.4	320.5	372.3	450.4	541.2
Reported PAT	**130.3**	**95.8**	**246.4**	**286.0**	**335.7**
EPS (Rs)	42.4	71.7	80.0	92.8	108.9
Growth (%)	97.3	69.0	11.5	16.1	17.4
IIFL vs consensus (%)			3.7	5.0	5.3
PER (x)	22.9	13.6	12.2	10.5	8.9
Book value (Rs)	375	408	487	579	687
PB (x)	**2.6**	**2.4**	**2.0**	**1.7**	**1.4**
CAR (%)	18.5	17.6	17.4	17.4	17.4
ROA (%)	1.2	0.8	1.8	1.8	1.8
ROE (%)	**12.0**	**8.0**	**17.9**	**17.4**	**17.2**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

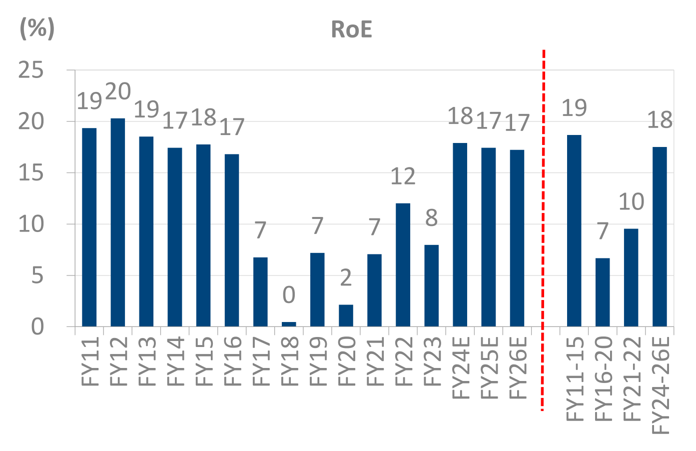
Better-quality, less-volatile, granular and more sustainable profitability

Figure 1.1: Expect Axis's FY24-26E profitability to be similar to the previous best levels last seen during FY11-15 …



Source: Company, IIFL Research. Note: FY23 ROA of 1.8%, adjusted for one-off extraordinary expense of Rs125 bn on CITI acquisition

Figure 1.2: … but will be of far better quality, less volatile, granular and more sustainable



Source: Company, IIFL Research. Note: FY23 ROE of 18%, adjusted for one-off extraordinary expense of Rs125 bn on CITI acquisition

Figure 1.3: Share of corporate loans has declined from 54% in FY13 to 32% in FY23 …

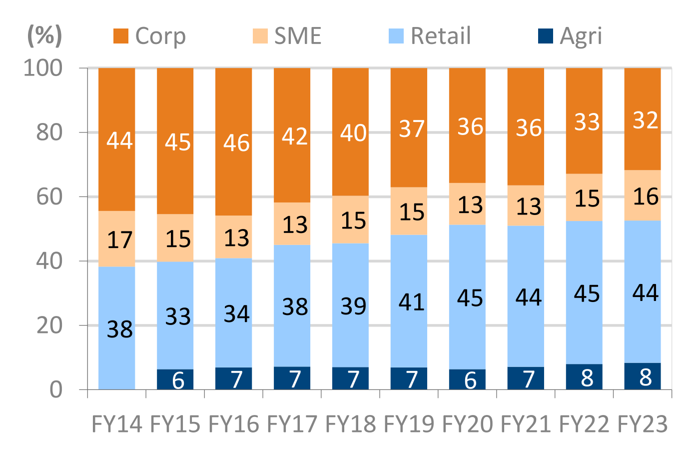
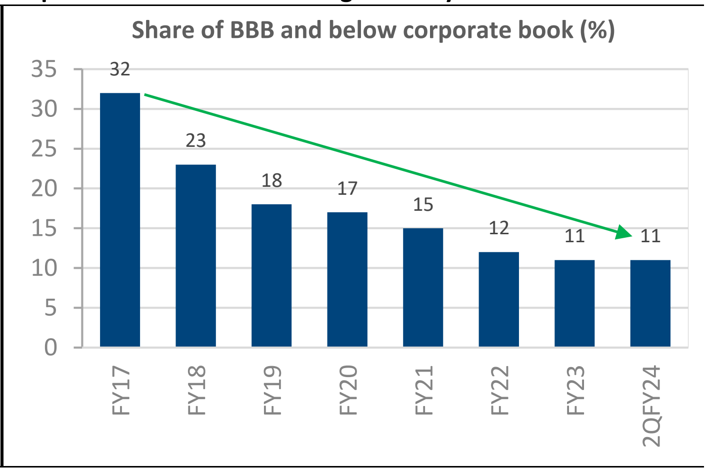


Figure 1.4: … and the shares of BBB and below rated corporate book has reduced significantly



Source: Company, IIFL Research

Source: Company, IIFL Research

Figure 1.5: Steadily gaining loan and deposit market share

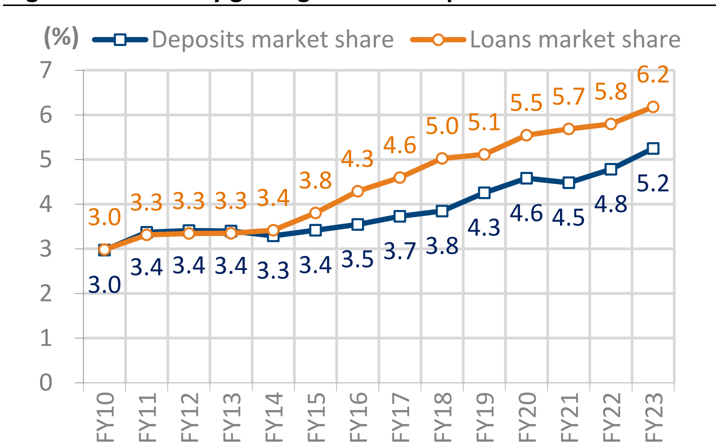
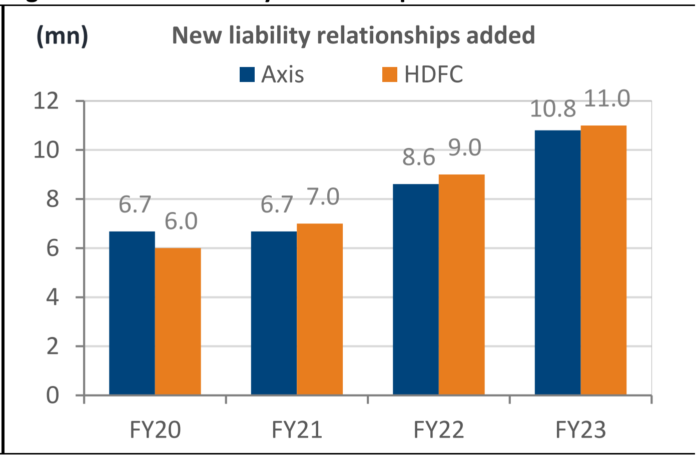


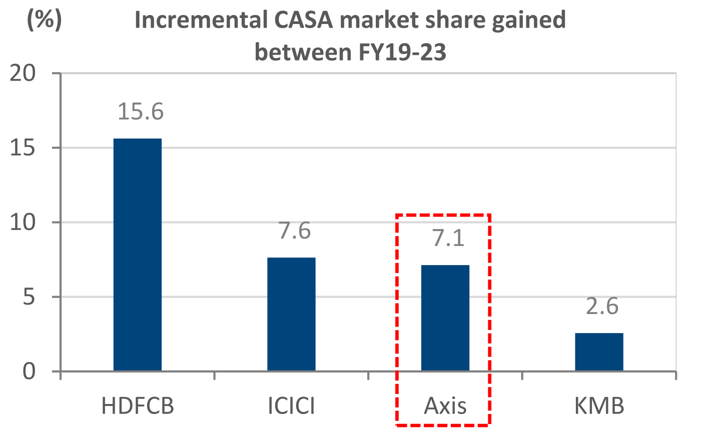
Figure 1.6: New liability relationship addition similar to HDFC



Source: Company, IIFL Research

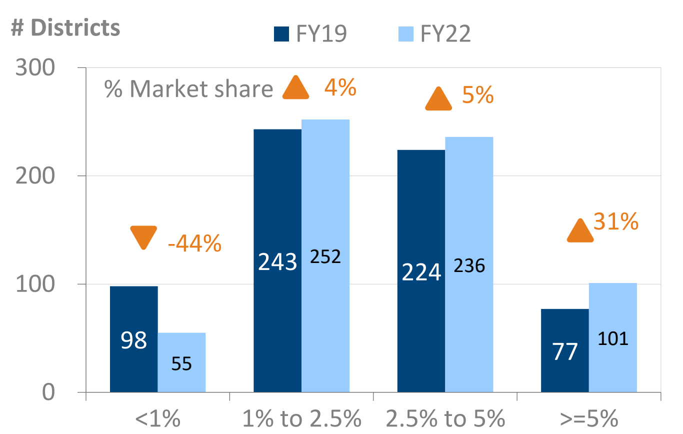
Source: Company, IIFL Research

Figure 1.7: In the past 4yrs, Axis gained incremental CASA MS of 7% (vs the current o/s share of 5.5%) and is thus, closing the gap vs ICICI



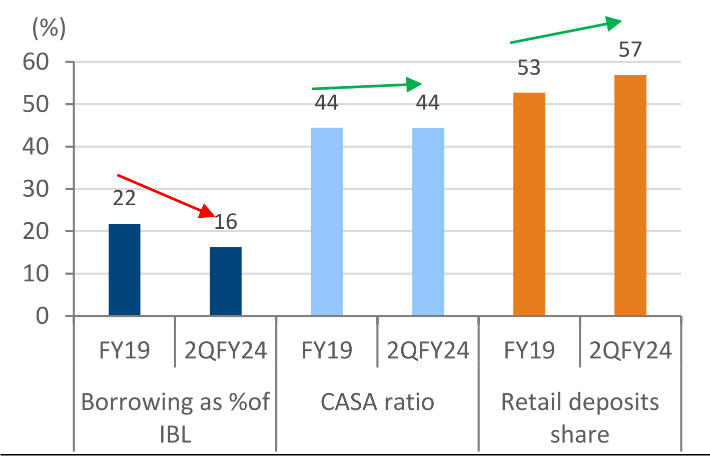
Source: RBI, Company, IIFL Research

Figure 1.8: Steadily gaining share across districts, led by micro-market-focused approach – delivered 31% growth in # of districts with >5% MS over the last 3yrs



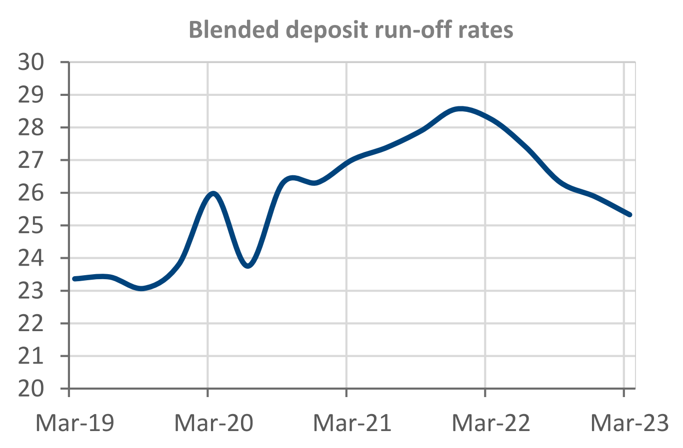
Source: Company, IIFL Research

Figure 1.9: Reducing reliance on borrowings, improving CASA ratio and rising share of retail deposits



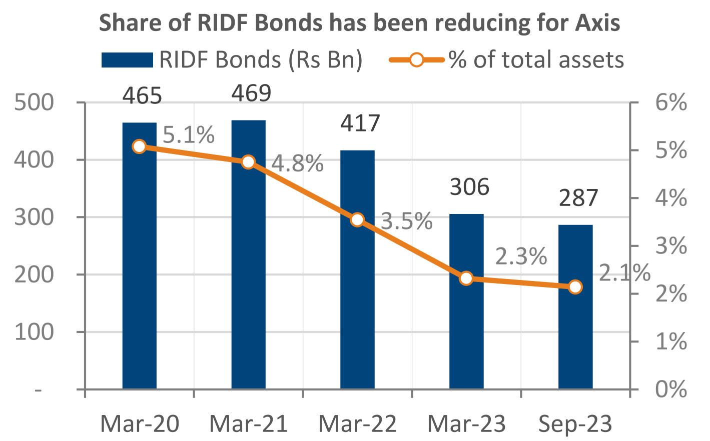
Source: Company, IIFL Research

Figure 1.10: Deposit-run off rates falling i.e. share of lendable deposits rising



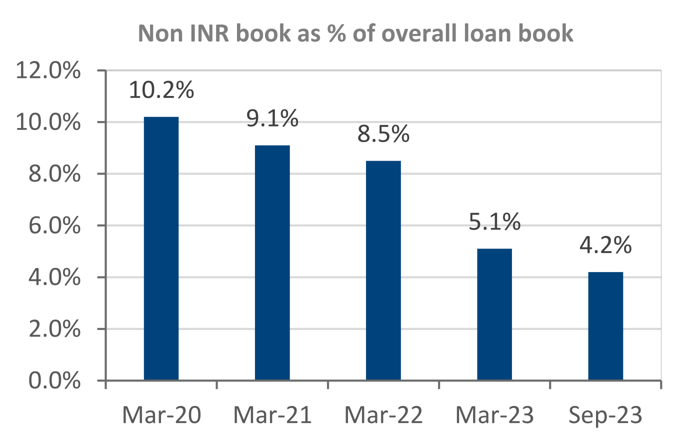
Source: Company, IIFL Research

Figure 1.11: Share of lower yielding RIDF Bonds is reducing leading to structural improvement in margins …



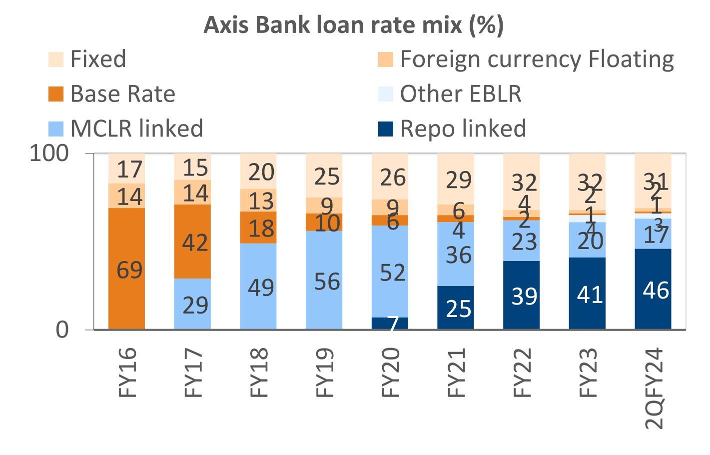
Source: Company, IIFL Research

Figure 1.12: … similarly share of non-INR book (with lower yields) has also been trending down



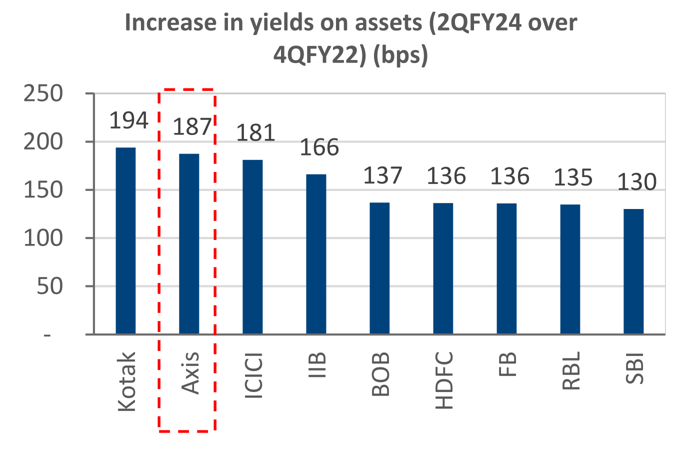
Source: Company, IIFL Research

Figure 1.13: Axis's loan book has shifted away from base-rate linked and MCLR to repo-linked loans …



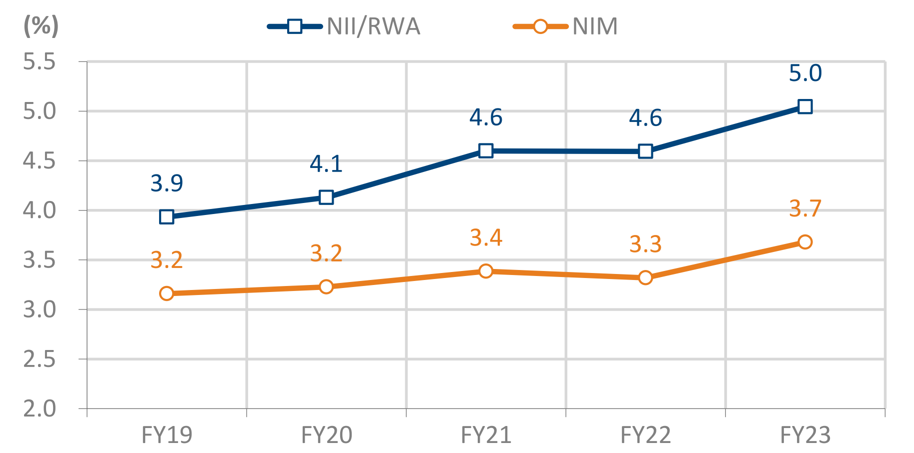
Source: Company, IIFL Research

Figure 1.14: … leading to faster re-pricing of loan yields vs peers in this rate upcycle



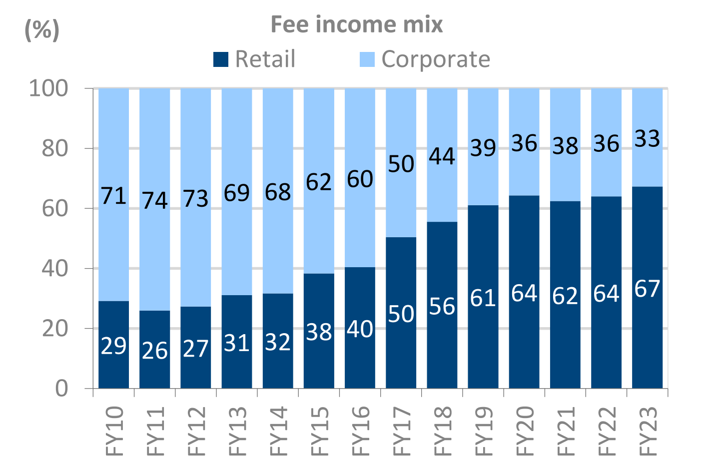
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 1.15: Improvement in margins not at the expense of undertaking higher risk, as reflected in increase in NII / RWA ratio



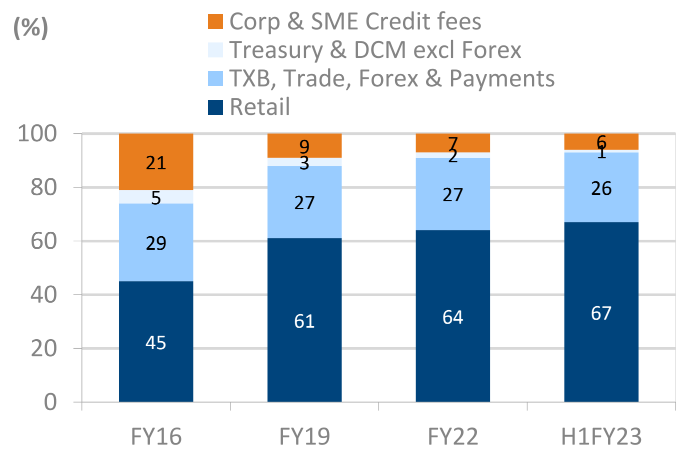
Source: Company, IIFL Research

Figure 1.16: Share of lumpy corporate fees declining, and granular retail fees now constitute 2/3rd of total fees



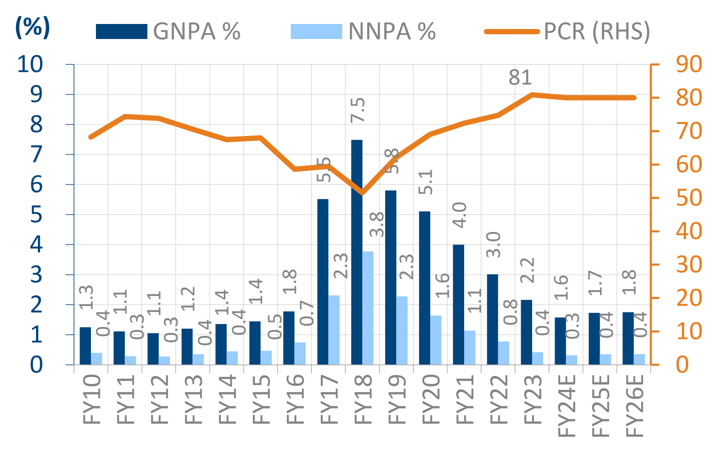
Source: Company, IIFL Research

Figure 1.17: Share of retail and transaction based fees now 93% vs. 74% in FY16



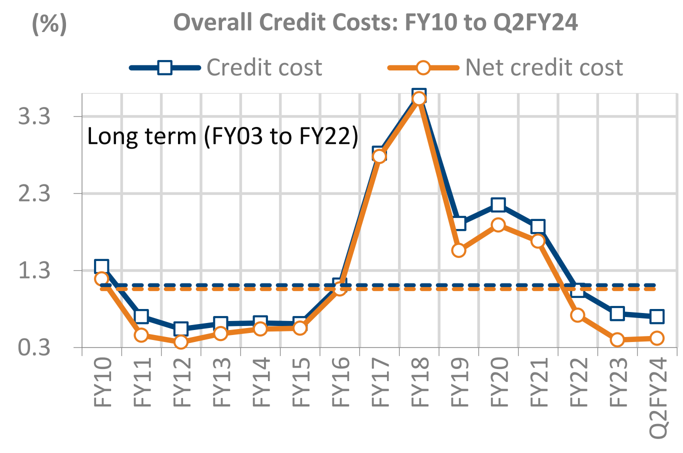
Source: Company, IIFL Research

Figure 1.18: Significantly lower GNPAs, reduced lumpiness in wholesale business, highest-ever PCR & buffer provisions …



Source: Company, IIFL Research

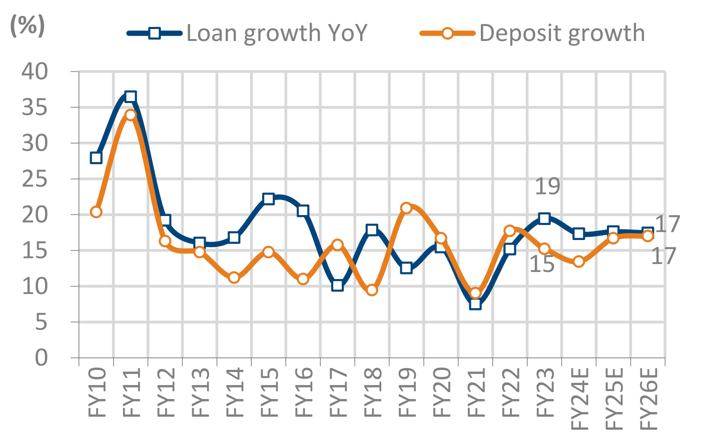
Figure 1.19: … should keep credit costs meaningfully below the long-term average



Source: Company, IIFL Research

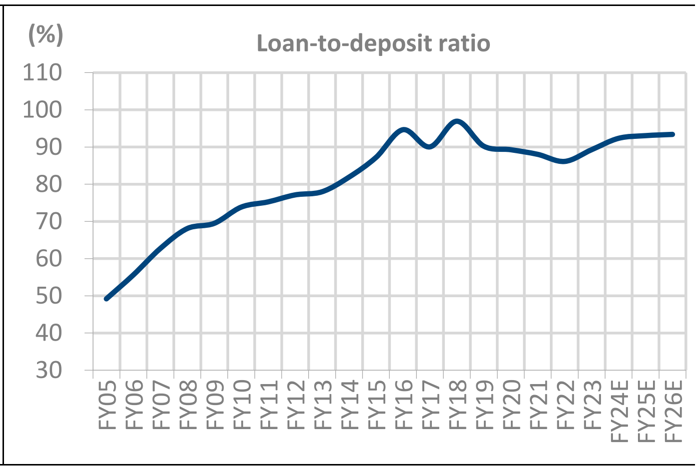
Robust fee income and cost efficiencies to drive the highest PPOP ROA improvement among peers

Figure 1.20: We expect the bank to deliver high-teens loan and deposit growth over FY24ii-26ii



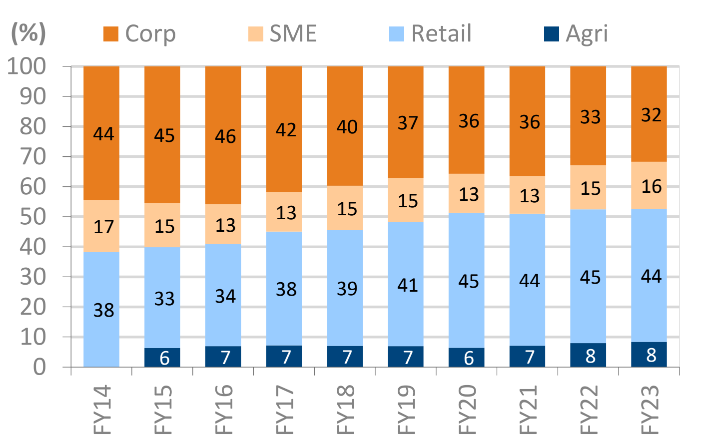
Source: Company, IIFL Research

Figure 1.21: Expect loan-to-deposit ratio to inch up to 92-93% from 89% in FY23



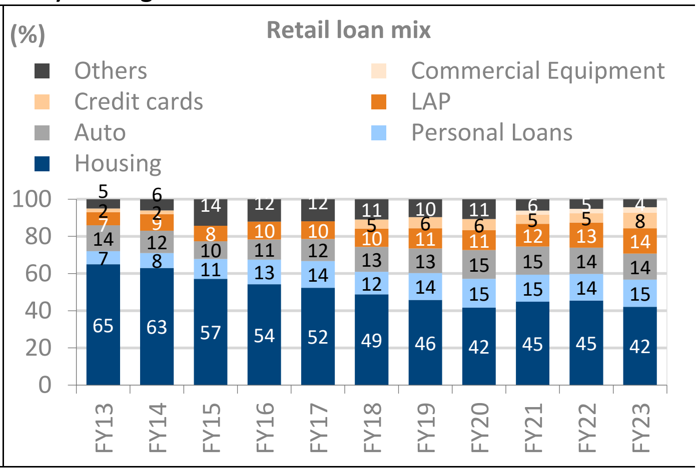
Source: Company, IIFL Research

Figure 1.22: The bank has evolved from a corporate bank to retail bank, with share of corporate reducing from more than 44% in FY14 to 32% in FY23



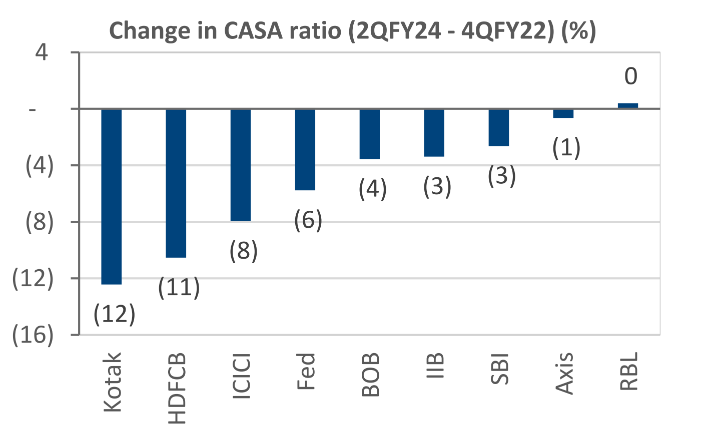
Source: Company, IIFL Research

Figure 1.23: Within retail loans, share of housing loans is declining as the share of unsecured loans (personal and credit card) is rising



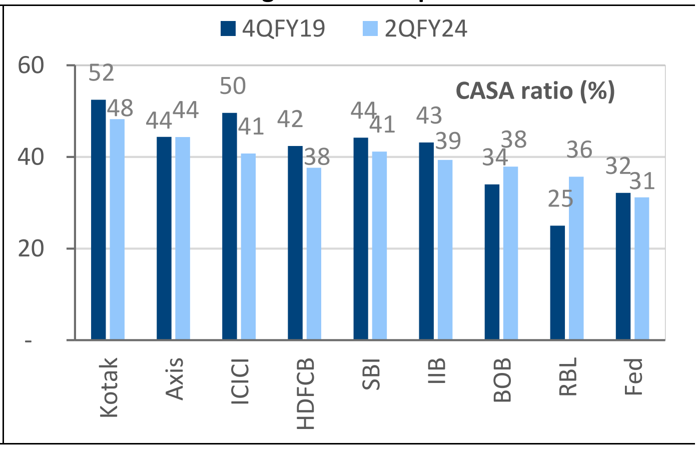
Source: Company, IIFL Research

Figure 1.24: Axis and RBL are the only banks that have witnessed rise in CASA ratio since the rate-hikes



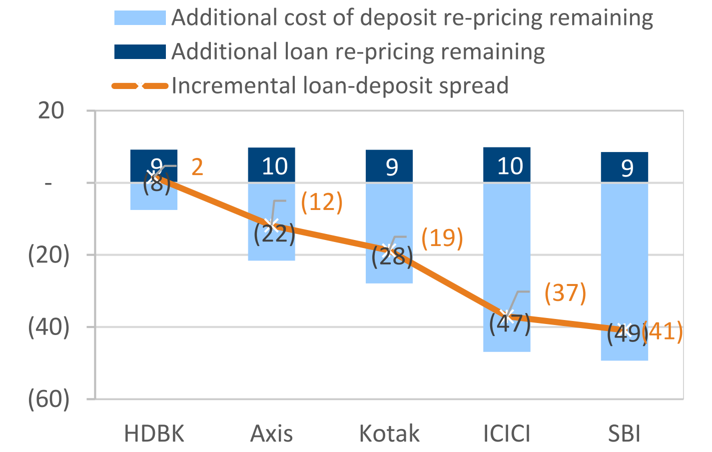
Source: Company, IIFL Research, Note: HDFC due to merger impact, SBI and BoB as on 1QFY24

Figure 1.25: Among the coverage banks, only Axis, RBL and BoB have CASA ratio higher than the pre-Covid levels



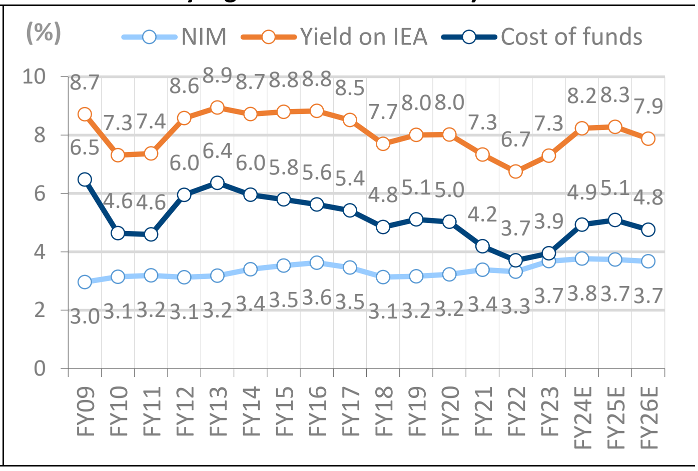
Source: Company, IIFL Research, Note: HDFC due to merger impact, SBI and BoB as on 1QFY24

Figure 1.26: Expect spreads to decline the least for Axis (-12 bps) (after HDFC) vs. 20-40 bps of further decline for the peers



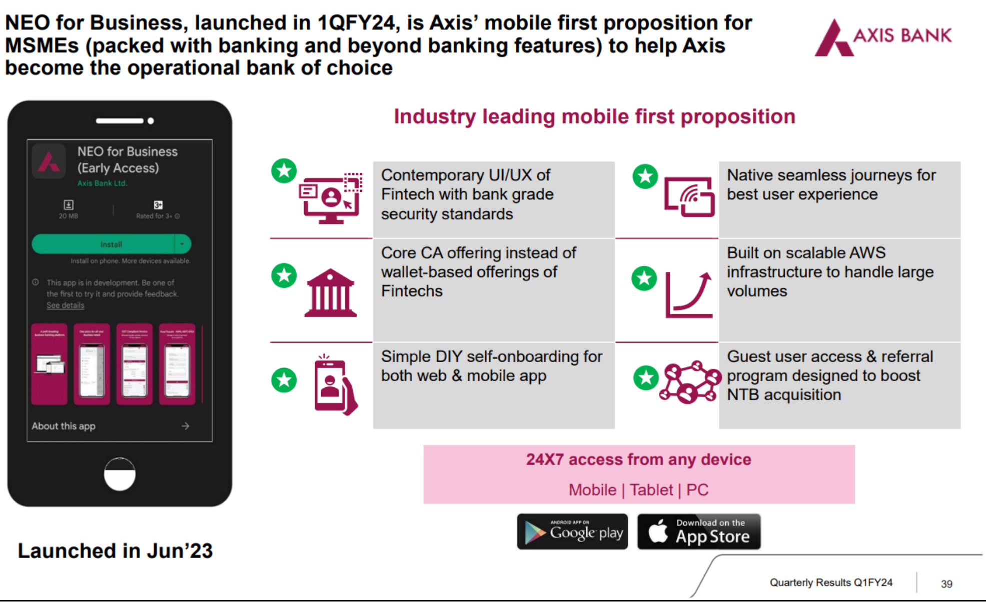
Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 1.27: Expect limited margin contraction and thus NIMs to be structurally higher vs. its own history



Source: Company, IIFL Research

Figure 1.28: Launched NEO for Business mobile app for MSMEs in June-23; should aid transaction banking fees



Source: Company, IIFL Research

Figure 1.29: Expect fee income to grow at 20% Cagr, led by strong retail loan growth and acceleration in transaction banking fees, post the recent launch of 'Neo' platform

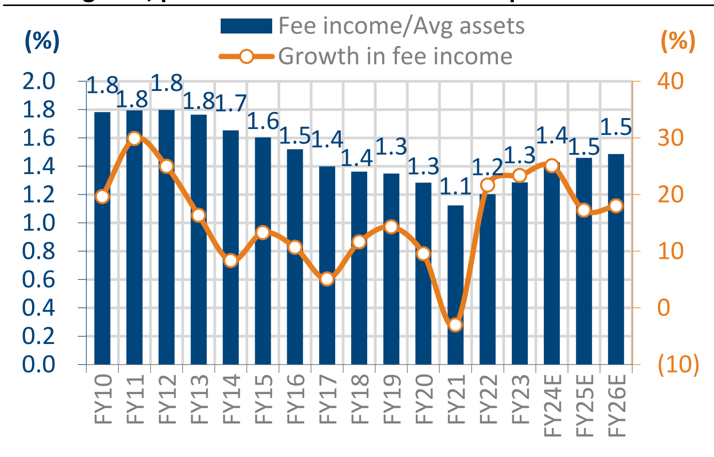
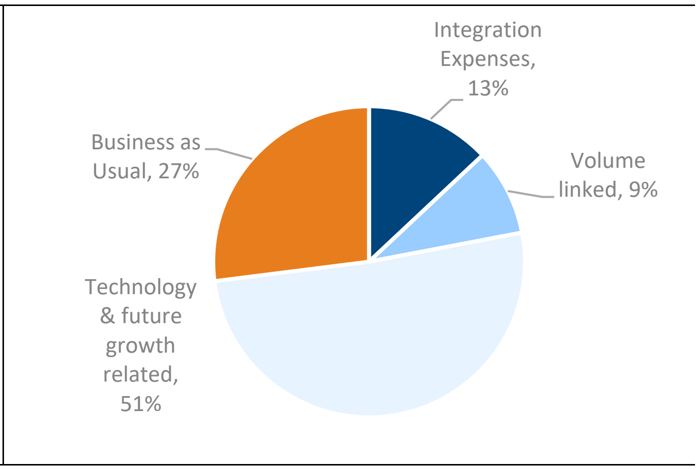


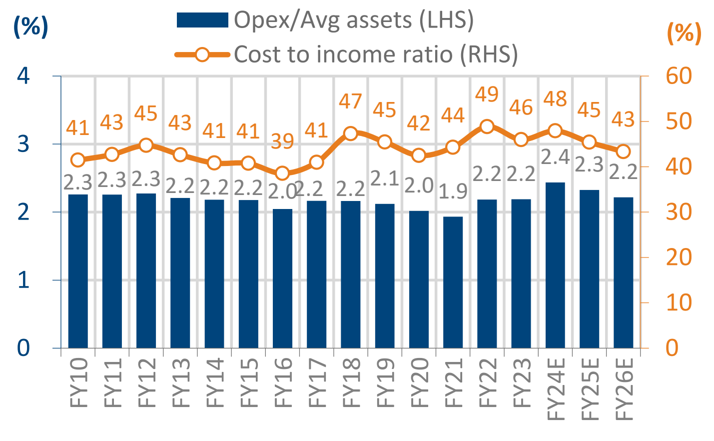
Figure 1.30: Incremental opex is being incurred mainly for technology, growth and integration-related expenses



Source: Company, IIFL Research

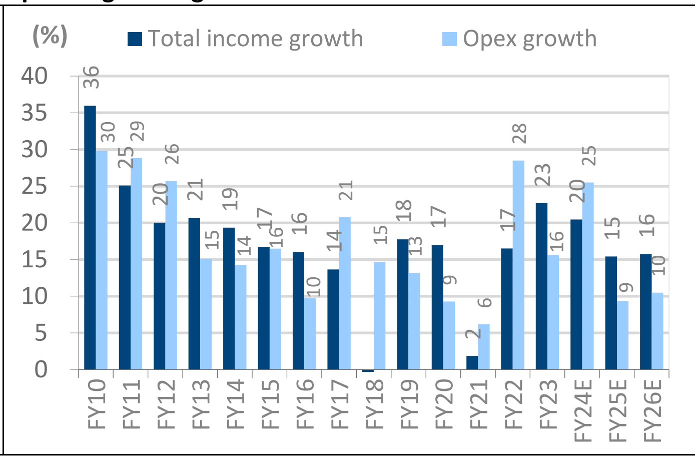
Source: Company, IIFL Research

Figure 1.31: Deterioration in cost efficiency ratio due to Citi integration expenses and should be sticky in FY24



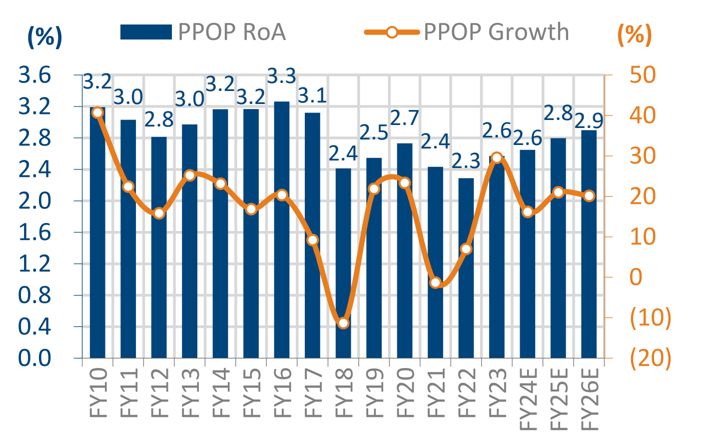
Source: Company, IIFL Research

Figure 1.32: Expect jaws to turn positive from FY25 and the operating-leverage benefit to kick-in



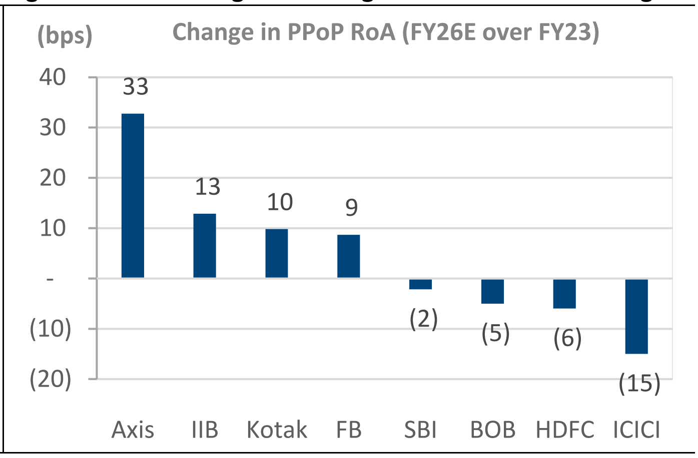
Source: Company, IIFL Research

Figure 1.33: Expect 30 bps of PPOP ROA improvement …



Source: Company, IIFL Research

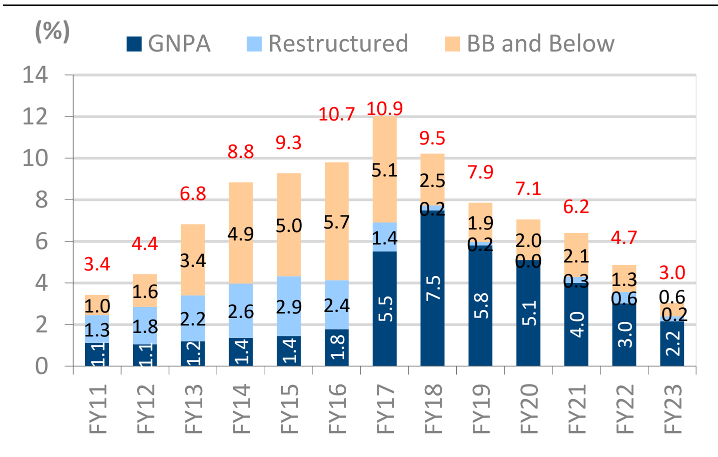
Figure 1.34: … the highest among the banks under coverage



Source: Company, IIFL Research

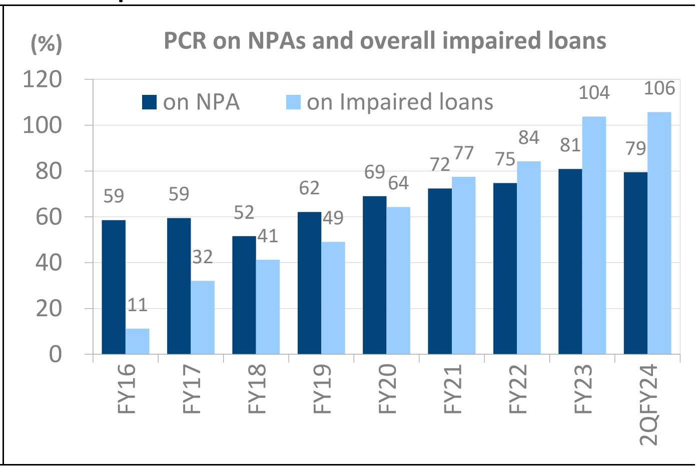
Low impaired loans, de-risked loan book, high PCR and buffer provisions to keep credit costs low

Figure 1.35: In FY23, impaired loans have improved significantly from 11% in FY17 to 3%…



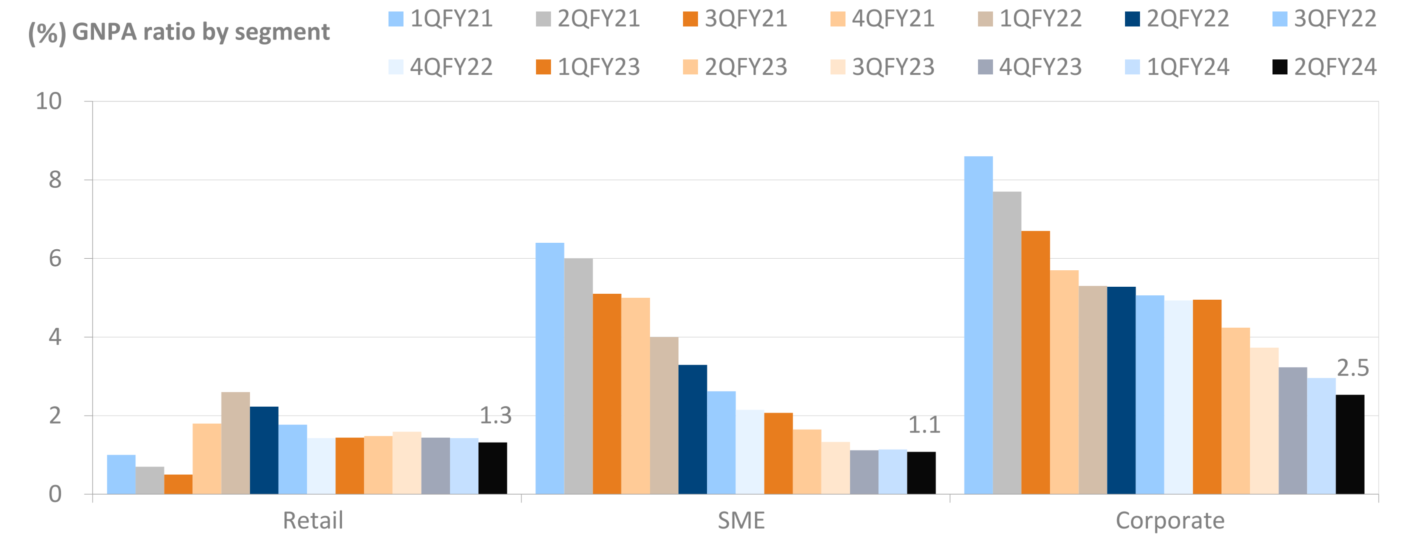
Source: Company, IIFL Research

Figure 1.36: … and the provision coverage on NPAs and the overall impaired loans has increased



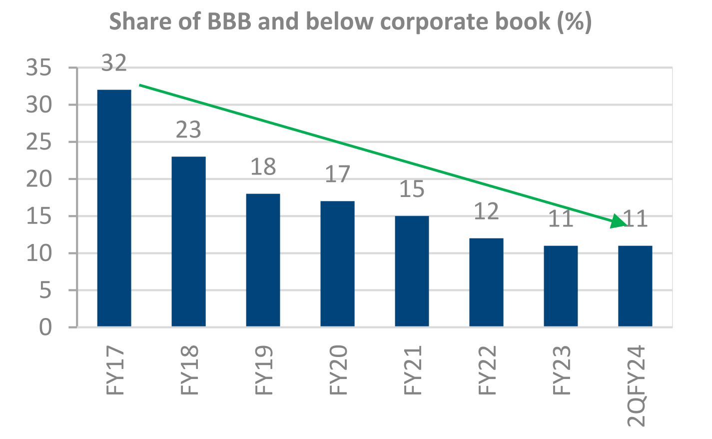
Source: Company, IIFL Research

Figure 1.37: GNPA ratio steadily improving across the different loan segments



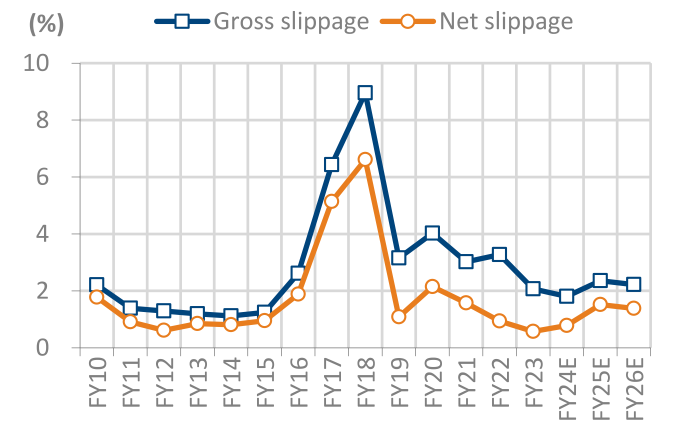
Source: Company, IIFL Research

Figure 1.38: Share of BBB and below-rated corporate book has reduced significantly for Axis



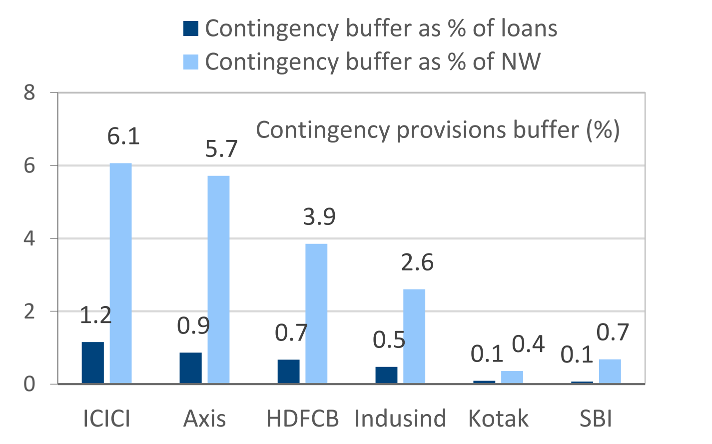
Source: Company, IIFL Research

Figure 1.39: Expect stable gross slippages, but an uptick in net slippage ratio on lower recoveries



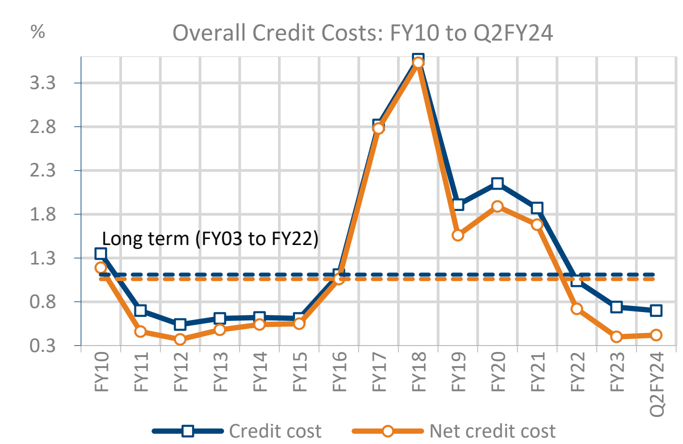
Source: Company, IIFL Research

Figure 1.40: Axis has one of the highest provision contingency buffers (only second to ICICI) …



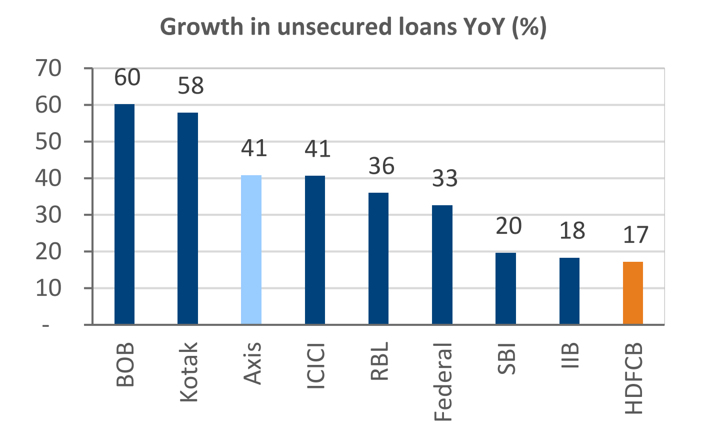
Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 1.41: … which should keep credit costs well below the historical long-term average



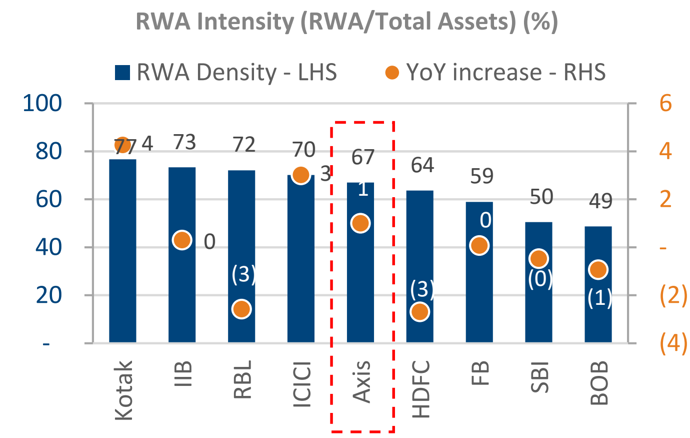
Source: Company, IIFL Research

Figure 1.42: Unsecured loans grew 41% YoY …



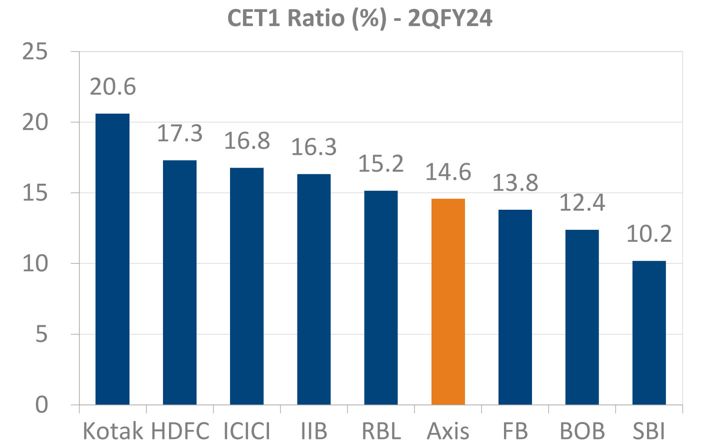
Source: Company, IIFL Research, Note: as on 1QFY24

Figure 1.43: … resulting in 1pp increase in the risk density



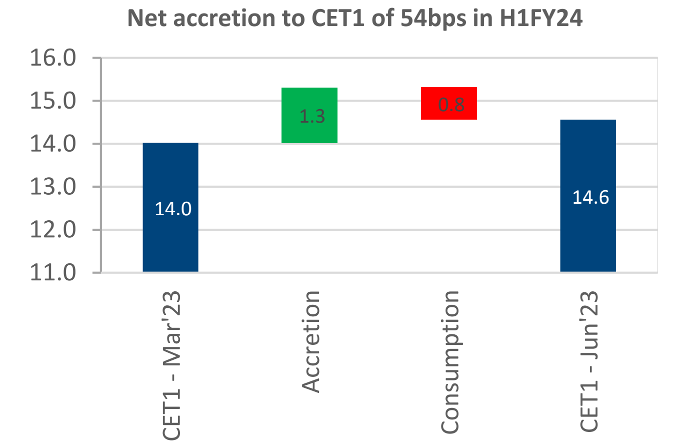
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 1.44: Post consummation of the Citi business, Axis has one of the lowest CET1 among Private banks …



Source: Company, IIFL Research, Note – (1) Tier1 ratio for Kotak, (2) SBI and BoB as on 1QFY24

Figure 1.45: … however, the bank is confident of growing without raising additional capital, as it keeps accreting CET1



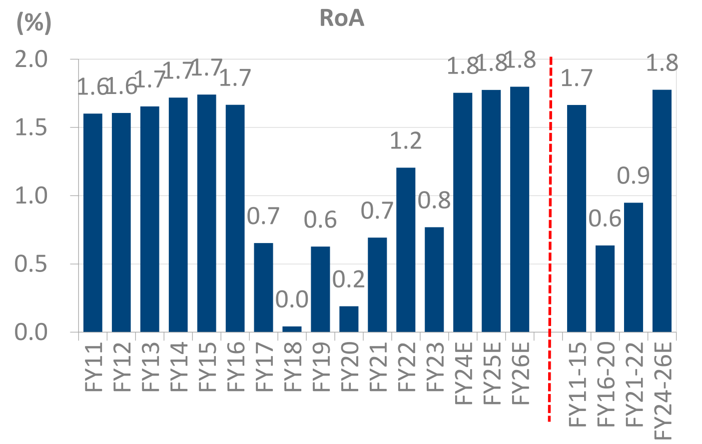
Source: Company, IIFL Research

Figure 1.46: Axis – DuPont analysis and key ratios

DuPont analysis (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	8.5	8.4	8.3	7.9	7.1	7.4	7.3	6.7	6.2	6.8	7.8	7.9	7.6
Interest expense	5.2	5.0	4.9	4.7	4.2	4.5	4.4	3.6	3.2	3.4	4.2	4.4	4.1
Net interest income	**3.3**	**3.4**	**3.4**	**3.2**	**2.9**	**2.9**	**2.9**	**3.1**	**3.1**	**3.4**	**3.6**	**3.6**	**3.6**
Fee Income	1.7	1.6	1.5	1.4	1.4	1.3	1.3	1.1	1.2	1.3	1.4	1.5	1.5
Trading Profits	0.2	0.3	0.3	0.6	0.3	0.1	0.3	0.1	0.2	0.0	0.1	0.0	0.0
Dividend from Subs & other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income	0.2	0.1	0.1	0.0	0.0	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total non-interest income	2.0	2.0	1.9	2.1	1.7	1.8	1.8	1.3	1.4	1.3	1.5	1.5	1.6
Total revenue	**5.3**	**5.3**	**5.3**	**5.3**	**4.6**	**4.7**	**4.7**	**4.4**	**4.5**	**4.8**	**5.1**	**5.1**	**5.1**
Employee expense	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.7
Other expense	1.5	1.4	1.4	1.5	1.5	1.5	1.4	1.3	1.5	1.5	1.6	1.5	1.5
Total expenses	**2.2**	**2.2**	**2.0**	**2.2**	**2.2**	**2.1**	**2.0**	**1.9**	**2.2**	**2.2**	**2.4**	**2.3**	**2.2**
Pre-provision operating profit	**3.2**	**3.2**	**3.3**	**3.1**	**2.4**	**2.5**	**2.7**	**2.4**	**2.3**	**2.6**	**2.6**	**2.8**	**2.9**
Provisions	0.6	0.6	0.8	2.2	2.4	1.6	2.2	1.5	0.7	0.2	0.3	0.4	0.5
Profit before tax	2.6	2.6	2.5	1.0	0.0	0.9	0.6	0.9	1.6	1.4	2.3	2.4	2.4
Taxes	0.9	0.9	0.8	0.3	0.0	0.3	0.4	0.2	0.4	0.6	0.6	0.6	0.6
ROA	**1.7**	**1.7**	**1.7**	**0.7**	**0.0**	**0.6**	**0.2**	**0.7**	**1.2**	**0.8**	**1.8**	**1.8**	**1.8**
Leverage	10.1	10.2	10.1	10.3	10.8	11.5	11.3	10.2	10.0	10.4	10.2	9.8	9.6
ROE	**17.4**	**17.8**	**16.8**	**6.8**	**0.5**	**7.2**	**2.1**	**7.1**	**12.0**	**8.0**	**17.9**	**17.4**	**17.2**
Key metrics													
Loan growth	16.8	22.2	20.5	10.1	17.8	12.5	15.5	7.5	15.2	19.4	17.3	17.6	17.4
Deposit growth	11.2	14.8	11.0	15.8	9.5	20.9	16.7	9.0	17.7	15.2	13.4	16.7	17.0
Credit-deposit ratio	81.9	87.2	94.6	90.0	96.9	90.2	89.3	88.0	86.1	89.3	92.3	93.0	93.4
Yield on IEA	8.7	8.8	8.8	8.5	7.7	8.0	8.0	7.3	6.7	7.3	8.2	8.3	7.9
Cost of funds	6.0	5.8	5.6	5.4	4.8	5.1	5.0	4.2	3.7	3.9	4.9	5.1	4.8
NIM	3.4	3.5	3.6	3.5	3.1	3.2	3.2	3.4	3.3	3.7	3.8	3.7	3.7
Cost-to-income ratio	40.8	40.7	38.5	41.0	47.3	45.4	42.5	44.3	48.8	46.0	47.9	45.4	43.3
GNPA ratio	1.4	1.4	1.8	5.5	7.5	5.8	5.1	4.0	3.0	2.2	1.6	1.7	1.8
NNPA ratio	0.4	0.5	0.7	2.3	3.8	2.3	1.6	1.1	0.8	0.4	0.3	0.4	0.4
Credit cost	1.0	0.9	1.2	3.4	3.8	2.6	3.5	2.4	1.1	0.3	0.5	0.6	0.7
CET1 ratio					11.7	11.3	13.3	15.4	15.2	14.0	14.2	14.5	14.7
CAR	16.1	15.1	15.3	15.0	16.6	15.8	17.5	19.1	18.5	17.6	17.4	17.4	17.4

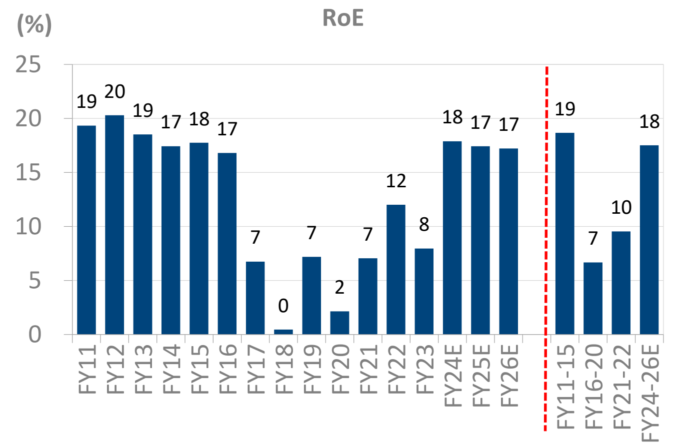
Source: Company, IIFL Research

Figure 1.47: Expect Axis's FY24-26E profitability to be similar to the previous best levels last seen during FY11-16 …



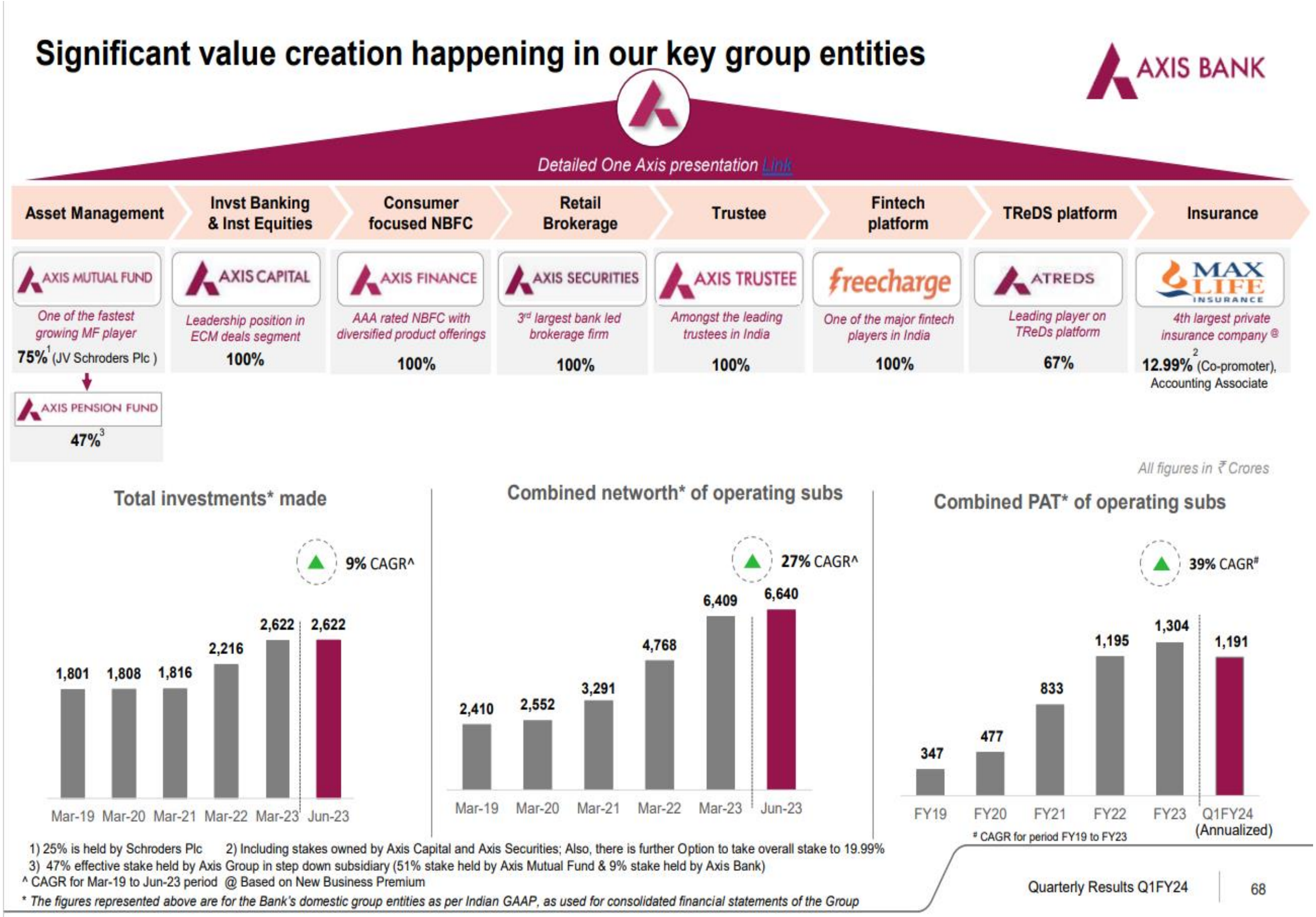
Source: Company, IIFL Research. Note: FY23 ROA of 1.8%, adjusted for one-off extraordinary expense of Rs125 bn on CITI acquisition

Figure 1.48: … but will be of far better quality, less volatile, granular and more sustainable



Source: Company, IIFL Research. Note: FY23 ROE of 18%, adjusted for one-off extraordinary expense of Rs125 bn on CITI acquisition

Figure 1.49: Significant value creation happening in group entities



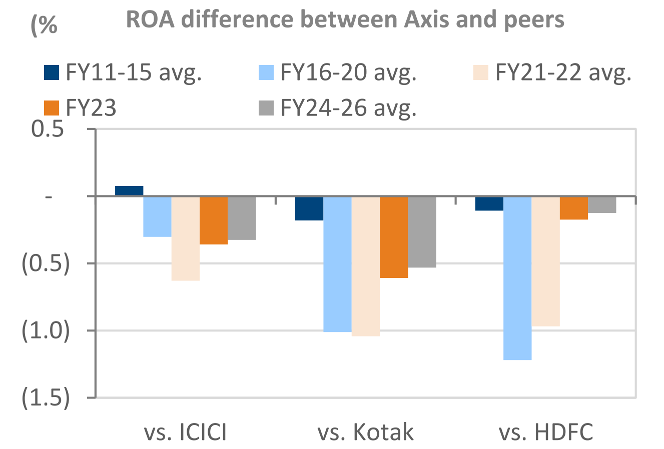
Source: Company, IIFL Research

Figure 1.50: Axis - SOTP based on September 2025 (INR)

Particular	Value (INR bn)	Value (USD bn)	Value/ Sh. (INR)	% of total	Target Multiple (x)	Rationale
Bank	**3,650**	**45.6**	**1,184**	**94**	**1.9**	**PABV**
Other Businesses						
Axis Asset Management	78	1.0	25	2	20.0	PE
Axis Securities	41	0.5	13	1	15.0	PE
Axis Finance	77	1.0	25	2	1.5	PBV
Axis Capital	28	0.4	9	1	15.0	PE
Max Life	68	0.9	22	2	2.0	PEV
Total Value of Ventures	**293**	**3.7**	**95**	**8**		
Less: 20% holding discount	59	0.7	19	2		
Value of Key Ventures	**235**	**2.9**	**76**	**6**		
Sum of the Part Value (A+B)	**3,885**	**48.6**	**1,260**	**100**		

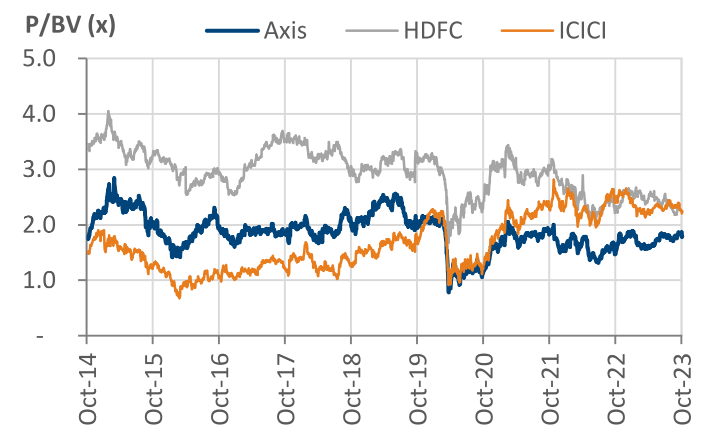
*ABV = BV adjusted for investment in subsidiaries

Figure 1.51: Expect Axis's ROA gap vs peers to narrow over FY24-26E



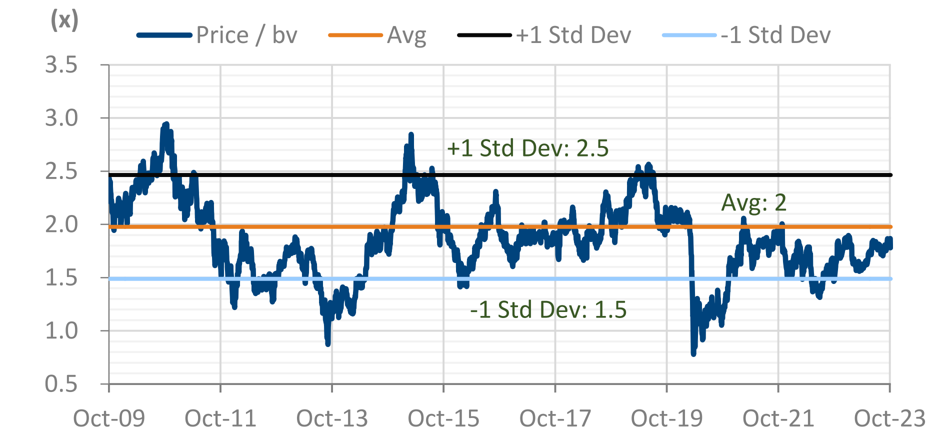
Source: IIFL Research

Figure 1.52: Axis's valuation discount vs ICICI has widened to 20% vs (5yr avg. of 10%), but has started to narrow



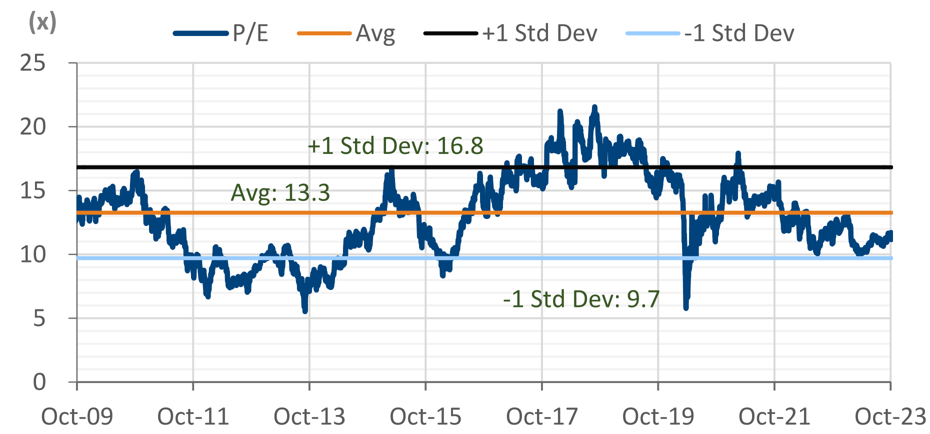
Source: Bloomberg, IIFL Research

Figure 1.53: The stock trades at 1.8x 1YF P/BV, below the long-term average of 2.0x



Source: Bloomberg, IIFL Research

Figure 1.54: The stock trades at 11.6x 1YF P/E, below the long-term average of 13x



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 1.55: Axis – margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	10.3	10.1	9.7	9.3	8.4	8.8	9.1	8.0	7.5	8.3	9.5	9.5	9.0
Yield on investments	7.3	7.5	7.8	7.7	7.1	6.9	6.8	6.6	5.8	6.4	6.4	6.4	5.9
Yield on bank balances	1.4	3.0	4.5	4.3	3.5	4.2	3.8	4.0	3.6	2.2	2.5	2.9	2.7
Yield on interest earning assets	**8.7**	**8.8**	**8.8**	**8.5**	**7.7**	**8.0**	**8.0**	**7.3**	**6.7**	**7.3**	**8.2**	**8.3**	**7.9**
Cost of deposits	5.8	5.7	5.4	5.1	4.4	4.7	4.9	4.0	3.6	3.7	4.7	4.8	4.5
Cost of borrowings	6.9	6.3	6.3	6.7	6.3	6.4	5.4	5.0	4.2	5.0	6.3	6.8	6.5
Cost of interest bearing liabilities	**6.0**	**5.8**	**5.6**	**5.4**	**4.8**	**5.1**	**5.0**	**4.2**	**3.7**	**3.9**	**4.9**	**5.1**	**4.8**
Interest spread	2.8	3.0	3.2	3.1	2.9	2.9	3.0	3.1	3.0	3.3	3.3	3.2	3.1
Net interest margin	**3.4**	**3.5**	**3.6**	**3.5**	**3.1**	**3.2**	**3.2**	**3.4**	**3.3**	**3.7**	**3.8**	**3.7**	**3.7**
Loan-to-deposit ratio	81.9	87.2	94.6	90.0	96.9	90.2	89.3	88.0	86.1	89.3	92.3	93.0	93.4
Incremental loan-to-deposit ratio	116.8	122.9	162.4	60.8	169.7	58.1	83.6	74.2	75.4	109.9	115.1	97.3	95.4
CASA ratio	45.0	44.8	47.3	51.4	53.8	44.4	41.2	45.5	45.0	47.2	45.0	44.9	44.9

Source: Company, IIFL Research

Figure 1.56: Axis – efficiency ratios

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	62	63	64	61	63	62	62	70	69	72	70	70	69
Fee income / total non-interest income	81	81	80	67	80	77	71	87	85	98	94	95	95
Fee income / total revenue	31	30	29	26	30	29	27	26	27	27	28	29	29
Non-interest income / revenue	38	37	36	39	37	38	38	30	31	28	30	30	31
Employee exp / total opex	33	34	33	32	31	30	31	34	32	32	32	34	34
Other expense / total opex	67	66	67	68	69	70	69	66	68	68	68	66	66
Cost to income ratio (CIR)	**40.8**	**40.7**	**38.5**	**41.0**	**47.3**	**45.4**	**42.5**	**44.3**	**48.8**	**46.0**	**47.9**	**45.4**	**43.3**
Cost to avg. asset ratio	2.18	2.18	2.05	2.17	2.16	2.12	2.02	1.93	2.18	2.19	2.44	2.33	2.22
Provisions / PPOP	18	17	23	69	99	63	79	62	30	8	12	15	17
Tax rate	33	33	34	33	(127)	33	67	25	25	43	25	25	25
ROA	**1.7**	**1.7**	**1.7**	**0.7**	**0.0**	**0.6**	**0.2**	**0.7**	**1.2**	**0.8**	**1.8**	**1.8**	**1.8**
Core ROA	1.7	1.7	1.6	0.6	0.0	0.6	0.2	0.7	1.2	0.8	1.8	1.8	1.8
ROE	17.4	17.8	16.8	6.8	0.5	7.2	2.1	7.1	12.0	8.0	17.9	17.4	17.2
Core ROE	**17.7**	**18.0**	**16.8**	**6.5**	**0.0**	**7.2**	**1.9**	**7.1**	**12.2**	**8.1**	**18.2**	**17.7**	**17.5**
Productivity ratios													
No. of branches	**2,402**	**2,589**	**2,904**	**3,304**	**3,703**	**4,050**	**4,528**	**4,594**	**4,758**	**4,903**	**5,403**	**5,943**	**6,419**
Loans / branch (mn)	1,182	1,170	1,309	1,285	1,331	1,336	1,411	1,357	1,540	1,777	2,023	2,159	2,305
Deposits / branch (mn)	1,443	1,342	1,383	1,427	1,373	1,481	1,581	1,541	1,789	1,990	2,191	2,320	2,468
CASA deposits / branch	650	601	654	734	738	657	651	702	805	938	987	1,042	1,108
No. of employees	**42,420**	**42,230**	**50,135**	**56,617**	**59,614**	**61,940**	**74,140**	**78,300**	**85,500**	**91,900**	**102,928**	**110,133**	**116,741**
Employees / branch	18	16	17	17	16	15	16	17	18	19	19	19	18
Avg. remuneration per employee (mn)	0.65	0.74	0.73	0.73	0.74	0.78	0.78	0.81	0.93	0.99	1.14	1.18	1.23
Loans / employee (mn)	54	67	68	66	74	80	77	78	83	92	96	106	117
Deposits / employee (mn)	66	76	71	73	76	89	86	89	96	103	104	114	126
CASA deposits / employee	30	34	34	38	41	39	36	41	43	49	47	51	56
Net profit / employee (mn)	1.5	1.7	1.6	0.6	0.0	0.8	0.2	0.8	1.5	1.0	2.4	2.6	2.9

Source: Company, IIFL Research

Figure 1.57: Axis – asset quality analysis

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	31,464	41,102	60,875	212,805	342,486	297,894	302,338	253,148	218,223	186,042	158,096	204,523	243,552
NNPA (mn)	10,246	13,167	25,221	86,266	165,917	112,756	93,604	69,935	55,122	35,589	31,619	40,905	48,710
GNPA ratio	**1.4**	**1.4**	**1.8**	**5.5**	**7.5**	**5.8**	**5.1**	**4.0**	**3.0**	**2.2**	**1.6**	**1.7**	**1.8**
NNPA ratio	**0.4**	**0.5**	**0.7**	**2.3**	**3.8**	**2.3**	**1.6**	**1.1**	**0.8**	**0.4**	**0.3**	**0.4**	**0.4**
Gross Slippage ratio	1.1	1.2	2.6	6.4	9.0	3.2	4.0	3.0	3.3	2.1	1.8	2.4	2.2
Upgrades & Recoveries ratio	0.3	0.3	0.7	1.3	2.3	2.1	1.9	1.4	2.3	1.5	1.0	0.8	0.8
Net Slippage ratio	0.8	0.9	1.9	5.1	6.6	1.1	2.1	1.6	0.9	0.6	0.8	1.5	1.4
Write-off ratio	0.4	0.5	1.2	0.7	3.1	2.1	2.1	2.4	1.5	1.0	1.1	1.1	1.0
PCR (Excl Technical write off)	**67.4**	**68.0**	**58.6**	**59.5**	**51.6**	**62.1**	**69.0**	**72.4**	**74.7**	**80.9**	**80.0**	**80.0**	**80.0**
Credit cost (% of avg. loans)	**1.0**	**0.9**	**1.2**	**3.4**	**3.8**	**2.6**	**3.5**	**2.4**	**1.1**	**0.3**	**0.5**	**0.6**	**0.7**
Loan loss reserves as % of loans	1.5	1.6	1.6	4.0	4.5	4.4	4.7	4.9	4.1	3.2	-	-	-
Net NPA as % of networth	2.7	2.9	4.7	15.5	26.2	16.9	11.0	6.9	4.8	2.8	2.1	2.3	2.3

Source: Company, IIFL Research

Figure 1.58: Axis – capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	-	-	-	-	11.7	11.3	13.3	15.4	15.2	14.0	14.2	14.5	14.7
AT1 ratio	-	-	-	-	1.4	1.3	1.2	1.1	1.1	0.6	0.5	0.4	0.3
Tier 1 ratio	12.6	12.1	12.5	11.9	13.0	12.5	14.5	16.5	16.3	14.6	14.7	14.9	15.0
Tier 2 ratio	3.4	3.0	2.8	3.1	3.5	3.3	3.0	2.7	2.2	3.1	2.7	2.5	2.4
Capital adequacy ratio	16.1	15.1	15.3	15.0	16.6	15.8	17.5	19.1	18.5	17.6	17.4	17.4	17.4
RWA intensity	74.1	74.7	76.9	78.5	74.9	68.9	66.7	64.4	61.4	64.6	67.5	68.5	69.5

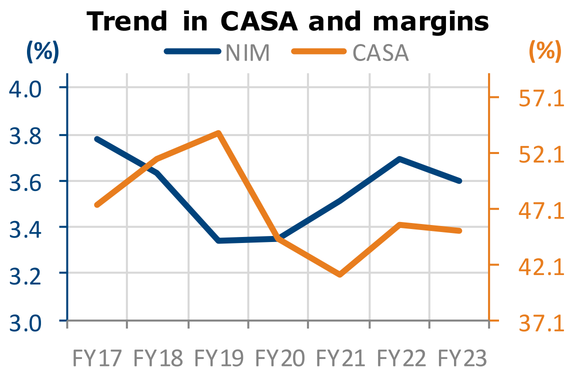
Source: Company, IIFL Research

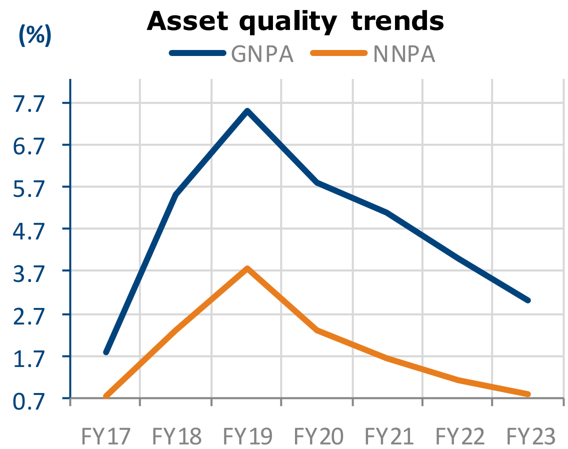
Figure 1.59: Management profile

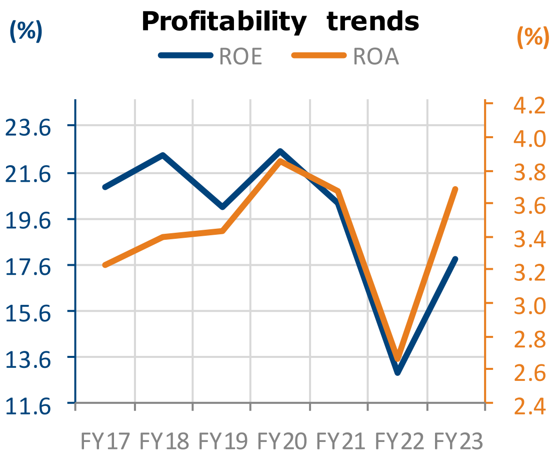
Key Management Personnel		
Amitabh Chaudhry	Managing Director & CEO	• Mr. Chaudhry is an Engineer from Birla Institute of Technology and Science, Pilani, a Post Graduate in Business Management from IIM Ahmedabad. • He has successfully worked for 9 years at HDFC Life. Prior to HDFC Life, Chaudhry was the MD and CEO of Infosys BPO and the Head of testing unit of Infosys Technologies Ltd. In 1987, he began his career with Bank of America and undertook diverse roles.
Rajiv Anand	Deputy Managing Director	• Mr. Anand is a Chartered Accountant. In a career spanning 30+ years, he has focused on various facets of the Financial Services industry. • He joined Axis AMC in 2009 and was the founding Managing Director & CEO of Axis Asset Management Co. Ltd. In May 2013, he was appointed as the President (Retail Banking) of Axis Bank. Subsequently, he was inducted onto the Board of the Bank in May 2016. He took over as the Head – Wholesale Banking in 2018, to steer the business ahead.
Prashant Joshi	Group Executive & Chief Credit Officer	• Mr. Joshi is a Civil Engineer from Sardar Patel College of Engineering, Mumbai University. He has nearly three decades of experience in Financial Services, primarily in project finance appraisals and credit functions. • He has been with Axis Bank since September 2006 in roles related to credit / underwriting and risk across segments. In his previous stint, he was with the Industrial Development Bank of India in the project finance department for nearly 13 years, with in-depth experience of working on proposals across sectors. He started his career in a private firm as a Project Engineer.
Puneet Sharma	Chief Financial Officer	• Mr. Sharma is a qualified Chartered Accountant with a Bachelor of Commerce degree from the University of Bombay and has graduated from the Indian School of Business, Hyderabad. • He was with Tata Capital Limited for 12 years, as a senior management functionary. Prior to that, at Citibank N.A. his roles covered structured cash solutions, treasury operations, risk monitoring and reporting on fixed income securities.
Neeraj Gamhir	Group Executive - Treasury, Markets & Wholesale Banking	• Mr. Gamhir holds a B.E. degree in Computer Science and is a Post Graduate in Business Management from Indian Institute of Management, Lucknow, where he was awarded PGP Chairman's Medal. • Previously, he was MD and Head of Fixed Income for Nomura Holding Inc India; where he set up and grew their fixed income franchise in India. Prior to that, he was MD of Lehman Brothers India and a Senior General Manager and Global Head of Structured Finance & Balance Sheet Management at ICICI Bank.
Subrat Mohanty	Executive Director - Banking Operations & Transformation	• Mr. Mohanty is an alumnus of NIT, Rourkela, and IIM Calcutta. In his personal time, he runs marathons, writes about movies, and is interested in the popular Indian culture. • He has 23+ years of experience in different industries and functions. In his previous stint, he served as the Group President at Manipal Education & Medical Group, responsible for business performance and strategy across the group's interests in Education, Healthcare, and Insurance. Before joining the Manipal Group, Mr Mohanty was the COO of HDFC Life.

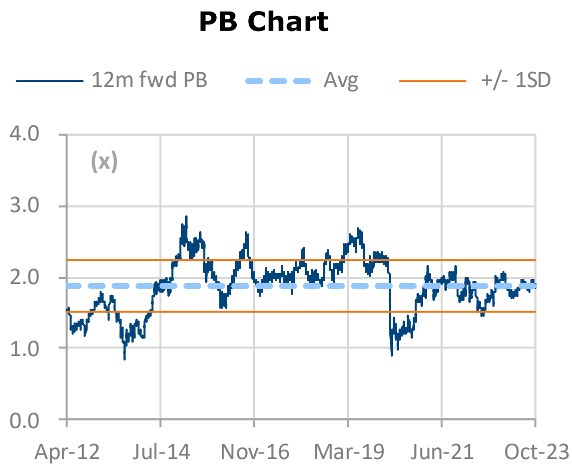
Company snapshot

Background: Axis Bank is the third-largest Private bank in India, with a ~6.2% market share in loans as of FY23. The bank has a wide distribution reach, comprising 4,903 branches and 15,953 ATMs as of FY23. Over the past ten years, it has built an impressive deposit franchise with ~47% CASA ratio. As of FY23, its well-diversified loan book of Rs8.5trn is spread across retail, SME, and mid and large corporates. It retains a strong market position in corporate lending, due to its capability to intermediate through banking channels and debt capital market services.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	15.2	19.4	17.3	17.6	17.4
Deposit Growth (%)	17.7	15.2	13.4	16.7	17.0
Yield on IEA (%)	6.7	7.3	8.2	8.3	7.9
Cost of Funds (%)	3.7	3.9	4.9	5.1	4.8
Net Interest Margin (%)	3.3	3.7	3.8	3.7	3.7
Cost/income ratio (%)	48.8	46.0	47.9	45.4	43.3
Gross NPLs as % of loans (%)	3.0	2.2	1.6	1.7	1.8
Credit cost (%)	1.1	0.3	0.5	0.6	0.7
Return on Average Assets (%)	1.2	0.8	1.8	1.8	1.8
Return on Average Equity (%)	12.0	8.0	17.9	17.4	17.2

Source: Company data, IIFL Research

Management

Name	Designation
Amitabh Chaudhry	Managing Director & CEO
Rajiv Anand	Deputy Managing Director
Puneet Sharma	President & CFO

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**331.3**	**429.5**	**501.5**	**576.8**	**663.1**
Non-interest income	**152.2**	**163.9**	**213.3**	**248.2**	**291.9**
Fee Income	130.0	160.4	200.6	235.2	277.5
Portfolio gains	16.3	(2.4)	7.3	6.7	7.7
Others	5.9	6.0	5.4	6.4	6.7
Total operating income	**483.5**	**593.4**	**714.8**	**825.0**	**955.0**
Total operating expenses	236.1	272.9	342.5	374.6	413.8
Pre provision operating profit	**247.4**	**320.5**	**372.3**	**450.4**	**541.2**
Total provisions	73.6	26.5	43.2	69.1	93.6
Profit before tax	**173.8**	**294.0**	**329.1**	**381.3**	**447.6**
Taxes	43.6	73.3	82.6	95.3	111.9
Net profit-pre exceptional	**130.3**	**220.7**	**246.4**	**286.0**	**335.7**
Exceptional items	0.0	(124.9)	0.0	0.0	0.0
Reported net profit	**130.3**	**95.8**	**246.4**	**286.0**	**335.7**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	7,077.0	8,453.0	9,918.0	11,665.0	13,699.7
Placements to other banks	169.5	402.9	255.8	295.8	343.0
Cash & equivalents	940.3	661.2	767.5	887.5	1,029.0
Investments	2,756.0	2,888.1	3,288.6	3,799.6	4,402.3
Total interest-earning assets	**10,942.8**	**12,405.3**	**14,229.9**	**16,647.9**	**19,474.0**
Fixed assets	45.7	47.3	54.0	56.7	59.5
Other assets	763.3	720.6	653.3	579.7	513.3
Total assets	**11,751.8**	**13,173.3**	**14,937.1**	**17,284.3**	**20,046.8**
Customer deposits	8,217.2	9,469.5	10,742.2	12,537.0	14,670.5
Borrowings	1,851.3	1,863.0	2,049.3	2,254.2	2,479.7
Total interest-bearing liabilities	**10,068.5**	**11,332.5**	**12,791.5**	**14,791.3**	**17,150.2**
Non-interest-bearing liabilities	531.5	586.6	645.3	709.8	780.8
Total liabilities	**10,600.0**	**11,919.1**	**13,436.8**	**15,501.1**	**17,931.0**
Total Shareholders' equity	**1,151.7**	**1,254.2**	**1,500.3**	**1,783.2**	**2,115.8**
Total liabilities & equity	**11,751.8**	**13,173.3**	**14,937.1**	**17,284.3**	**20,046.8**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	86.1	89.3	92.3	93.0	93.4
Loan Growth	15.2	19.4	17.3	17.6	17.4
Deposit Growth	17.7	15.2	13.4	16.7	17.0
Total Assets Growth	19.1	12.1	13.4	15.7	16.0
Profitability Ratios (%)					
Net Interest Margin	3.3	3.7	3.8	3.7	3.7
ROA	1.2	0.8	1.8	1.8	1.8
ROE	12.0	8.0	17.9	17.4	17.2
Non-Int Income as % of Total Income	31.5	27.6	29.8	30.1	30.6
Net Profit Growth	97.7	69.4	11.7	16.1	17.4
FDEPS Growth	97.3	69.0	11.5	16.1	17.4
Efficiency Ratios (%)					
Cost to Income Ratio	48.8	46.0	47.9	45.4	43.3
Salaries as % of Non-Interest costs	32.2	32.2	32.3	33.5	33.8

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	3.0	2.2	1.6	1.7	1.8
NPL coverage ratio	74.7	80.9	80.0	80.0	80.0
Total prov charges as % avg loans	1.1	0.3	0.5	0.6	0.7
Net NPLs as % of net loans	0.8	0.4	0.3	0.4	0.4
Capital Adequacy Ratios (%)					
Total CAR	18.5	17.6	17.4	17.4	17.4
Tier I capital ratio	16.3	14.6	14.7	14.9	15.0

Source: Company data, IIFL Research

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CMP	Rs1463
Target 12m	Rs1930 (32%)
Market cap (US$ m)	133,308
Bloomberg	HDFCB IN
Sector	Banking & Fin

Oct 26 2023

52Wk High/Low (Rs)	1728/1438
Shares o/s (m)	7582
Daily volume (US$ m)	401
Dividend yield FY25ii (%)	1.2
Free float (%)	100.0

Shareholding pattern (%)

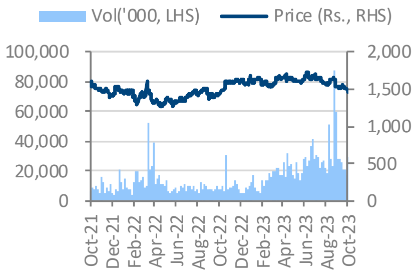
Promoters	0.0
Pledged (as % of promoter share)	0.0
FII	52.1
DII	26.2

Price performance (%)

	1M	3M	1Y
HDFC Bank	(4.8)	(13.4)	2.0
Absolute (US$)	(4.8)	(14.7)	1.4
Rel.to Nifty	(0.7)	(8.8)	(4.8)

CAGR (%)	3 yrs	5 yrs
EPS (Rs)	18.2	18.5

Stock movement



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HDFC Bank — BUY

The elephant shall dance again

We believe success in deposit mobilisation shall dictate the long-term growth and profitability prospects for Private banks. Our deposit deep-dive shows that HDFC would ace the 'Race for Deposits' led by the bank's significant distribution expansion in the 'fast growing districts', 'high potential districts', absence of competition from private peers in new geographies and deposit compounding as the branches mature. We see a clear runway for the bank to gain loan/deposit market share over an extended period of time, led by expanding distribution network and cross-selling potential to its 90 mn+ customers. Historical low valuations are attractive in the context of its ability to deliver best-in-class RoRWA. Initiate with BUY and SOTP based TP of Rs1,930.

HDFC to ace the 'Race for Deposits': We expect HDFC to further gain deposit market share (+15 pp incremental MS in the last five years) and deliver 21% Cagr over FY24-26. This should be driven by: (1) 2-5x branch addition vs peers in districts witnessing strong deposit growth. (2) 3-10x branch addition vs peers in 'high potential districts'. (3) Limited competition, as 45-50% of the pin codes where HDFC has opened branches, have no presence of ICICI/Axis. (4) Faster deposit compounding, as 60% of its existing branches (one of the highest) are <10 years old. HDFC ranks #1 on our liability franchise scorecard, thanks to deposit/branch MS gains, leadership in capturing customers' transaction flows, government's agency business and the best productivity despite high branch expansion.

Expect to deliver best-in-class RoRWA: We expect HDFC to sustain 1.9% ROA over FY24-26E (same as the last 10yr avg.) as the growth and margin pressure are offset by better cost efficiency and lower credit costs. We build medium-term thesis for the stock around: (1) HDFC's significant potential to gain loan/deposit market share over an extended period of time, led by its expanding distribution network, as well as focus on cross-selling to its existing 91 mn customers (current penetration only 2-20% of the existing retail base). (2) Ability to deliver best-in class risk-adjusted profitability (FY25-26E RoRWA of 2.9% vs 1.8-2.8% for peers).

Historical low valuations make risk-reward compelling; initiate with BUY: HDFC is trading at historical lows of 2.1x 1YF core P/B, last witnessed during Covid and the Taper tantrum. Our SOTP-based TP of Rs1,930 (32% upside to CMP) is based on valuing the bank at 2.5x Sep'25 core BV and subs at Rs220/share. Key downside risks are lower-than-expected improvement in growth and NIMs.

Financial summary (Rs bn)

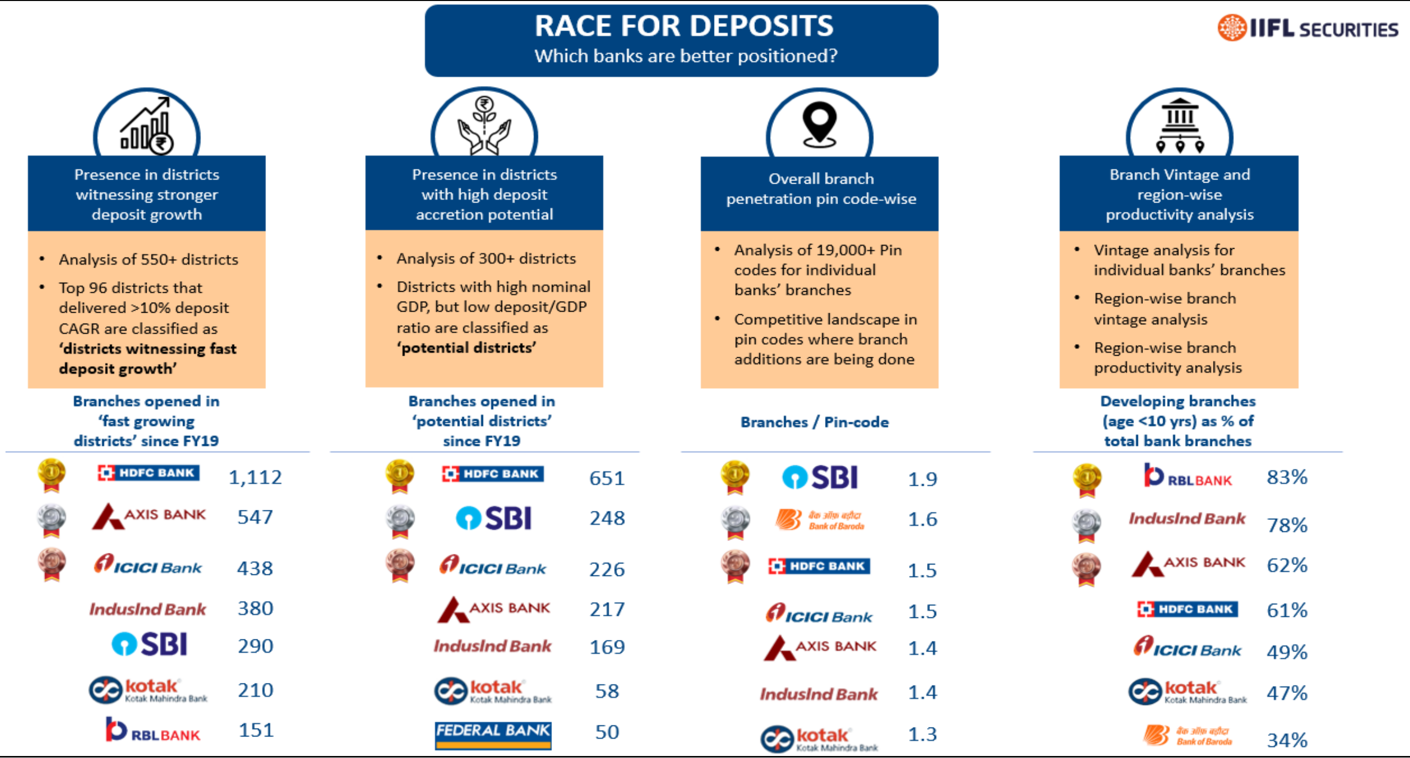
Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	720.1	868.4	1,132.2	1,444.8	1,710.1
PPOP	640.8	704.0	920.8	1,180.2	1,419.6
Reported PAT	**369.6**	**441.1**	**604.2**	**741.3**	**883.9**
EPS (Rs)	66.8	79.3	85.3	97.8	116.6
Growth (%)	18.1	18.6	7.6	14.6	19.2
IIFL vs consensus (%)			1.9	(2.3)	(0.6)
PER (x)	21.9	18.5	17.2	15.0	12.6
Book value (Rs)	433	502	561	641	734
PB (x)	**3.4**	**2.9**	**2.6**	**2.3**	**2.0**
CAR (%)	18.9	19.3	18.8	18.4	18.0
ROA (%)	1.9	1.9	2.0	1.9	1.9
ROE (%)	**16.7**	**17.0**	**17.1**	**16.3**	**17.0**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

HDFC Bank to ace the 'Race for Deposits'

We expect HDFC to further gain deposit market share (+15 pp incremental MS in the last five years) and deliver 21% Cagr over FY24-26. This should be driven by: (1) 2-5x branch addition vs peers in districts witnessing strong deposit growth. (2) 3-10x branch addition vs peers in 'high potential districts'. (3) Limited competition, as 45-50% of the pin codes where HDFC has opened branches in the last two years, have no presence of ICICI/Axis. (4) Faster deposit compounding, as 60% of its existing branches (one of the highest) are <10 years old. HDFC ranks #1 on our proprietary liability franchise scorecard, thanks to deposit/branch MS gains, leadership in capturing customers' transaction flows, government's agency business and the best productivity despite strong branch expansion.

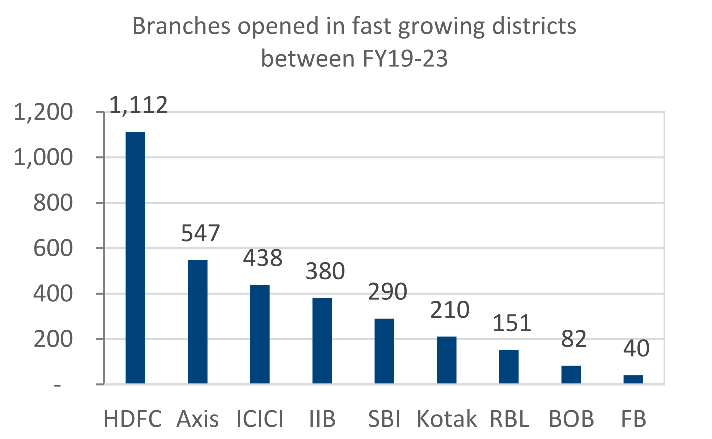
Figure 2.1: HDFC Bank is the best-placed Private bank to gain market share amid the 'Race for Deposits'



Source: IIFL Research

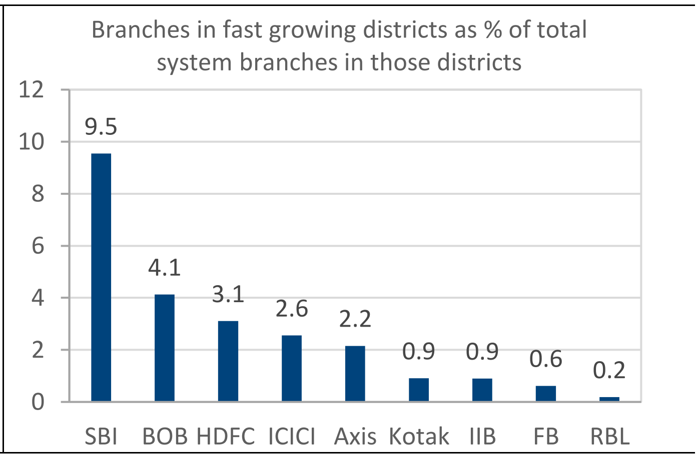
Presence in districts seeing strong deposit growth

Figure 2.2: HDFC has opened 1,100+ new branches in 'fast growing districts' — 2-5x of that for larger peers



Source: RBI, SLBC, IIFL Research

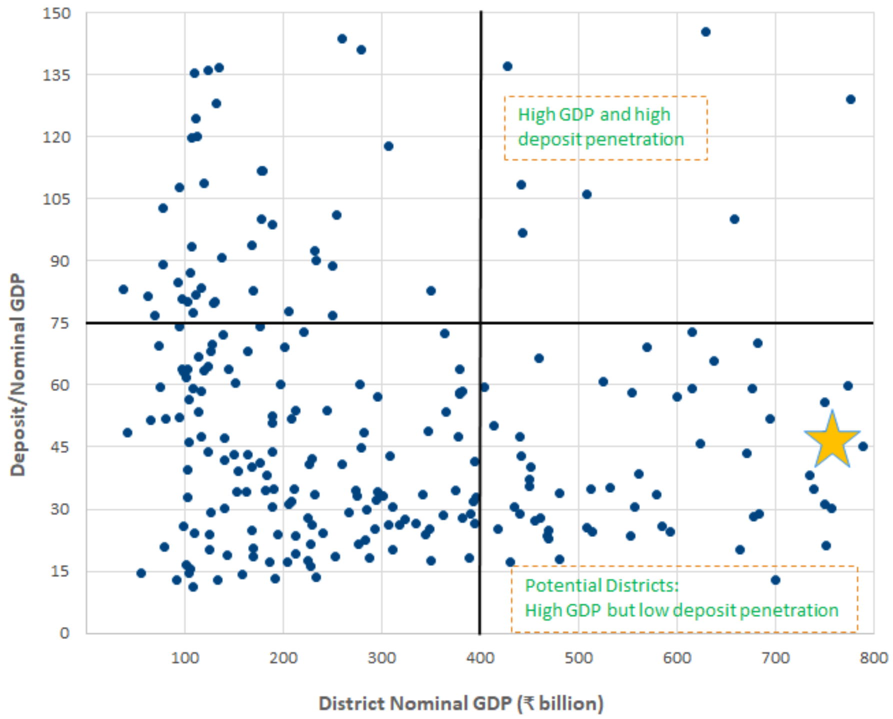
Figure 2.3: HDFC has a dominant branch MS in FGD, along with PSU banks



Source: RBI, SLBC, IIFL Research

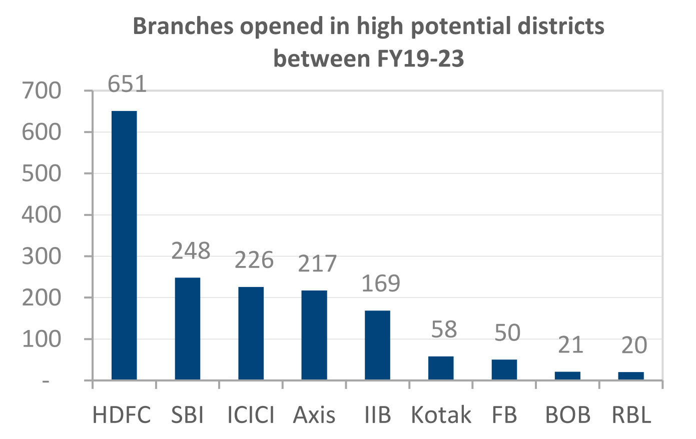
Presence in districts with high deposit potential

Figure 2.4: Around 25% of total 300 districts under analysis have high nominal GDP, but low deposit penetration; thus, have high deposit-accretion potential



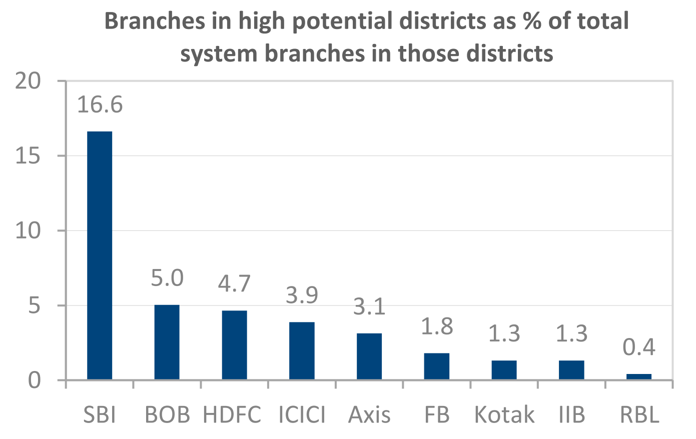
Source: RBI, GOI, IIFL Research. Note: Districts with nominal GDP more than Rs800 bn or with deposit/GDP more than 150% excluded from the scatter chart.

Figure 2.5: Since FY19, HDFC has opened 650+ branches in the 'high potential districts' — 3-11x of that for the larger peers



Source: RBI, SLBC, IIFL Research

Figure 2.6: SBI, BOB, HDFC and ICICI have higher share of branches in the districts representing high deposit-accretion potential

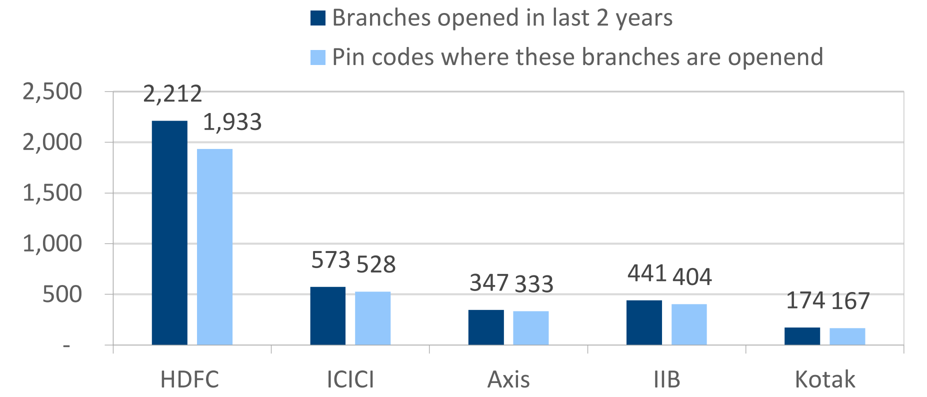


Source: RBI, SLBC, IIFL Research

Pin Code level branch strategy

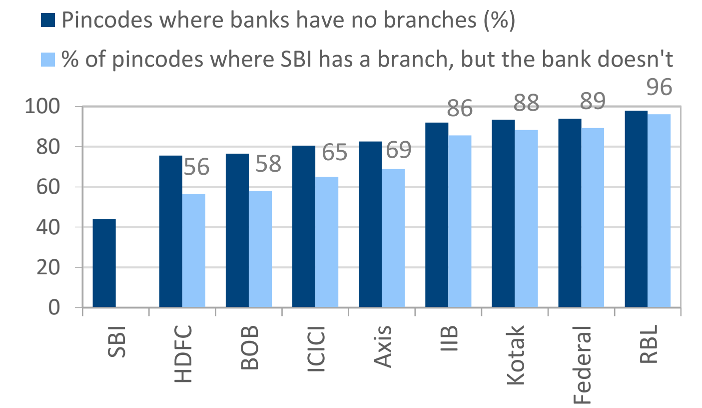
HDFC should benefit from early mover advantage, as 45-50% of new branches are in the pin codes where ICICI/Axis are not present. The competition in these areas is mainly from PSU banks, where making in-roads into loan and deposit products should be relatively easier, due to HDFC's wider product suite and a strong brand name.

Figure 2.7: In the last two years, HDFC Bank opened 2,200+ branches in 1,900+ pin codes, which is 4-12x of that for the other large Private banks



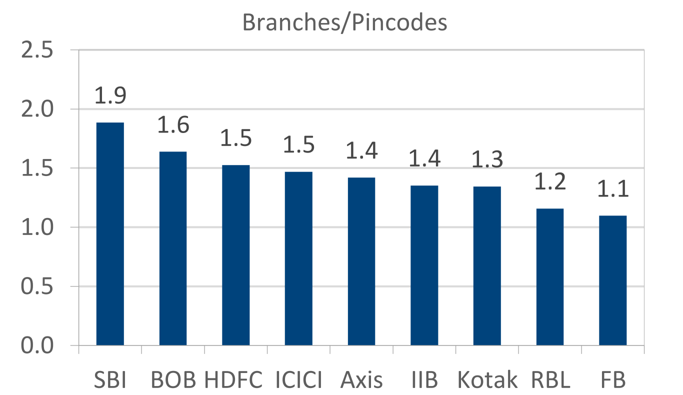
Source: RBI, IIFL Research

Figure 2.8: HDFC, ICICI, Axis, IIB and Kotak still do not have a branch in 55-90% of pin codes where SBI is present



Source: RBI, IIFL Research.

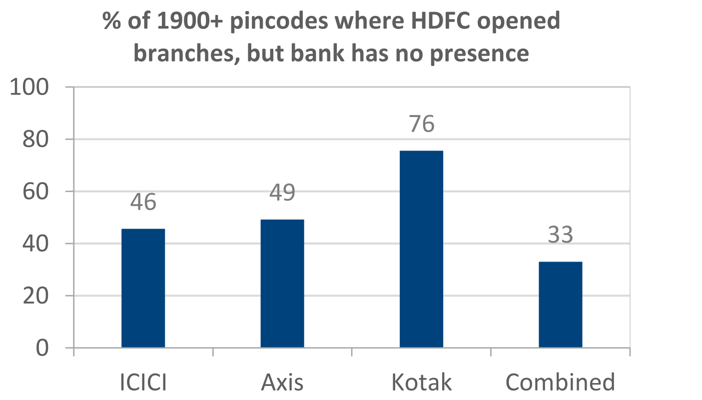
Figure 2.9: SBI and BOB have the most dense branch network, with 1.6-1.9 branches per pin code



Source: RBI, IIFL Research.

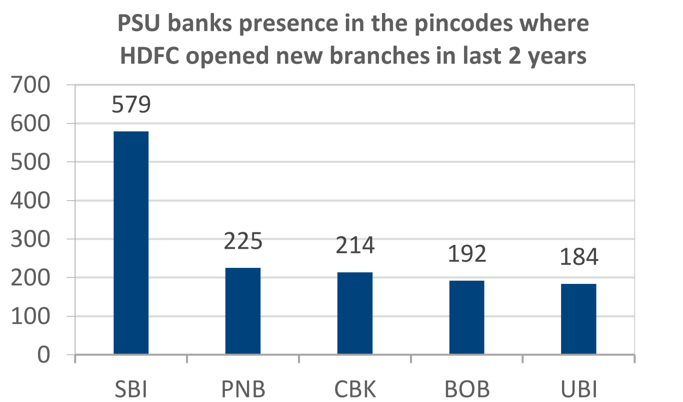
How is the competition in the pin codes where HDFC bank is opening new branches?

Figure 2.10: Out of 1,900+ pin codes where HDFC has opened branches in the last two years, ICICI, Axis and Kotak do not have a presence in 45-75% of the pin codes



Source: RBI, IIFL Research. Note: Combined is ICICI + Axis + Kotak

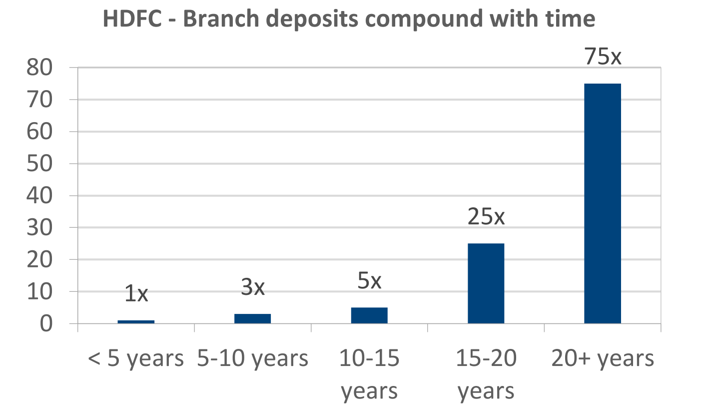
Figure 2.11: Out of 700 pin codes where HDFC Bank opened branches in the last two years with no presence of ICICI and Axis, the competition is mostly from SBI



Source: RBI, IIFL Research.

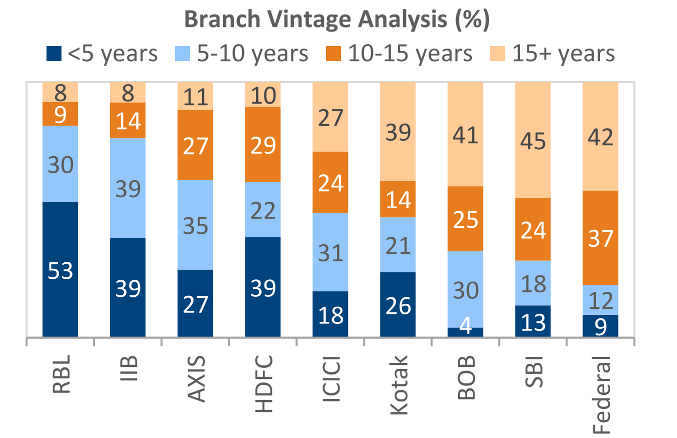
Branch vintage and productivity analysis

Figure 2.12: Bank deposits compound faster as the branches mature i.e. branch/deposit increases significantly as the branch vintage increases



Source: Company data, IIFL Research

Figure 2.13: At 61%, HDFC has a higher share of 'developing' branches vs larger peers



Source: Company data, IIFL Research

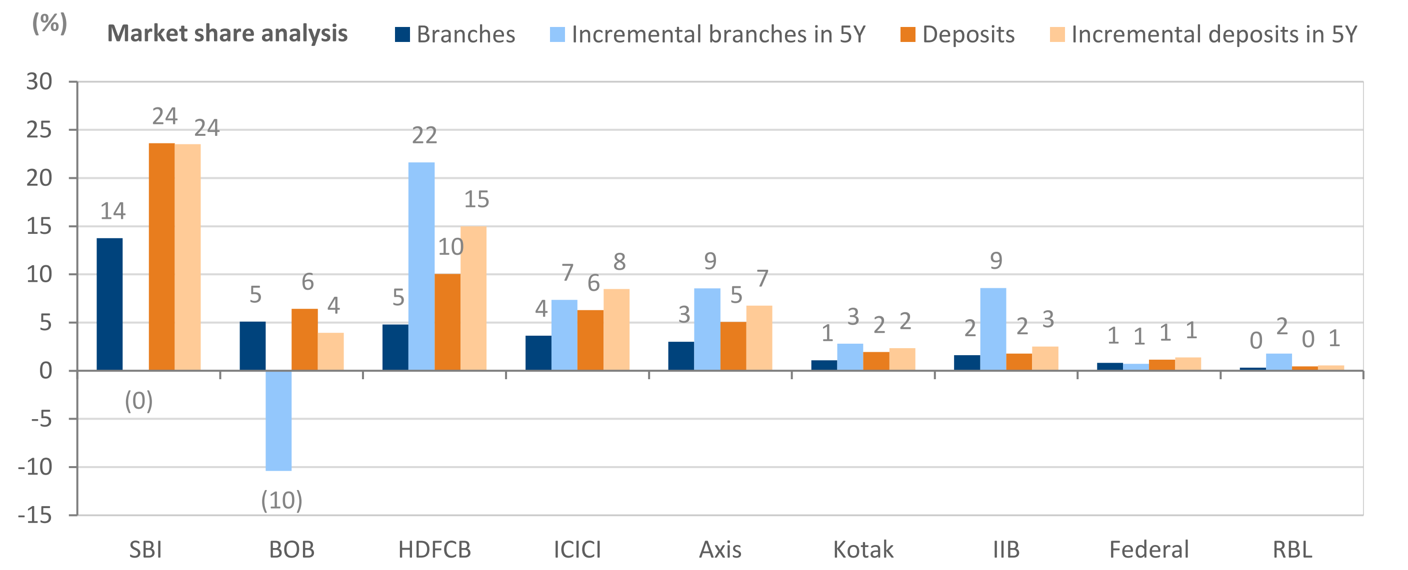
HDFCB ranks #1 in our liability franchise scorecard

Figure 2.14: HDFC Bank ranks the best, based on our scorecard ranking of banks on 15 comprehensive liability franchise metrics

On a scale of (1-9)	Weights	HDFCB	ICICI	Kotak	Axis	IndusInd	SBI	BOB	Federal	RBL
Market share	20%									
Deposit market share	4%	8	6	4	5	3	9	7	2	1
change in last 3Y	4%	9	8	2	7	6	2	1	2	2
Branch market share	4%	7	6	3	5	4	9	8	2	1
change in last 3Y	4%	9	7	4	6	8	5	1	2	3
NEFT MS - Deposit MS	3%	9	8	6	7	4	1	2	3	5
RTGS MS - Deposit MS	3%	9	7	6	8	4	1	2	3	5
Key liability ratios	35%									
Liability mix - share of deposits	5%	4	8	9	1	3	7	5	6	2
CASA ratio	10%	6	7	9	8	4	5	3	1	1
Retail deposits (per LCR)	10%	7	5	4	3	2	8	6	9	1
Liquidity coverage ratio	5%	5	1	2	3	7	9	8	4	6
Cost of funds	5%	6	8	9	4	1	7	5	3	2
Productivity ratios	15%									
Deposit / Branch (Rs.mn)	8%	9	7	8	5	2	6	1	4	3
CASA / Branch (Rs. mn)	8%	9	7	8	6	3	5	2	1	4
Branch analysis	30%									
Fast-growing districts	10%	7	6	4	5	3	9	8	2	1
High Potential districts	10%	7	6	3	5	2	9	8	4	1
Vintage analysis	10%	6	5	4	7	8	2	3	1	9
Weighted Average scale	100%	7.1	6.2	5.4	5.3	3.8	6.3	4.7	3.2	2.8
Ranking		1	3	4	5	7	2	6	8	9

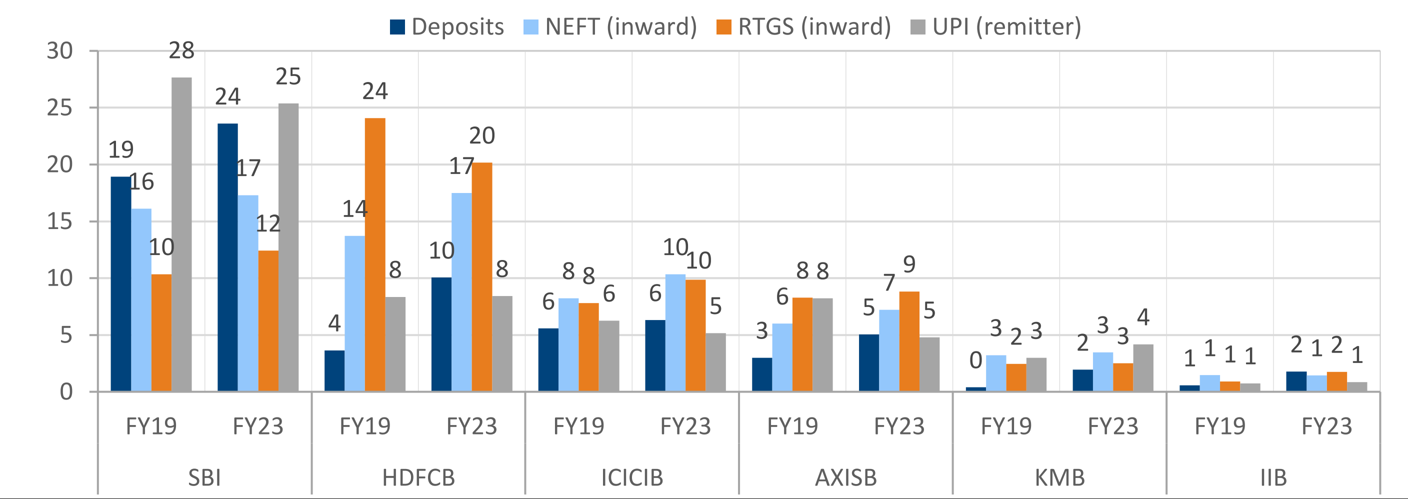
Source: Company, IIFL Research. Note: The ranking of each parameter is an ordinal ranking of 1-9 (9 being the best) on the 1QFY24 reported numbers. The rankings are not fractional rankings relative to each other.

Figure 2.15: In the last five years, HDFC has had the highest share in branch additions that has aided capturing 15% of incremental system deposits. Other Private banks are also gaining modest deposit market share. SBI has maintained deposit market share, but BOB has lost



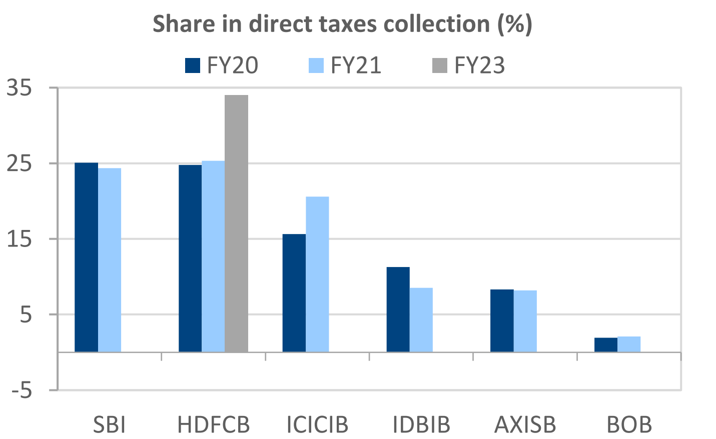
Source: Company, RBI, IIFL Research

Figure 2.16: Larger Private banks punching above their weight in capturing customers' transaction flows; HDFCB being the best



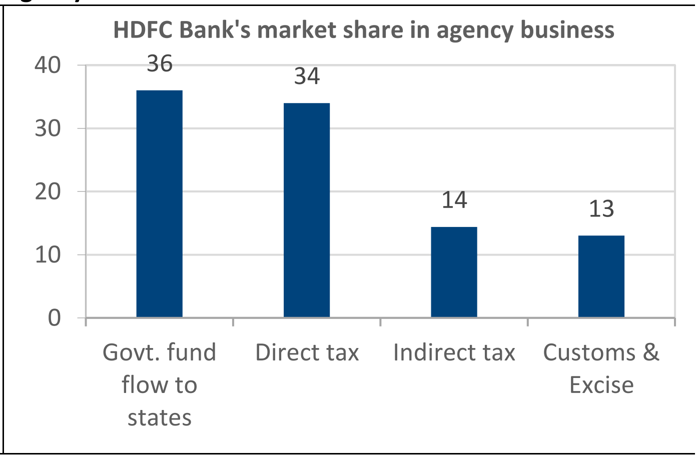
Source: RBI, NPCI, IIFL Research

Figure 2.17: HDFC has the highest market share in direct tax collections ...



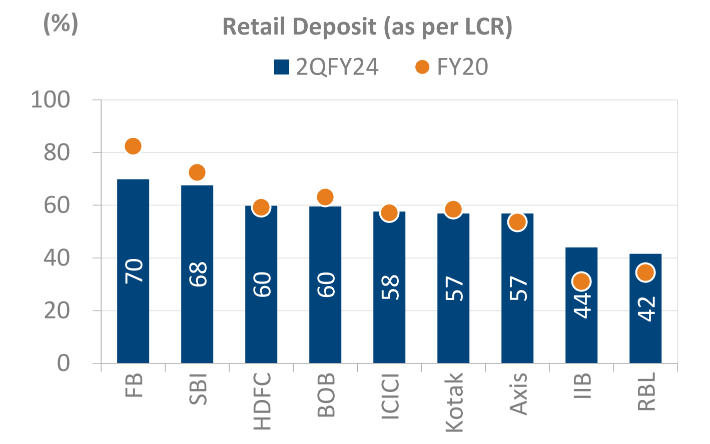
Source: Company, IIFL Research

Figure 2.18: ... and also has a dominant market share in the agency business



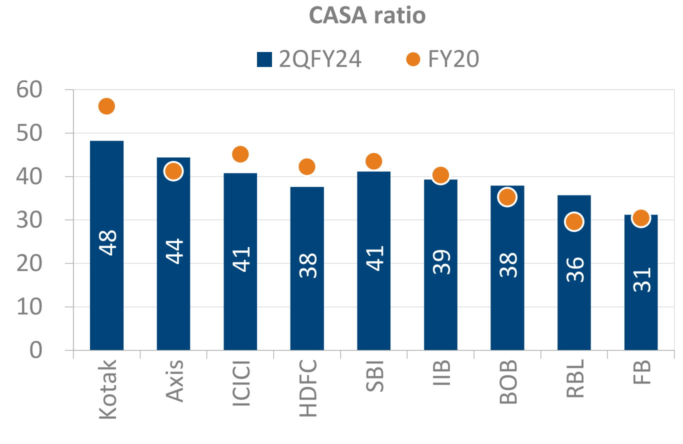
Source: Company, IIFL Research

Figure 2.19: HDFC has the highest share of retail deposits among Private banks (ex-Federal)



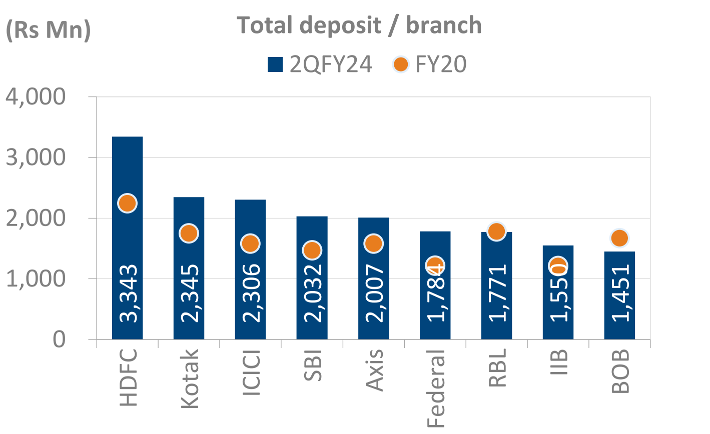
Source: Company, IIFL Research. Note: 1QFY24 for SBI and BOB.

Figure 2.20: Bank's CASA ratio impacted due to the merger (was flattish pre-merger vs decline for peers)



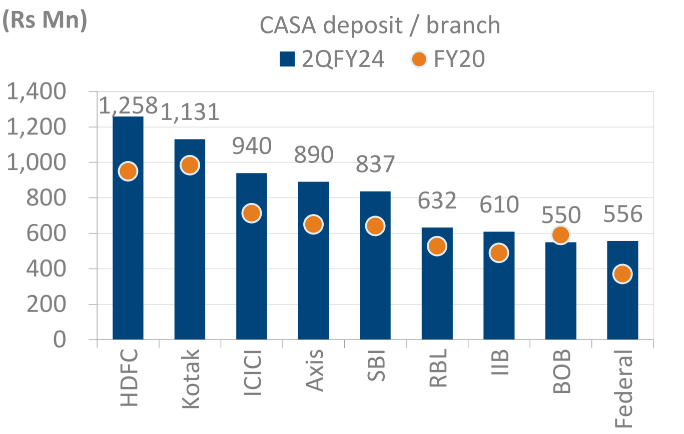
Source: Company, IIFL Research. Note: 1QFY24 for SBI and BOB.

Figure 2.21: Despite high branch additions, HDFC has the best branch productivity in terms of deposits / branch …



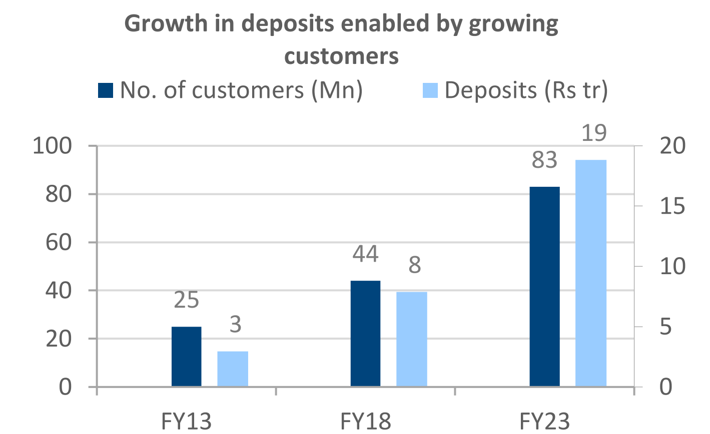
Source: Company, IIFL Research. Note: Branches are 1Y lagged. 1QFY24 for SBI and BOB.

Figure 2.22: … and similar ranking of banks based on CASA productivity ratio as well



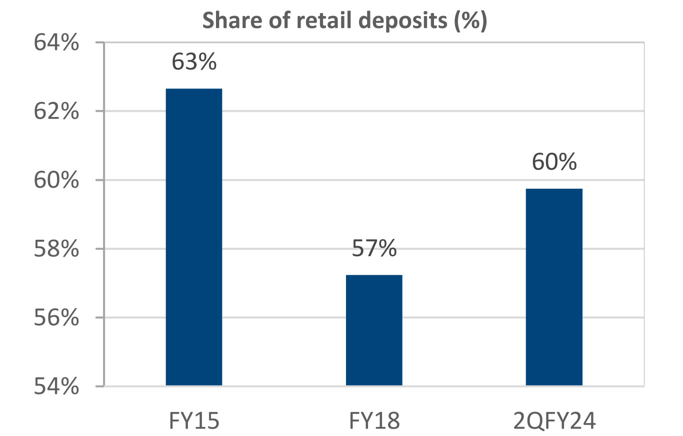
Source: Company, IIFL Research. Note: Branches are 1Y lagged. 1QFY24 for SBI and BOB.

Figure 2.23: Bank has exhibited strong deposit growth on the back of robust customer acquisitions …



Source: Company, IIFL Research

Figure 2.24: … with a focus mainly on retail deposits rather than bulk deposits



Source: Company, IIFL Research

Merger impact on financials

Figure 2.25: RoAs impacted by ~10 bps due to the merger

HDFCB	FY23	1QFY24	Proforma merged HDFCB 1QFY24	2QFY24
NIM (interest bearing assets) - %	4.3	4.3	3.9 - 4.0	3.6
NIM (total assets) - %	4.1	4.1	3.7 - 3.8	3.4
Cost to income (%)	40	43	~40	40
Credit costs as a % of advances (%)	0.7	0.7	~0.6	0.6
ROA (%)	2.1	2.1	1.9 - 2.0	2.0
RoE (%)	17.4	17.3	~16	16.2
EPS – standalone (INR)	79	21	20	21
EPS – consolidated (INR)	83	22	22	22
BVPS – standalone (INR)	502	525	519	534
BVPS – consolidated (INR)	519	543	536	553
Capital adequacy ratio (%)	19.3	18.9	19.2	19.5

Source: Company, IIFL Research

Figure 2.26: Excess liquidity on the balance sheet weighing on NIMs

e-HDFCL (%)	INDAS FY23	Proforma IGAAP FY23	Proforma IGAAP 1QFY24	Incoming Day-0
NIM	2.9	2.9	2.7	2.0
Cost to Income	10	19	19	
Credit costs as a % of advances	0.3	0.3	0.3	
ROA	2.4	1.9	1.8	

Source: Company, IIFL Research

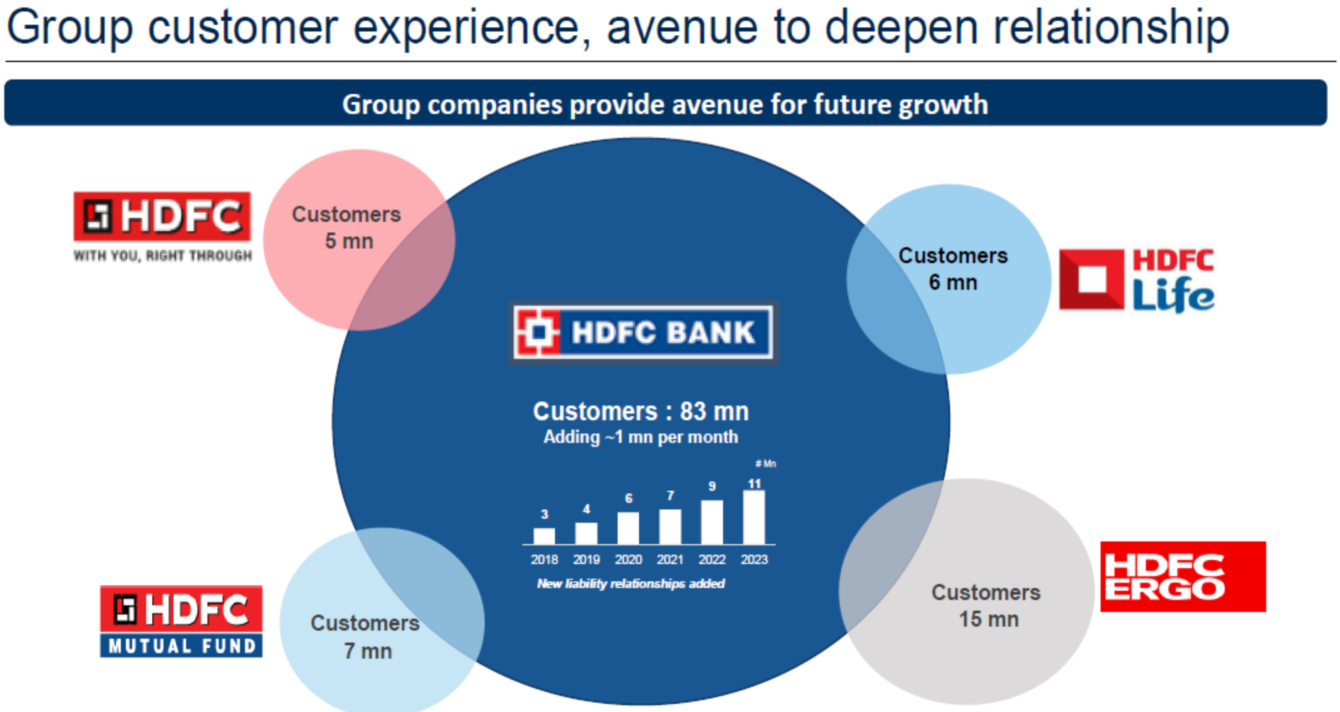
Figure 2.27: Recognition of certain e-HDFC's standard non-individual loans as GNPA by the bank, led to a slight uptick in the merged entity's GNPA ratio

Particulars	1QFY23	1QFY24	1 July 2023 merged	1QFY24
Gross NPA (%)	1.1	1.2	1.4	1.3
Retail GNPA (%)	1.0	0.9	0.9	0.9
CRB GNPA (%)	1.6	1.8	1.8	1.6
CRB ex-Agri GNPA (%)	1.1	1.2	1.2	1.1
Wholesale GNPA (%)	0.5	0.4	0.4	1.9
e-HDFCL Individual GNPA (%)	0.8	NA	1.0	NA
e-HDFCL Non-Individual GNPA (%)	2.9	NA	6.7	NA
Net NPA (%)	0.3	0.3	0.4	0.4
Specific provision coverage (%)	76	75	74	74
Contingent and floating provisions as a % of advances	0.7	0.7	0.7	0.7
Total provisions as a % of advances	2.0	2.0	2.2	2.1
Total provisions (ex-specific) as a % of advances	1.1	1.1	1.1	1.1

Source: Company, IIFL Research

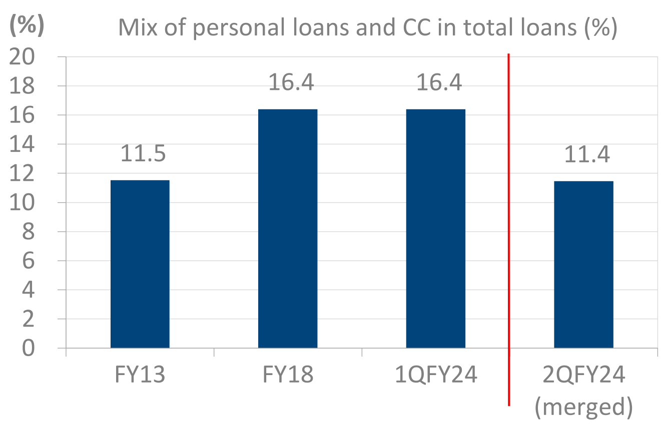
Expect to deliver best-in-class RoRWA

Figure 2.28: HDFC has a huge customer base across the Group entities to drive cross-sell led growth



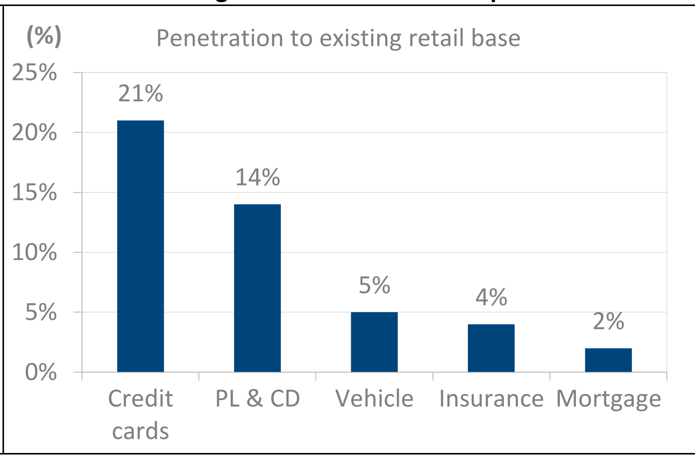
Source: Company, IIFL Research. Note: Data as on 4QFY23. Total HDFC Bank's customer base is 91 mn as of 2QFY24.

Figure 2.29: Share of unsecured loans, which was higher for standalone bank, has come down for the merged bank



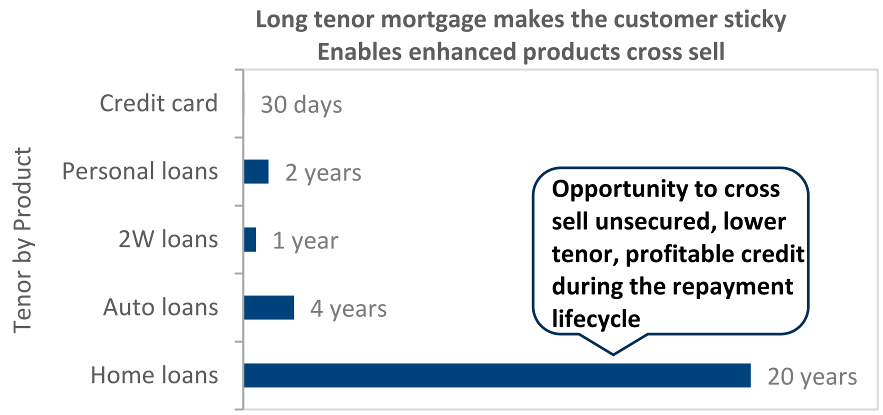
Source: Company, IIFL Research

Figure 2.30: HDFC has significant cross-sell potential, as only 2-20% of its existing retail customer base is penetrated



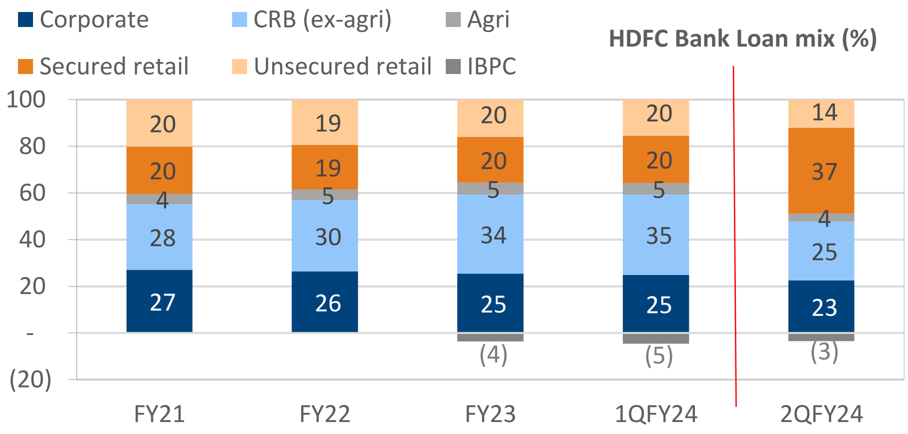
Source: Company, IIFL Research

Figure 2.31: Home loans of e-HDFCL shall aid the bank in increasing overall loan book duration and cross-sell opportunities



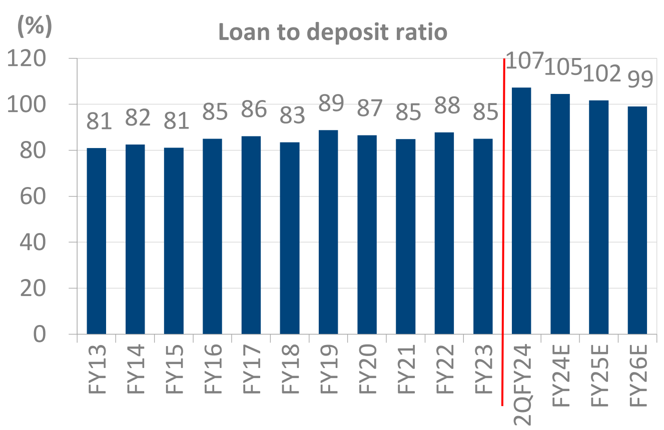
Source: Company, IIFL Research

Figure 2.32: Secured retail loan mix to increase to 37%, on a proforma basis for the merged bank



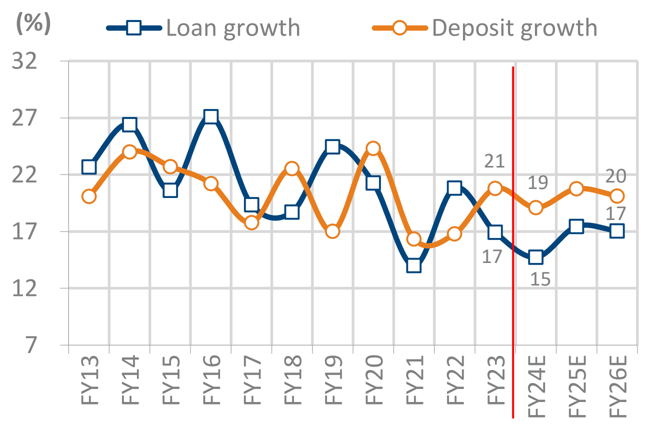
Source: Company, IIFL Research

Figure 2.33: LDR shot up to 107% subsequent to the merger, but we expect it to improve on the back of 20% deposit Cagr



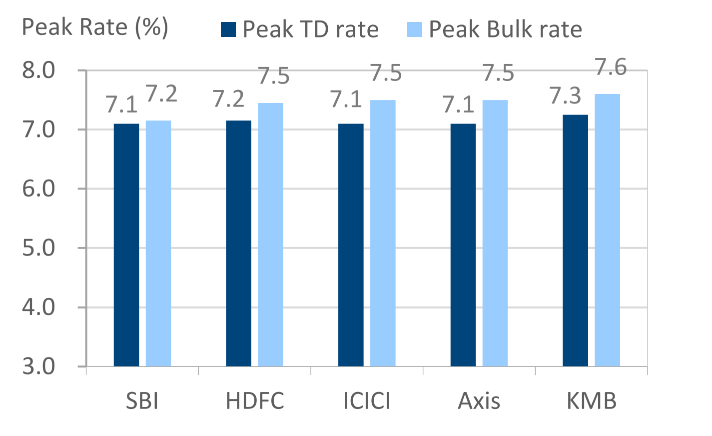
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards

Figure 2.34: Loan growth should be relatively weak in FY24, but we expect it to accelerate from FY25 onwards



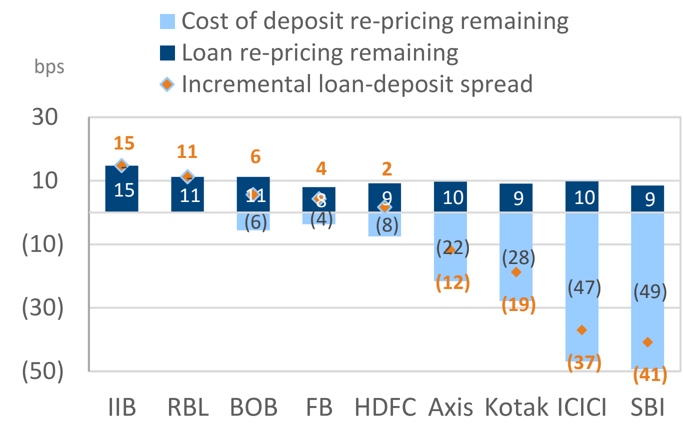
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards, FY24E growth adjusted based on pro-forma numbers

Figure 2.35: Deposit growth to be driven by distribution expansion, and not by competing on rates



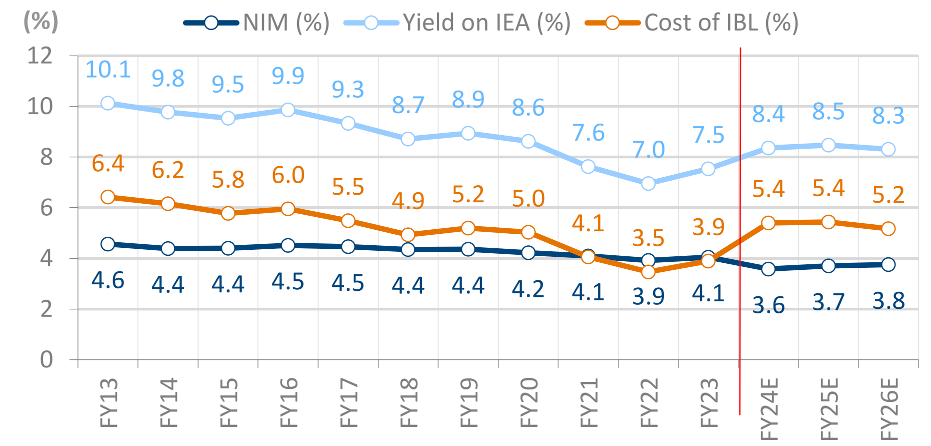
Source: Company, IIFL Research

Figure 2.36: We expect spreads to remain flat for HDFC Bank vs 10-40bps decline for larger peers



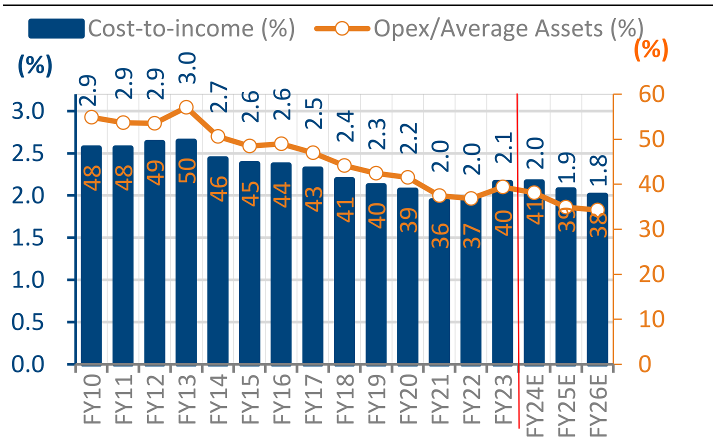
Source: Company, IIFL Research

Figure 2.37: FY24 margins impacted by the merger (lower spread of incoming e-HDFC book and build-up of excess liquidity), but should improve over FY25-26E



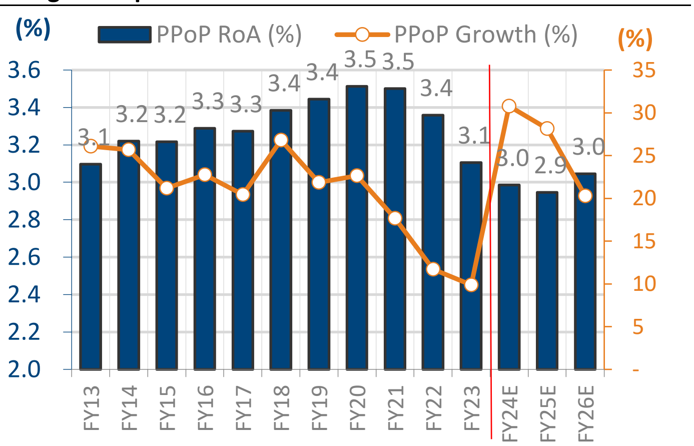
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards

Figure 2.38: Expect gradual improvement in cost efficiency ratios …



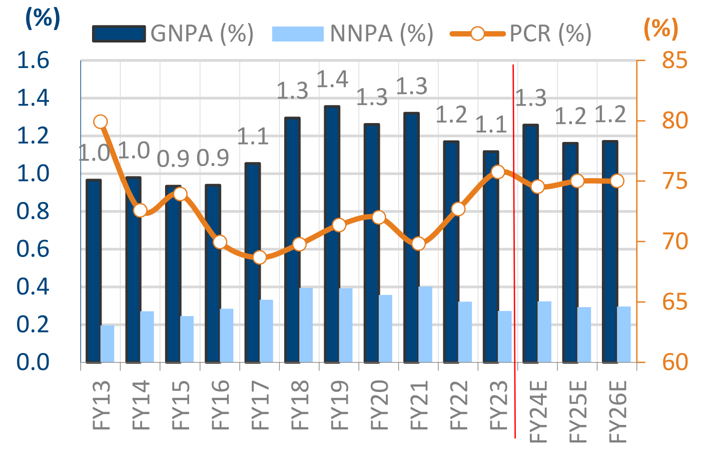
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards

Figure 2.39: …which should drive stable PPOP ROAs, despite margin compression



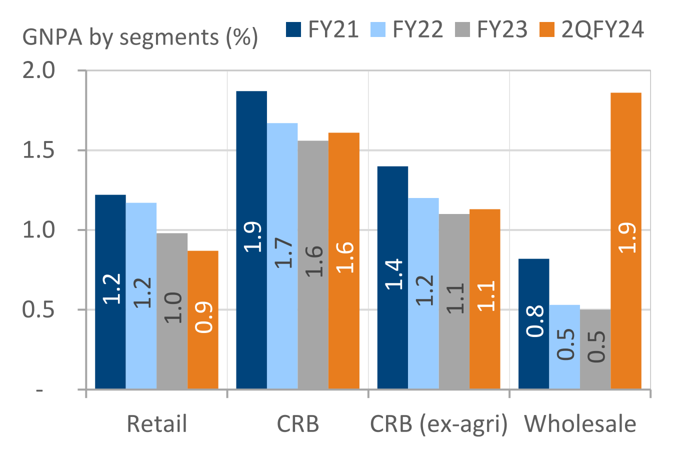
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards

Figure 2.40: FY24E GNPA ratio higher due to non-individual e-HDFCL NPAs, but expect to remain stable here onwards



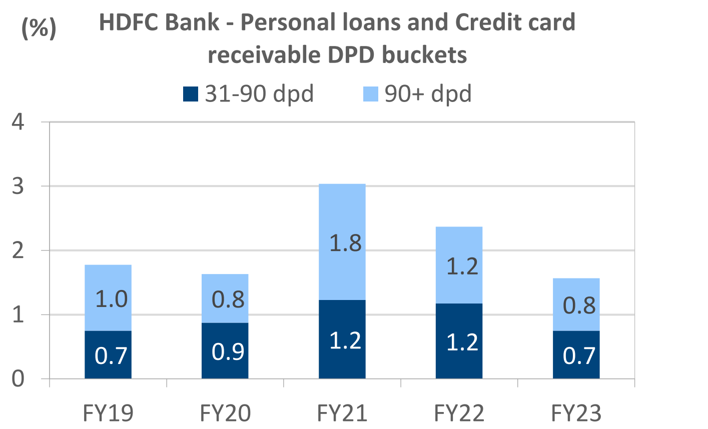
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards

Figure 2.41: Segment-wise GNPA have been on an improving trend, barring wholesale (due to e-HDFC GNPAs)



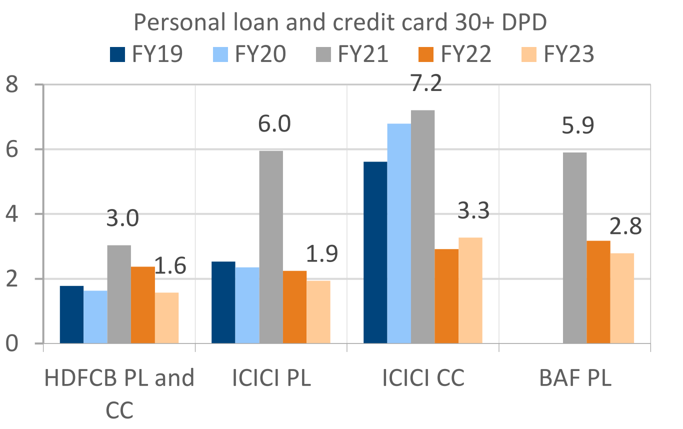
Source: Company, IIFL Research

Figure 2.42: Unsecured loans' asset quality improving, and is now below the pre-Covid levels



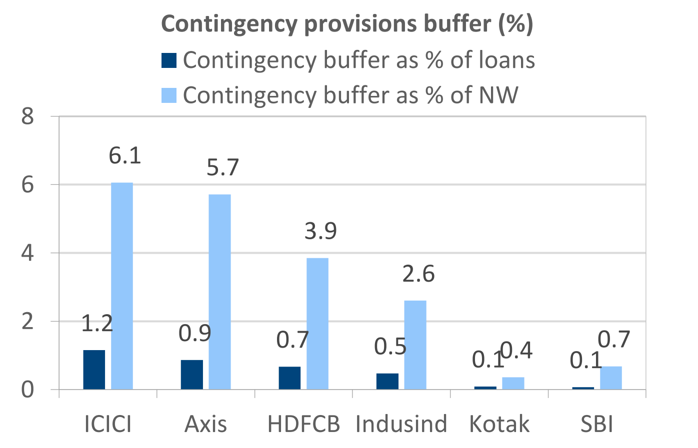
Source: Company, IIFL Research

Figure 2.43: HDFC has the lowest DPD pool in unsecured loans, compared to ICICI and BAF



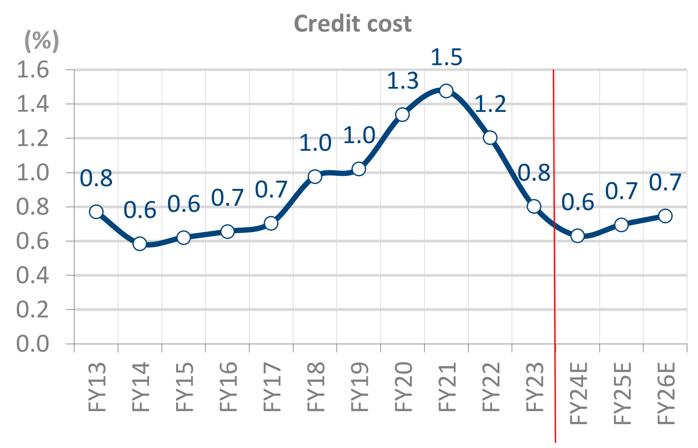
Source: Company, IIFL Research

Figure 2.44: Bank has 0.7% of advances as contingency buffer…



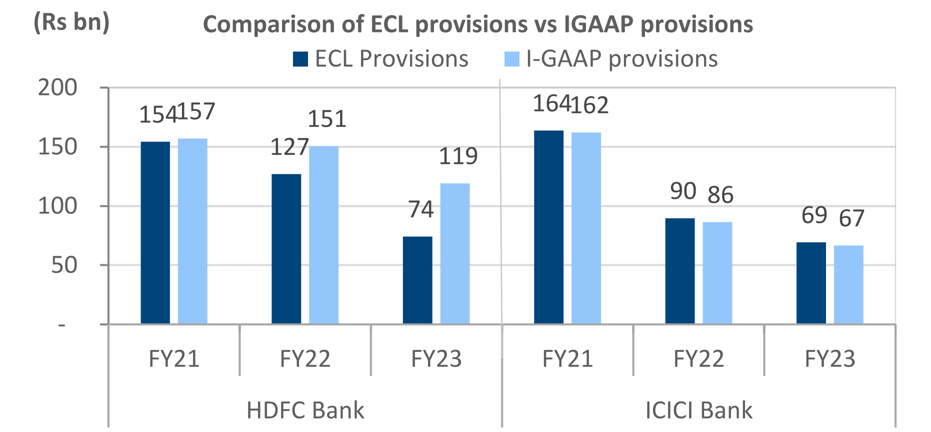
Source: Company, IIFL Research, Note – SBI as on 1QFY24

Figure 2.45: … which coupled with benign credit cycle, should keep credit cost under control



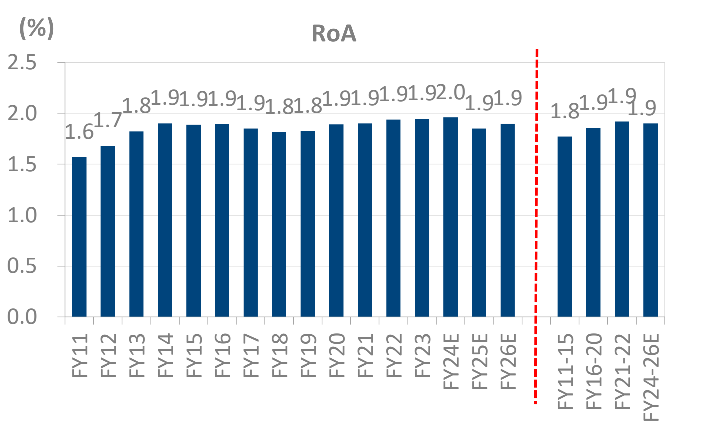
Source: Company, IIFL Research, Note: Merged numbers from FY24E onwards

Figure 2.46: Based on 20F filings, both HDFC and ICICI should not require any additional provisioning when the ECL norms kick in



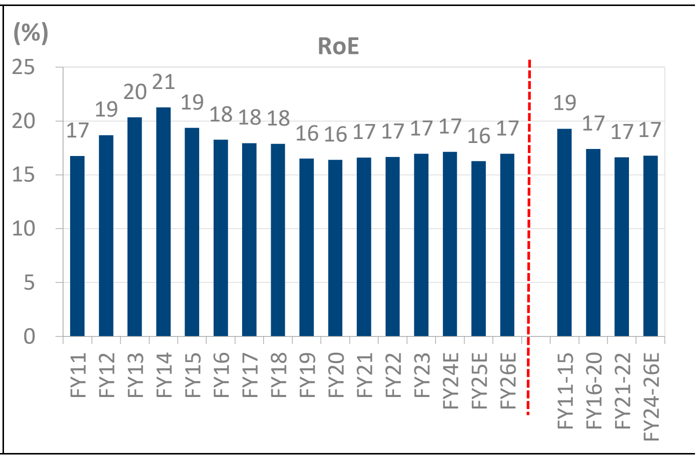
Source: Company, IIFL Research

Figure 2.47: We expect HDFC to sustain 1.9% ROA over FY24-26E (same as the last 10yr avg.) …



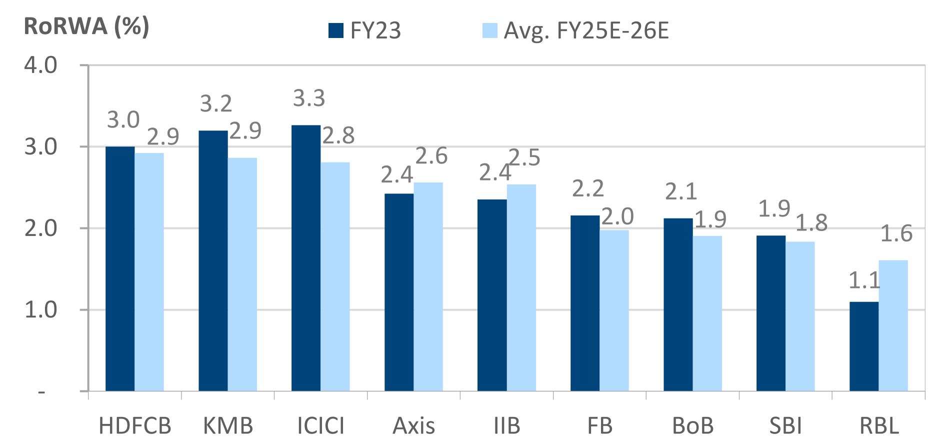
Source: Company, IIFL Research

Figure 2.48: … and even ROEs at 17%, as growth and margin pressure are offset by better cost efficiency and lower credit costs



Source: Company, IIFL Research

Figure 2.49: We expect HDFC to report best-in-class RoRWAs



Source: Company, IIFL Research

Figure 2.50: HDFC – DuPont analysis and key ratios

DuPont analysis (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	9.2	9.0	9.3	8.8	8.3	8.6	8.3	7.4	6.7	7.1	8.6	8.2	8.1
Interest expense	5.1	4.8	5.0	4.6	4.2	4.4	4.2	3.4	2.9	3.3	4.9	4.6	4.4
Net interest income	**4.1**	**4.1**	**4.2**	**4.2**	**4.2**	**4.2**	**4.0**	**4.0**	**3.8**	**3.8**	**3.7**	**3.6**	**3.7**
Fee Income	1.6	1.4	1.4	1.3	1.3	1.3	1.3	1.1	1.2	1.2	1.1	1.0	1.0
Trading Profits	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.2	0.1	-0.1	0.1	0.1	0.1
Dividend from Subs & other income	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-interest income	1.8	1.7	1.7	1.6	1.6	1.5	1.7	1.5	1.5	1.4	1.3	1.2	1.2
Total revenue	**5.9**	**5.8**	**5.9**	**5.8**	**5.7**	**5.7**	**5.7**	**5.5**	**5.3**	**5.2**	**5.0**	**4.8**	**4.9**
Employee expense	0.9	0.9	0.9	0.8	0.7	0.7	0.7	0.6	0.6	0.7	0.7	0.6	0.6
Other expense	1.8	1.7	1.7	1.7	1.6	1.6	1.5	1.4	1.3	1.4	1.3	1.2	1.2
Total expenses	**2.7**	**2.6**	**2.6**	**2.5**	**2.4**	**2.3**	**2.2**	**2.0**	**2.0**	**2.1**	**2.0**	**1.9**	**1.8**
Pre-provision operating profit	**3.2**	**3.2**	**3.3**	**3.3**	**3.4**	**3.4**	**3.5**	**3.5**	**3.4**	**3.1**	**3.0**	**2.9**	**3.0**
Provisions	0.4	0.4	0.4	0.5	0.6	0.7	0.9	1.0	0.8	0.5	0.4	0.5	0.5
Profit before tax	2.9	2.8	2.9	2.8	2.8	2.8	2.6	2.5	2.6	2.6	2.6	2.5	2.5
Taxes	1.0	0.9	1.0	1.0	1.0	1.0	0.7	0.6	0.6	0.6	0.6	0.6	0.6
ROA	**1.9**	**1.9**	**1.9**	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**	**1.9**	**1.9**	**2.0**	**1.9**	**1.9**
Leverage	11.2	10.3	9.6	9.7	9.8	9.0	8.7	8.7	8.6	8.7	8.7	8.8	8.9
ROE	**21.3**	**19.4**	**18.3**	**17.9**	**17.9**	**16.5**	**16.4**	**16.6**	**16.7**	**17.0**	**17.1**	**16.3**	**17.0**
Key metrics													
Loan growth	26	21	27	19	19	24	21	14	21	17	58	17	17
Deposit growth	24	23	21	18	23	17	24	16	17	21	29	21	20
Credit-deposit ratio	82	81	85	86	83	89	87	85	88	85	105	102	99
Yield on IEA	9.8	9.5	9.9	9.3	8.7	8.9	8.6	7.6	7.0	7.5	8.4	8.5	8.3
Cost of funds	6.2	5.8	6.0	5.5	4.9	5.2	5.0	4.1	3.5	3.9	5.4	5.4	5.2
NIM	**4.4**	**4.4**	**4.5**	**4.5**	**4.4**	**4.4**	**4.2**	**4.1**	**3.9**	**4.1**	**3.6**	**3.7**	**3.8**
Cost-to-income ratio	45.6	44.6	44.3	43.4	41.0	39.7	38.6	36.3	36.9	40.4	40.5	38.7	37.5
GNPA ratio	1.0	0.9	0.9	1.1	1.3	1.4	1.3	1.3	1.2	1.1	1.3	1.2	1.2
NNPA ratio	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Credit cost	**0.6**	**0.6**	**0.7**	**0.7**	**1.0**	**1.0**	**1.3**	**1.5**	**1.2**	**0.8**	**0.6**	**0.7**	**0.7**
CET1 ratio	**11.8**	**13.7**	**13.2**	**12.8**	**13.2**	**15.8**	**17.2**	**17.6**	**17.9**	**17.1**	**17.2**	**16.9**	**16.7**
CAR	16.1	16.8	15.5	14.6	14.8	17.1	18.5	18.8	18.9	19.3	18.8	18.4	18.0

Source: Company, IIFL Research

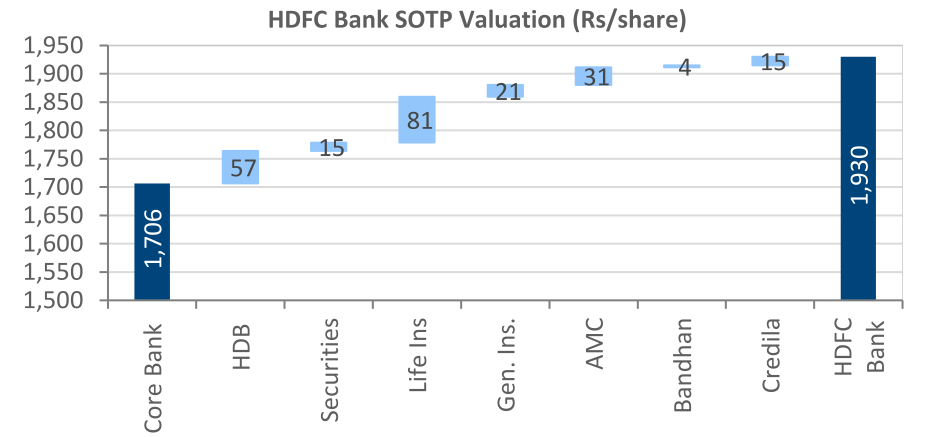
Figure 2.51: HDFC Bank – SOTP-based valuation

Particular	Stake	Value (INR b)	Value (USD b)	Value/ Sh. (INR)	% of total	Target Multiple (x)	Rationale
HDFC Bank*		**12,938**	**161.7**	**1,706**	**82.8**	**2.5**	**PABV**
Key Ventures							
HDB Financial Services	94.8	544	6.8	72	3.5	3.0	PBV
HDFC Securities	95.5	138	1.7	18	0.9	15.0	PE
HDFC Standard Life	50.4	769	9.6	101	4.9	2.6	PEV
HDFC General Insurance	50.5	198	2.5	26	1.3	60.0	Last deal (PE)
HDFC AMC	52.5	282	3.5	37	1.8	28.5	PE
Bandhan Bank	5.0	28	0.3	3	0.2	2.0	PBV
HDFC Credila	100.0	135	1.7	17	0.9	3.7	Last deal
Total Value of Ventures		**2,093**	**26.2**	**274**	**13.4**		
Less: 20% holding discount		419	5.2	55	2.7		
Value of Key Ventures		**1,674**	**20.9**	**219**	**10.7**		
SOTP		**14,612**	**182.7**	**1,930**	**93.5**		

*BV adjusted for investment in subsidiaries

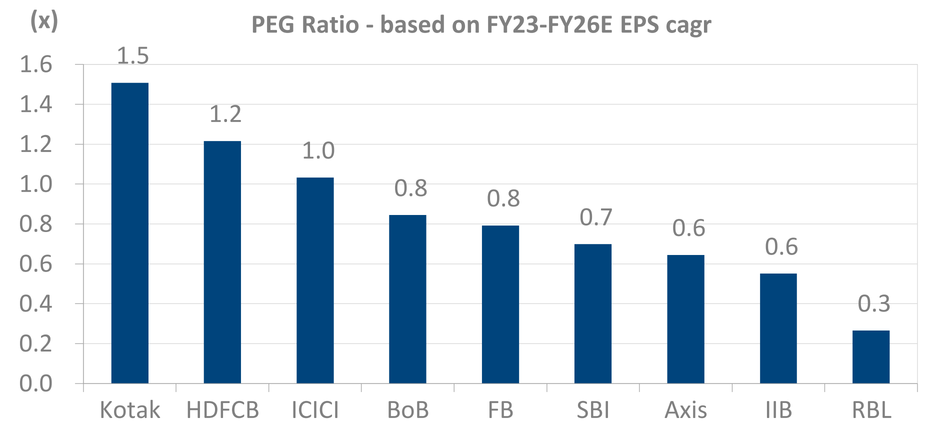
Source: IIFL Research

Figure 2.52: We value the subs at Rs220 per share to arrive at an SOTP TP of Rs1,930



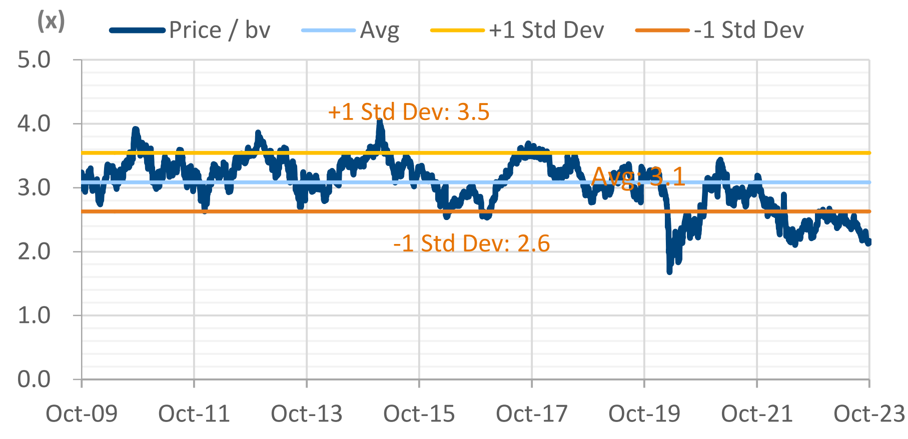
Source: IIFL Research

Figure 2.53: HDFCB trades at 1.2x PEG ratio, based on FY23-FY26E EPS Cagr



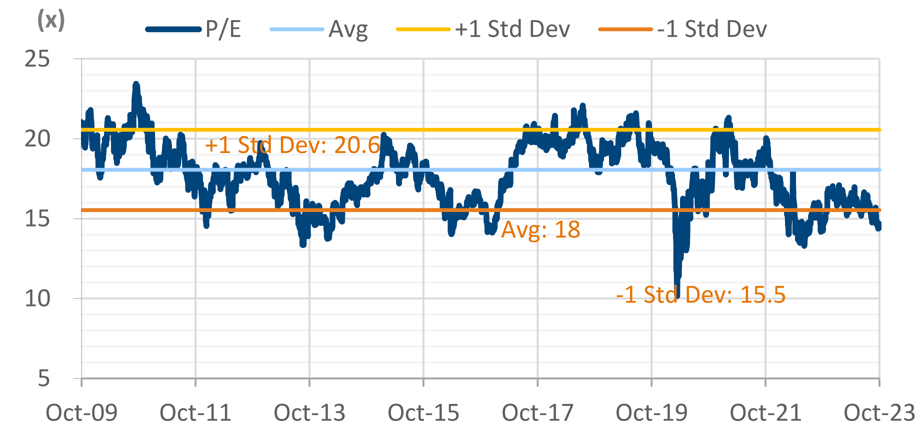
Source: IIFL Research

Figure 2.54: The stock trades at 2.2x 1YF P/BV — below the long-term average of 3.1x



Source: Bloomberg, IIFL Research

Figure 2.55: The stock trades at 15x 1YF P/E — above the long-term average of 18x



Source: Bloomberg, IIFL Research

Figure 2.56: HDFC – Margins

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
Yield on advances	11.7	11.1	10.8	10.2	10.3	10.5	10.1	8.9	7.9	8.6	9.4	9.5	9.3
Yield on investments	7.8	7.2	9.0	8.4	7.1	7.5	6.0	5.6	5.8	6.4	6.4	6.5	6.3
Yield on bank balances	1.2	3.8	3.4	3.0	1.6	1.4	2.8	2.7	2.4	1.8	4.0	4.0	3.8
Yield on interest earning assets	**9.8**	**9.5**	**9.9**	**9.3**	**8.7**	**8.9**	**8.6**	**7.6**	**7.0**	**7.5**	**8.4**	**8.5**	**8.3**
Cost of deposits	5.7	5.7	5.9	5.3	4.6	4.8	4.9	4.0	3.4	3.6	4.8	4.7	4.5
Cost of borrowings	10.0	6.0	7.0	7.6	7.5	8.1	6.0	4.2	4.3	6.8	7.8	8.0	7.9
Cost of interest bearing liabilities	**6.2**	**5.8**	**6.0**	**5.5**	**4.9**	**5.2**	**5.0**	**4.1**	**3.5**	**3.9**	**5.4**	**5.4**	**5.2**
Interest spread	3.6	3.8	3.9	3.8	3.8	3.7	3.6	3.6	3.5	3.6	3.0	3.0	3.1
Net interest margin	**4.4**	**4.4**	**4.5**	**4.5**	**4.4**	**4.4**	**4.2**	**4.1**	**3.9**	**4.1**	**3.6**	**3.7**	**3.8**
Loan-to-deposit ratio	82.5	81.1	85.0	86.2	83.5	88.8	86.6	84.9	87.8	85.0	104.5	101.7	99.1
Incremental loan-to-deposit ratio	89.0	74.9	103.6	92.6	71.5	119.9	77.7	74.2	105.3	71.5	172.6	87.9	86.1
CASA ratio	44.8	44.0	43.2	48.0	43.5	42.4	42.2	46.1	48.2	44.4	37.4	37.7	38.8

Source: Company, IIFL Research

Figure 2.57: HDFC – Efficiency ratios

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
Net interest income / total revenue	70	71	72	73	72	73	71	72	71	74	73	75	75
Fee income / total non-interest income	90	85	84	82	85	88	79	74	79	90	80	82	83
Fee income / total revenue	27	24	23	22	23	23	23	21	23	24	22	21	21
Non-interest income / revenue	30	29	28	27	28	27	29	28	29	26	27	25	25
Employee expense / total opex	35	34	34	33	30	30	31	32	32	33	34	33	33
Other expense / total opex	65	66	66	67	70	70	69	68	68	67	66	67	67
Cost to income ratio (CIR)	**45.6**	**44.6**	**44.3**	**43.4**	**41.0**	**39.7**	**38.6**	**36.3**	**36.9**	**40.4**	**40.5**	**38.7**	**37.5**
Cost to avg. asset ratio	2.70	2.59	2.61	2.51	2.35	2.26	2.21	2.00	1.96	2.10	2.03	1.86	1.83
Provisions / PPOP	11	12	13	14	18	19	25	27	24	17	14	16	17
Tax rate	34	33	34	34	34	35	28	25	25	25	24	25	25
ROA	**1.9**	**1.9**	**1.9**	**1.9**	**1.8**	**1.8**	**1.9**	**1.9**	**1.9**	**1.9**	**2.0**	**1.9**	**1.9**
Core ROA	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.8	1.8	1.7	1.7
ROE	**21.3**	**19.4**	**18.3**	**17.9**	**17.9**	**16.5**	**16.4**	**16.6**	**16.7**	**17.0**	**17.1**	**16.3**	**17.0**
Core ROE	20.2	18.6	17.4	17.3	17.1	15.6	15.0	15.5	15.2	15.5	15.7	15.0	15.7
Productivity ratios													
No. of branches	**3,403**	**4,014**	**4,520**	**4,715**	**4,787**	**5,103**	**5,416**	**5,608**	**6,342**	**7,821**	**9,846**	**11,323**	**13,021**
Loans / branch (mn)	890	911	1,028	1,176	1,375	1,606	1,835	2,020	2,158	2,047	2,574	2,629	2,676
Deposits / branch (mn)	1,079	1,123	1,209	1,365	1,648	1,809	2,119	2,381	2,459	2,408	2,462	2,585	2,701
CASA deposits / branch	484	494	523	656	717	767	895	1,098	1,184	1,069	920	976	1,049
No. of employees	**-**	**78,000**	**87,555**	**84,325**	**88,253**	**98,061**	**116,971**	**120,093**	**141,579**	**173,222**	**204,402**	**220,754**	**236,207**
Employees / branch	-	19	19	18	18	19	22	21	22	22	21	19	18
Avg. remuneration per employee (mn)	-	1.22	0.69	0.75	0.79	0.83	0.89	0.87	0.92	0.99	1.12	1.16	1.22
Loans / employee (mn)		47	53	66	75	84	85	94	97	92	124	135	147
Deposits / employee (mn)		58	62	76	89	94	98	111	110	109	119	133	149
CASA deposits / employee		25	27	37	39	40	41	51	53	48	44	50	58
Net profit / employee (mn)		1.3	1.4	1.7	2.0	2.1	2.2	2.6	2.6	2.5	3.0	3.4	3.7

Source: Company, IIFL Research

Figure 2.58: HDFC – Asset quality ratios

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
GNPA (mn)	29,893	34,384	43,928	58,857	86,070	112,242	126,500	150,860	161,410	180,190	321,725	348,559	411,596
NNPA (mn)	8,200	8,963	13,204	18,440	26,010	32,145	35,424	45,548	44,077	43,684	81,926	87,140	102,899
GNPA ratio	**1.0**	**0.9**	**0.9**	**1.1**	**1.3**	**1.4**	**1.3**	**1.3**	**1.2**	**1.1**	**1.3**	**1.2**	**1.2**
NNPA ratio	**0.3**	**0.2**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Slippage ratio	1.9	1.6	1.6	1.5	2.3	2.2	2.1	1.6	2.4	1.8	1.7	1.4	1.5
Upgrades & Recoveries ratio	1.0	0.8	0.8	0.7	1.3	1.1	1.0	0.4	1.4	0.9	0.9	0.7	0.7
Net Slippage ratio	0.9	0.8	0.8	0.8	1.1	1.1	1.2	1.2	0.9	0.9	0.8	0.6	0.7
Write-off ratio	0.6	0.6	0.5	0.5	0.6	0.7	1.0	0.9	0.8	0.8	0.7	0.5	0.5
PCR (Excl Technical write off)	**72.6**	**73.9**	**69.9**	**68.7**	**69.8**	**71.4**	**72.0**	**69.8**	**72.7**	**75.8**	**74.5**	**75.0**	**75.0**
Credit cost (% of avg. loans)	**0.6**	**0.6**	**0.7**	**0.7**	**1.0**	**1.0**	**1.3**	**1.5**	**1.2**	**0.8**	**0.6**	**0.7**	**0.7**
Total provisions as % of gross loans	**0.6**	**0.6**	**0.7**	**0.7**	**1.0**	**1.0**	**1.3**	**1.5**	**1.2**	**0.8**	**-**	**-**	**-**
Net NPA as % of networth	1.9	1.4	1.8	2.1	2.4	2.2	2.1	2.2	1.8	1.6	1.9	1.8	1.8

Source: Company, IIFL Research

Figure 2.59: HDFC – Capital ratios

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
CET1 ratio	-	-	-	-	12.2	14.9	16.4	16.9	16.7	16.4	16.7	16.5	16.4
AT1 ratio	-	-	-	-	1.0	0.9	0.8	0.7	1.2	0.7	0.5	0.4	0.3
Tier 1 ratio	11.8	13.7	13.2	12.8	13.2	15.8	17.2	17.6	17.9	17.1	17.2	16.9	16.7
Tier 2 ratio	4.3	3.1	2.3	1.8	1.6	1.3	1.3	1.2	1.0	2.2	1.6	1.4	1.3
Capital adequacy ratio	16.1	16.8	15.5	14.6	14.8	17.1	18.5	18.8	18.9	19.3	18.8	18.4	18.0
RWA intensity	70.2	71.6	74.7	74.1	75.2	74.9	65.0	64.8	65.4	64.3	64.0	64.1	64.2

Source: Company, IIFL Research

Figure 2.60: HDFC Bank – Senior Management

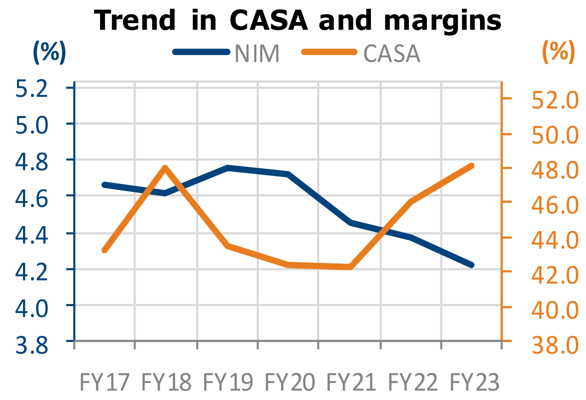
Key Management Personnel		Profile
Sashidhar Jagdishan	Managing Director	• Mr. Jagdishan is a Science graduate from Mumbai University. He also holds a Master's degree in Economics of Money, Banking, and Finance from the University of Sheffield, UK and is a qualified Chartered Accountant. • He has an overall banking experience of 30+ years, with a 3yr stint at Deutsche Bank, AG, Mumbai and the rest at HDFC Bank where he has worked in several capacities including as the CFO of HDFC Bank.
Kaizad Bharucha	Executive Director	• Mr. Bharucha holds a B.Com from the University of Mumbai. He has 35+ years of experience in the Banking industry and has been associated with HDFC Bank since 1995. • He has served various portfolios including Corporate Banking, Risk Management, Emerging Corporates Group, Business Banking, etc.
Srinivasan Vaidyanathan	Chief Financial Officer	• Mr. Vaidyanathan holds a Commerce degree from Madras University. He is a Fellow of India Chartered Accountants and Cost & Management Accountants, Fellow of the UK Association of International Accountants, and a Member of CMA, USA. • Prior to joining HDFC Bank, Mr. Vaidyanathan worked at Citi. During his 27yr stint in Citi, he has led financial planning; MIS and analysis; treasury; treasury reporting and analysis; and expense control and management.
Sanmoy Chakrabarti	Chief Risk Officer	• Mr. Chakrabarti has completed his Master's degree from the Indian Statistical Institute and has been with the bank for 12+ years in the Risk Management department. • Prior to starting his stint as the CRO, he has been in charge of Market Risk, Treasury Mid-Office, Operational Risk Management and Basel Credit risk functions of the Bank.
Rahul Shukla	Group Head - Commercial Banking and Rural Business	• Mr. Shukla holds a B. Tech from IIT Varanasi and MBA from IIM Bangalore. Mr Shukla began his career with Citibank in 1991 where He served in various functions such as Investment Banking, Corporate Finance, and Capital Markets in India, Singapore, and Hong Kong. • As Head of Corporate Bank – South Asia, he was responsible for the management of large corporates, financial institutions and MNCs operating in India, Bangladesh, and Sri Lanka. He was also a member of Citibank's Global Corporate Banking Operating Committee.
Arvind Kapil	Group Head – Retail Assets	• As Retail Assets Head, Mr. Kapil heads the bank's entire Retail Lending franchise which comprises Unsecured Loans portfolio, Auto Loans business, Loans against Property, Two-wheeler Loans, Retail Working Capital Loans, Gold Loan, Loan against Shares, Microfinance, Home Loans, and Business Loans, among others. • An alumni of Harvard Business School, he successfully completed an Advanced Management Program (AMP); Master's Program in Management of Global Enterprises jointly from IIM B, UCLA Anderson and SDA Bocconi and City University; Masters in Management Studies from Bharati Vidyapeeth Institute of Management Studies and Research
Arvind Vohra	Group Head, Retail Branch Banking	• In a career spanning over two decades, Mr. Vohra has worked with consumer centric categories in industries across the spectrum including Banking, Telecommunications, Consumer Durables, and Healthcare. • Prior to joining the bank, Mr. Vohra, as Operations Director at Vodafone, successfully led the business for nine telecom circles. He also held the national sales and distribution responsibility, while heading the company's Wi-Fi and Consumer Internet of Things business. In his previous role, he worked for Godrej & Boyce, Whirlpool, Standard Chartered Bank, and Becton Dickinson in various roles including sales, marketing, and business.

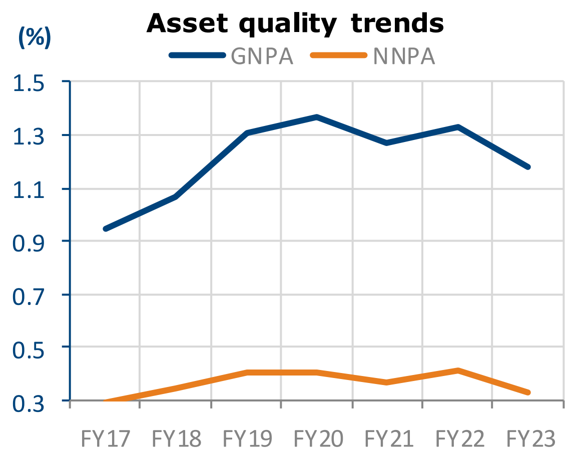
Key Management Personnel		Profile
Jimmy Tata	Chief Credit Officer	• Mr. Tata has over 35 years of experience, including 27 years with HDFC Bank. He joined in 1994 as a Relationship Manager in the Corporate Banking Department. Over the years, he rose through the ranks to Head the Corporate Banking Department. In June 2013, he was appointed as Chief Risk Officer of HDFC Bank. • Mr. Jimmy Tata has completed his Master of Financial Management from Jamnalal Bajaj Institute of Management. He's also a Chartered Financial Analyst from the Institute of Chartered Financial Analysts of India.
Nirav Shah	Group Head – Corporate Banking	• He has overall work experience of about 25 years of which 21 has been with the bank. Nirav joined the bank in 1999 as a Relationship Manager and in just over a decade, went on to head businesses such as Emerging Corporates Group, Infrastructure Finance Group, and Rural Banking Group, before taking up his current role in 2020. • This is his second stint with corporate banking. In his earlier stint with Corporate Bank in 2011 he was Western Region Head, he was responsible for acquiring and developing several Large Corporate Relationships. He is a Commerce Graduate and MMS – Finance.
Parag Rao	Group Head – Payments, Consumer Finance, Digital Banking and Information Technology	• Mr. Rao joined the bank in 2002 as Head, Sales & Distribution – Credit Cards. With his vast knowledge & understanding of technology trends, customer behaviour, credit forecasting, P&L management and sales, he has been instrumental in building a profitable as well as sustainable Payments Business that has seen multiple credit cycles with ease. • He has over 25 years of experience in the industry. Prior to joining HDFC Bank, Mr. Rao has held senior positions in IBM Global Services, Cadbury's, Unilever, and Pepsico. He has completed his B.Tech from Regional Engineering College (REC), Jamshedpur and business management from S.P. Jain Institute of Management, Mumbai.

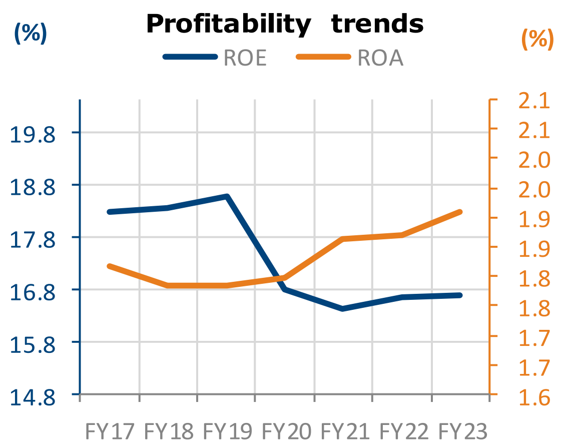
Source: IIFL Research

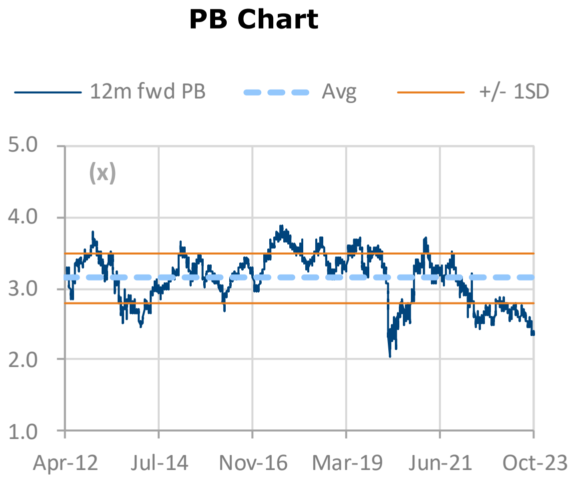
Company snapshot

Background: HDFC Bank is the largest private sector bank in India with net advances of ~23.3 tn (as of Sep 2023). HDFC Ltd (erstwhile promoter of HDFC Bank) was reverse merged with HDFC Bank with effect from 1st July 2023. HDFC Bank has a unique franchise in the banking sector with strong national network of 7,945 branches spread across urban and rural markets, a high-quality deposit franchise, well-diversified revenue mix, strong asset quality, and consistent financial performance. The bank caters to mass and affluent customers in deposit and transactional banking services. It offers a wide range of products across its wholesale and retail banking franchises.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	20.8	16.9	58.3	17.4	17.1
Deposit Growth (%)	16.8	20.8	28.7	20.8	20.1
Yield on IEA (%)	7.0	7.5	8.4	8.5	8.3
Cost of Funds (%)	3.5	3.9	5.4	5.4	5.2
Net Interest Margin (%)	3.9	4.1	3.6	3.7	3.8
Cost/income ratio (%)	36.9	40.4	40.5	38.7	37.5
Gross NPLs as % of loans (%)	1.2	1.1	1.3	1.2	1.2
Credit cost (%)	1.2	0.8	0.6	0.7	0.7
Return on Average Assets (%)	1.9	1.9	2.0	1.9	1.9
Return on Average Equity (%)	16.7	17.0	17.1	16.3	17.0

Source: Company data, IIFL Research

Management

Name	Designation
Atanu Chakraborty	Chairman
Sashidhar Jagdishan	MD & CEO
Kaizad Bharucha	Deputy MD

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**720.1**	**868.4**	**1,132.2**	**1,444.8**	**1,710.1**
Non-interest income	**295.1**	**312.1**	**415.8**	**481.7**	**561.6**
Fee Income	233.6	280.3	333.2	396.2	467.6
Portfolio gains	23.7	(12.4)	26.4	22.6	24.8
Others	37.8	44.2	56.2	62.9	69.2
Total operating income	**1,015.2**	**1,180.6**	**1,548.0**	**1,926.4**	**2,271.6**
Total operating expenses	374.4	476.5	627.2	746.3	852.0
Pre provision operating profit	**640.8**	**704.0**	**920.8**	**1,180.2**	**1,419.6**
Total provisions	150.6	119.2	130.5	191.7	241.1
Profit before tax	**490.2**	**584.8**	**790.3**	**988.4**	**1,178.5**
Taxes	120.5	143.8	186.1	247.1	294.6
Net profit-pre exceptional	**369.6**	**441.1**	**604.2**	**741.3**	**883.9**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**369.6**	**441.1**	**604.2**	**741.3**	**883.9**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	13,688.2	16,005.9	25,343.5	29,763.6	34,839.1
Placements to other banks	223.3	766.0	472.2	553.1	647.2
Cash & equivalents	1,300.0	1,171.6	1,731.4	2,028.0	2,373.0
Investments	4,555.4	5,170.0	8,505.3	9,625.2	11,256.3
Total interest-earning assets	**19,766.8**	**23,113.5**	**36,052.4**	**41,970.0**	**49,115.6**
Fixed assets	60.8	80.2	116.2	139.5	153.4
Other assets	857.7	1,467.1	857.7	979.2	870.2
Total assets	**20,685.4**	**24,660.8**	**37,026.4**	**43,088.6**	**50,139.3**
Customer deposits	15,592.2	18,833.9	24,243.4	29,274.3	35,167.7
Borrowings	1,848.2	2,067.7	7,236.8	7,598.6	7,978.6
Total interest-bearing liabilities	**17,440.3**	**20,901.6**	**31,480.2**	**36,873.0**	**43,146.3**
Non-interest-bearing liabilities	844.1	957.2	1,292.3	1,356.9	1,424.7
Total liabilities	**18,284.4**	**21,858.8**	**32,772.5**	**38,229.8**	**44,571.0**
Total Shareholders' equity	**2,400.9**	**2,802.0**	**4,253.9**	**4,858.8**	**5,568.3**
Total liabilities & equity	**20,685.4**	**24,660.8**	**37,026.4**	**43,088.6**	**50,139.3**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	87.8	85.0	104.5	101.7	99.1
Loan Growth	20.8	16.9	58.3	17.4	17.1
Deposit Growth	16.8	20.8	28.7	20.8	20.1
Total Assets Growth	18.4	19.2	50.1	16.4	16.4
Profitability Ratios (%)					
Net Interest Margin	3.9	4.1	3.6	3.7	3.8
ROA	1.9	1.9	2.0	1.9	1.9
ROE	16.7	17.0	17.1	16.3	17.0
Non-Int Income as % of Total Income	29.1	26.4	26.9	25.0	24.7
Net Profit Growth	18.8	19.3	37.0	22.7	19.2
FDEPS Growth	18.1	18.6	7.6	14.6	19.2
Efficiency Ratios (%)					
Cost to Income Ratio	36.9	40.4	40.5	38.7	37.5
Salaries as % of Non-Interest costs	32.1	32.6	33.8	33.1	32.6

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	1.2	1.1	1.3	1.2	1.2
NPL coverage ratio	72.7	75.8	74.5	75.0	75.0
Total prov charges as % avg loans	1.2	0.8	0.6	0.7	0.7
Net NPLs as % of net loans	0.3	0.3	0.3	0.3	0.3
Capital Adequacy Ratios (%)					
Total CAR	18.9	19.3	18.8	18.4	18.0
Tier I capital ratio	17.9	17.1	17.2	16.9	16.7

Source: Company data, IIFL Research

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CMP	**Rs1415**
Target 12m	**Rs1770 (25%)**
Market cap (US$ m)	**13,167**
Bloomberg	**IIB IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	1469/991
Shares o/s (m)	777
Daily volume (US$ m)	49
Dividend yield FY25ii (%)	1.4
Free float (%)	85.0

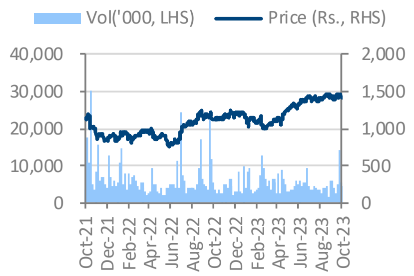
Shareholding pattern (%)

Promoters	15.2
Pledged (as % of promoter share)	45.5
FII	38.7
DII	23.7

Price performance (%)

	1M	3M	1Y
Indusind Bank	(0.6)	(0.9)	25.7
Absolute (US$)	(0.6)	(2.4)	25.0
Rel.to Nifty	3.5	3.7	18.9
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		11.8	9.8

Stock movement



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Indusind Bank BUY

En-route to the big boys' club

IIB has crafted a good turnaround in granulising its liabilities, fee income and de-risking loan book, and has the potential to further close the gap relative to the larger peers. Under our coverage, IIB is the only bank that is expected to see ROA expansion led by acceleration in loan growth, NIM expansion and lower credit cost — thanks to the late cycle recovery in key segments. With the stock trading at 1.5x FY25E P/B (~30% discount vs LTA) for 1.9% ROA and 16% ROEs, risk-reward is attractive. Initiate with BUY; TP of Rs1,770 (25% upside). Potential MSCI inclusion is a near-term tactical catalyst.

First leg completed; miles to go for bridging gap vs larger peers: Similar to Axis, even IIB has been on a journey to granulise liabilities, fee income, and de-risking the loan book. While IIB has crafted a good first leg of turnaround, it still has a lot of ground to cover, for further strengthening the franchise: (i) Since FY19, share of borrowings in IBL has declined 10pp to 13% now vs 5-15% for peers. (ii) Retail deposits rose 17pp to 43% vs. 57-70% for peers. (iii) Deposit concentration fell 8pp to 16% vs 4-9% for peers. (iv) Share of BBB and below book and NFB exposure fell the most, but is still one of the highest among peers. It has <1% market share (MS) in capturing transaction flows, and is the only bank with no improvement in cost of deposits since 4QFY20.

ROA expansion ahead, unlike peer banks: With the rural demand recovery, end of asset-quality woes in the Corporate segment and new initiatives (home loans, INDIE app), we expect loan growth acceleration from 12% Cagr in FY20-23 to 19% Cagr during FY24-26E. We are enthused about retail-deposit-mobilisation prospects, with strong branch additions, having the highest share of 'developing branches' in urban and metro regions and rising MS in home markets and affluent deposits. We expect superior margin performance, given that deposit re-pricing is largely done and fixed rate loan book (50% of loans) benefits in the peaking rate environment. Credit cost should halve to 1.3% vs FY20-23 avg. of 2.8%; as it benefits from late cycle recovery in vehicle and MFI segments. Consequently, IIB would be the only bank in our coverage to see ROA expansion (+20 bps) over FY24-26E.

Attractive risk-reward; initiate with BUY: IIB is trading at 1.5x FY25E P/B, which is at ~30% discount vs its LTA of 2.3x and thus, offers attractive risk-reward in the context of expected ROA improvement. We value the bank at 1.8x Sep'25 fair P/B to arrive at a TP of Rs1,770 (25% upside to CMP). Key risks are NIM contraction and higher credit costs.

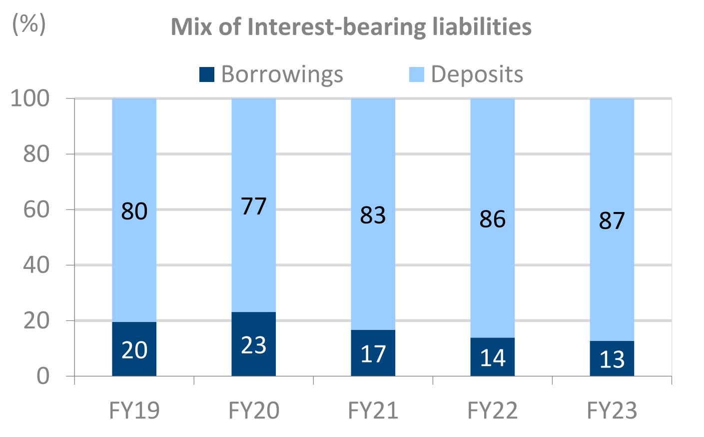
Financial summary (Rs bn)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	150.0	175.9	207.9	248.0	286.7
PPOP	130.3	144.2	161.7	193.7	229.5
Reported PAT	**48.0**	**74.4**	**90.5**	**107.2**	**125.2**
EPS (Rs)	62.0	95.9	116.4	137.9	161.1
Growth (%)	63.7	54.7	21.4	18.5	16.8
IIFL vs consensus (%)			(0.6)	(0.4)	(1.7)
PER (x)	22.8	14.7	12.2	10.3	8.8
Book value (Rs)	620	709	795	913	1051
PB (x)	**2.3**	**2.0**	**1.8**	**1.5**	**1.3**
CAR (%)	18.4	17.9	17.7	17.2	16.6
ROA (%)	1.3	1.7	1.8	1.9	1.9
ROE (%)	**10.5**	**14.4**	**15.5**	**16.1**	**16.4**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

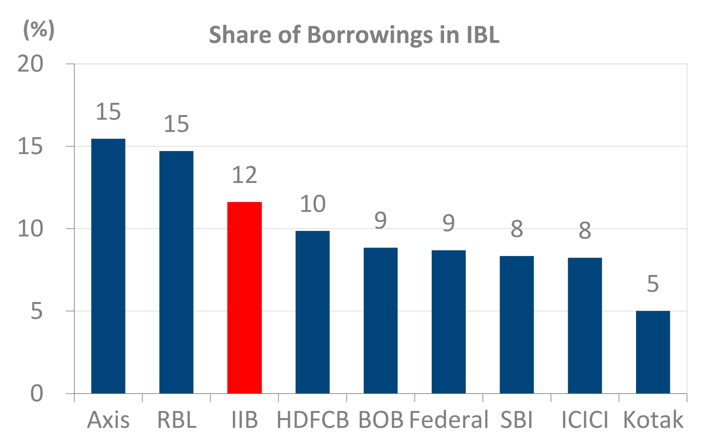
First leg of turnaround completed; miles to go for bridging gap vs larger peers

Figure 3.1: Share of borrowings in the overall interest-bearing liabilities steadily declining …



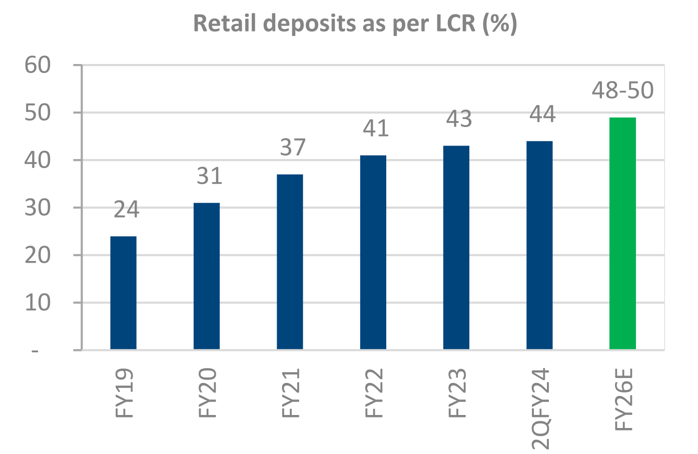
Source: Company, IIFL Research

Figure 3.2: … but remains on the higher end of the 5-15% range for peers



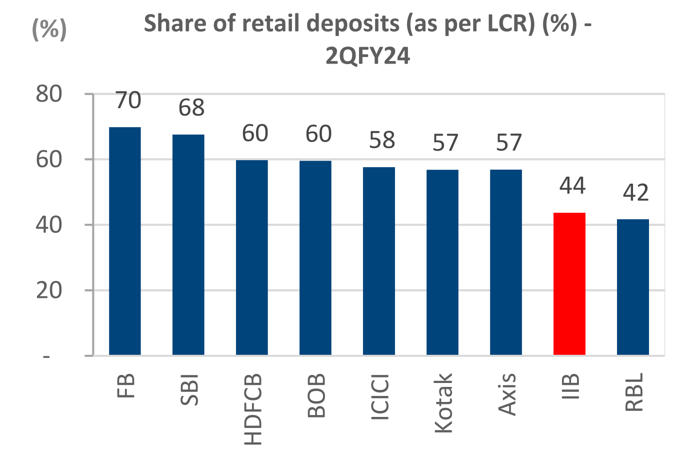
Source: Company, IIFL Research

Figure 3.3: Share of retail deposits increased 19 pp since FY19 to 44% now, and the bank aspires to improve it further to 48-50% over next three years …



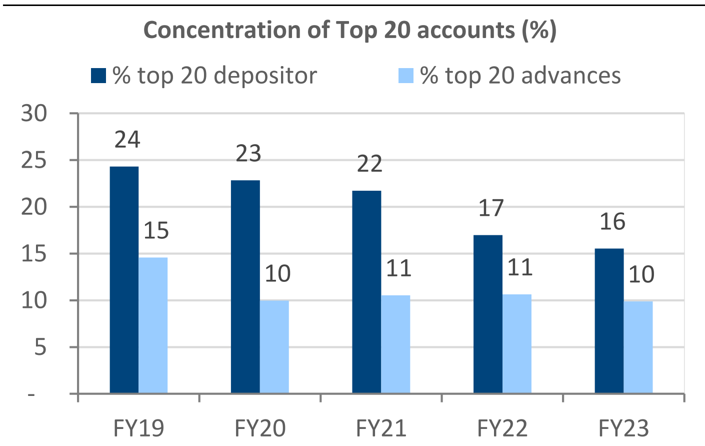
Source: Company, IIFL Research

Figure 3.4: … and still has a long way to go to close the gap vs 57-70% for peers



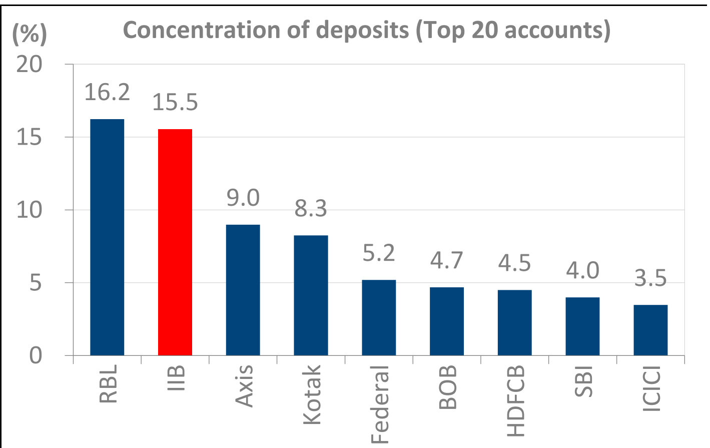
Source: Company, IIFL Research, Note: SBI and BoB as of 1QFY24

Figure 3.5: Loan and deposit concentration (Top 20 accounts) have declined for IIB …



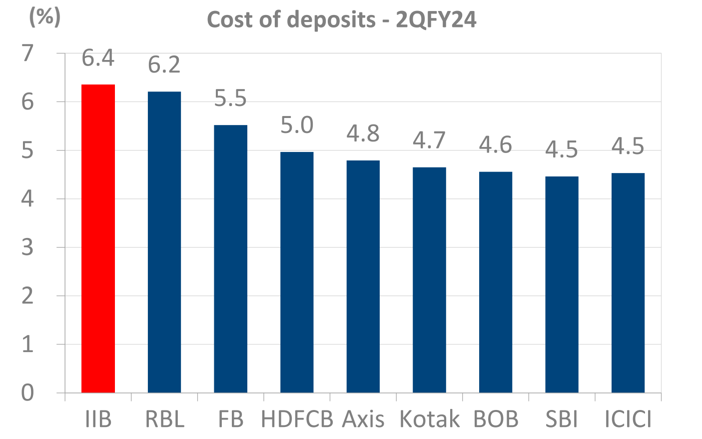
Source: Company, IIFL Research

Figure 3.6: … still higher vs 4-9% for peers



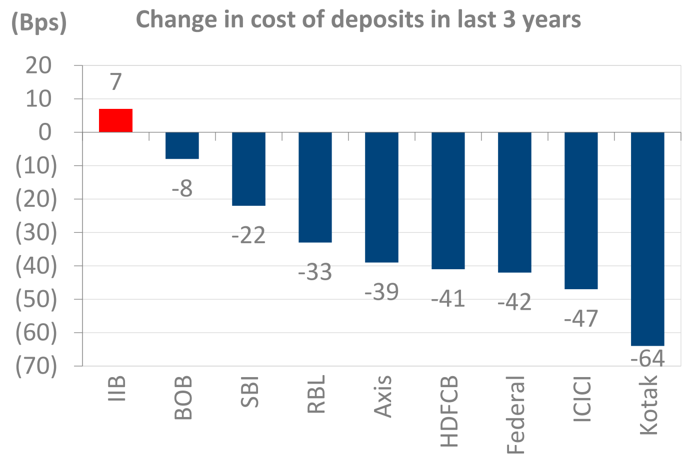
Source: Company, IIFL Research

Figure 3.7: IIB's cost of deposit of 6.4% is still high, relative to peers …



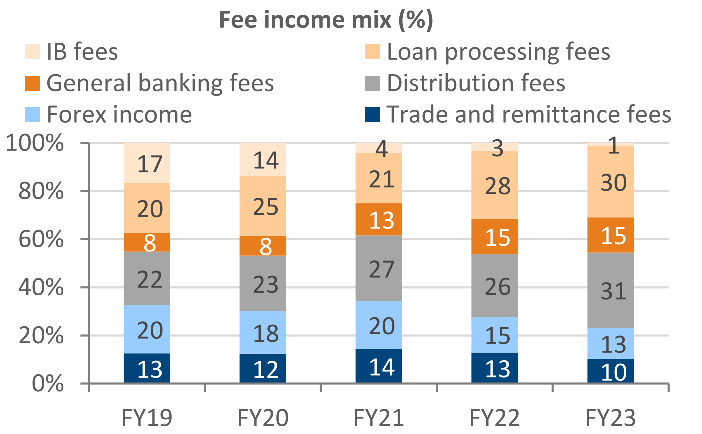
Source: Company, IIFL Research, Note: (1) SBI and BoB as of 1QFY24, (2) Assumed for HDFCB and Kotak

Figure 3.8: … and is the only bank under our coverage, which has not seen any improvement in the last three years



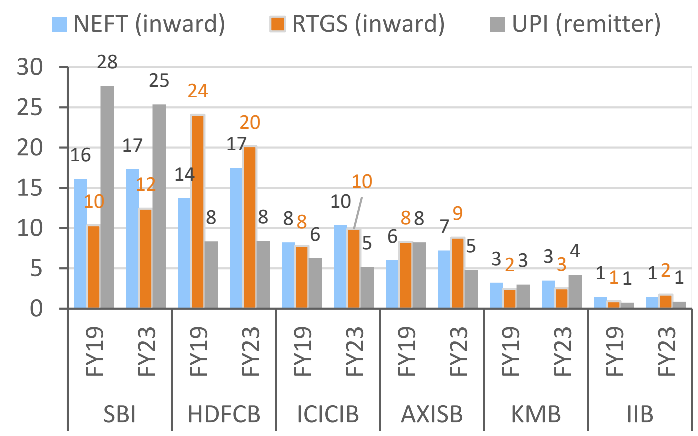
Source: Company, IIFL Research, Note: As on 1QFY24

Figure 3.9: Fee income more granular with share of volatile investment banking fees down from 17% to 1% now …



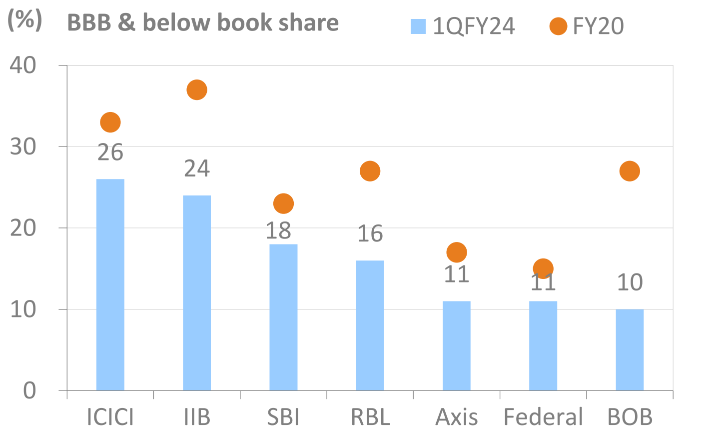
Source: Company, IIFL Research

Figure 3.10: … but, IIB still has a very low share in capturing customers' transaction flows



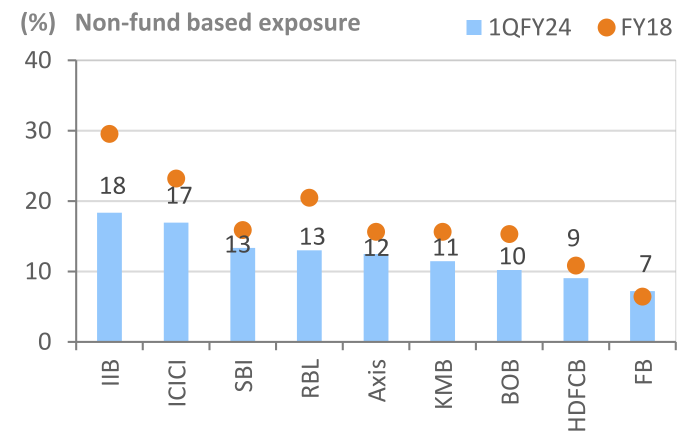
Source: Company, IIFL Research

Figure 3.11: Share of BBB and below book has declined, but is still higher relative to the peers, partly due to Gems and Jewellery book (4% of loans) which is rated BBB despite no NPAs, restructuring or SMA loans



Source: Company, IIFL Research

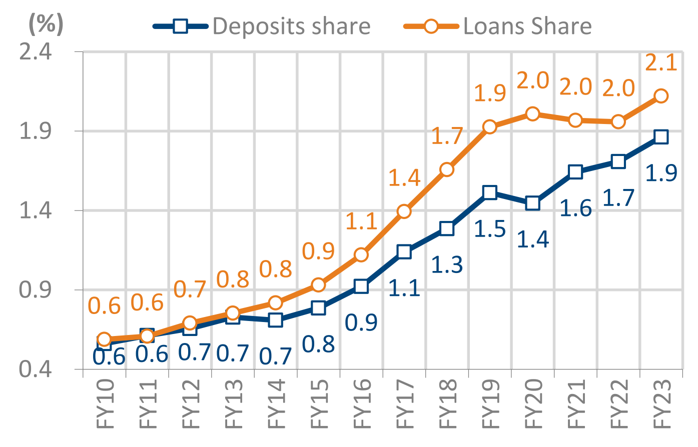
Figure 3.12: IIB's non-fund based exposure has declined the most, but still remains high relative to the peers



Source: Company, IIFL Research. Note: Calculated as NFB / (FB + NFB) exposure

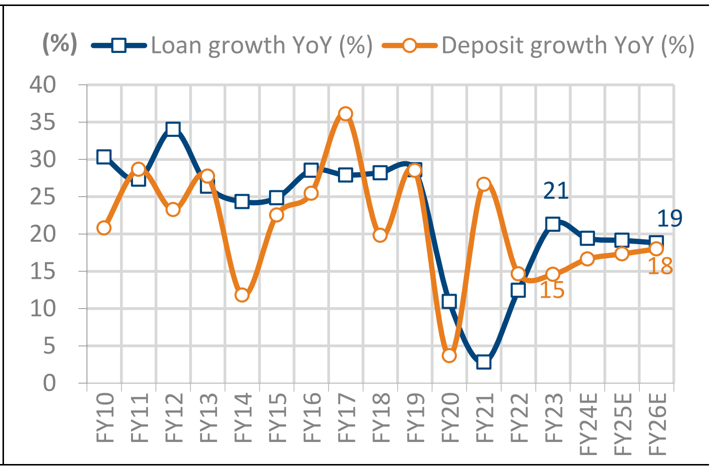
ROA expansion ahead, unlike peer banks

Figure 3.13: During Covid, loan MS stagnated but should resume now, as demand from its mass customer base normalises; deposit MS gain should continue



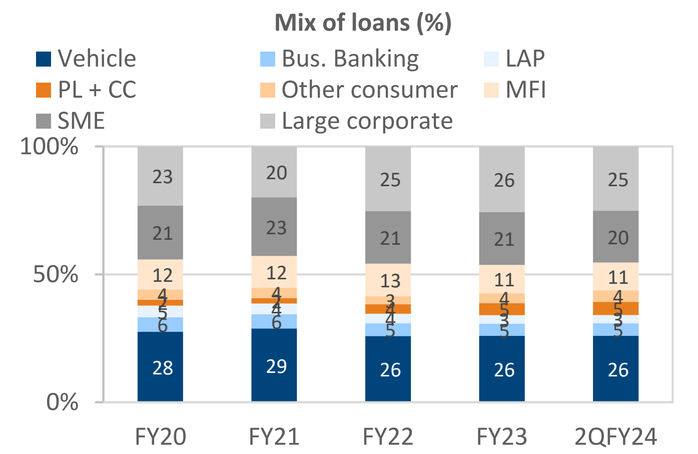
Source: Company, IIFL Research

Figure 3.14: Expect the bank to deliver 19% loan growth Cagr and deposits to grow at 17% Cagr during FY24-26E



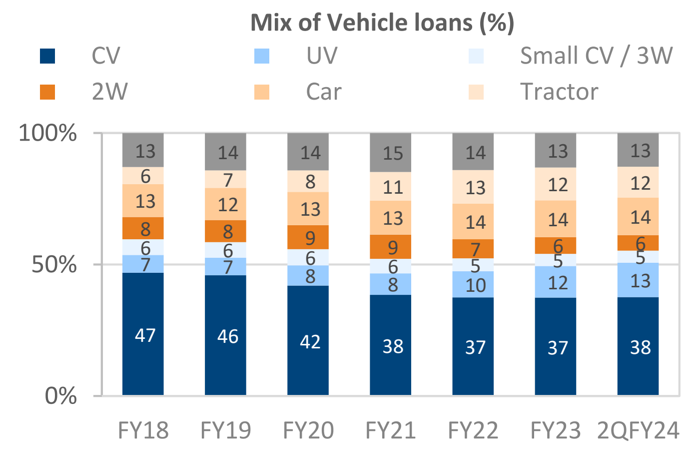
Source: Company, IIFL Research

Figure 3.15: Loan mix largely stable - vehicle (26%), corporate (25%), SME (20%) and MFI (11%) being the key segments



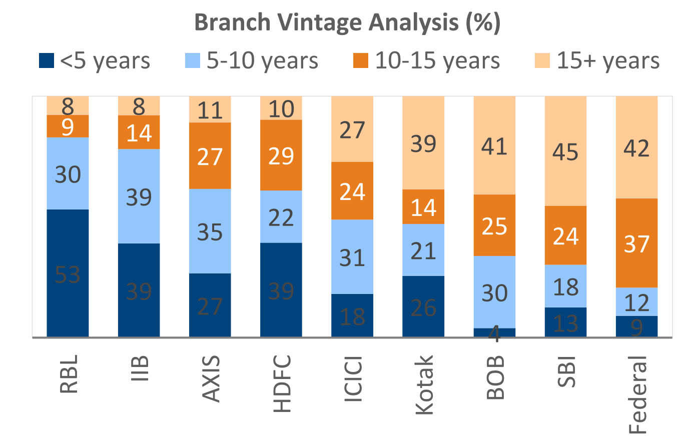
Source: Company, IIFL Research

Figure 3.16: In the vehicle book, share of CV declined while the share of UV, Car and Tractor loans improved



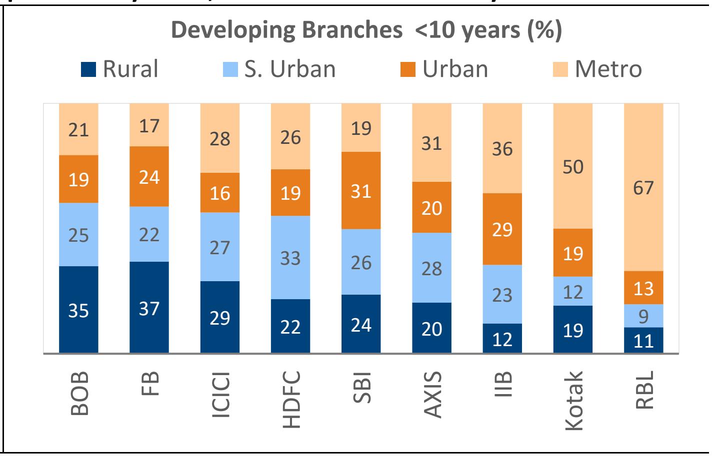
Source: Company, IIFL Research

Figure 3.17: RBL, IIB, Axis and HDFC have higher share of 'developing' branches at 60-80%; Kotak, BOB, SBI and Federal have higher share of 'matured' branches



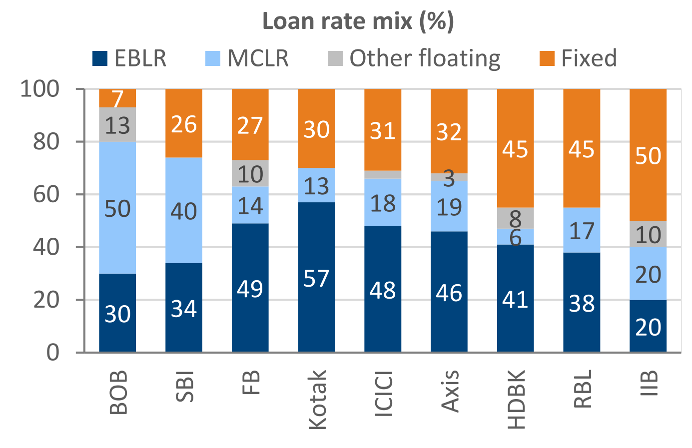
Source: Company, IIFL Research

Figure 3.18: Developing branches' in urban/metro regions should see higher deposit compounding due to better productivity – RBL, IIB and Axis to be the key beneficiaries



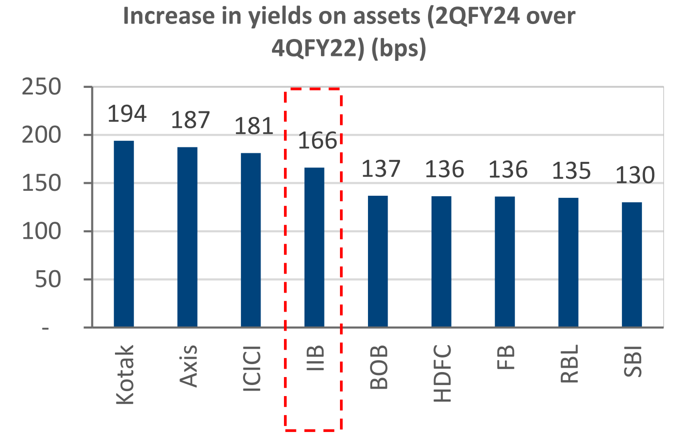
Source: Company, IIFL Research

Figure 3.19: IIB has the highest share of fixed rate loans …



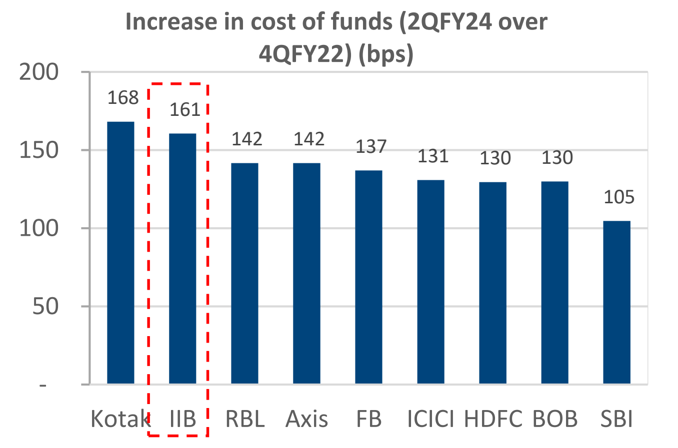
Source: Company, IIFL Research

Figure 3.20: … and thus, asset yield expansion lagged peers



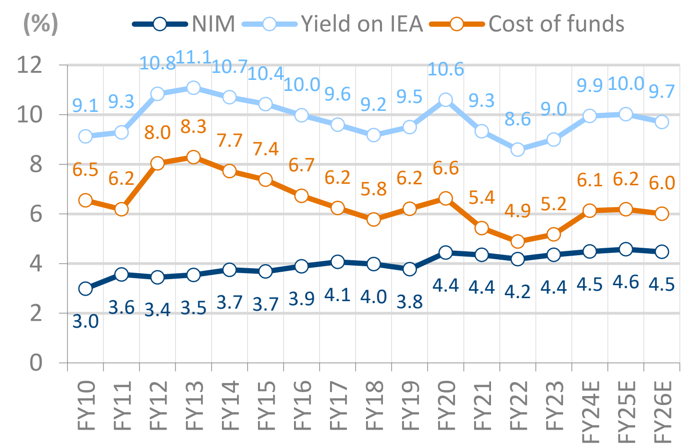
Source: Company, IIFL Research, Note: SBI and BoB as of 1QFY24

Figure 3.21: Higher reliance on wholesale funding resulted in the higher increase in funding cost



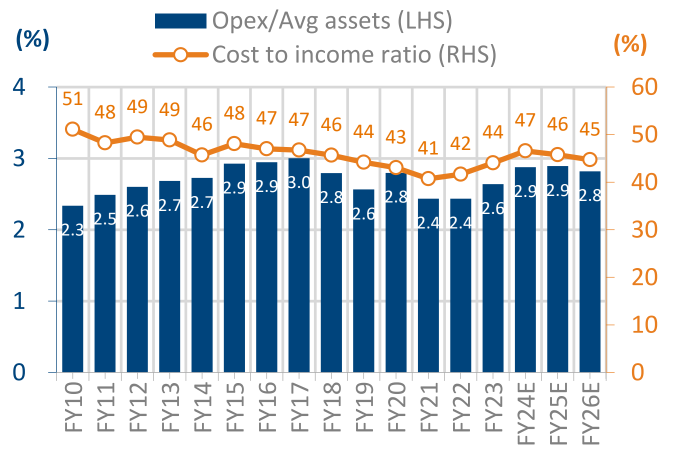
Source: Company, IIFL Research, Note: SBI and BoB as of 1QFY24

Figure 3.22: Expect stable NIM performance from here (vs decline for peers) as the rate cycle turns in FY25



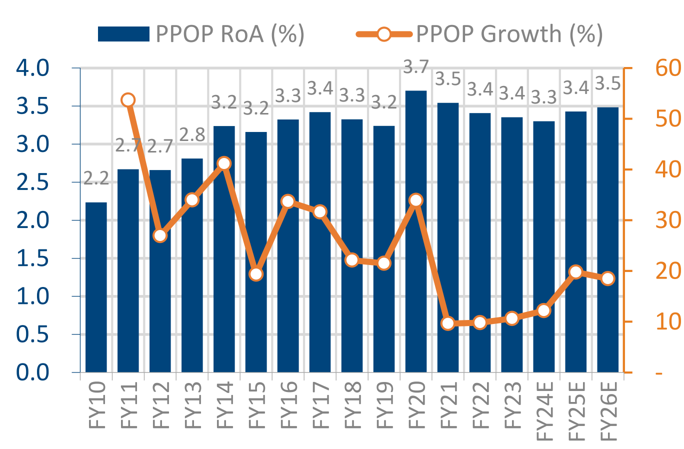
Source: Company, IIFL Research

Figure 3.23: Opex elevated due to distribution and headcount expansion, built CIR of 45% in FY26 vs the management guidance of 41-43%



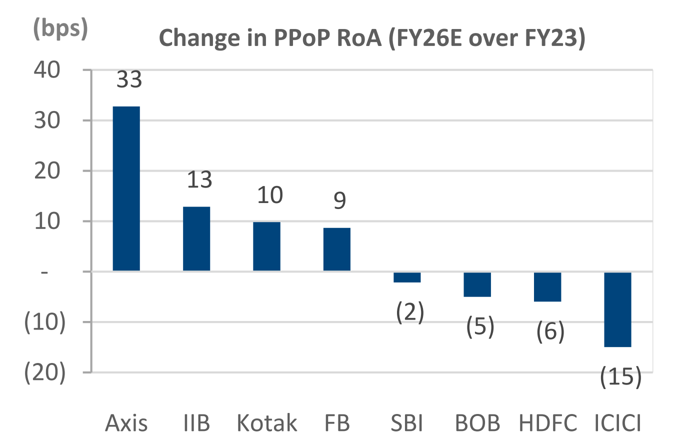
Source: Company, IIFL Research

Figure 3.24: Stable margins and improving cost ratios should drive marginal PPOP ROA expansion



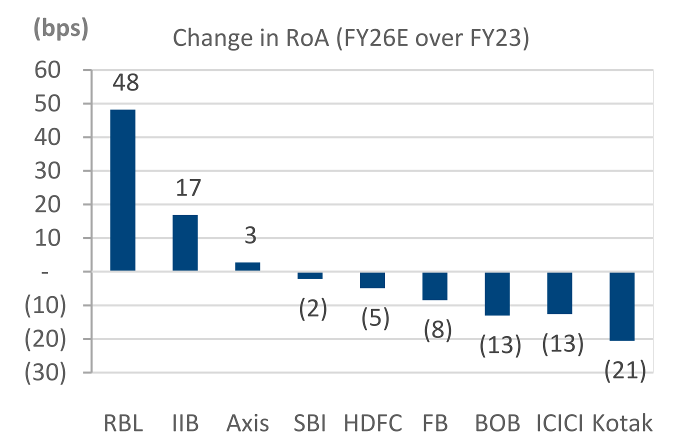
Source: Company, IIFL Research

Figure 3.25: Axis and IIB are expected to deliver higher improvement in PPoP RoA over FY23-26E vs peers…



Source: Company, IIFL Research

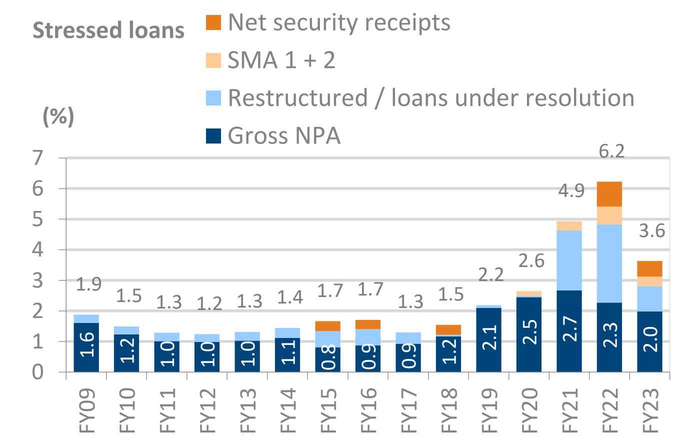
Figure 3.26: ..while only IIB is expected to deliver RoA improvement from FY23 levels (RBL due to lower base)



Source: Company, IIFL Research

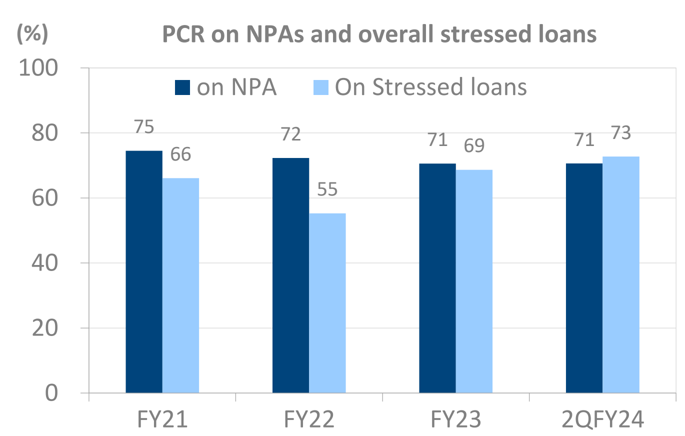
Late cycle recovery in vehicle and MFI; improved PCR and buffer provisions to keep credit costs lower

Figure 3.27:Delayed asset quality recovery relative to peers, as IIB's mass customers were more impacted during Covid; stressed loans started improving from FY23 and should continue to decline



Source: Company, IIFL Research

Figure 3.28: Provision coverage on NPAs and overall stressed loans has improved



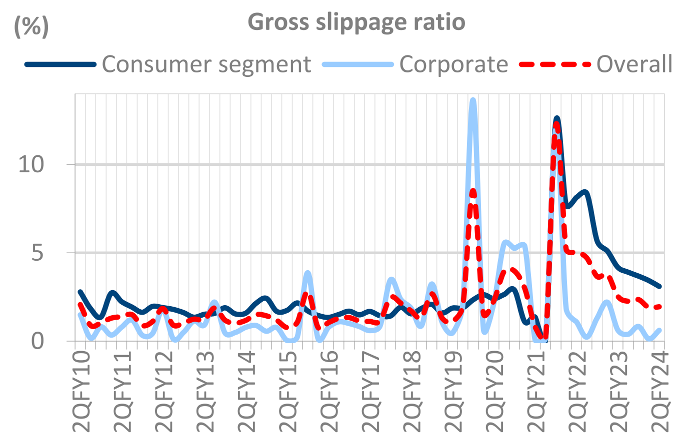
Source: Company, IIFL Research

Figure 3.29: IndusInd Bank – segmental GNPA ratio

GNPA ratio (%)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	2QFY24
CV	1.5	1.2	1.0	1.0	1.4	1.3	1.0	1.0	1.0	1.2	1.9	3.0	1.7	1.1	1.2
Utility	1.1	1.1	1.3	0.9	0.9	1.1	1.2	1.1	1.3	1.3	1.0	1.3	0.4	0.3	0.2
CE	1.6	1.4	1.2	1.2	1.3	1.4	1.3	1.2	1.1	0.7	1.1	1.2	1.1	0.9	0.6
3W	0.4	0.6	1.0	0.8	0.9	0.9	1.0	0.9	1.3	1.4	1.8	2.9	2.1	1.6	2.0
2W	5.2	3.8	3.3	3.0	2.5	2.5	3.0	3.5	3.8	3.8	3.1	6.7	9.2	7.2	7.5
Cars	3.2	1.6	1.0	0.7	0.5	0.6	0.5	0.7	0.7	0.8	0.7	1.3	0.7	0.5	0.6
Tractors	-	-	-	-	-	-	-	0.4	1.3	0.8	1.2	1.2	1.5	1.7	1.0
BBG/LAP	-	-	-	-	0.7	0.3	0.7	0.9	0.6	0.4	1.2	3.4	3.1	3.3	3.3
HL/PL/Others	-	-	-	-	-	-	-	-	-	-	0.9	2.8	1.8	1.4	1.5
Cards	-	-	-	-	1.8	1.2	1.5	1.3	1.6	1.9	1.9	1.6	3.3	2.4	2.6
MFI	-	-	-	-	-	-	-	-	-	-	1.5	1.5	2.5	4.3	4.5
Consumer	**2.1**	**1.6**	**1.4**	**1.2**	**1.3**	**1.0**	**0.9**	**0.9**	**1.0**	**1.0**	**1.5**	**2.5**	**2.3**	**2.4**	**2.4**
Corporate	**0.7**	**0.6**	**0.6**	**0.9**	**1.0**	**0.7**	**0.8**	**0.9**	**1.3**	**3.0**	**3.7**	**3.1**	**2.3**	**1.5**	**1.4**
Total GNPA ratio	**1.2**	**1.0**	**1.0**	**1.0**	**1.1**	**0.8**	**0.9**	**0.9**	**1.2**	**2.1**	**2.5**	**2.7**	**2.3**	**2.0**	**1.9**

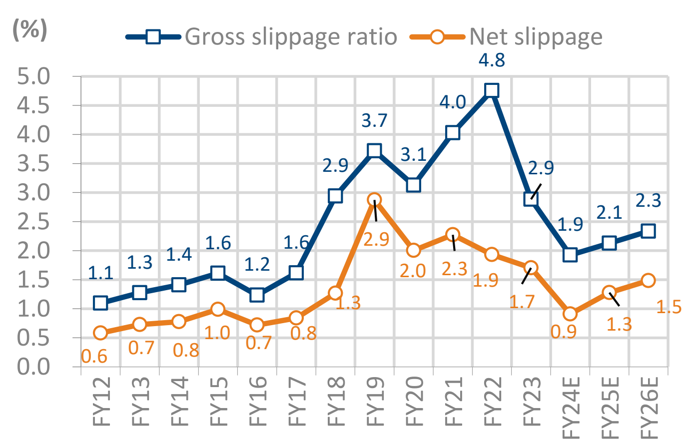
Source: Company, IIFL Research

Figure 3.30: In FY23, elevated corporate slippages during FY19-21 and consumer slippages during FY21-22 (Covid impact) have both improved well



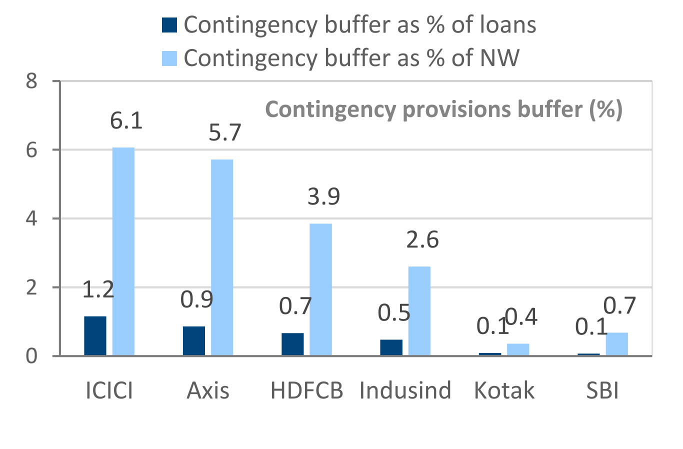
Source: Company, IIFL Research

Figure 3.31: Expect slippages to bottom-out in FY24 and then normalise higher over FY25-26



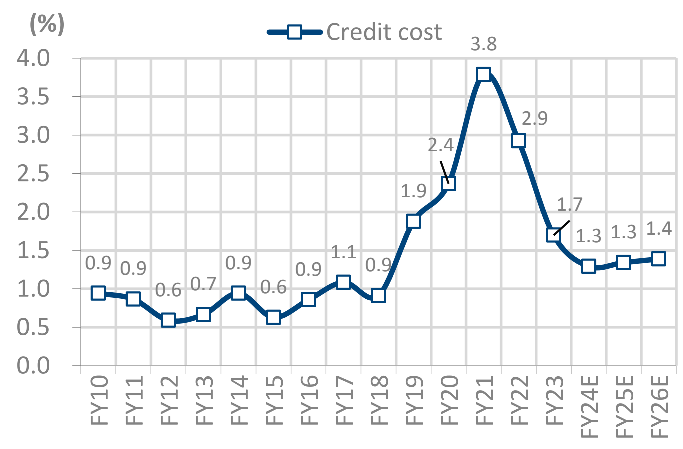
Source: Company, IIFL Research

Figure 3.32: Bank has buffer provisions of 60bps of loans; intends to increase further to absorb the potential ECL impact



Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 3.33: Expect credit cost to average 1.4% over FY24-26E vs last 5yr average of 2.5%



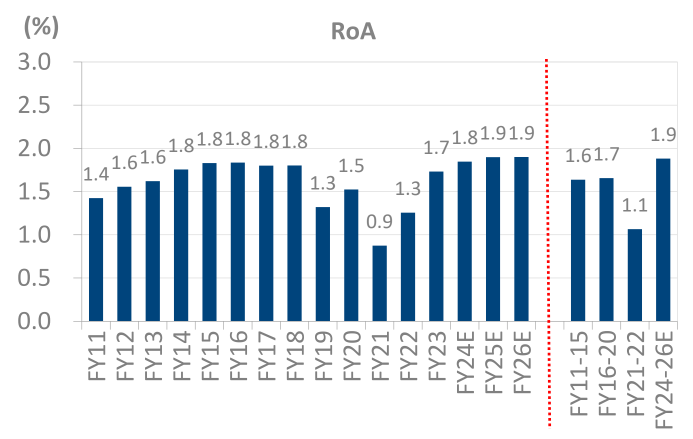
Source: Company, IIFL Research

Figure 3.34: IndusInd Bank – DuPont and key ratios analysis

DuPont analysis	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	10.3	9.9	9.3	9.0	8.6	8.9	9.8	8.7	8.1	8.5	9.4	9.6	9.4
Interest expense	6.7	6.4	5.7	5.2	4.9	5.4	5.7	4.6	4.1	4.4	5.2	5.2	5.1
Net interest income	**3.6**	**3.5**	**3.6**	**3.8**	**3.7**	**3.5**	**4.1**	**4.0**	**3.9**	**4.1**	**4.2**	**4.4**	**4.4**
Fee Income	2.0	2.2	2.3	2.2	2.1	2.0	2.0	1.4	1.5	1.8	1.8	1.8	1.8
Trading Profits	0.3	0.3	0.4	0.4	0.3	0.2	0.4	0.6	0.4	0.1	0.1	0.1	0.1
Total non-interest inc.	2.4	2.6	2.6	2.6	2.4	2.3	2.4	1.9	1.9	1.9	1.9	1.9	1.9
Total revenue	**6.0**	**6.1**	**6.3**	**6.4**	**6.1**	**5.8**	**6.5**	**6.0**	**5.8**	**6.0**	**6.2**	**6.3**	**6.3**
Employee expense	1.0	1.0	1.0	1.0	0.9	0.7	1.0	0.9	0.9	1.0	1.1	1.1	1.1
Other expense	1.7	1.9	2.0	2.0	1.9	1.8	1.8	1.5	1.5	1.7	1.7	1.7	1.7
Total expenses	**2.7**	**2.9**	**2.9**	**3.0**	**2.8**	**2.6**	**2.8**	**2.4**	**2.4**	**2.6**	**2.9**	**2.9**	**2.8**
PPOP	**3.2**	**3.2**	**3.3**	**3.4**	**3.3**	**3.2**	**3.7**	**3.5**	**3.4**	**3.4**	**3.3**	**3.4**	**3.5**
Provisions	0.6	0.4	0.5	0.7	0.6	1.2	1.6	2.4	1.7	1.0	0.8	0.9	0.9
Profit before tax	2.7	2.8	2.8	2.7	2.7	2.0	2.1	1.2	1.7	2.3	2.5	2.5	2.5
Taxes	0.9	0.9	0.9	0.9	0.9	0.7	0.6	0.3	0.4	0.6	0.6	0.6	0.6
ROA	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**	**1.3**	**1.5**	**0.9**	**1.3**	**1.7**	**1.8**	**1.9**	**1.9**
Leverage	9.6	10.0	8.8	8.3	9.0	9.9	9.5	8.6	8.4	8.3	8.4	8.5	8.6
ROE	**16.9**	**18.2**	**16.1**	**15.0**	**16.2**	**13.1**	**14.5**	**7.5**	**10.5**	**14.4**	**15.5**	**16.1**	**16.4**
Key metrics													
Loan growth	24.3	24.8	28.5	27.9	28.2	28.6	10.9	2.8	12.4	21.3	19.4	19.1	18.8
Deposit growth	11.8	22.5	25.4	36.1	19.8	28.5	3.7	26.7	14.6	14.6	16.6	17.3	18.0
Credit-deposit ratio	91.1	92.8	95.1	89.3	95.6	95.7	102.4	83.1	81.5	86.3	88.3	89.7	90.3
Yield on IEA	10.7	10.4	10.0	9.6	9.2	9.5	10.6	9.3	8.6	9.0	9.9	10.0	9.7
Cost of funds	7.7	7.4	6.7	6.2	5.8	6.2	6.6	5.4	4.9	5.2	6.1	6.2	6.0
NIM	**3.7**	**3.7**	**3.9**	**4.1**	**4.0**	**3.8**	**4.4**	**4.4**	**4.2**	**4.4**	**4.5**	**4.6**	**4.5**
Cost-to-income ratio	45.7	48.1	47.0	46.7	45.7	44.2	43.0	40.7	41.7	44.0	46.6	45.8	44.7
GNPA ratio	1.1	0.8	0.9	0.9	1.2	2.1	2.5	2.7	2.3	2.0	1.7	1.6	1.7
NNPA ratio	0.3	0.3	0.4	0.4	0.5	1.2	0.9	0.7	0.6	0.6	0.5	0.5	0.5
Credit cost	**0.9**	**0.6**	**0.9**	**1.1**	**0.9**	**1.9**	**2.4**	**3.8**	**2.9**	**1.7**	**1.3**	**1.3**	**1.4**
Tier 1 ratio	**12.7**	**11.2**	**14.9**	**14.7**	**14.6**	**13.7**	**14.6**	**16.8**	**16.8**	**16.4**	**16.1**	**15.7**	**15.2**
CAR	13.8	12.1	15.5	15.3	15.0	14.2	15.0	17.4	18.4	17.9	17.7	17.2	16.6

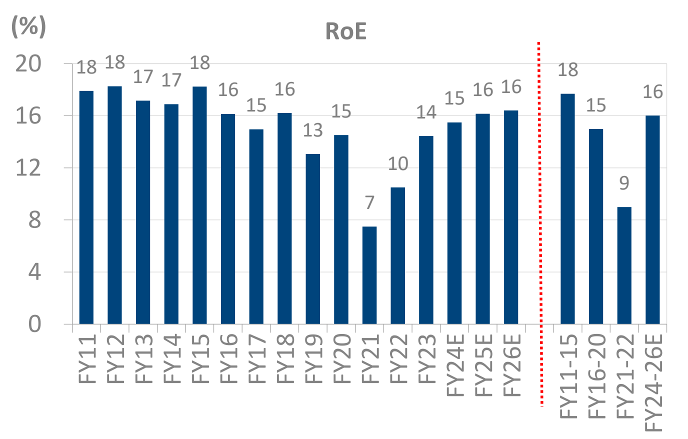
Source: Company, IIFL Research

Figure 3.35: Expect IIB to deliver the highest ever ROAs …



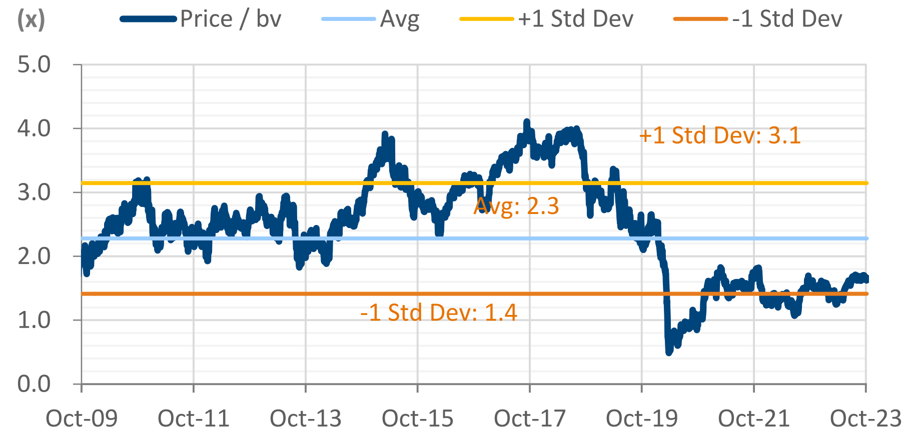
Source: Company, IIFL Research

Figure 3.36: … resulting in mid-teen ROEs; lower than FY10-16 levels due to lower leverage



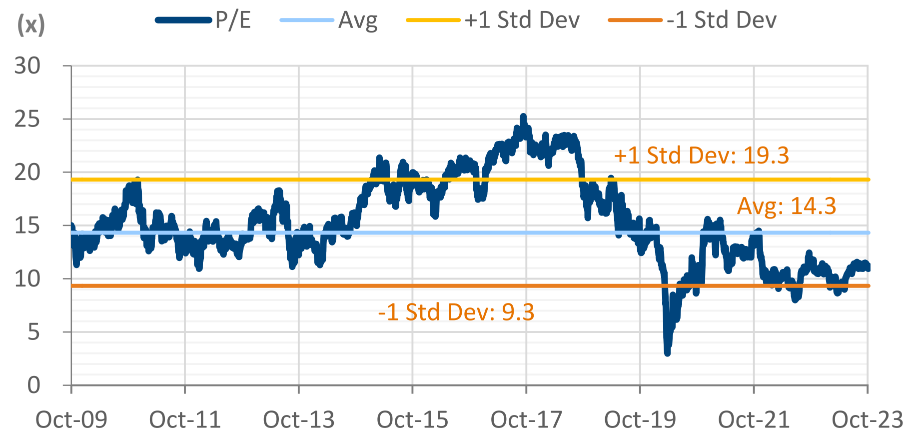
Source: Company, IIFL Research

Figure 3.37: The stock trades at 1YF P/B of 1.7x, which is ~30% below its long-term average of 2.3x



Source: Bloomberg, IIFL Research

Figure 3.38: The stock currently trades at 1YF P/E of 11x, which is ~20% below its long-term average of 14x



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 3.39: IIB – Net interest margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	13.3	12.5	11.8	11.4	10.6	11.0	12.2	11.5	11.1	11.3	12.1	12.1	11.7
Yield on investments	7.2	7.1	6.6	7.0	7.1	6.7	7.2	5.9	5.8	6.1	6.7	6.3	6.1
Yield on bank balances	2.2	4.4	5.3	3.2	3.2	2.3	3.2	2.9	2.6	2.8	2.8	3.0	2.7
Yield on interest earning assets	**10.7**	**10.4**	**10.0**	**9.6**	**9.2**	**9.5**	**10.6**	**9.3**	**8.6**	**9.0**	**9.9**	**10.0**	**9.7**
Cost of deposits	7.9	7.8	7.2	6.5	6.0	6.4	6.8	5.4	4.8	5.3	6.3	6.3	6.1
Cost of borrowings	6.7	5.7	5.1	4.9	4.6	5.3	6.1	5.7	5.5	4.3	5.0	5.3	5.1
Cost of interest bearing liabilities	**7.7**	**7.4**	**6.7**	**6.2**	**5.8**	**6.2**	**6.6**	**5.4**	**4.9**	**5.2**	**6.1**	**6.2**	**6.0**
Interest spread	3.0	3.1	3.2	3.4	3.4	3.3	4.0	3.9	3.7	3.8	3.8	3.8	3.7
Net interest margin	**3.7**	**3.7**	**3.9**	**4.1**	**4.0**	**3.8**	**4.4**	**4.4**	**4.2**	**4.4**	**4.5**	**4.6**	**4.5**
Loan-to-deposit ratio	91.1	92.8	95.1	89.3	95.6	95.7	102.4	83.1	81.5	86.3	88.3	89.7	90.3
Incremental loan-to-deposit ratio	168.8	100.4	104.1	73.5	127.2	95.9	284.8	10.8	70.6	118.9	100.6	97.5	93.7
CASA ratio	32.5	34.1	35.2	36.9	44.0	43.1	40.4	41.7	42.7	40.1	38.9	38.5	38.5

Source: Company, IIFL Research

Figure 3.40: IIB – Efficiency and productivity ratio analysis

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	60	57	58	59	61	61	63	68	67	68	69	69	69
Fee income / total non-interest income	85	86	85	84	88	90	83	71	80	94	94	94	94
Fee income / total revenue	34	37	36	34	34	35	30	23	26	30	29	29	29
Non-interest income / revenue	40	43	42	41	39	39	37	32	33	32	31	31	31
Employee expense / total opex	37	34	34	32	32	29	34	37	37	37	39	40	41
Other expense / total opex	63	66	66	68	68	71	66	63	63	63	61	60	59
Cost to income ratio (CIR)	**45.7**	**48.1**	**47.0**	**46.7**	**45.7**	**44.2**	**43.0**	**40.7**	**41.7**	**44.0**	**46.6**	**45.8**	**44.7**
Cost to avg. asset ratio	2.73	2.93	2.95	3.00	2.79	2.56	2.80	2.43	2.43	2.64	2.88	2.89	2.82
Provisions / PPOP	18	13	16	20	18	38	43	67	51	31	25	26	27
Tax rate	34	34	34	34	34	34	28	25	25	25	25	25	25
ROA	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**	**1.3**	**1.5**	**0.9**	**1.3**	**1.7**	**1.8**	**1.9**	**1.9**
Core ROA	1.8	1.8	1.8	1.8	1.8	1.3	1.5	0.9	1.3	1.7	1.8	1.9	1.9
ROE	**16.9**	**18.2**	**16.1**	**15.0**	**16.2**	**13.1**	**14.5**	**7.5**	**10.5**	**14.4**	**15.5**	**16.1**	**16.4**
Core ROE	16.9	18.2	16.1	15.0	16.2	13.1	14.5	7.5	10.5	14.4	15.5	16.1	16.4
Productivity ratios													
No. of branches	**602**	**801**	**1,000**	**1,200**	**1,400**	**1,665**	**1,911**	**2,015**	**2,265**	**2,606**	**2,867**	**3,153**	**3,469**
Loans / branch (mn)	1,102	1,143	1,104	1,131	1,208	1,331	1,242	1,112	1,186	1,280	1,328	1,439	1,554
Deposits / branch (mn)	1,210	1,231	1,161	1,266	1,264	1,392	1,213	1,339	1,456	1,484	1,504	1,605	1,721
CASA deposits / branch (mn)	394	420	409	466	556	601	490	559	622	595	585	618	663
No. of employees	**15,808**	**19,109**	**22,958**	**25,589**	**25,729**	**27,574**	**30,790**	**29,528**	**33,582**	**38,179**	**47,342**	**50,656**	**55,721**
Employees / branch	26	24	23	21	18	17	16	15	15	15	17	16	16
Avg. remuneration per employee (mn)	0.59	0.56	0.59	0.63	0.69	0.70	0.97	1.01	1.10	1.16	1.29	1.32	1.42
Loans / employee (mn)	35	36	39	44	56	68	67	72	71	76	73	81	88
Deposits / employee (mn)	38	39	41	49	59	71	66	87	87	88	83	91	97
CASA deposits / employee (mn)	12	13	14	18	26	30	26	36	37	35	32	35	38
Net profit / employee (mn)	0.9	0.9	1.0	1.1	1.4	1.2	1.4	1.0	1.4	1.9	1.9	2.1	2.2

Source: Company, IIFL Research

Figure 3.41: IIB – Asset quality analysis

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	6,208	5,629	7,768	10,549	17,049	39,474	51,467	57,950	55,172	58,263	58,992	66,358	83,854
NNPA (mn)	1,841	2,105	3,218	4,389	7,457	22,483	18,866	14,766	15,298	17,150	17,108	19,111	23,982
GNPA ratio	**1.1**	**0.8**	**0.9**	**0.9**	**1.2**	**2.1**	**2.5**	**2.7**	**2.3**	**2.0**	**1.7**	**1.6**	**1.7**
NNPA ratio	**0.3**	**0.3**	**0.4**	**0.4**	**0.5**	**1.2**	**0.9**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
Slippage ratio	1.4	1.6	1.2	1.6	2.9	3.7	3.1	4.0	4.8	2.9	1.9	2.1	2.3
Upgrades & Recoveries ratio	0.6	0.6	0.5	0.8	1.7	0.8	1.1	1.8	2.8	1.2	1.0	0.9	0.8
Net Slippage ratio	0.8	1.0	0.7	0.8	1.3	2.9	2.0	2.3	1.9	1.7	0.9	1.3	1.5
Write-off ratio	0.4	1.1	0.4	0.5	0.7	1.3	1.4	2.0	2.1	1.6	0.9	1.1	1.1
PCR (Excl technical write off)	**70.4**	**62.6**	**58.6**	**58.4**	**56.3**	**43.0**	**63.3**	**74.5**	**72.3**	**70.6**	**71.0**	**71.2**	**71.4**
Credit cost (% of avg. loans)	**0.9**	**0.6**	**0.9**	**1.1**	**0.9**	**1.9**	**2.4**	**3.8**	**2.9**	**1.7**	**1.3**	**1.3**	**1.4**
Total provisions as % of loans	1.2	1.0	1.0	1.2	1.2	1.3	2.0	3.7	3.8	3.1	-	-	-
Net NPA as % of net worth	2.0	2.0	1.8	2.1	3.1	8.4	5.4	3.4	3.2	3.1	2.8	2.7	2.9

Source: Company, IIFL Research

Figure 3.42: IIB – capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	12.7	11.2	14.9	14.0	13.4	12.1	13.2	15.5	16.0	15.9	15.7	15.4	15.0
AT1 ratio	-	-	-	0.7	1.2	1.6	1.3	1.3	0.8	0.4	0.4	0.3	0.3
Tier 1 ratio	12.7	11.2	14.9	14.7	14.6	13.7	14.6	16.8	16.8	16.4	16.1	15.7	15.2
Tier 2 ratio	1.1	0.9	0.6	0.6	0.4	0.5	0.5	0.6	1.6	1.5	1.6	1.5	1.4
Capital adequacy ratio	13.8	12.1	15.5	15.3	15.0	14.2	15.0	17.4	18.4	17.9	17.7	17.2	16.6
RWA intensity	77.3	81.5	83.0	80.3	78.1	77.2	84.2	75.2	73.4	73.6	73.8	74.8	75.8

Source: Company, IIFL Research

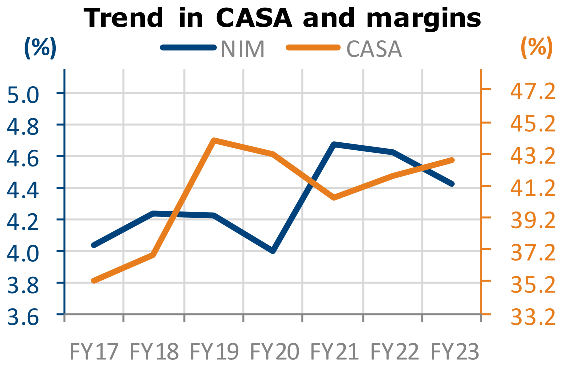
Figure 3.43: Management profile

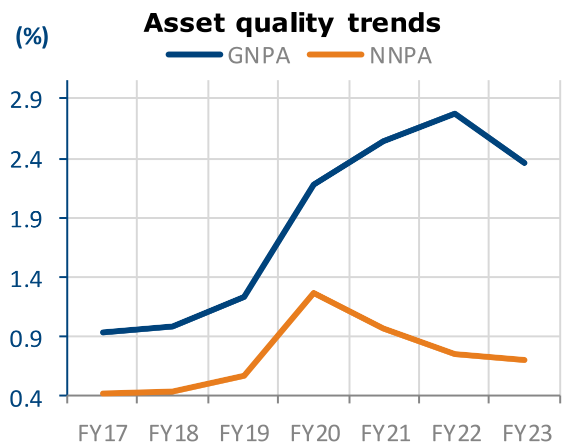
Key Management Personnel		Profile
Sumant Kathpalia	Managing Director & CEO	• Mr. Kathpalia is a Chartered Accountant and Graduate in B Com (Hons.) from Hindu College, Delhi University. • He is a banker, with years of rich experience in large multinational banks such as Citibank, Bank of America and ABN AMRO; prior to joining IndusInd Bank. Mr. Kathpalia has successfully led several leadership roles in his career spanning over 35 years, with focus on driving business growth and innovation.
Arun Khurana	Deputy CEO	• Mr. Khurana has 29+ years of banking experience. He began his banking career with Hong Kong and Shanghai Banking Corporation (HSBC) followed by ABN AMRO, which was subsequently acquired by the Royal Bank of Scotland (RBS). • He is a Chartered Accountant.
Sanjeev Anand	Head - Corporate, Commercial, Rural & Inclusive Banking	• Mr. Anand is an Engineer from IIT Roorkee and holds an MBA from McGill University, Montreal Canada. He is an experienced corporate banker with 31 years of work experience, of which, he spent 29 years in the Banking space. • Prior to IndusInd Bank, he was with ABN AMRO as Head of Commercial Banking.
Ramesh Ganesan	Head - Technology and Corporate & Global Market Operations	• Mr. Ganesan is an MBA from Mumbai University and has over 35 years of experience in the Banking industry, mainly in the areas of Transaction Banking, Relationship Banking, Corporate Operations, Digital Banking, Technology and Financial Institutions Relationship. • Prior to joining IndusInd Bank, he was the Executive Director and Head of Transaction Banking at ABN AMRO Bank in India.
Ramaswamy Meyyappan	Chief Risk Officer	• Mr. Meyyappan is a qualified Chartered Accountant and MBA (University of Florida, USA) with around 32 years of experience in the Financial Services sector. • Over the last 22 years, his banking experience encompasses working with foreign banks like Standard Chartered Bank, ABN AMRO Bank N.V. and J.P. Morgan Chase Bank, N.A., as well as at IndusInd Bank.
Gobind Jain	Chief Financial Officer	• Mr. Jain is a qualified Chartered Accountant, Chartered Financial Analyst, Financial Risk Manager and CPA Australia. • His previous stint was with Kotak Mahindra Bank (KMB), where he served as the Joint President, Group accounts and MIS. He served KMB for over 15 years.

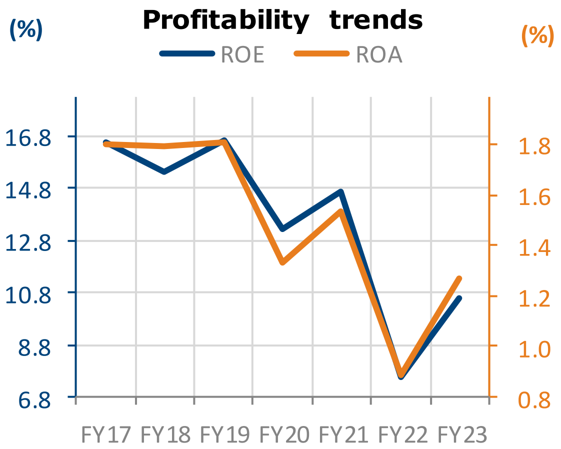
Source: Company, IIFL Research

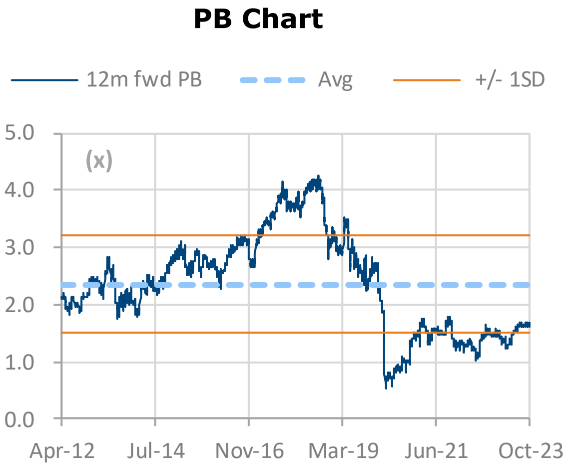
Company snapshot

Background: IIB is the fifth-largest private-sector bank in India. The key customer segments of the bank include large corporates, SME and retail including commercial vehicle financing. Until FY08, IIB struggled to establish itself as a significant player in the commercial banking business. A new management team then headed by Romesh Sobti, the then CEO of the RBS, was inducted in February 2008. The new management undertook organisational restructuring to create strong client- and product-based business units. After Sobti, Sumanth Kathpalia, head of consumer business took over as MD and CEO in Mar'20. Since then, the bank has consistently gained market share with loans/deposits, reaching a 2.1/1.9% market share respectively and has a network of 2,606 branches and 2,878 ATMs as of FY23.









Assumptions

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	12.4	21.3	19.4	19.1	18.8
Deposit Growth (%)	14.6	14.6	16.6	17.3	18.0
Yield on IEA (%)	8.6	9.0	9.9	10.0	9.7
Cost of Funds (%)	4.9	5.2	6.1	6.2	6.0
Net Interest Margin (%)	4.2	4.4	4.5	4.6	4.5
Cost/income ratio (%)	41.7	44.0	46.6	45.8	44.7
Gross NPLs as % of loans (%)	2.3	2.0	1.7	1.6	1.7
Credit cost (%)	2.9	1.7	1.3	1.3	1.4
Return on Average Assets (%)	1.3	1.7	1.8	1.9	1.9
Return on Average Equity (%)	10.5	14.4	15.5	16.1	16.4

Source: Company data, IIFL Research

Management

Name	Designation
Sunil Mehta	Chairman
Sumant Kathpalia	MD & CEO
Arun Khurana	Deputy CEO

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**150.0**	**175.9**	**207.9**	**248.0**	**286.7**
Non-interest income	**73.4**	**81.7**	**94.8**	**109.0**	**128.5**
Fee Income	58.8	76.9	88.7	102.0	120.4
Portfolio gains	14.6	4.9	6.1	7.0	8.1
Others	0.0	0.0	0.0	0.0	0.0
Total operating income	**223.5**	**257.6**	**302.7**	**357.1**	**415.2**
Total operating expenses	93.1	113.5	141.0	163.4	185.7
Pre provision operating profit	**130.3**	**144.2**	**161.7**	**193.7**	**229.5**
Total provisions	66.0	44.9	41.1	50.8	62.6
Profit before tax	**64.3**	**99.3**	**120.7**	**142.9**	**166.9**
Taxes	16.3	24.9	30.2	35.7	41.7
Net profit-pre exceptional	**48.0**	**74.4**	**90.5**	**107.2**	**125.2**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**48.0**	**74.4**	**90.5**	**107.2**	**125.2**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	2,390.5	2,899.2	3,461.8	4,124.4	4,900.1
Placements to other banks	83.9	138.0	132.0	205.5	241.2
Cash & equivalents	602.0	429.7	352.1	411.0	482.4
Investments	709.3	830.8	1,023.4	1,130.3	1,326.7
Total interest-earning assets	**3,785.7**	**4,297.8**	**4,969.4**	**5,871.3**	**6,950.4**
Fixed assets	19.3	20.8	22.9	24.7	26.7
Other assets	214.7	259.8	230.2	179.5	125.6
Total assets	**4,019.7**	**4,578.4**	**5,222.4**	**6,075.5**	**7,102.7**
Customer deposits	2,933.5	3,361.2	3,920.6	4,600.0	5,428.0
Borrowings	473.2	490.1	480.3	537.9	602.5
Total interest-bearing liabilities	**3,406.7**	**3,851.3**	**4,400.9**	**5,137.9**	**6,030.5**
Non-interest-bearing liabilities	132.7	177.0	203.6	228.0	255.3
Total liabilities	**3,539.4**	**4,028.3**	**4,604.5**	**5,365.9**	**6,285.8**
Total Shareholders' equity	**480.3**	**550.0**	**617.9**	**709.6**	**816.9**
Total liabilities & equity	**4,019.7**	**4,578.4**	**5,222.4**	**6,075.5**	**7,102.7**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	81.5	86.3	88.3	89.7	90.3
Loan Growth	12.4	21.3	19.4	19.1	18.8
Deposit Growth	14.6	14.6	16.6	17.3	18.0
Total Assets Growth	10.8	13.9	14.1	16.3	16.9
Profitability Ratios (%)					
Net Interest Margin	4.2	4.4	4.5	4.6	4.5
ROA	1.3	1.7	1.8	1.9	1.9
ROE	10.5	14.4	15.5	16.1	16.4
Non-Int Income as % of Total Income	32.9	31.7	31.3	30.5	30.9
Net Profit Growth	64.0	54.9	21.5	18.5	16.8
FDEPS Growth	63.7	54.7	21.4	18.5	16.8
Efficiency Ratios (%)					
Cost to Income Ratio	41.7	44.0	46.6	45.8	44.7
Salaries as % of Non-Interest costs	37.3	36.8	39.2	39.6	40.5

Ratio analysis - II

Y/e 31 Mar, Consolidated	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	2.3	2.0	1.7	1.6	1.7
NPL coverage ratio	72.3	70.6	71.0	71.2	71.4
Total prov charges as % avg loans	2.9	1.7	1.3	1.3	1.4
Net NPLs as % of net loans	0.6	0.6	0.5	0.5	0.5
Capital Adequacy Ratios (%)					
Total CAR	18.4	17.9	17.7	17.2	16.6
Tier I capital ratio	16.8	16.4	16.1	15.7	15.2

Source: Company data, IIFL Research

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CMP	**Rs1695**
Target 12m	**Rs1800 (6%)**
Market cap (US$ m)	**40,415**
Bloomberg	**KMB IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	2013/1647
Shares o/s (m)	1987
Daily volume (US$ m)	86
Dividend yield FY25ii (%)	0.1
Free float (%)	74.0

Shareholding pattern (%)

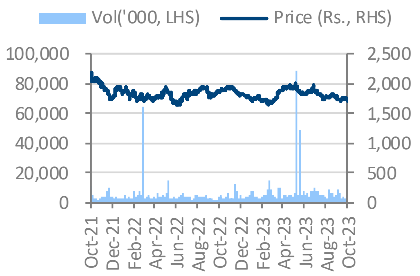
Promoters	26.0
Pledged (as % of promoter share)	0.0
FII	37.8
DII	19.7

Price performance (%)

	1M	3M	1Y
Kotak Mahindra Bank	(3.9)	(10.5)	(8.1)
Absolute (US$)	(3.9)	(11.8)	(8.7)
Rel.to Nifty	0.2	(5.8)	(14.9)

CAGR (%)	3 yrs	5 yrs
EPS (Rs)	21.0	20.4

Stock movement



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Kotak Mahindra Bank REDUCE

Dwindling fortunes; initiate with REDUCE

We believe Kotak's distinct and superior earnings drivers are dissipating, and the franchise is becoming homogenous vs the larger peers. Based on our 'Race for Deposits' analysis, Kotak is a laggard among peers; we expect its COF to cease to be the best in class. NIM contraction and normalisation in credit cost should drive 20 bps of ROA decline. We initiate with REDUCE rating and SOTP-based TP of Rs1,800 (6% upside).

Differentiated earnings drivers dissipating: Historically, Kotak has had a distinct and superior franchise vs peers – high share of secured retail loans, the strongest liability franchise translating to the lowest CoF and best-in-class asset quality. However, our analysis shows this differentiation dissipating: (i) Loan mix becoming homogenous with retailisation across banks. (ii) At 11%, Kotak's share of unsecured loans is comparable vs 11-14% for peers. (iii) Weakening liability franchise (falling retail deposits, CASA ratio, stagnant market share, low transaction flows). (iv) Credit cost gap vs peers, closed. In the 'Race for Deposits', we expect Kotak to be a laggard among the larger peers as it runs the most concentrated branch strategy, has <1% branch market share (MS) in both 'fast growing' and 'high potential' districts, and lower deposit compounding potential due to the already-high share of matured branches in urban and metro regions. With 140bps of funding-cost increase over FY23-25E, we expect cost of deposit ceasing to be the best in class.

Expect ROAs to decline and cease to be the best in class: The highest share of EBLR-linked loans (57%) and the strongest growth in unsecured loans aided 228 bps of asset yield expansion in this cycle. Our residual re-pricing analysis shows 20bps of spread compression ahead. This, coupled with relatively higher pressure on loan yields due to potential rate-cuts in FY25E, should drive 25bps of NIM decline over FY24-26E. Credit cost should normalise from the current low levels (avg. 60bps vs 22bps in FY22-23) as net slippages inch up (lower recoveries and rising share of unsecured loans).

Risk-reward unfavourable; initiate with REDUCE: Our FY26E EPS est. are ~3% below consensus due to lower NIM. While the stock has underperformed 18% in the last one year, we find valuation of 2.5x core P/B and PEG ratio of 1.5 (vs. 0.6-1.2 for peers) still expensive in the context of structurally lower ROAs. With the new CEO appointment, we would be watchful of any senior management exits. **Key upside risk**: higher NIM. Key downside risk: value-dilutive acquisition.

Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	168.2	215.5	256.7	290.1	326.9
PPOP	120.5	148.5	192.6	213.2	240.3
Reported PAT	**85.7**	**109.4**	**132.5**	**142.4**	**157.0**
EPS (Rs)	43.2	55.1	66.7	71.7	79.0
Growth (%)	20.9	27.5	21.1	7.5	10.2
IIFL vs consensus (%)			3.2	0.2	(4.6)
PER (x)	39.2	30.8	25.4	23.6	21.5
Book value (Rs)	363	418	482	551	627
PB (x)	**4.7**	**4.1**	**3.5**	**3.1**	**2.7**
CAR (%)	22.7	21.8	21.2	20.9	20.8
ROA (%)	2.1	2.4	2.5	2.3	2.2
ROE (%)	**12.7**	**14.1**	**14.8**	**13.9**	**13.4**

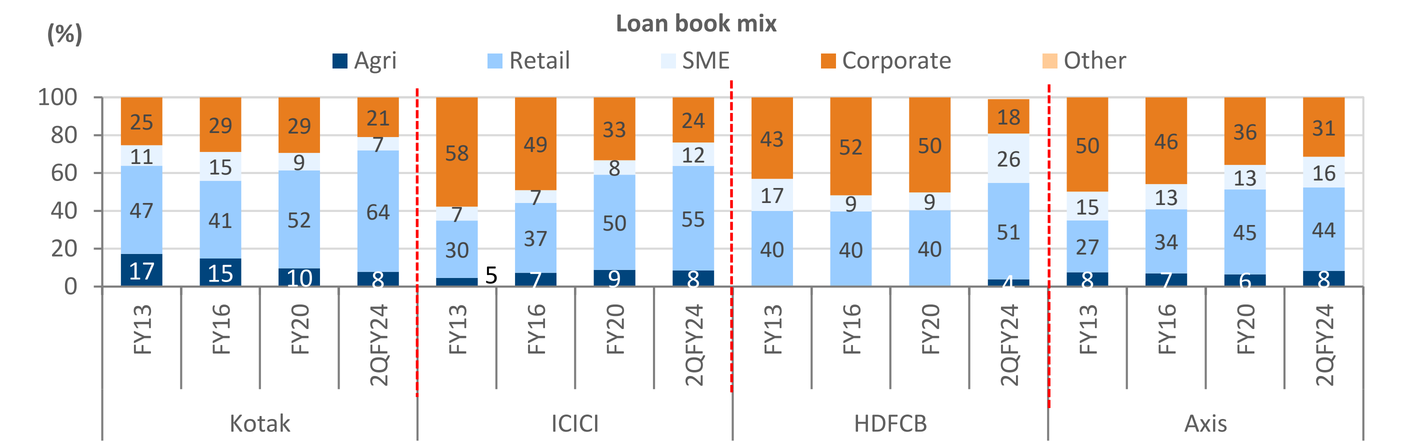
Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

Differentiated earnings drivers vis-à-vis the larger peers dissipating

Historically, Kotak has had a distinct and superior franchise vs peers – high share of secured retail loans, the strongest liability franchise translating to the lowest funding cost and best-in-class asset quality. However, our analysis shows this differentiation dissipating: (i) Loan mix becoming homogenous with retailisation across banks. (ii) At 11%, Kotak's share of unsecured loan mix is now comparable vs 11-14% for peers. (iii) Weakening liability franchise (falling retail deposits, CASA ratio, stagnant market share, low transaction flows). (iv) Credit cost gap vs peers closed. We expect Kotak to be a laggard among the larger peers in the 'Race for Deposits' as it runs the most concentrated branch strategy (no branch in 88% of pin codes where SBI is present), has <1% branch MS in both 'fast growing' and 'high potential' districts, and lower deposit compounding potential due to the already-high share of matured branches in urban and metro regions. With the cost of deposit no longer being the best in class, we expect 140bps of funding-cost increase over FY23-25E.

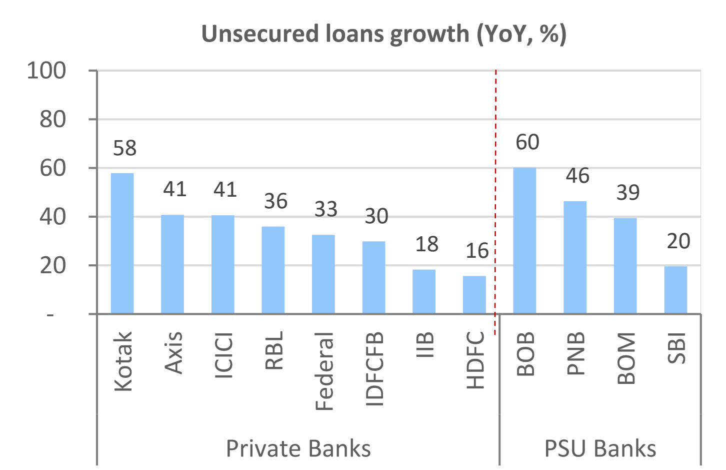
Loan book becoming increasingly homogenous; unsecured loans growing the fastest

Figure 4.1: Loan mix becoming increasingly homogenous, with retail loan share now at 45-65% across large Private banks



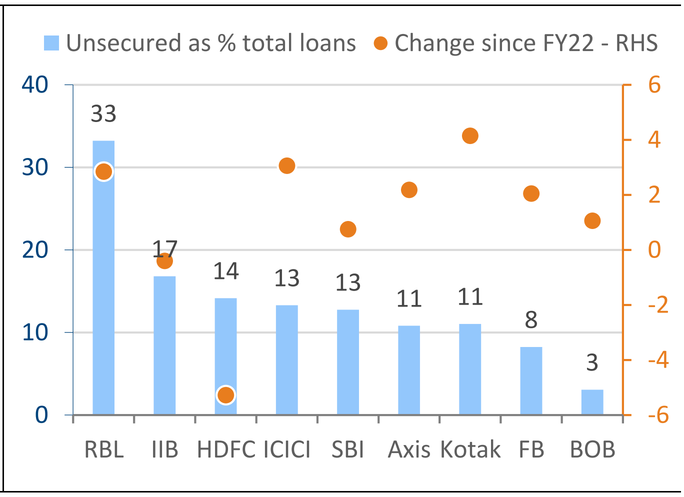
Source: Company, IIFL Research

Figure 4.2: Among banks, Kotak is growing unsecured loans the fastest ....



Source: Company, IIFL Research

Figure 4.3: ... resulting in the highest increase in share of unsecured loans



Source: Company, IIFL Research. Note: SBI and BoB as on 1QFY24

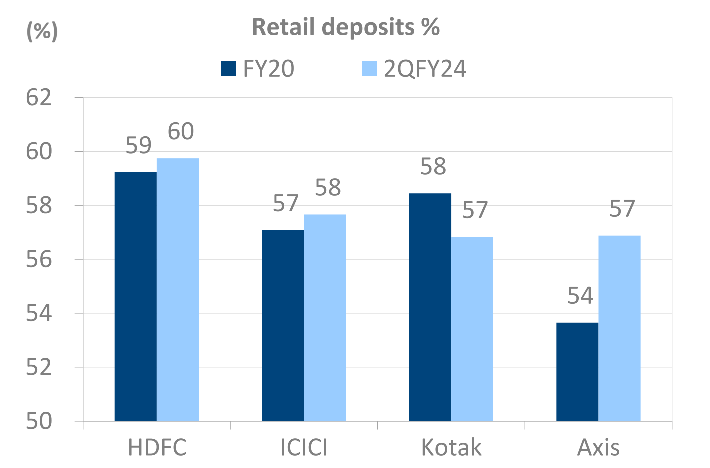
Liability franchise no longer the best; likely to weaken further relative to peers

Figure 4.4: While Kotak ranks 4th in our liability franchise scorecard, its ranking is falling and is only marginally ahead of Axis

On a scale of (1-9)	Weights	HDFCB	ICICI	Kotak	Axis	IndusInd	SBI	BOB	Federal	RBL
Market share	20%									
Deposit market share	4%	8	6	4	5	3	9	7	2	1
change in last 3Y	4%	9	8	2	7	6	2	1	2	2
Branch market share	4%	7	6	3	5	4	9	8	2	1
change in last 3Y	4%	9	7	4	6	8	5	1	2	3
NEFT MS - Deposit MS	3%	9	8	6	7	4	1	2	3	5
RTGS MS - Deposit MS	3%	9	7	6	8	4	1	2	3	5
Key liability ratios	35%									
Liability mix - share of deposits	5%	4	8	9	1	3	7	5	6	2
CASA ratio	10%	6	7	9	8	4	5	3	1	1
Retail deposits (per LCR)	10%	7	5	4	3	2	8	6	9	1
Liquidity coverage ratio	5%	5	1	2	3	7	9	8	4	6
Cost of funds	5%	6	8	9	4	1	7	5	3	2
Productivity ratios	15%									
Deposit / Branch (Rs.mn)	8%	9	7	8	5	2	6	1	4	3
CASA / Branch (Rs. mn)	8%	9	7	8	6	3	5	2	1	4
Branch analysis	30%									
Fast-growing districts	10%	7	6	4	5	3	9	8	2	1
High Potential districts	10%	7	6	3	5	2	9	8	4	1
Vintage analysis	10%	6	5	4	7	8	2	3	1	9
Weighted Average scale	100%	7.1	6.2	5.4	5.3	3.8	6.3	4.7	3.2	2.8
Ranking		1	3	4	5	7	2	6	8	9

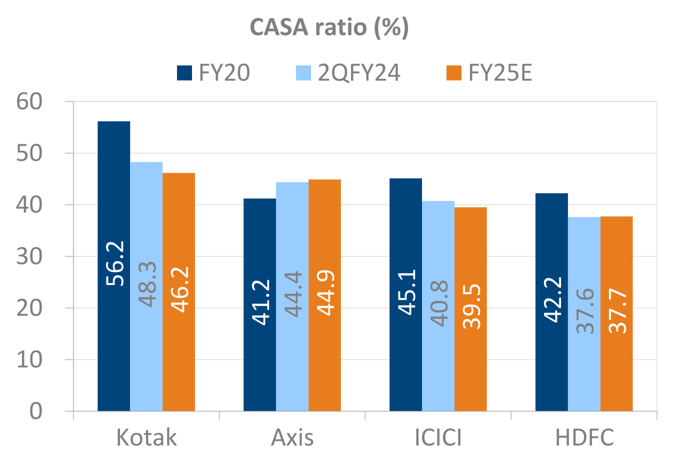
Source: Company, IIFL Research. Note: The ranking of each parameter is an ordinal ranking of 1-9 (9 being the best) on the 1QFY24 reported numbers. The rankings are not fractional rankings relative to each other.

Figure 4.5: Share of retail deposits has declined for Kotak vs FY20, but has improved for the peer Private banks



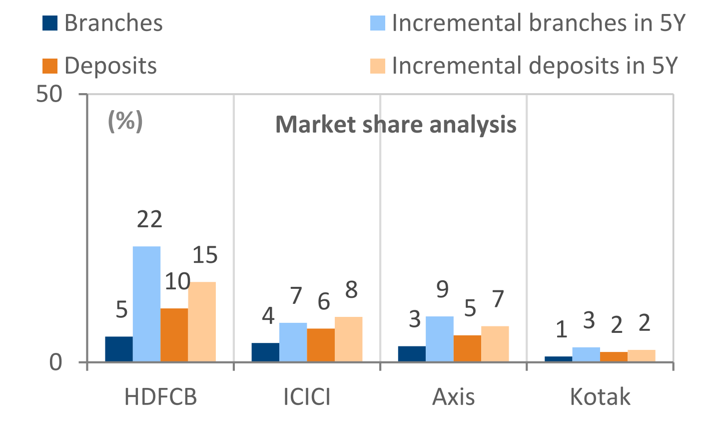
Source: Company, IIFL Research

Figure 4.6: Kotak's CASA ratio has deteriorated significantly; we expect its gap vs ICICI and Axis to reduce



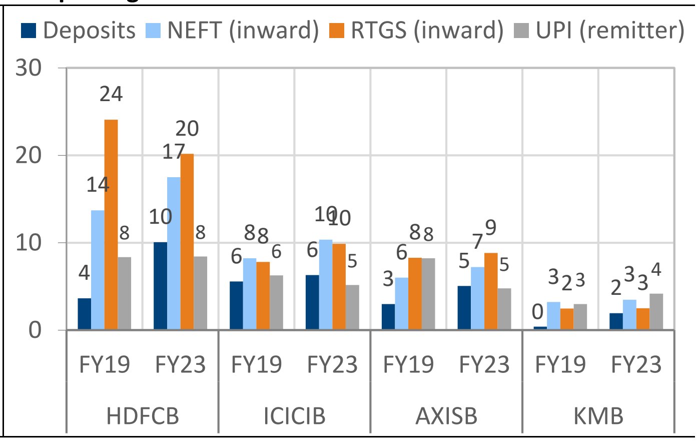
Source: Company, IIFL Research

Figure 4.7: Despite low deposit MS, Kotak has barely gained any incremental deposit MS in the last 5yrs



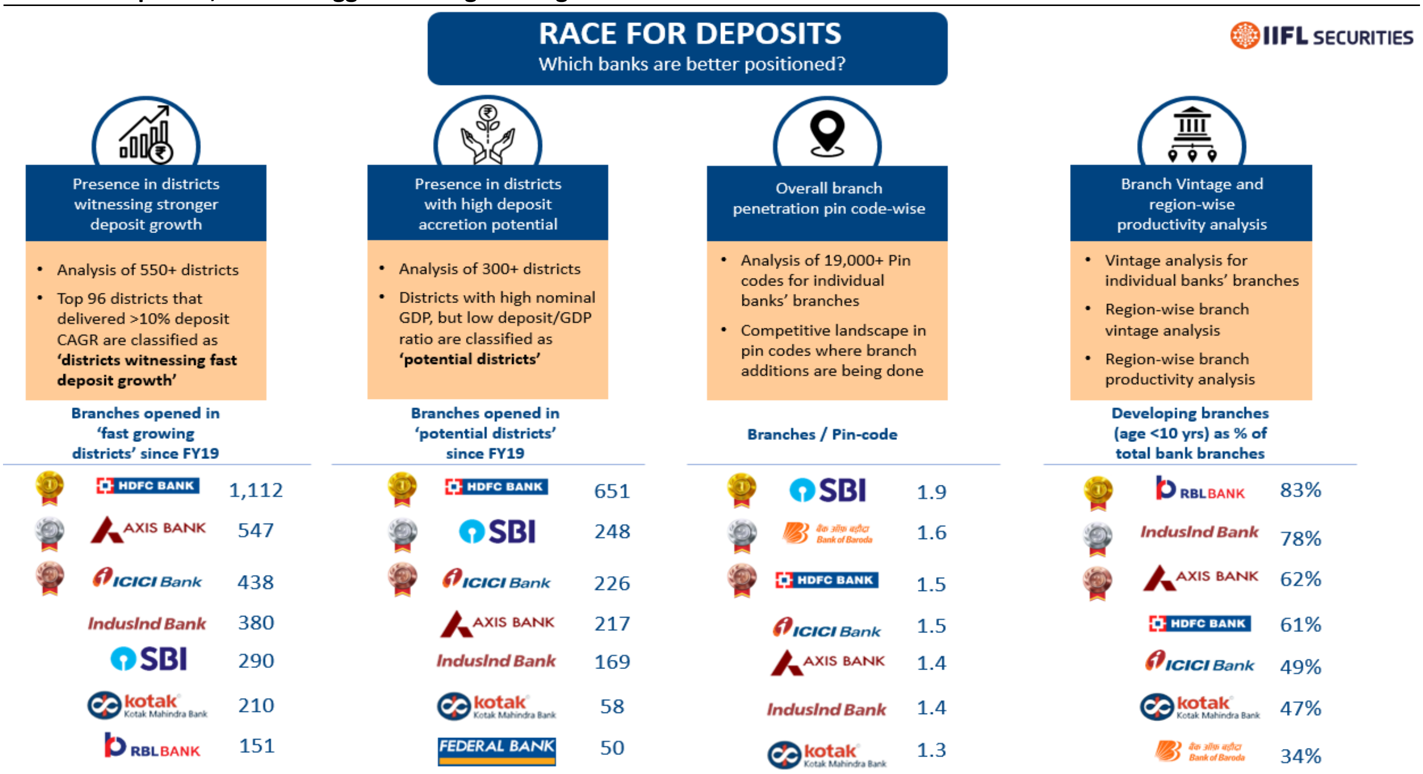
Source: RBI, Company, IIFL Research

Figure 4.8: Despite high retail deposits, Kotak lags the peers in capturing customers' transaction flows



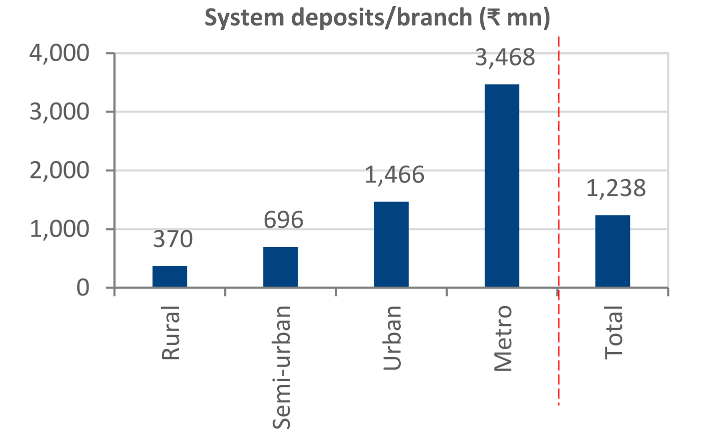
Source: RBI, NPCI, IIFL Research

Figure 4.9: SBI/BOB among Public banks, and HDFC/ICICI/Axis (in this order) among Private banks should be the winners in the 'Race for Deposits'; Kotak a laggard among the larger Private banks



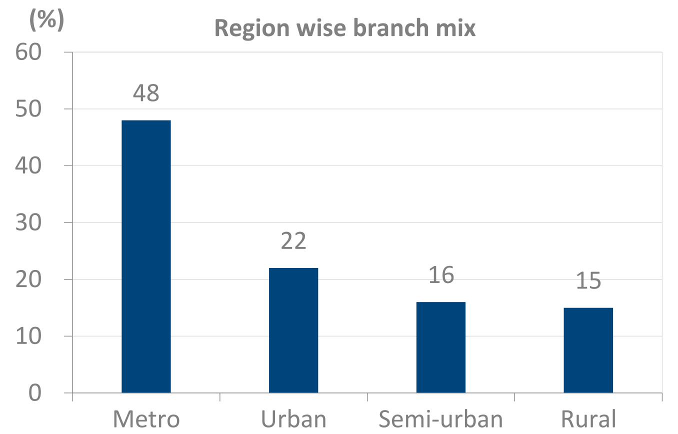
Source: IIFL Research

Figure 4.10: Deposit-accretion potential inherently higher in urban and metro regions …



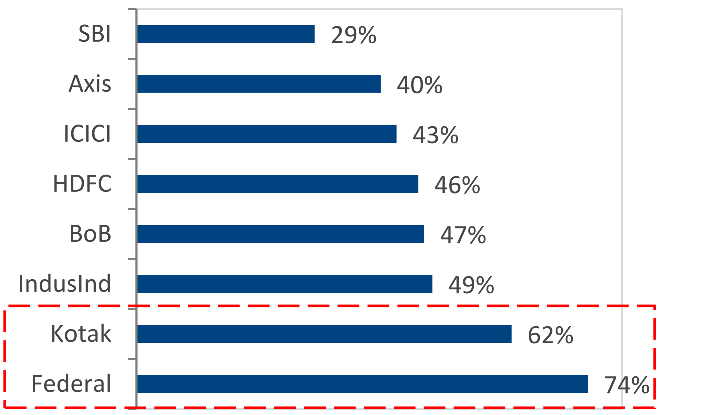
Source: RBI, SLBC, IIFL Research

Figure 4.11: … and thus, Kotak's historical strategy of opening branches predominantly in these regions made sense



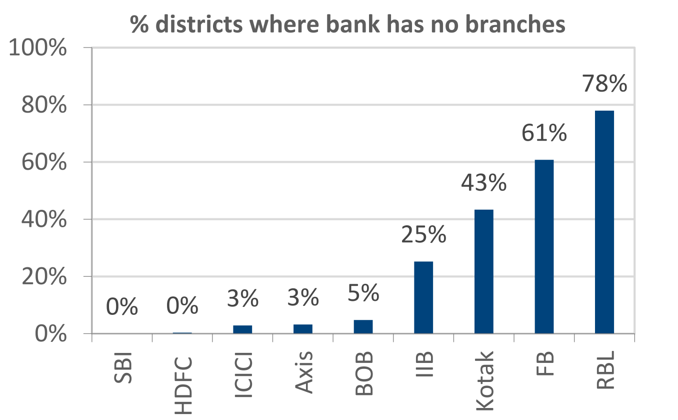
Source: RBI, SLBC, IIFL Research

Figure 4.12: Deposit concentration in Top 3 states - Kotak and Federal have the highest concentration



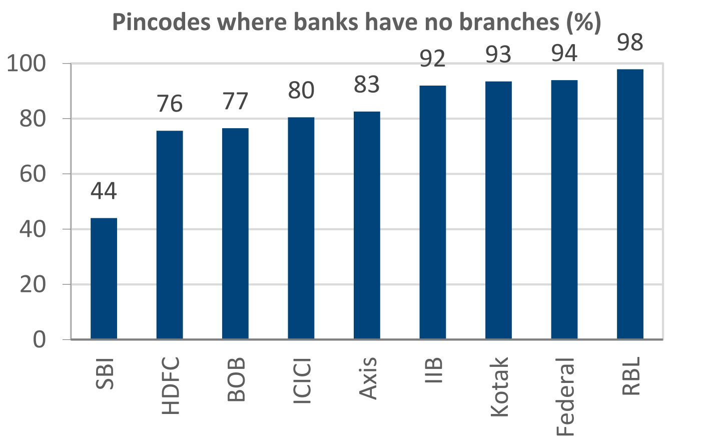
Source: RBI, SLBC, IIFL Research

Figure 4.13: Kotak does not have any branch in 43% of 550 districts i.e. high branch concentration



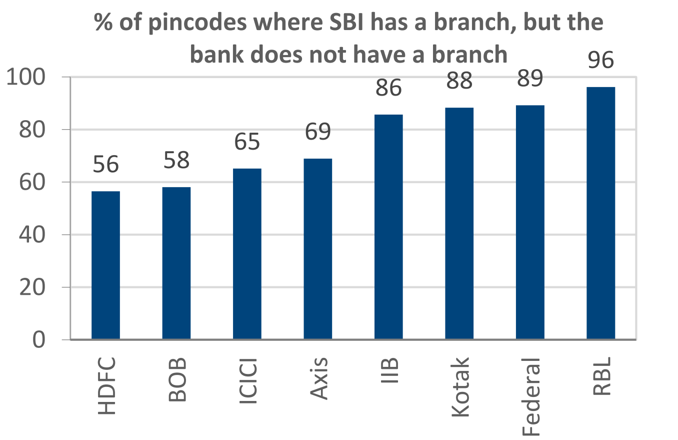
Source: RBI, SLBC, IIFL Research

Figure 4.14: Kotak does not have any branch in 93% of pin codes in India …



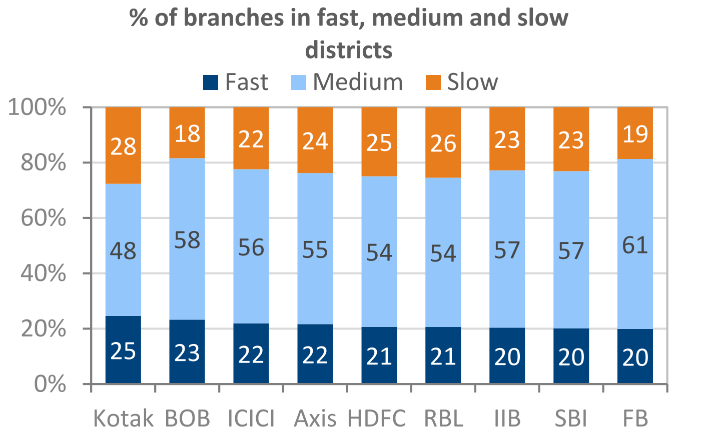
Source: RBI, IIFL Research

Figure 4.15: …put differently, Kotak does not have a branch in 88% of pin codes, where SBI has a branch



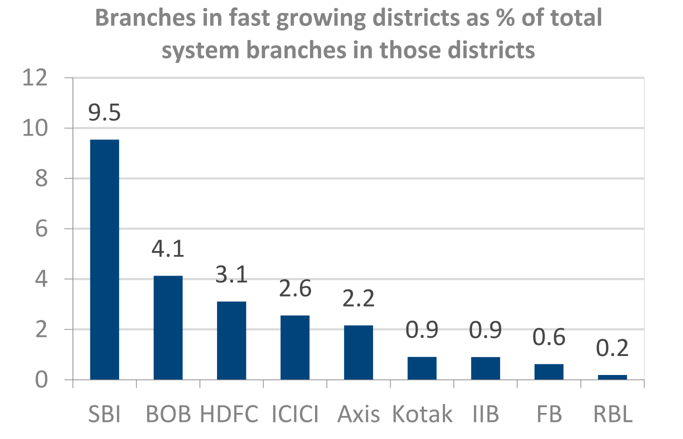
Source: RBI, IIFL Research

Figure 4.16: Kotak has the highest share of its branches in 'fast' and 'slow' growing districts …



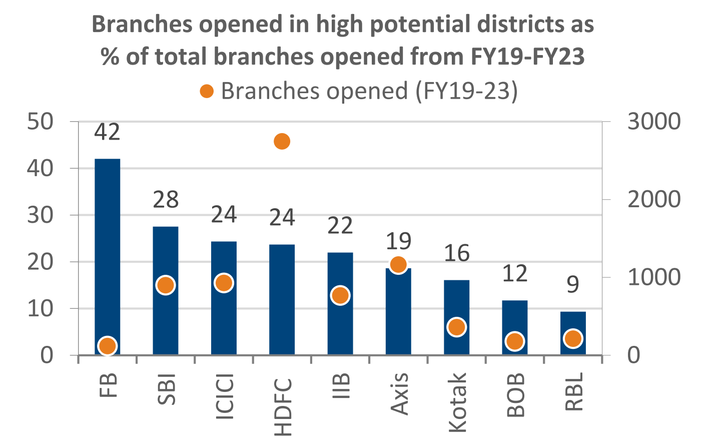
Source: RBI, SLBC, IIFL Research

Figure 4.17: … but has <1% branch MS in the 'fast growing districts'



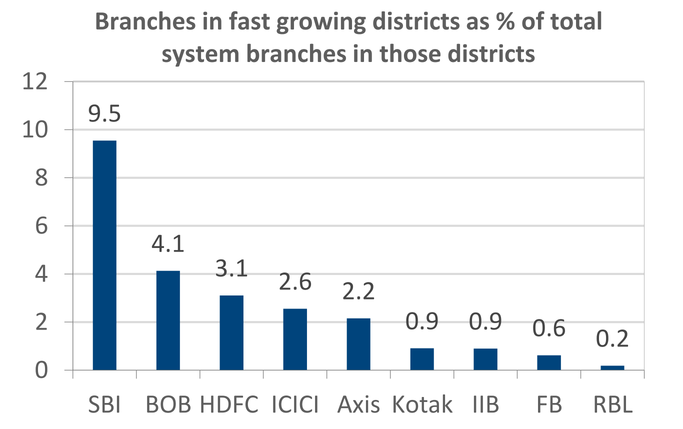
Source: RBI, SLBC, IIFL Research

Figure 4.18: Kotak's branch addition strategy still not be geared towards 'high potential districts' …



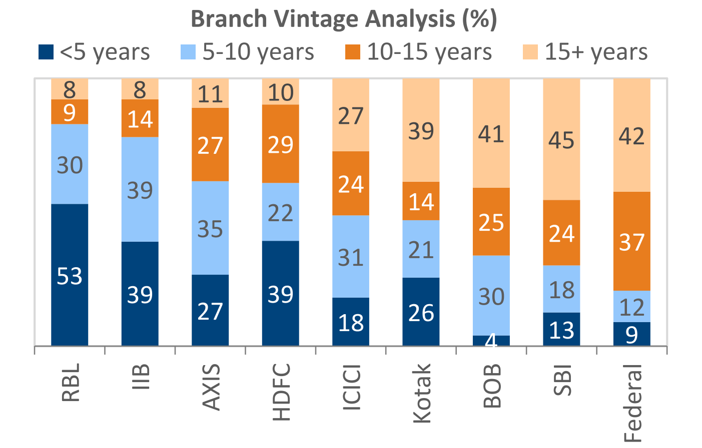
Source: RBI, SLBC, IIFL Research

Figure 4.19: … and has one of the lowest branch MS in these 'high potential districts'



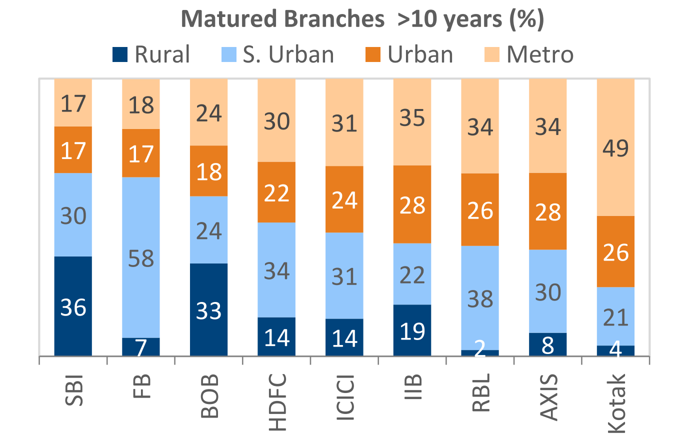
Source: RBI, SLBC, IIFL Research

Figure 4.20: Kotak, BOB, SBI and Federal have low share of 'developing' branches, thereby limiting the deposit compounding potential as the branches mature



Source: Company data, IIFL Research

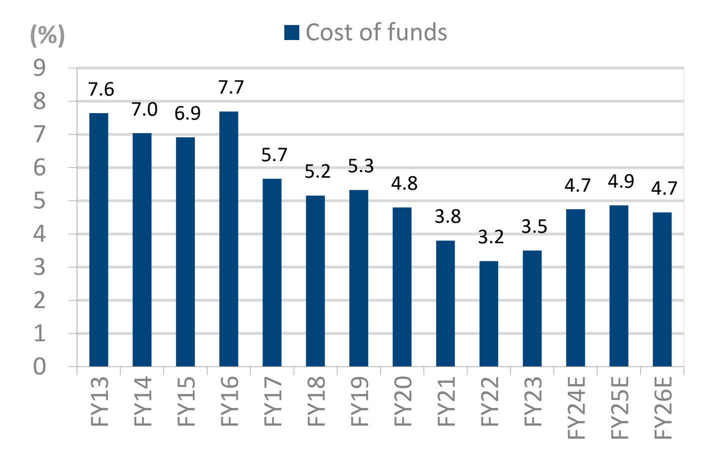
Figure 4.21: Banks with higher share of 'matured branches' in urban/metro regions have already benefitted – Kotak has high share of matured branches in these regions



Source: Company data, IIFL Research

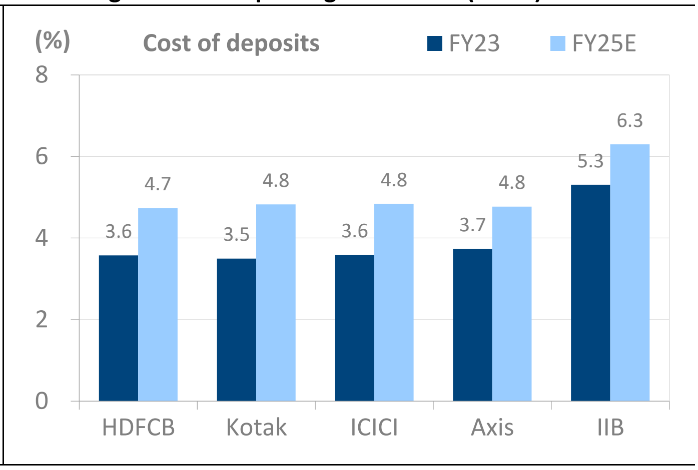
Deposit cost will no longer be the best in class

Figure 4.22: Expect funding cost to increase by 115 bps from the FY23 level …



Source: Company, IIFL Research

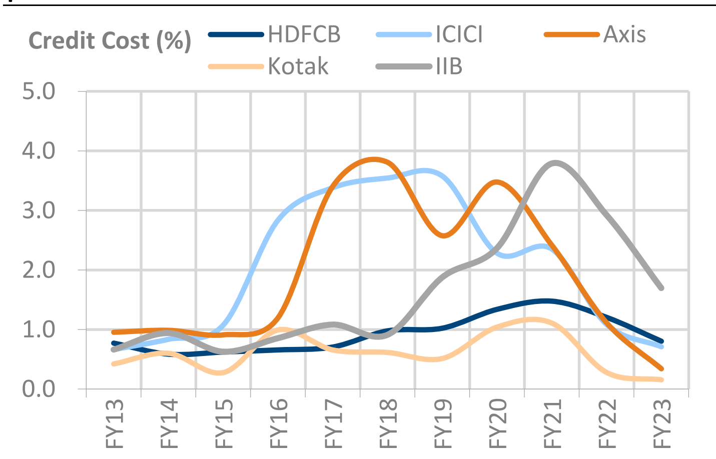
Figure 4.23: … the cost of deposit gap relative to peers narrowing and will stop being the lowest (HDFC)



Source: Company, IIFL Research

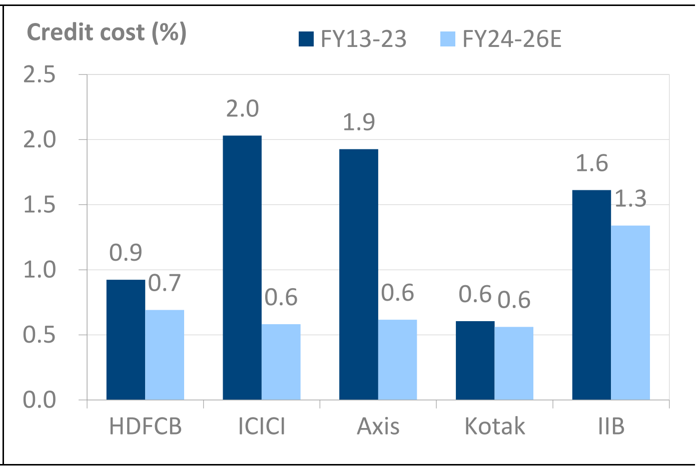
Credit-cost gap relative to peers has closed

Figure 4.24: Kotak has historically demonstrated the best underwriting and least volatility in credit costs vis-à-vis peers …



Source: Company, IIFL Research

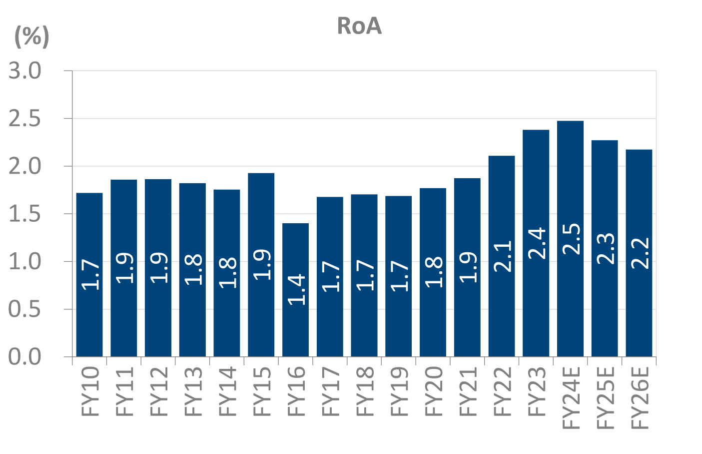
Figure 4.25: … however, given the benign asset quality environment, credit-cost gap relative to peers has closed



Source: Company, IIFL Research

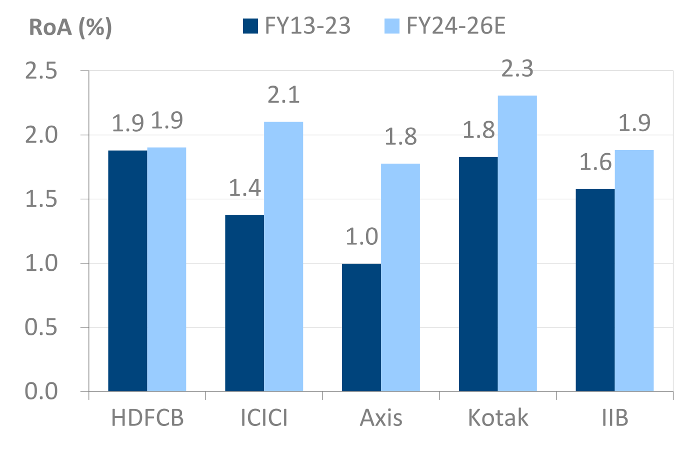
Expect ROAs to decline and cease to be the best in class

Figure 4.26: Expect ROAs to decline by 20 bps …



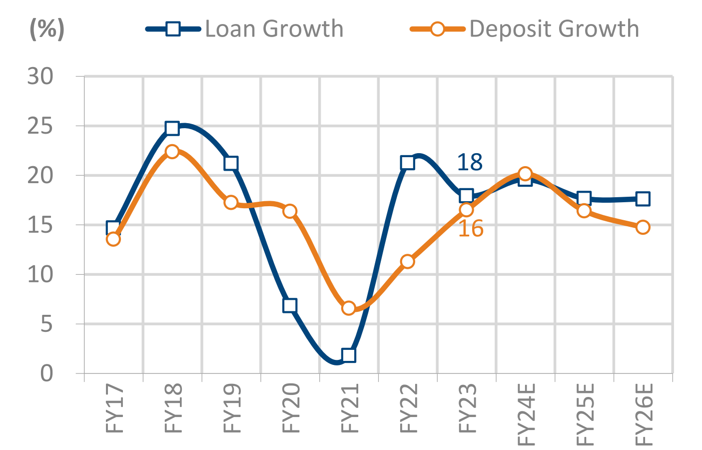
Source: Company, IIFL Research

Figure 4.27: … which should narrow the profitability gap relative to peers



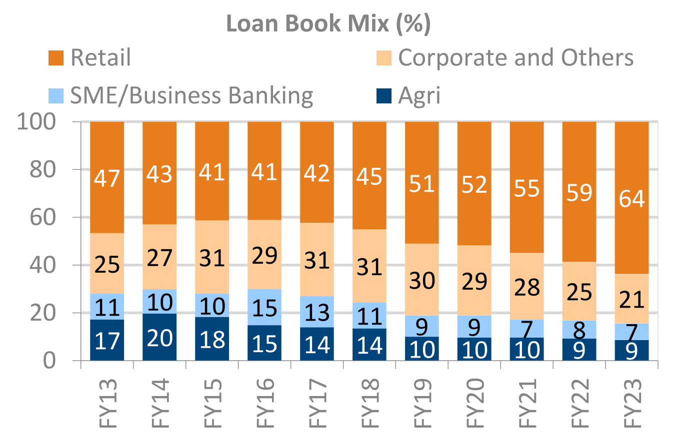
Source: Company, IIFL Research

Figure 4.28: Expect Kotak to clock high-teen loan and deposit growth over FY24-26E



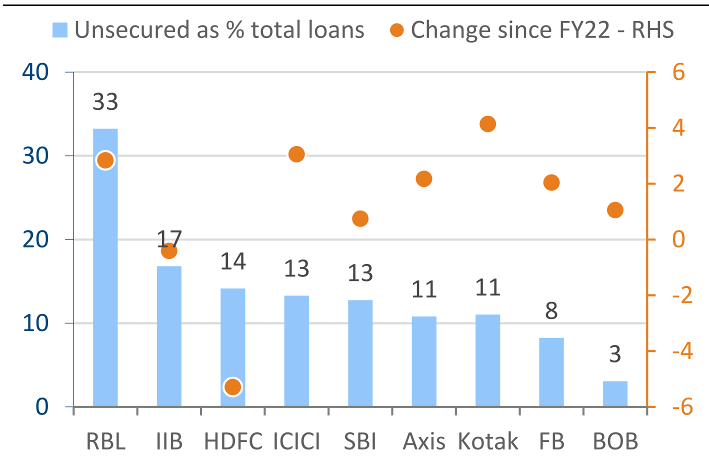
Source: Company, IIFL Research.

Figure 4.29: Share of retail in the loan mix increasing, led by faster growth in unsecured loans



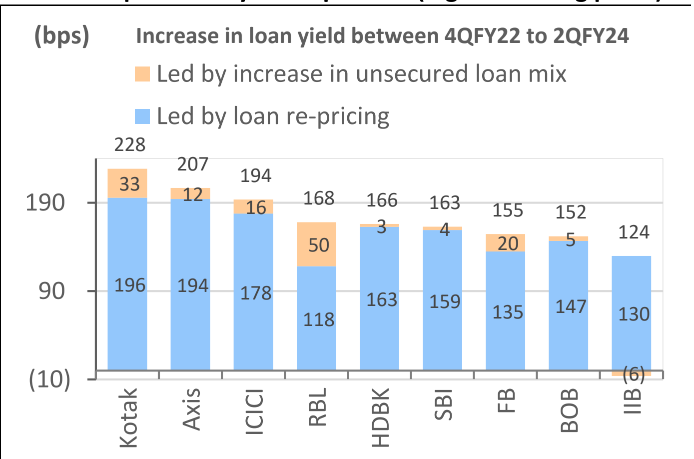
Source: Company, IIFL Research

Figure 4.30: Since FY22, share of higher-yielding unsecured loans has increased the most for Kotak …



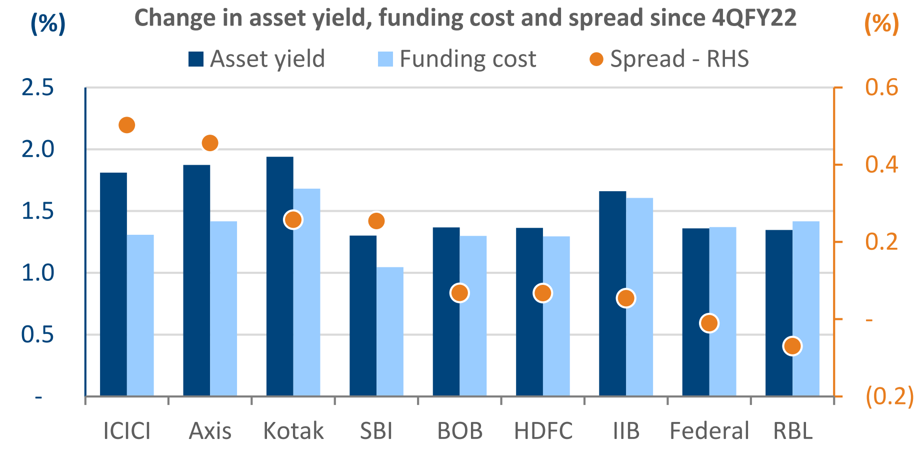
Source: Company, IIFL Research.

Figure 4.31: … which aided loan yields by 33 bps, out of the total 228 bps of loan yield expansion (highest among peers)



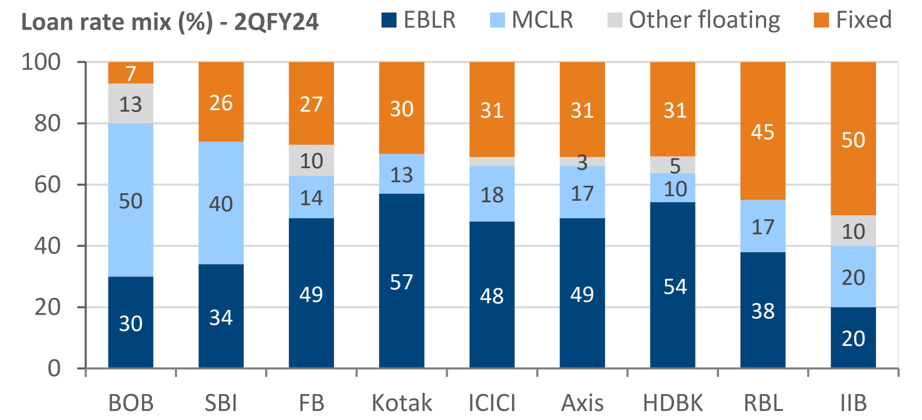
Source: Company, IIFL Research

Figure 4.32: Since 4QFY22, the overall interest spread has widened by 30 bps, which is in the middle of the pack among banks under our coverage



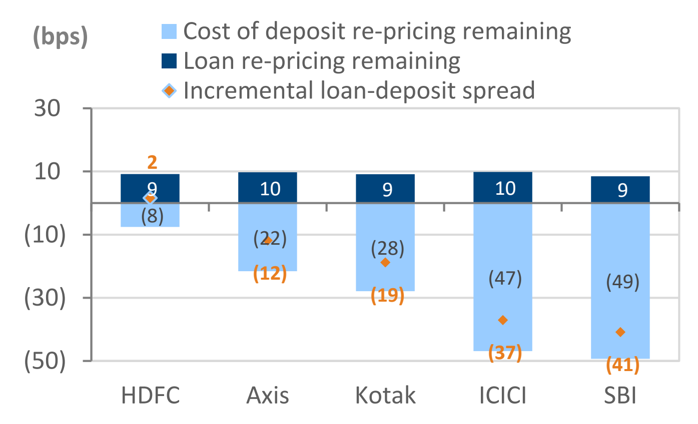
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24, HDFC adjusted for merger impact

Figure 4.33: Highest share of EBLR book aided Kotak's NIMs in the interest-rate upcycle, but should also impact the asset yields the most when the rate-cuts start from FY25



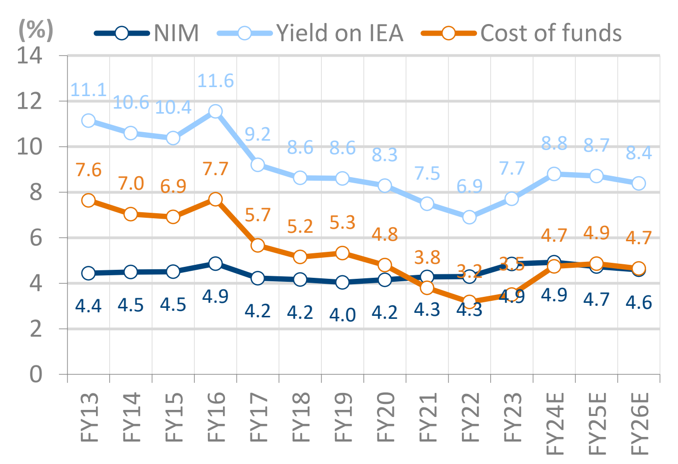
Source: Company, IIFL Research, Note – SBI and BoB as on 1QFY24, Assumed for merged HDFC Bank

Figure 4.34: Expect Kotak and ICICI to witness the highest spread compression among private peers



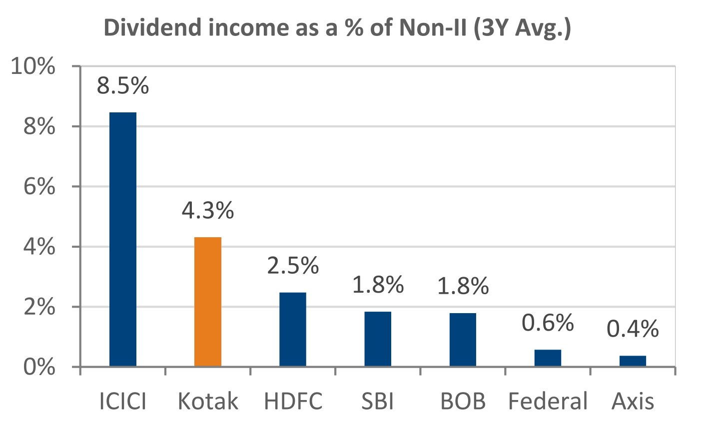
Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 4.35: Expect 30 bps NIM contraction over FY25-26E, due to pressure on asset yields from the rate-cuts and elevated cost of deposits



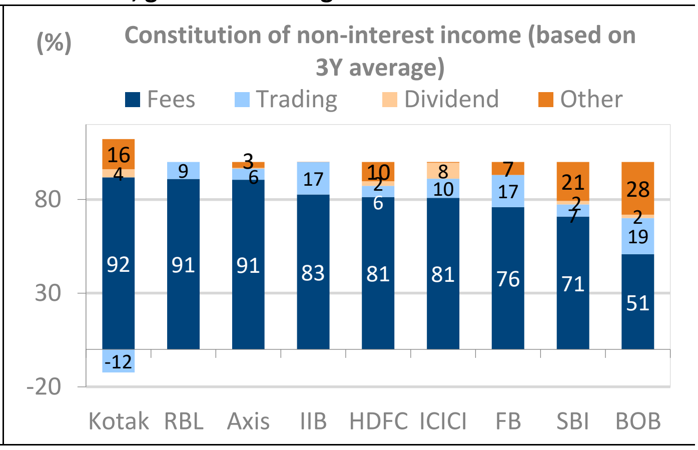
Source: Company, IIFL Research

Figure 4.36: Dividend income from subsidiaries contributes 4% on an average to non-interest income



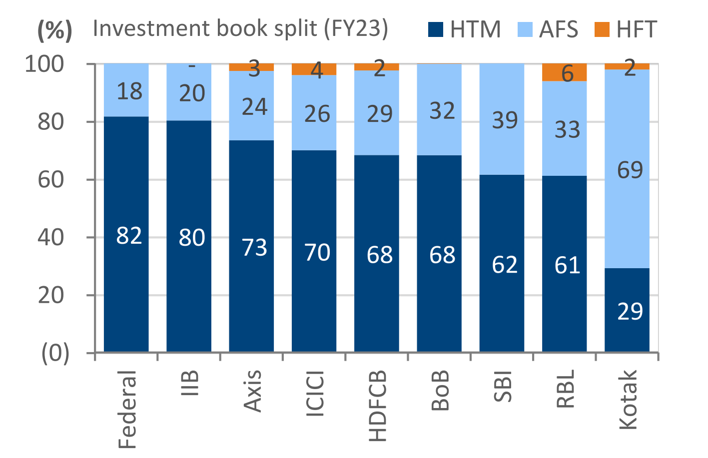
Source: Company, IIFL Research.

Figure 4.37: Kotak also has a higher share of core fee income in its non-II, given the trading losses



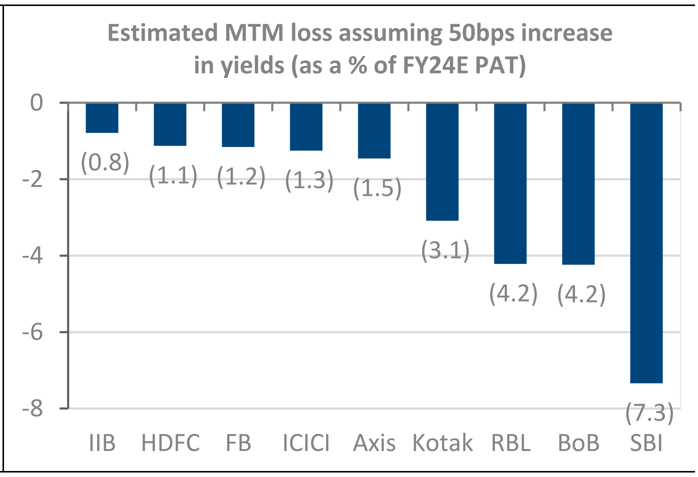
Source: Company, IIFL Research

Figure 4.38: Kotak has the highest share of available for sale (AFS) book at ~70% ...



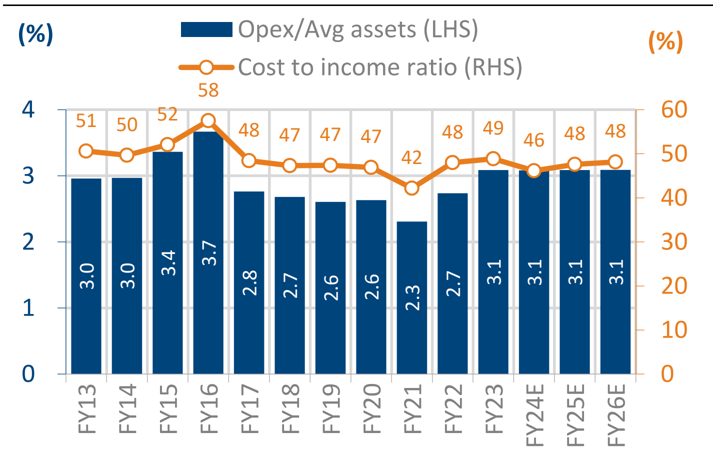
Source: Company, IIFL Research.

Figure 4.39: ... and hence, is more sensitive to rate hikes



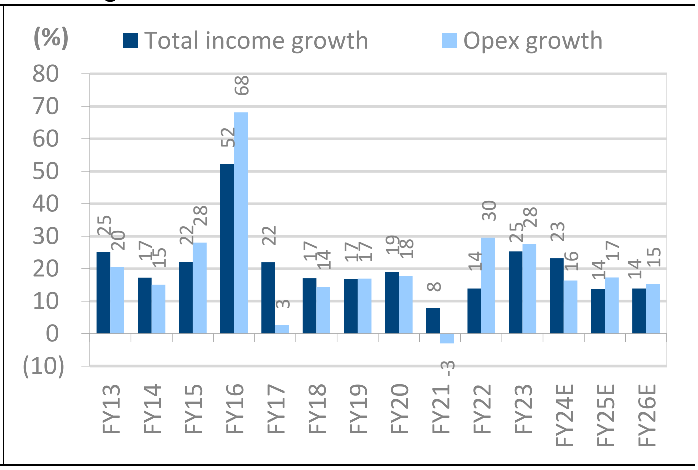
Source: Company, IIFL Research estimates

Figure 4.40: Cost ratios to remain sticky as the bank continues to invest in retail businesses



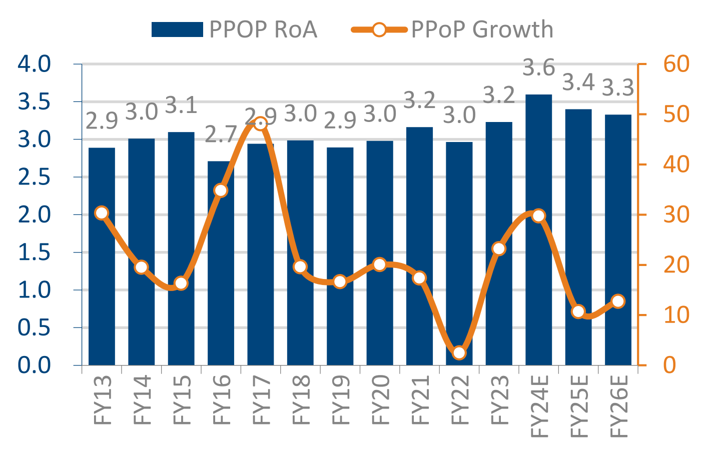
Source: Company, IIFL Research.

Figure 4.41: We expect operating expense growth to outpace revenue growth in FY25-26E



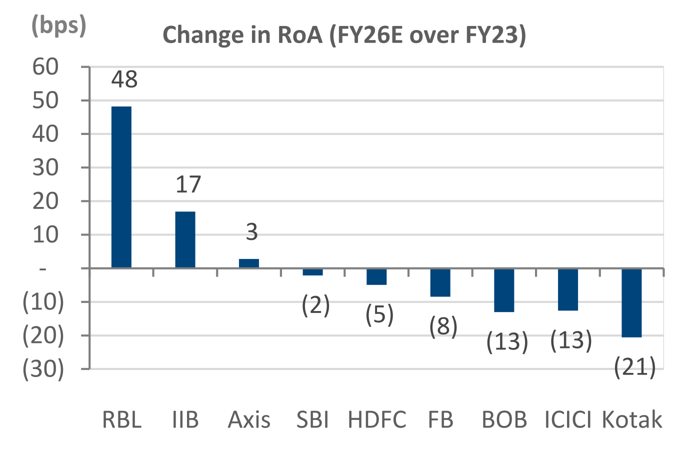
Source: Company, IIFL Research, Note: FY16 growth due to ING merger

Figure 4.42: Pressure on NIMs, stable fee growth and sticky opex to weigh on PPOP growth …



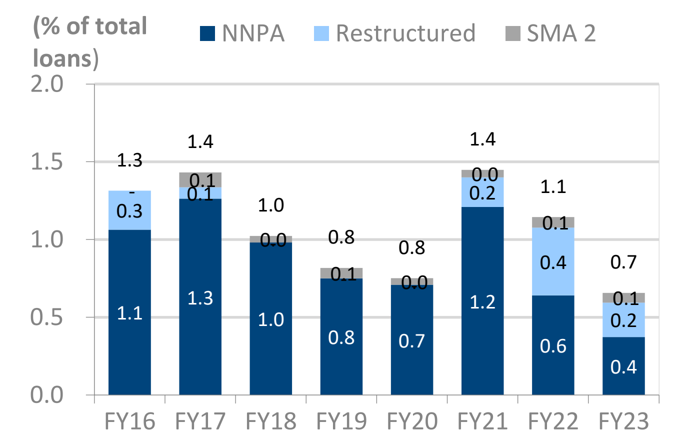
Source: Company, IIFL Research.

Figure 4.43: … resulting in the weakest ROA outcome for Kotak, relative to other banks under our coverage



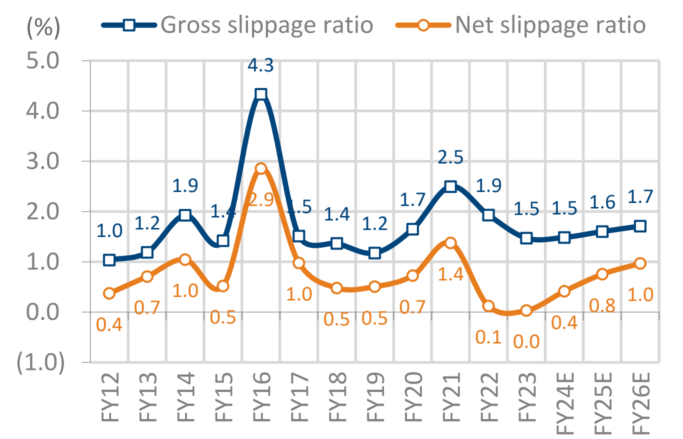
Source: Company, IIFL Research

Figure 4.44: Stress pool had inched up during Covid, but is now receding and at just 0.7%



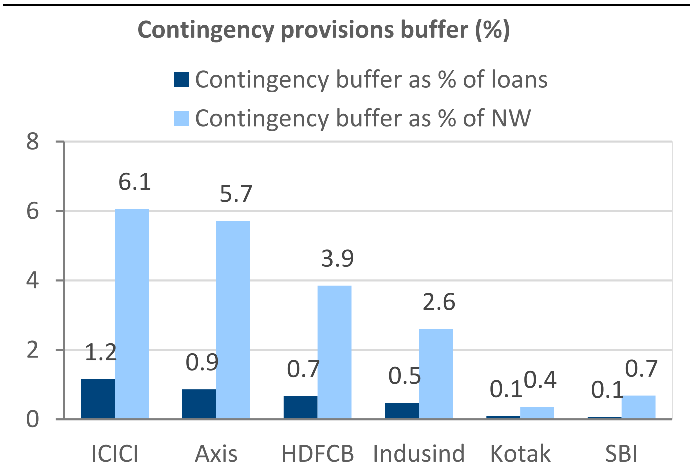
Source: Company, IIFL Research.

Figure 4.45: Expect gross slippages to inch up with rising share of unsecured loans; with normalisation in recoveries, net slippages should also increase



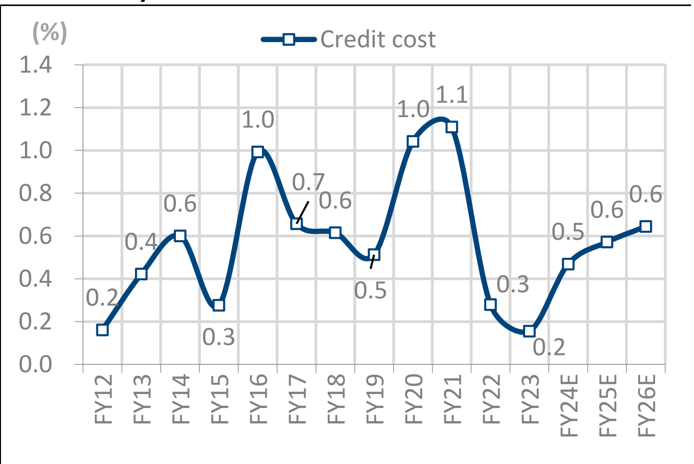
Source: Company, IIFL Research

Figure 4.46: Kotak's contingency buffer is lower vs peers…



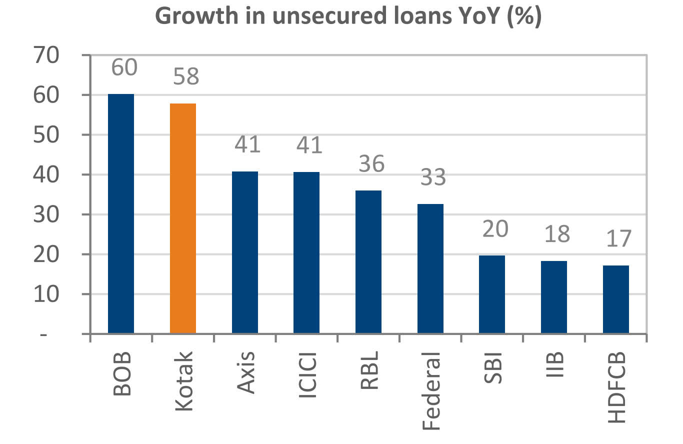
Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 4.47: … which coupled with normalisation in the net slippage ratio should lead to increase in credit cost from the current very low levels



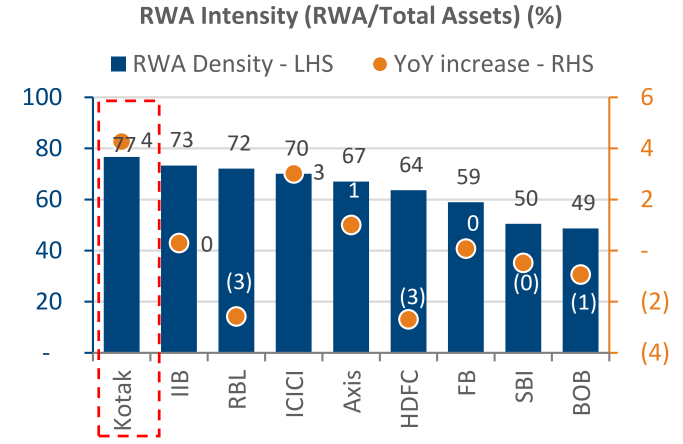
Source: Company, IIFL Research

Figure 4.48: Unsecured loan growth fastest for Kotak …



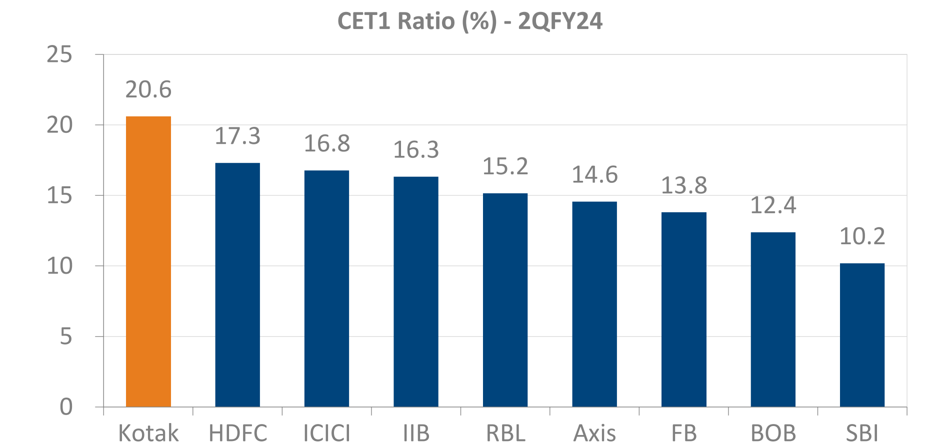
Source: Company, IIFL Research

Figure 4.49: … resulting in 4pp rise in risk density



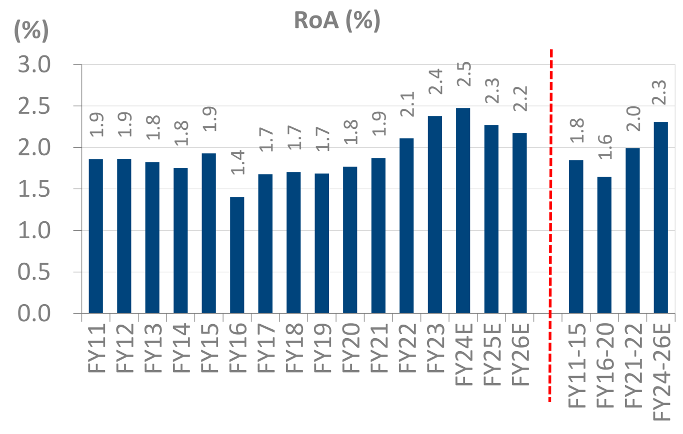
Source: Company, IIFL Research

Figure 4.50: Historically, the bank has had the highest CET1 ratio among peers, which should hold steady



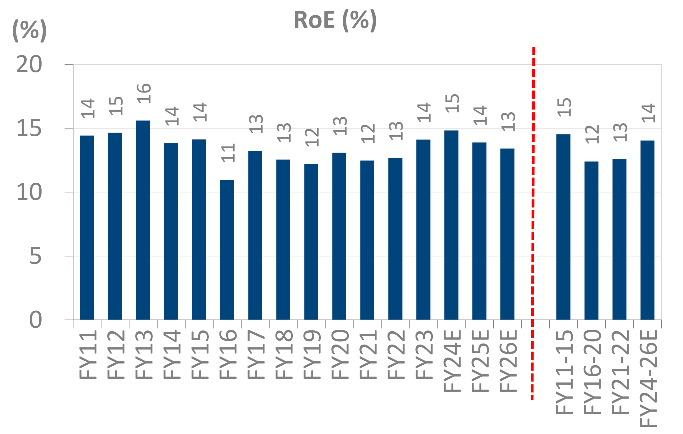
Source: Company, IIFL Research, Note: Tier1 ratio for Kotak

Figure 4.51: Expect ROAs to decline by 30 bps over FY24-26E, and normalize to pre-Covid levels



Source: Company, IIFL Research

Figure 4.52: Decline in ROAs coupled with low leverage should lead to 13-14% ROEs



Source: Company, IIFL Research

Figure 4.53: Kotak Bank – DuPont analysis and key ratios

DuPont analysis (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	10.2	10.0	11.0	8.7	8.2	8.3	8.0	7.2	6.7	7.5	8.6	8.5	8.3
Interest expense	5.9	5.7	6.4	4.7	4.3	4.4	4.0	3.1	2.5	2.8	3.8	3.9	3.7
Net interest income	4.3	4.4	4.6	4.0	4.0	3.9	4.0	4.1	4.1	4.7	4.8	4.6	4.5
Fee Income	1.1	1.4	1.5	1.3	1.4	1.5	1.4	1.2	1.4	1.6	1.5	1.6	1.6
Trading Profits	0.2	0.3	0.1	0.2	0.1	0.0	0.1	0.0	-0.3	-0.2	0.1	0.1	0.1
Dividend from Subs & other income	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other income	0.2	0.3	0.0	0.1	0.1	0.1	0.0	0.2	0.3	0.2	0.2	0.2	0.1
Total non-interest income	1.6	2.1	1.8	1.7	1.7	1.6	1.6	1.3	1.6	1.6	1.9	1.9	1.9
Total revenue	6.0	6.5	6.4	5.7	5.7	5.5	5.6	5.5	5.7	6.3	6.7	6.5	6.4
Employee expense	1.4	1.5	1.9	1.3	1.2	1.1	1.2	1.0	1.1	1.2	1.3	1.2	1.2
Other expense	1.6	1.9	1.8	1.4	1.5	1.5	1.5	1.3	1.6	1.9	1.8	1.8	1.8
Total expenses	3.0	3.4	3.7	2.8	2.7	2.6	2.6	2.3	2.7	3.1	3.1	3.1	3.1
Pre-provision operating profit	3.0	3.1	2.7	2.9	3.0	2.9	3.0	3.2	3.0	3.2	3.6	3.4	3.3
Provisions	0.4	0.2	0.6	0.4	0.4	0.3	0.7	0.7	0.2	0.1	0.3	0.4	0.4
Profit before tax	2.7	2.9	2.1	2.5	2.6	2.6	2.3	2.5	2.8	3.1	3.3	3.0	2.9
Taxes	0.9	1.0	0.7	0.9	0.9	0.9	0.6	0.6	0.7	0.8	0.8	0.7	0.7
ROA	1.8	1.9	1.4	1.7	1.7	1.7	1.8	1.9	2.1	2.4	2.5	2.3	2.2
Leverage	7.9	7.3	7.8	7.9	7.4	7.2	7.4	6.7	6.0	5.9	6.0	6.1	6.2
ROE	13.8	14.1	11.0	13.2	12.5	12.2	13.1	12.5	12.7	14.1	14.8	13.9	13.4
Key metrics													
Loan growth	9.4	24.8	79.4	14.7	24.7	21.2	6.8	1.8	21.3	17.9	19.6	17.7	17.6
Deposit growth	15.8	26.7	85.2	13.5	22.4	17.3	16.4	6.6	11.3	16.5	20.1	16.4	14.7
Credit-deposit ratio	89.8	88.4	85.6	86.4	88.1	91.1	83.6	79.9	87.0	88.1	87.7	88.6	90.8
Yield on IEA	10.6	10.4	11.6	9.2	8.6	8.6	8.3	7.5	6.9	7.7	8.8	8.7	8.4
Cost of funds	7.0	6.9	7.7	5.7	5.2	5.3	4.8	3.8	3.2	3.5	4.7	4.9	4.7
NIM	4.5	4.5	4.9	4.2	4.2	4.0	4.2	4.3	4.3	4.9	4.9	4.7	4.6
Cost-to-income ratio	49.7	52.1	57.5	48.4	47.3	47.4	46.9	42.2	48.0	48.9	46.2	47.6	48.1
GNPA ratio	2.0	1.9	2.4	2.6	2.2	2.1	2.3	3.3	2.3	1.8	1.6	1.7	2.0
NNPA ratio	1.1	0.9	1.1	1.3	1.0	0.8	0.7	1.2	0.6	0.4	0.3	0.4	0.4
Credit cost	**0.6**	**0.3**	**1.0**	**0.7**	**0.6**	**0.5**	**1.0**	**1.1**	**0.3**	**0.2**	**0.5**	**0.6**	**0.6**
CET 1 ratio	**17.8**	**16.2**	**15.2**	**15.9**	**17.5**	**16.7**	**17.1**	**21.2**	**21.5**	**20.6**	**20.1**	**19.9**	**19.7**
CAR	18.8	17.2	16.3	16.8	18.2	17.5	17.9	22.3	22.7	21.8	21.2	20.9	20.8

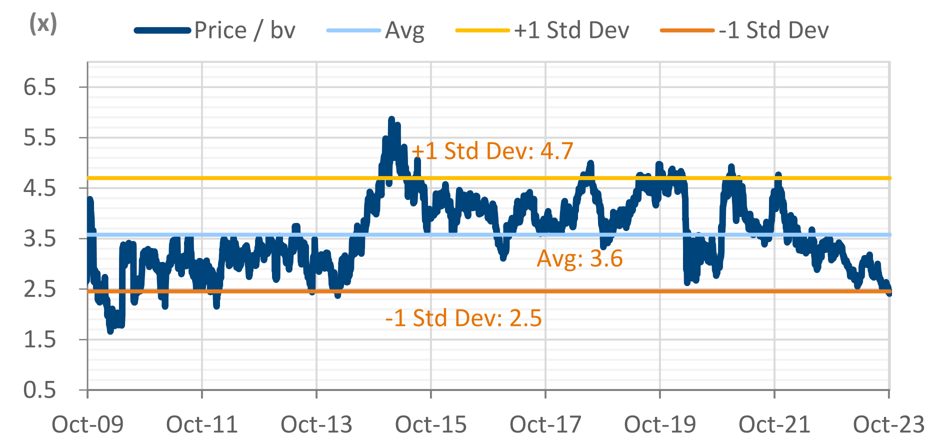
Source: Company, IIFL Research.

Figure 4.54: Kotak Bank – SOTP based valuation

Particular	Value (Rsbn)	Value (USD b)	Value/ Sh. (INR)	% of total	Target Multiple (x)	Rationale
Bank	**2,719**	**34.0**	**1,369**	**76**	**2.4**	**PABV**
Other Businesses						
Kotak Mahindra Prime	185	2.3	93	5	2.0	PBV
Kotak Mahindra Investments	56	0.7	28	2	1.5	PBV
BSS Microfinance	50	0.6	25	1	10.0	PE
Kotak Securities	181	2.3	91	5	15.0	PE
Kotak Mahindra Capital	23	0.3	12	1	15.0	PE
Kotak Mahindra AMC	122	1.5	61	3	20.0	PE
Kotak Life Insurance	445	5.6	224	12	2.5	PEV
Other Subsidiaries	12	0.1	6	0	10.0	PE
Total Value of Ventures	**1,073**	**13.4**	**540**	**30**		
Less: 20% holding discount	215	2.7	108	6		
Value of Key Ventures	**858**	**10.7**	**431**	**24**		
Sum of the Part Value (A+B)	**3,577**	**44.7**	**1,800**	**100**		

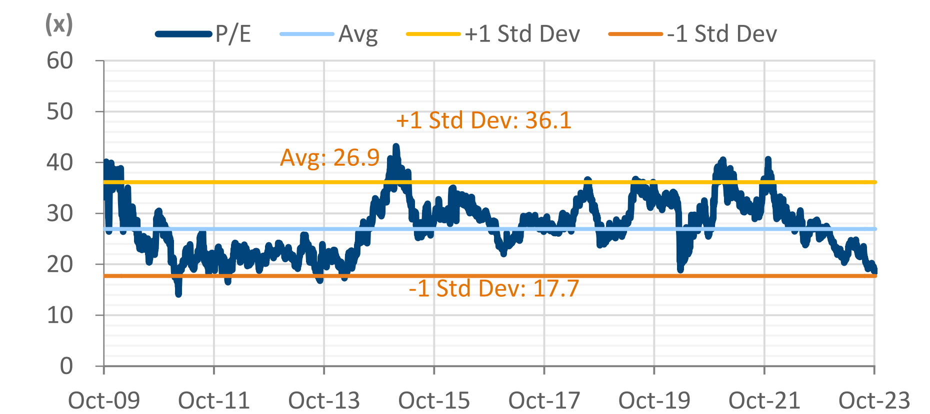
*ABV = BV adjusted for investment in subsidiaries

Figure 4.55: Kotak Bank is trading at 2.5x 1YF core P/B, which is one standard deviation below the long-term historical average



Source: Bloomberg, IIFL Research

Figure 4.56: Kotak Bank is trading at 19x 1YF core P/E, which is one standard deviation below the long-term historical average



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 4.57: Kotak Bank – Net interest margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	13.2	12.5	13.5	10.5	9.6	9.8	9.9	8.4	7.8	9.1	10.2	10.1	9.8
Yield on investments	7.5	7.6	8.5	7.6	7.2	7.2	7.2	7.6	6.5	5.8	6.7	6.7	6.1
Yield on bank balances	0.9	1.9	5.3	3.7	5.2	3.2	1.7	3.1	2.4	2.2	3.4	3.3	3.0
Yield on interest earning assets	**10.6**	**10.4**	**11.6**	**9.2**	**8.6**	**8.6**	**8.3**	**7.5**	**6.9**	**7.7**	**8.8**	**8.7**	**8.4**
Cost of deposits	6.9	6.8	7.4	5.6	5.1	5.3	4.9	3.7	3.1	3.5	4.7	4.8	4.6
Cost of borrowings	7.4	7.3	9.8	6.4	5.5	5.8	3.9	4.5	3.6	3.6	5.2	5.6	5.4
Cost of interest bearing liabilities	**7.0**	**6.9**	**7.7**	**5.7**	**5.2**	**5.3**	**4.8**	**3.8**	**3.2**	**3.5**	**4.7**	**4.9**	**4.7**
Interest spread	3.6	3.5	3.9	3.5	3.5	3.3	3.5	3.7	3.7	4.2	4.1	3.8	3.7
Net interest margin	**4.5**	**4.5**	**4.9**	**4.2**	**4.2**	**4.0**	**4.2**	**4.3**	**4.3**	**4.9**	**4.9**	**4.7**	**4.6**
Loan-to-deposit ratio	89.8	88.4	85.6	86.4	88.1	91.1	83.6	79.9	87.0	88.1	87.7	88.6	90.8
Incremental loan-to-deposit ratio	56.7	83.2	82.3	92.7	95.5	108.2	38.0	22.8	150.6	94.5	85.7	94.4	105.9
CASA ratio	31.9	36.4	38.1	44.0	50.8	52.5	56.2	60.4	60.7	52.8	47.8	46.2	46.0

Source: Company, IIFL Research

Figure 4.58: Kotak Bank – Efficiency and productivity ratio analysis

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	73	68	73	70	70	71	72	75	73	74	72	71	71
Fee income / total non-interest income	67	67	86	77	85	92	88	87	91	96	81	84	85
Fee income / total revenue	18	22	24	23	25	27	25	21	25	25	23	24	25
Non-interest income / revenue	27	32	27	30	30	29	28	25	27	26	28	29	29
Employee expense / total opex	46	45	51	49	46	42	44	43	41	39	41	40	40
Other expense / total opex	54	55	49	51	54	58	56	57	59	61	59	60	60
Cost to income ratio (CIR)	**49.7**	**52.1**	**57.5**	**48.4**	**47.3**	**47.4**	**46.9**	**42.2**	**48.0**	**48.9**	**46.2**	**47.6**	**48.1**
Cost to avg. asset ratio	2.97	3.36	3.67	2.76	2.68	2.60	2.63	2.31	2.74	3.09	3.08	3.09	3.09
Provisions / PPOP	12	5	23	14	13	12	22	21	6	3	9	11	13
Tax rate	34	34	33	34	34	34	24	25	25	24	25	25	25
ROA	**1.8**	**1.9**	**1.4**	**1.7**	**1.7**	**1.7**	**1.8**	**1.9**	**2.1**	**2.4**	**2.5**	**2.3**	**2.2**
Core ROA	1.7	1.9	1.4	1.6	1.7	1.7	1.7	1.9	2.0	2.3	2.4	2.2	2.1
ROE	**13.8**	**14.1**	**11.0**	**13.2**	**12.5**	**12.2**	**13.1**	**12.5**	**12.7**	**14.1**	**14.8**	**13.9**	**13.4**
Core ROE	13.6	14.1	10.9	13.3	12.9	12.8	13.5	12.8	12.7	14.2	14.9	13.9	13.4
Productivity ratios													
No. of branches	**605**	**684**	**1,333**	**1,369**	**1,388**	**1,500**	**1,600**	**1,604**	**1,700**	**1,780**	**1,922**	**2,076**	**2,242**
Loans / branch (mn)	1,211	1,094	1,735	1,021	1,240	1,482	1,465	1,398	1,691	1,882	2,149	2,341	2,549
Deposits / branch (mn)	1,349	1,237	2,027	1,181	1,407	1,627	1,752	1,751	1,943	2,136	2,451	2,641	2,806
CASA deposits / branch (mn)	430	450	772	520	714	854	984	1,058	1,179	1,128	1,171	1,219	1,292
No. of employees	**27,559**	**30,000**	**31,400**	**33,013**	**35,717**	**41,500**	**45,650**	**51,734**	**66,473**	**73,481**	**83,034**	**89,676**	**96,850**
Employees / branch	46	44	24	24	26	28	29	32	39	41	43	43	43
Avg. remuneration per employee (mn)	0.46	0.50	0.91	0.85	0.85	0.82	0.89	0.77	0.78	0.79	0.86	0.90	0.97
Loans / employee (mn)	19	22	38	41	48	50	48	43	41	44	46	50	55
Deposits / employee (mn)	21	25	44	48	54	54	58	54	47	49	53	57	60
CASA deposits / employee (mn)	7	9	17	21	27	29	32	33	28	26	25	26	28
Net profit / employee (mn)	0.5	0.6	0.7	1.0	1.1	1.2	1.3	1.3	1.3	1.5	1.6	1.6	1.6

Source: Company, IIFL Research

Figure 4.59: Kotak Bank – Asset quality analysis

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	10,594	12,372	28,381	35,786	38,254	44,679	50,269	74,255	64,697	57,683	61,765	78,518	105,533
NNPA (mn)	5,736	6,091	12,620	17,181	16,651	15,444	15,579	27,052	17,367	11,933	12,971	16,489	22,162
GNPA ratio	**2.0**	**1.9**	**2.4**	**2.6**	**2.2**	**2.1**	**2.3**	**3.3**	**2.3**	**1.8**	**1.6**	**1.7**	**2.0**
NNPA ratio	**1.1**	**0.9**	**1.1**	**1.3**	**1.0**	**0.8**	**0.7**	**1.2**	**0.6**	**0.4**	**0.3**	**0.4**	**0.4**
Gross Slippage ratio	1.9	1.4	4.3	1.5	1.4	1.2	1.7	2.5	1.9	1.5	1.5	1.6	1.7
Upgrades & Recoveries ratio	0.9	0.9	1.5	0.5	0.9	0.7	0.9	1.1	1.8	1.4	1.1	0.8	0.7
Net Slippage ratio	1.0	0.5	2.9	1.0	0.5	0.5	0.7	1.4	0.1	0.0	0.4	0.8	1.0
Write-off ratio	0.4	0.2	0.4	0.4	0.3	0.1	0.5	0.3	0.5	0.3	0.3	0.3	0.4
PCR (Excl Technical write off)	**45.9**	**50.8**	**55.5**	**52.0**	**56.5**	**65.4**	**69.0**	**63.6**	**73.2**	**79.3**	**79.0**	**79.0**	**79.0**
Credit cost (% of avg. loans)	**0.6**	**0.3**	**1.0**	**0.7**	**0.6**	**0.5**	**1.0**	**1.1**	**0.3**	**0.2**	**0.5**	**0.6**	**0.6**
Total provisions as % of loans	1.3	1.4	1.8	1.8	1.7	1.8	2.0	2.5	2.4	2.0			
Net NPA as % of networth	4.7	4.3	5.3	6.2	4.4	3.6	3.2	4.3	2.4	1.4	1.4	1.5	1.8

Source: Company, IIFL Research

Figure 4.60: Kotak Bank – Capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	17.8	16.2	15.2	15.9	17.5	16.7	17.1	21.2	21.5	20.6	20.1	19.9	19.7
AT1 ratio	-	-	0.0	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Tier 1 ratio	17.8	16.2	15.3	15.9	17.6	16.9	17.3	21.4	21.7	20.8	20.2	19.9	19.8
Tier 2 ratio	1.1	1.0	1.1	0.9	0.7	0.5	0.6	0.9	1.0	1.0	1.0	1.0	1.0
Capital adequacy ratio	18.8	17.2	16.3	16.8	18.2	17.5	17.9	22.3	22.7	21.8	21.2	20.9	20.8
RWA intensity	-	-	-	-	-	76.3	73.0	72.5	72.4	76.2	77.0	77.6	78.2

Source: Company, IIFL Research

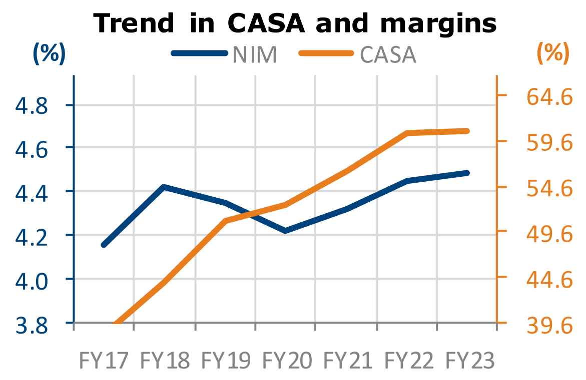
Figure 4.61: Kotak Bank – Management profile

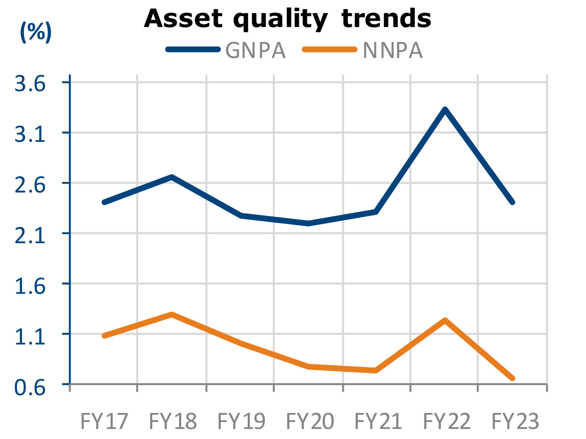
Key Management Personnel		
Uday Kotak	Non-Executive Director	• Mr Kotak holds a BComm and an MMS degree from Jamnalal Bajaj Institute of Management Studies, Mumbai • He is a member of the International Advisory Board of GIC Private Limited, Singapore and International Advisory Panel of Monetary Authority of Singapore, Investment Advisory Committee of the Army Group Insurance Fund. Till 31st May, 2021, he was the President of the CII.
Dipak Gupta	Managing Director & CEO	• Mr Gupta holds B.E. (Electronics) and PGDM from IIM, Ahmedabad and has 35+ years of experience in the Financial Services sector; 29 years of which have been with the Kotak Group. • He has served various portfolios including Corporate Banking, Risk Management, Emerging Corporates Group, Business Banking, etc. Prior to joining HDFC Bank, he worked in SBI Commercial and International Bank.
Ashok Vaswani	Designate Managing Director & CEO	• Mr. Ashok is a CA, CS and graduate from Stanford University School of Business. He has a proven track record spanning three and a half decades. He was CEO of Barclays Bank, UK and subsequently CEO of their Global Consumer, Private, Corporate and Payments businesses. Earlier, he was CEO Citigroup Asia Pacific and Member of the Citigroup Global Operating & Management Committees. • Currently, he is President of Pagaya Technologies Ltd - a US-Israeli AI Fintech. He is also on the Board of the London Stock Exchange Group, the SP Jain Institute of Global Management, UK and supports various philanthropic organisations, including Pratham, and Lend-A-Hand.
Shanti Ekambaram	Whole-time Director	• Ms Shanti Ekambaram heads several functions including Kotak 811, Vigilance, Public Affairs, HR, Group Marketing & Corporate Communications, Treasury and Financial Inclusion. • Prior to this, Ms Ekambaram was Head Consumer Banking and built an integrated consumer banking franchise across asset and liability products.
KVS Manian	Whole-time Director	• Mr Manian is an Electrical Engineer from IIT (BHU) – Varanasi, Post Graduate in Financial Management from JBIMS Mumbai and a Cost and Works Accountant. • Currently, Mr Manian spearheads the Corporate Banking, as also the Private Banking business of the bank, and has oversight responsibilities for the Investment Banking and Institutional Equities Businesses.
Gaurang Shah	Whole-Time Director	• • Mr Shah has a MComm from Gujarat University, and is also a member of the Institute of Chartered Accountants of India (ICAI). He has 3+ decades of experience in Financial Services, including Kotak Mahindra Group. • He has played a stellar role in building the group's Consumer Banking and Life Insurance businesses, and has held several high-responsibility positions, including Head of Retail Assets at Kotak Mahindra Bank.
Jaimin Bhatt	President & Group Chief Financial Officer	• Mr Bhatt is a qualified Chartered Accountant and Cost Accountant, and has been with Kotak Mahindra group for 21+ years. • Having started his career in 1985, he worked with Godrej Group as Manager – Project Finance, and with Indus Venture, a private equity fund. At Kotak, he heads the Centre Division; and the Support Division at Kotak Mahindra Bank, which comprises Finance, Tax, Strategy, Secretarial, Internal Audit, Investor Relations, Management Accounts, Legal & Compliance.
Arvind Kathpalia	Group President & Chief Risk Officer	• Mr Kathpalia is a University Ranker in B.A. (Hons) - Economics from Delhi University and has completed MBA from FMS, Delhi with specialisation in Marketing & Finance. • Prior to joining Kotak, Arvind held several leadership positions in India and overseas with ANZ Grindlays and Standard Chartered Bank. He holds overall responsibility for Integrated Risk Management across the group, and enables the organisation to maximise value by embedding common Risk Management systems and framework.

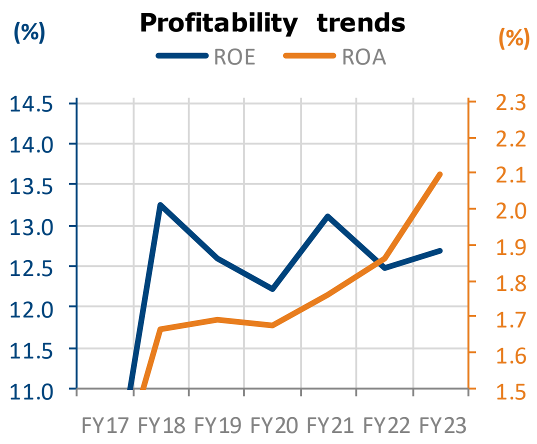
Source: Company, IIFL Research

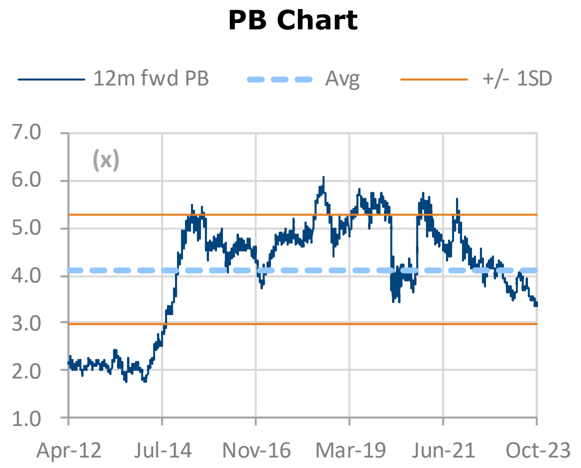
Company snapshot

Background: In FY03, Kotak Mahindra Finance (KMF) – an NBFC promoted by Uday Kotak and Sidney Pinto in 1985 – was converted to Kotak Mahindra Bank (KMB). The company spotted opportunities in other areas in corporate and retail lending, and began diversifying its activities. As of FY23, KMB had a loan book of Rs 3.2tn, operating through a network of 1,780 branches. In 1996, the company entered into two key joint ventures, one with Goldman Sachs for investment banking & stock broking and the other one with Ford Credit for car financing. KMB acquired INGV Bank in FY15, which has allowed it to gain significant scale and provided synergistic benefits.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	21.3	17.9	19.6	17.7	17.6
Deposit Growth (%)	11.3	16.5	20.1	16.4	14.7
Yield on IEA (%)	6.9	7.7	8.8	8.7	8.4
Cost of Funds (%)	3.2	3.5	4.7	4.9	4.7
Net Interest Margin (%)	4.3	4.9	4.9	4.7	4.6
Cost/income ratio (%)	48.0	48.9	46.2	47.6	48.1
Gross NPLs as % of loans (%)	2.3	1.8	1.6	1.7	2.0
Credit cost (%)	0.3	0.2	0.5	0.6	0.6
Return on Average Assets (%)	2.1	2.4	2.5	2.3	2.2
Return on Average Equity (%)	12.7	14.1	14.8	13.9	13.4

Source: Company data, IIFL Research

Management

Name	Designation
Dipak Gupta	Interim MD & CEO
Shanti Ekambaram	Executive Director
KVS Manian	Executive Director

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**168.2**	**215.5**	**256.7**	**290.1**	**326.9**
Non-interest income	**63.5**	**74.8**	**101.0**	**116.7**	**136.5**
Fee Income	57.8	71.9	81.9	98.0	115.6
Portfolio gains	(11.6)	(9.7)	6.1	4.3	4.8
Others	17.4	12.7	12.9	14.4	16.1
Total operating income	**231.7**	**290.4**	**357.7**	**406.8**	**463.4**
Total operating expenses	111.2	141.9	165.1	193.6	223.1
Pre provision operating profit	**120.5**	**148.5**	**192.6**	**213.2**	**240.3**
Total provisions	6.9	4.6	16.4	23.8	31.5
Profit before tax	**113.6**	**143.9**	**176.2**	**189.4**	**208.8**
Taxes	27.9	34.5	43.7	47.0	51.8
Net profit-pre exceptional	**85.7**	**109.4**	**132.5**	**142.4**	**157.0**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**85.7**	**109.4**	**132.5**	**142.4**	**157.0**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	2,712.5	3,198.6	3,825.1	4,500.6	5,293.0
Placements to other banks	69.0	125.8	162.1	215.5	247.9
Cash & equivalents	360.3	199.7	301.0	269.4	309.9
Investments	1,005.8	1,214.0	1,398.0	1,585.5	1,804.8
Total interest-earning assets	**4,147.6**	**4,738.1**	**5,686.3**	**6,570.9**	**7,655.6**
Fixed assets	16.4	19.2	20.9	22.6	24.4
Other assets	130.3	141.3	104.8	133.8	32.6
Total assets	**4,294.3**	**4,898.6**	**5,812.0**	**6,727.3**	**7,712.7**
Customer deposits	3,116.8	3,631.0	4,362.1	5,077.8	5,826.1
Borrowings	259.7	234.2	269.3	309.7	371.6
Total interest-bearing liabilities	**3,376.5**	**3,865.1**	**4,631.4**	**5,387.5**	**6,197.8**
Non-interest-bearing liabilities	192.9	198.3	218.1	239.9	263.9
Total liabilities	**3,569.4**	**4,063.4**	**4,849.5**	**5,627.4**	**6,461.7**
Total Shareholders' equity	**724.9**	**835.2**	**962.5**	**1,099.9**	**1,251.0**
Total liabilities & equity	**4,294.3**	**4,898.6**	**5,812.0**	**6,727.3**	**7,712.7**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	87.0	88.1	87.7	88.6	90.8
Loan Growth	21.3	17.9	19.6	17.7	17.6
Deposit Growth	11.3	16.5	20.1	16.4	14.7
Total Assets Growth	12.0	14.1	18.6	15.7	14.6
Profitability Ratios (%)					
Net Interest Margin	4.3	4.9	4.9	4.7	4.6
ROA	2.1	2.4	2.5	2.3	2.2
ROE	12.7	14.1	14.8	13.9	13.4
Non-Int Income as % of Total Income	27.4	25.8	28.2	28.7	29.5
Net Profit Growth	23.1	27.6	21.1	7.5	10.2
FDEPS Growth	20.9	27.5	21.1	7.5	10.2
Efficiency Ratios (%)					
Cost to Income Ratio	48.0	48.9	46.2	47.6	48.1
Salaries as % of Non-Interest costs	41.2	38.9	40.7	40.3	40.4

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	2.3	1.8	1.6	1.7	2.0
NPL coverage ratio	73.2	79.3	79.0	79.0	79.0
Total prov charges as % avg loans	0.3	0.2	0.5	0.6	0.6
Net NPLs as % of net loans	0.6	0.4	0.3	0.4	0.4
Capital Adequacy Ratios (%)					
Total CAR	22.7	21.8	21.2	20.9	20.8
Tier I capital ratio	21.7	20.8	20.2	19.9	19.8

Source: Company data, IIFL Research

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CMP	**Rs909**
Target 12m	**Rs1070 (18%)**
Market cap (US$ m)	**76,246**
Bloomberg	**ICICIBC IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	992/811
Shares o/s (m)	7005
Daily volume (US$ m)	187
Dividend yield FY25ii (%)	1.0
Free float (%)	100.0

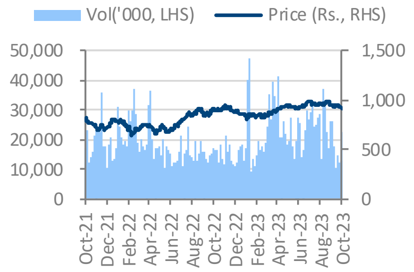
Shareholding pattern (%)

Promoters	0.0
Pledged (as % of promoter share)	0.0
FII	35.7
DII	36.7

Price performance (%)

	1M	3M	1Y
ICICI Bank	(4.2)	(8.1)	(1.0)
Absolute (US$)	(4.2)	(9.4)	(1.6)
Rel.to Nifty	(0.1)	(3.4)	(7.8)
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		55.1	32.9

Stock movement



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ICICI Bank — ADD

From an ailing bank to sector bellwether

ICICI has staged an impressive turnaround in profitability, led by the highest NIM expansion among peers (thanks to the highest share of retail/SME loans, pursuing riskier but higher-yielding segments) and low credit costs. In the near term, we continue to see the bank delivering best-in-class return ratios, loan growth and stable asset-quality, which should help sustain the valuation premium. However, the profitability gap should start to narrow over FY25-26E relative to HDFC (merger impact behind) and Axis (operating leverage from FY25E); resulting in better risk-reward elsewhere. We initiate with ADD and SOTP-based TP of Rs1,070.

Sector bellwether with unswerving execution: ICICI's profitability has staged an impressive turnaround in the past 5yrs – ROAs improved by 150 bps vs FY16-20 avg. to sector-leading 2.4%. It has leveraged its best-in-class digital capabilities (iMobile and InstaBiz apps) to build a robust liability franchise (ranks #3 on our scorecard), which has given it a competitive advantage on COF vs peers. Consequently, the market rewarded this unswerving execution by re-rating the stock by 75% vs 15-35% de-rating for the peers (idiosyncratic issues) during this period.

Running out of levers to sustain peak profitability: ICICI's NIM has expanded the most in this cycle (+73 bps since 4QFY22 vs 20-65bps for peers), as well as structurally (+130 bps vs FY11-20 avg. and -35 to +40 bps for peers). However, the underlying drivers have maxed out in our view: (1) Share of higher-yielding retail/SME loans is up 35 pp since FY13 to 76%, and is on the higher end of 60-75% for peers. (2) Higher risk on the balance sheet as reflected in the exposure to lower-rated corporates (28% vs 10-20% for peers), faster growth in unsecured loans (40% YoY) and rise in risk density (+3 pp YoY vs 1-2 pp for peers). (3) Residual deposit re-pricing is the highest (47 bps vs 5-30 bps for peers). We build avg. credit cost of 70 bps (flat vs FY23 and substantially lower than 200 bps over FY10-20), given the benign asset quality outlook, high provision coverage (83% PCR on NPAs) and buffer provisions (1.2% of loans).

Valuation premium to continue in near term: ICICI is trading at 2.2x FY25 core P/ABV (50% premium to its long-term avg.) for FY25-26 ROA/ROE of 2%/16%. We forecast FY24 ROA of 2.3%, which is 30-50 bps higher than peers. However, we expect this gap to close to 10-20 bps over FY25-26E. With better risk-reward elsewhere, we initiate with ADD and SOTP based TP of Rs1,070, based on 2.3x Sep'25 P/ABV for the bank and subs at Rs164/share. Key risk: Higher-than-expected NIM compression.

Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	474.7	621.3	736.3	820.3	939.1
PPOP	392.5	490.9	571.0	628.1	726.0
Reported PAT	**233.4**	**319.0**	**391.1**	**413.1**	**465.1**
EPS (Rs)	33.6	45.7	55.8	59.0	66.4
Growth (%)	43.5	36.0	22.3	5.6	12.6
IIFL vs consensus (%)			2.2	(2.1)	(4.1)
PER (x)	27.1	19.9	16.3	15.4	13.7
Book value (Rs)	245	287	328	378	434
PB (x)	**3.7**	**3.2**	**2.8**	**2.4**	**2.1**
CAR (%)	19.2	18.3	16.9	16.9	16.7
ROA (%)	1.8	2.1	2.3	2.0	2.0
ROE (%)	**14.7**	**17.2**	**18.2**	**16.7**	**16.4**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

Sector bellwether with unswerving execution

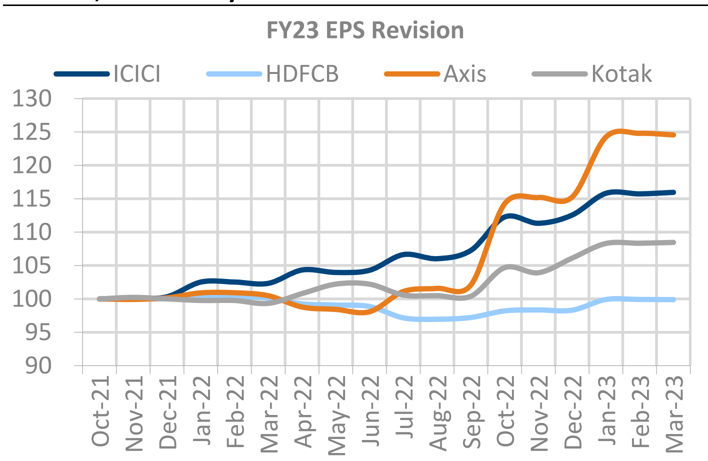
ICICI has exhibited the best turnaround among large banks in the past five years – ROAs improved by 150 bps vs FY16-20 avg. to sector-leading 2.4%. This has been led by: (1) Sharp improvement in margins - NII as % of assets increased by 130 bps to 4.1% from avg. 2.8% during the last decade vs only 30-40 bps of increase for Axis and Kotak, and 40 bps of decline at HDFC. (2) Lower credit costs – improved by 80 bps vs 30-100 bps for Kotak and Axis, and flat for HDFC.

Figure 5.1: DuPont analysis and key ratios

(% of avg. assets)	ICICI			HDFCB			Axis			Kotak		
	FY11-20	FY21-22	FY23	FY11-20	FY21-22	FY23	FY11-20	FY21-22	FY23	FY11-20	FY21-22	FY23
Interest income	7.4	6.7	7.3	8.8	7.0	7.1	7.9	6.4	6.8	9.5	6.9	7.5
Interest expense	4.5	3.2	3.1	4.6	3.2	3.3	4.8	3.4	3.4	5.3	2.8	2.8
Net interest inc.	**2.8**	**3.5**	**4.1**	**4.2**	**3.9**	**3.8**	**3.1**	**3.1**	**3.4**	**4.3**	**4.1**	**4.7**
Fee Income	1.4	1.1	1.2	1.5	1.2	1.2	1.6	1.2	1.3	1.3	1.3	1.6
Trading Profits	0.3	0.3	0.0	0.1	0.2	-0.1	0.3	0.1	0.0	0.2	-0.2	-0.2
Others	0.2	0.1	0.1	0.1	0.2	0.2	0.0	0.0	0.0	0.1	0.1	0.1
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.2	0.3	0.2
Total non-II	1.9	1.5	1.3	1.7	1.5	1.4	2.0	1.3	1.3	1.7	1.5	1.6
Total revenue	**4.7**	**5.0**	**5.5**	**5.8**	**5.4**	**5.2**	**5.1**	**4.4**	**4.8**	**6.0**	**5.6**	**6.3**
Employee exp.	0.8	0.7	0.8	0.9	0.6	0.7	0.7	0.7	0.7	1.4	1.1	1.2
Other expense	1.1	1.2	1.4	1.7	1.3	1.4	1.5	1.4	1.5	1.6	1.5	1.9
Total expenses	**1.9**	**1.9**	**2.2**	**2.6**	**2.0**	**2.1**	**2.2**	**2.1**	**2.2**	**3.0**	**2.5**	**3.1**
PPOP	**2.9**	**3.0**	**3.3**	**3.2**	**3.4**	**3.1**	**2.9**	**2.4**	**2.6**	**2.9**	**3.1**	**3.2**
Provisions	1.2	1.0	0.4	0.5	0.9	0.5	1.2	1.1	0.2	0.4	0.4	0.1
Profit before tax	1.7	2.0	2.8	2.7	2.6	2.6	1.7	1.3	1.4	2.6	2.6	3.1
Taxes	0.4	0.4	0.7	0.9	0.6	0.6	0.6	0.3	0.6	0.8	0.7	0.8
ROA	**1.3**	**1.6**	**2.1**	**1.8**	**1.9**	**1.9**	**1.1**	**0.9**	**0.8**	**1.7**	**2.0**	**2.4**
Leverage	8.1	8.6	8.1	10.1	8.7	8.7	11.0	10.1	10.4	7.7	6.3	5.9
ROE	**10.1**	**13.5**	**17.2**	**18.3**	**16.6**	**17.0**	**12.7**	**9.5**	**8.0**	**13.5**	**12.6**	**14.1**

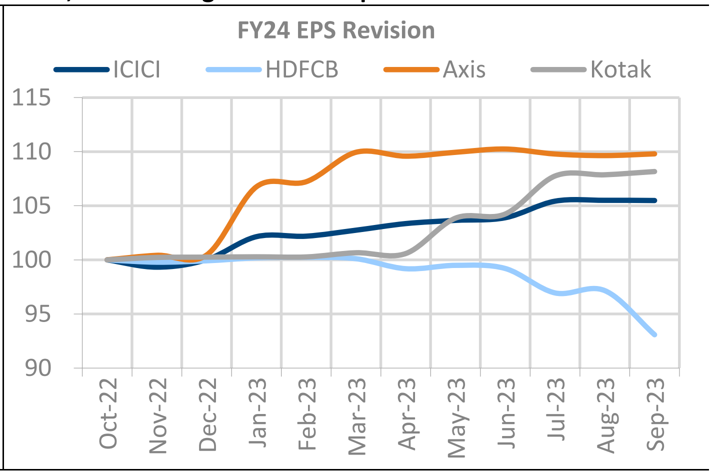
Source: Company, IIFL Research

Figure 5.2: Axis has witnessed the highest positive earnings revision, followed by ICICI and Kotak …



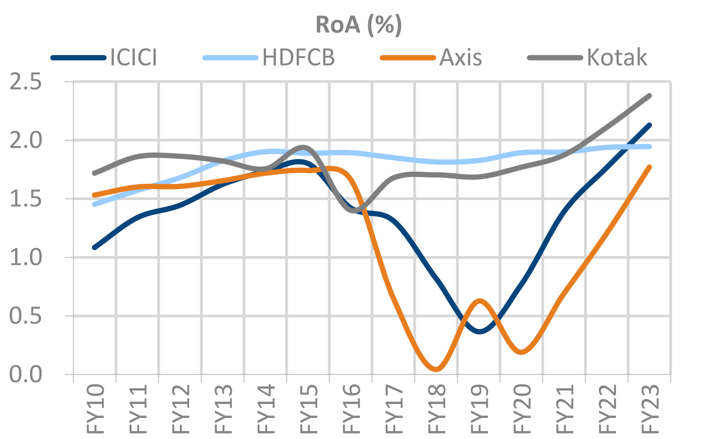
Source: Bloomberg, IIFL Research

Figure 5.3: …whereas FY24E earnings revision is negative for HDFC, due to merger-related impact



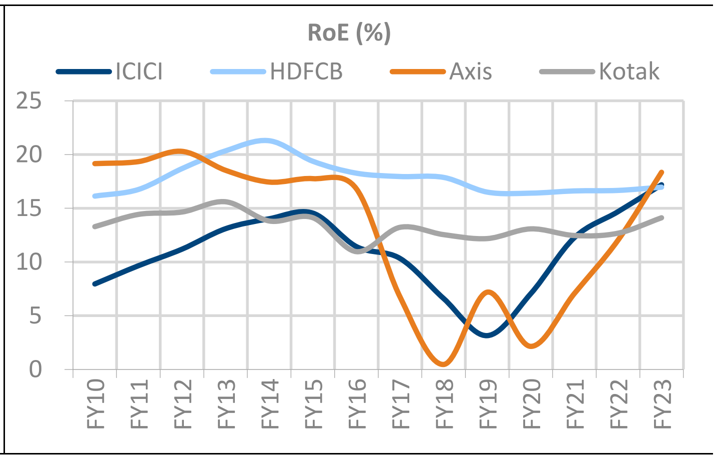
Source: Company, IIFL Research

Figure 5.4: In the last few years, ICICI and Axis witnessed the highest ROA improvement …



Source: Company, IIFL Research. Note: For Axis, excluding the extra-ordinary impact from Citi acquisition

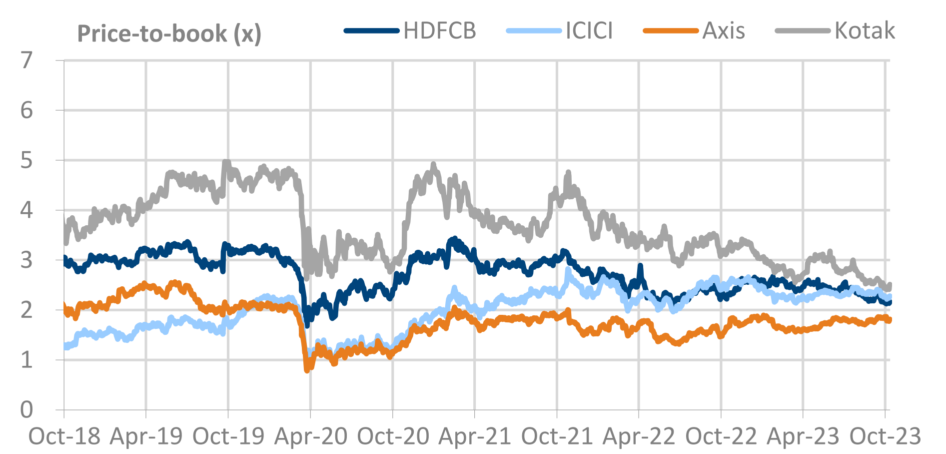
Figure 5.5: …similarly, ROEs have also staged a remarkable turnaround from the lows of FY19



Source: Company, IIFL Research. Note: For Axis, excluding the extra-ordinary impact from Citi acquisition

As the peers grappled with their idiosyncratic issues (merger and acquisition), it continued to deliver the best-in-class profitability. M arket rewarded this unswerving execution by re-rating the stock by 75% vs 15-35% de-rating observed for peers in the same period.

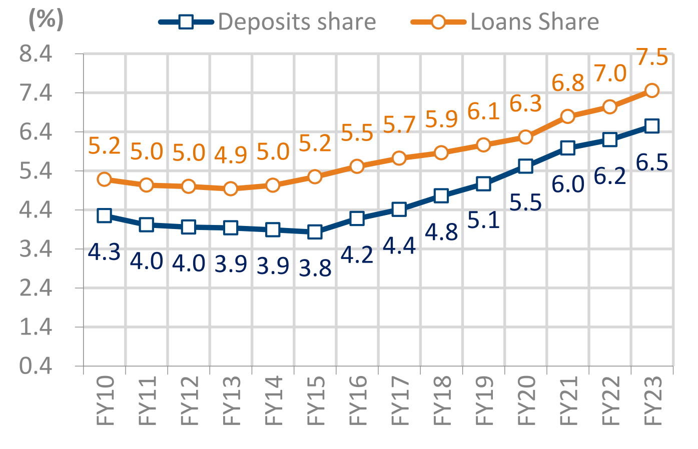
Figure 5.6: While ICICI has seen sharp re-rating (P/B multiple increased 75% in last 5yrs) and is now more expensive than HDFCB; Axis/HDFCB/Kotak multiples have de-rated by 15%/27%/35% during the same period



Source: Company, IIFL Research

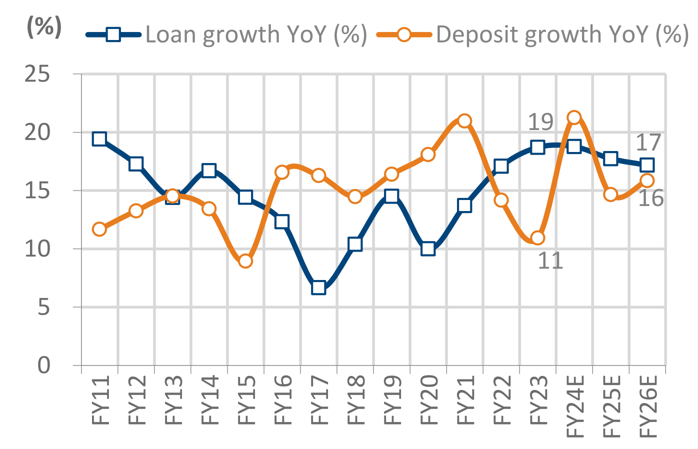
Running out of levers to further improve profitability; expect ROA to peak in FY24

Figure 5.7: In the last 5yrs, MS gains in loans and deposits have got accelerated



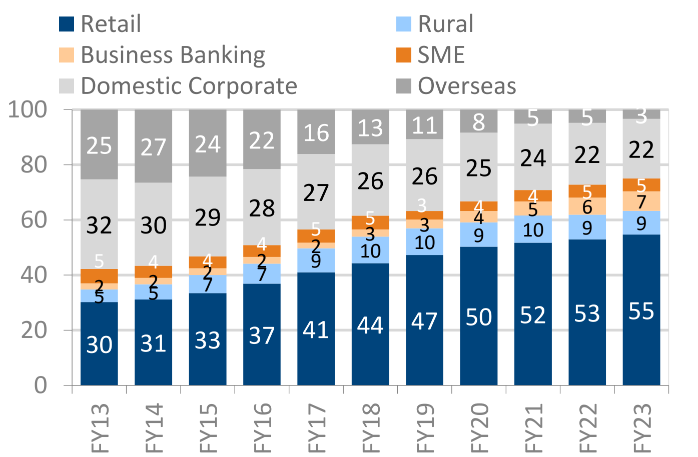
Source: Company, IIFL Research

Figure 5.8: Expect loans and deposits to continue growing at mid-teens over FY24-26E



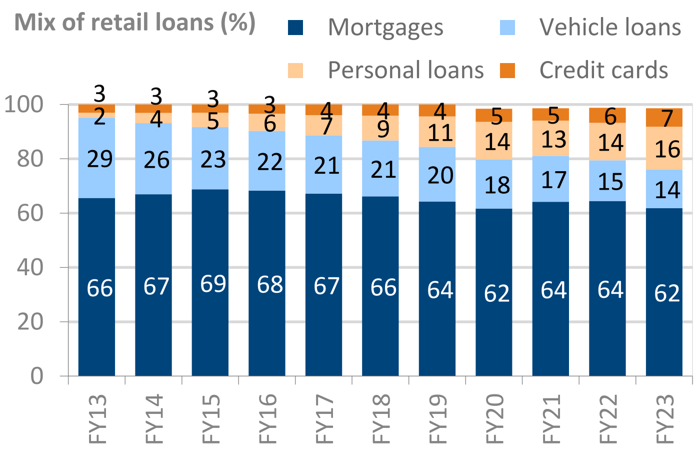
Source: Company, IIFL Research

Figure 5.9: Share of retail loans has increased to 55% from 30% a decade ago



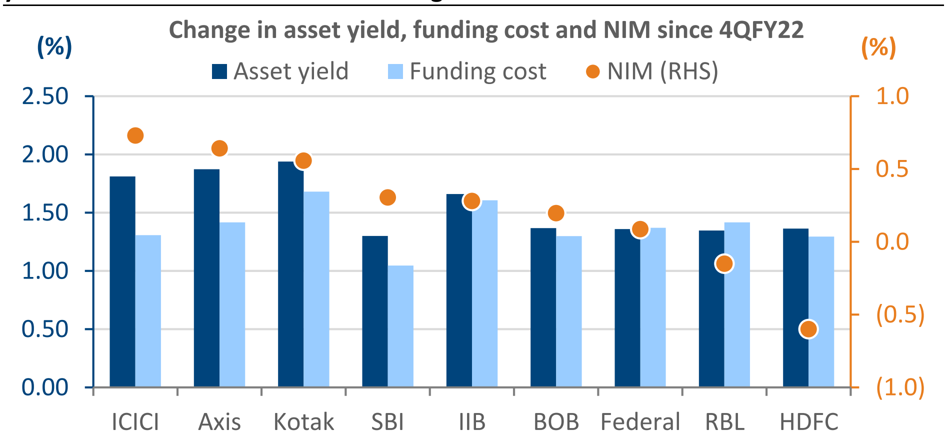
Source: Company, IIFL Research

Figure 5.10: Within retail, share of unsecured loans (PL and CC) is increasing steadily, but declining for vehicle loans



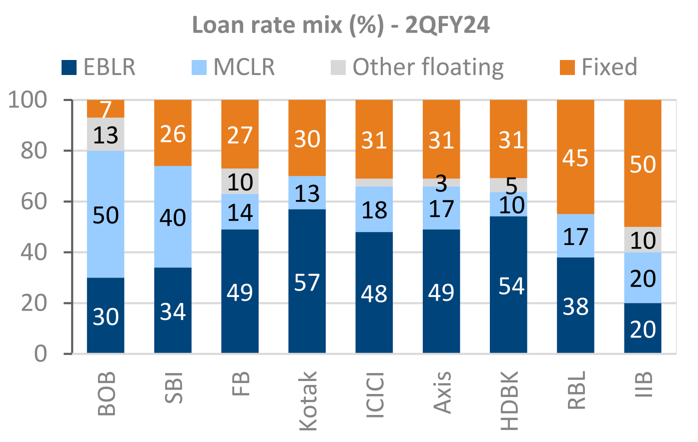
Source: Company, IIFL Research

Figure 5.11: ICICI has witnessed the highest NIM expansion, led by sharp rise in asset yield and the lowest increase in funding cost



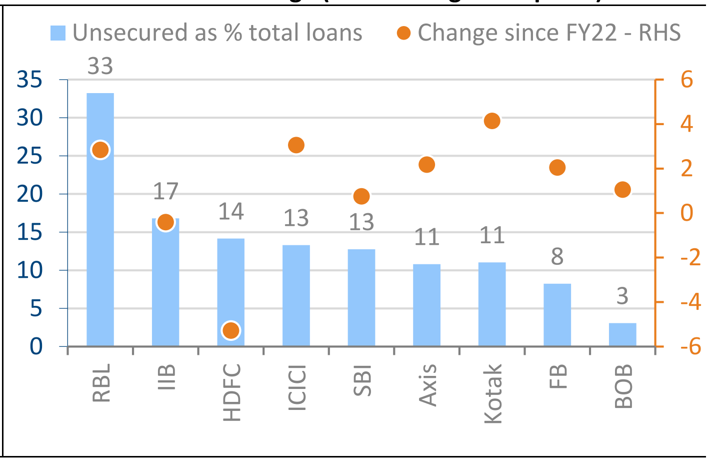
Source: Company, IIFL Research, Note: (1) HDFC NIM lower due to merger impact, (2) SBI and BoB as on 1QFY24

Figure 5.12: Asset yield re-pricing was faster, due to high share of EBLR-linked loans …



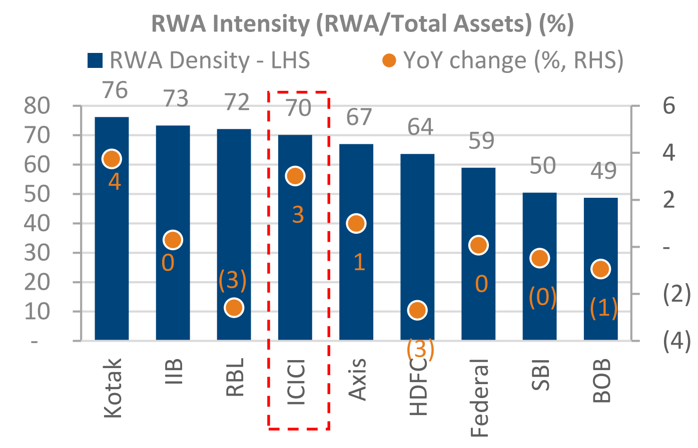
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 5.13: … and strong gr. in unsecured loans driving favourable mix-shift change (increase higher vs peers)



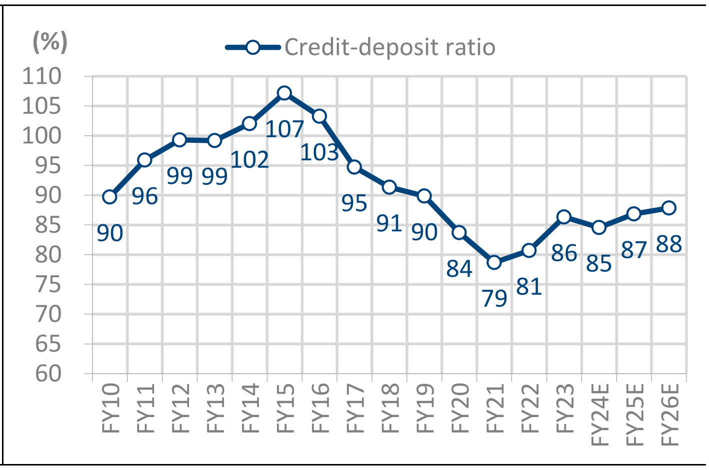
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 5.14: The highest increase in RWA intensity among peers (ex Kotak)



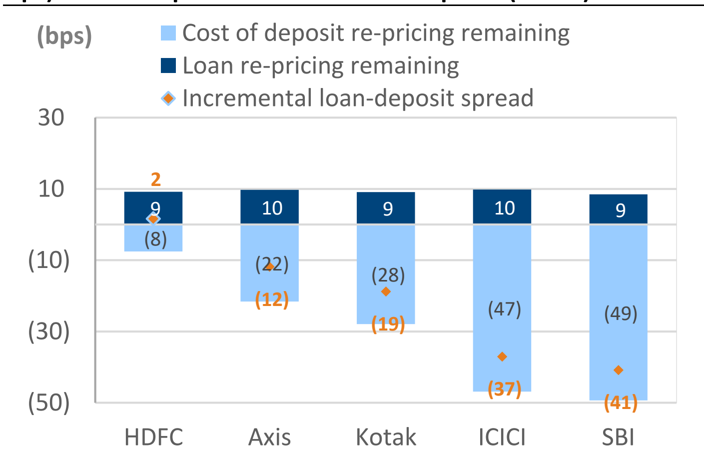
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 5.15: LDR also spiked by 5pp in FY23 (+ve for NIM)



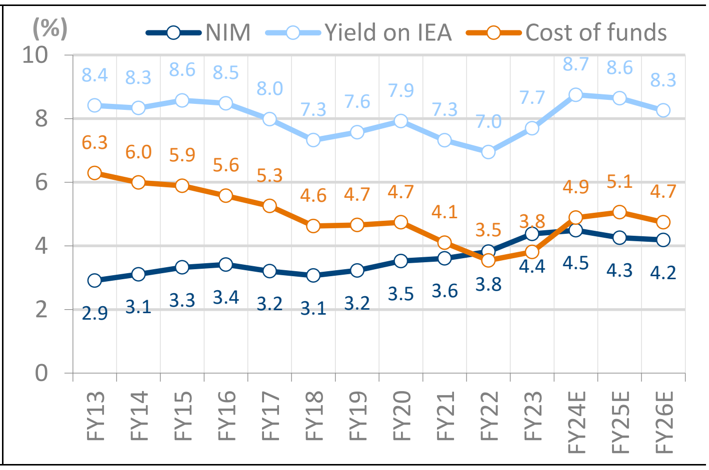
Source: Company, IIFL Research

Figure 5.16: Expect spreads to decline the most for ICICI (-37 bps) vs 15-20 bps of further decline for peers (ex SBI)



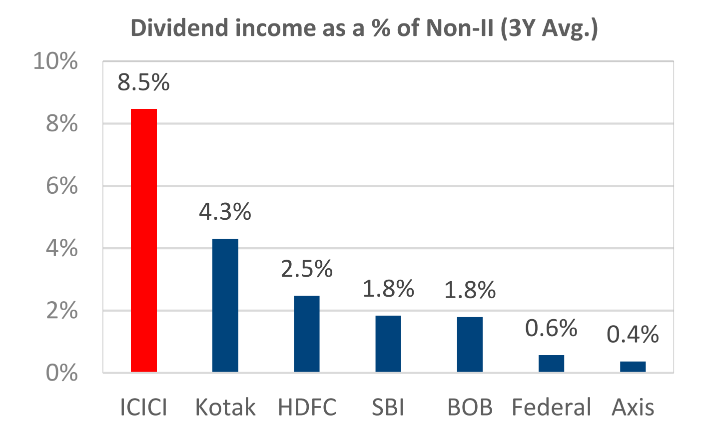
Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 5.17: Expect NIMs to peak in FY24 and build a 30 bps of decline over FY25-26E



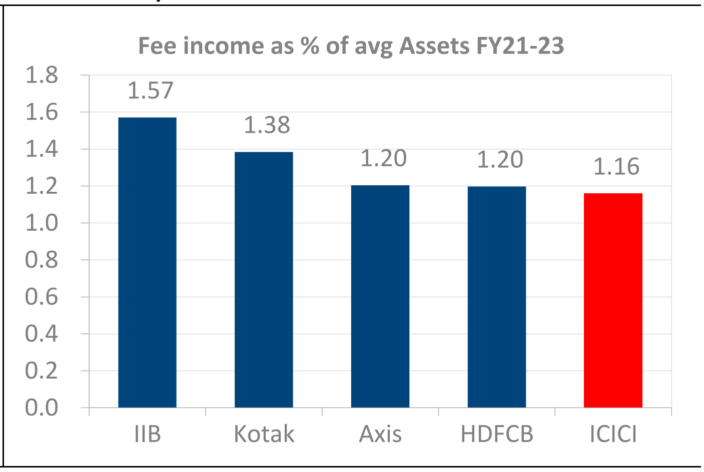
Source: Company, IIFL Research

Figure 5.18: ICICI has the highest share of dividend income in non-interest income vs peers …



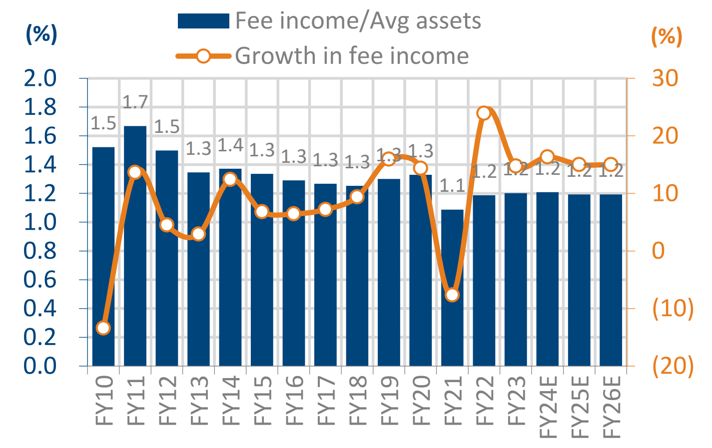
Source: Company, IIFL Research

Figure 5.19: … but has the lowest core-fee income among peers (fee income as % of assets – avg. for FY21-23 for top 4 banks and IIB)



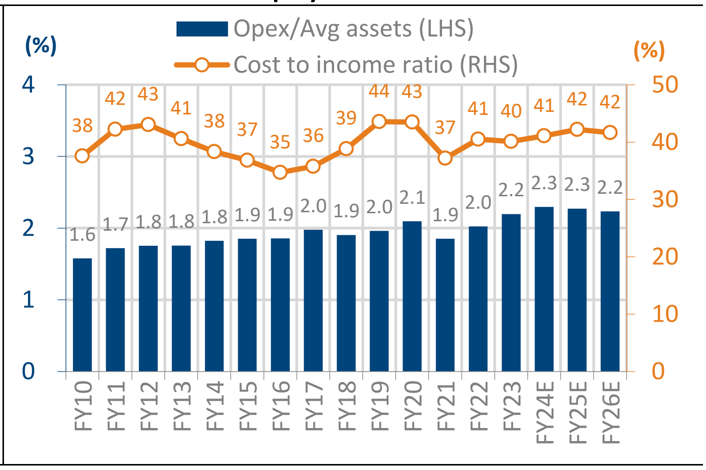
Source: Company, IIFL Research

Figure 5.20: Expect mid-teen fee income growth, but to remain stable as % of avg. assets



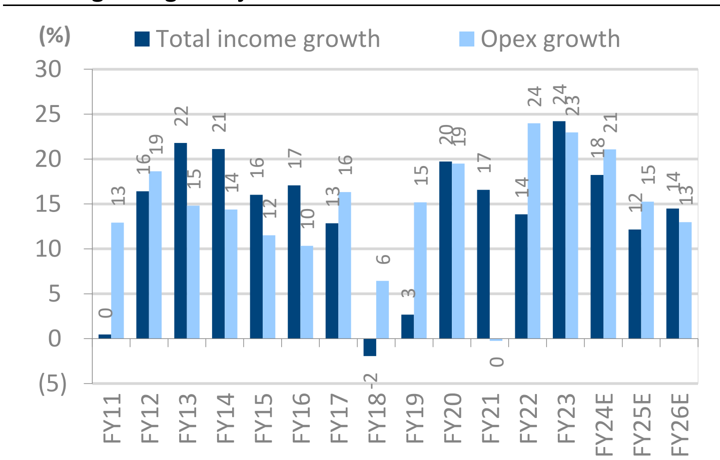
Source: Company, IIFL Research

Figure 5.21: Expect opex to remain elevated as it continues to invest in branch and employees



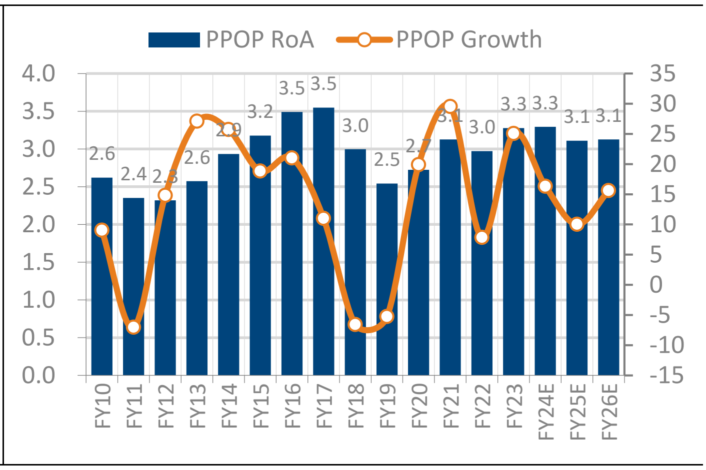
Source: Company, IIFL Research

Figure 5.22: Expect opex growth to outpace revenue growth, resulting in negative jaws



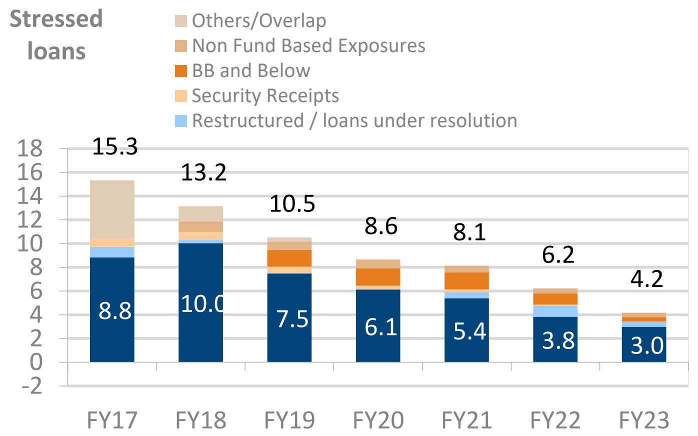
Source: Company, IIFL Research

Figure 5.23: Expect PPOP ROA to peak in FY24, and then a modest decline over FY25-26E



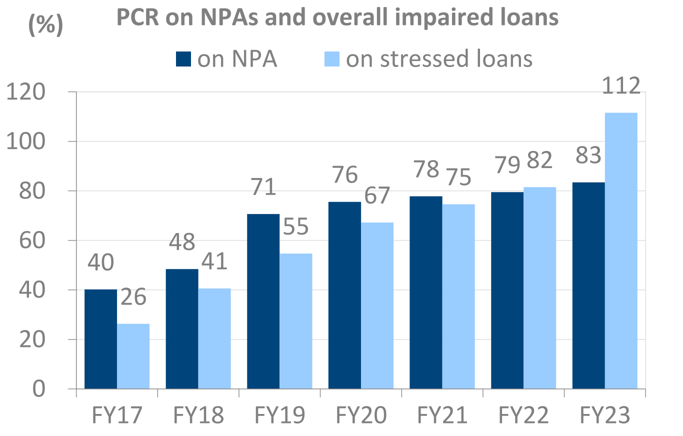
Source: Company, IIFL Research

Figure 5.24: Stressed loan ratio has improved significantly from 15% in FY17 to 4% now …



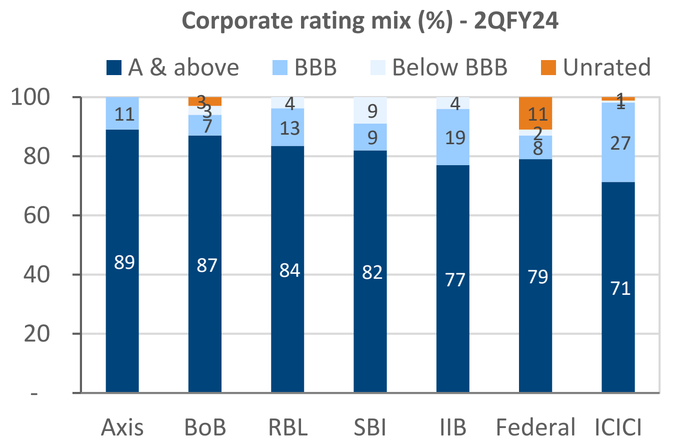
Source: Company, IIFL Research

Figure 5.25: … PCR on NPAs has doubled to 83% and PCR on stressed loans is now at 112% — the highest among peers



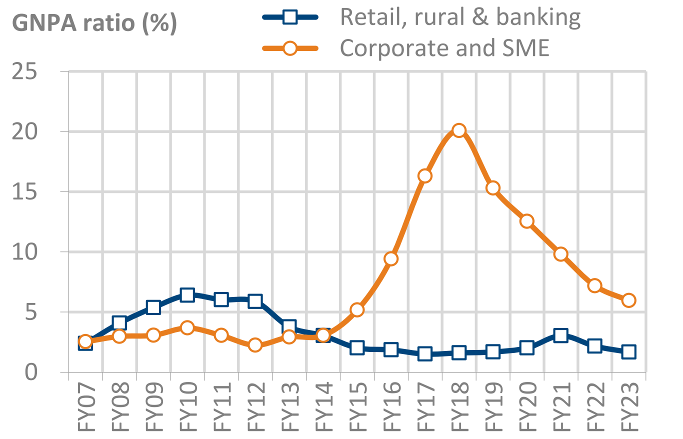
Source: Company, IIFL Research

Figure 5.26: ICICI still has the highest share of BBB and below exposure in corporate loan book …



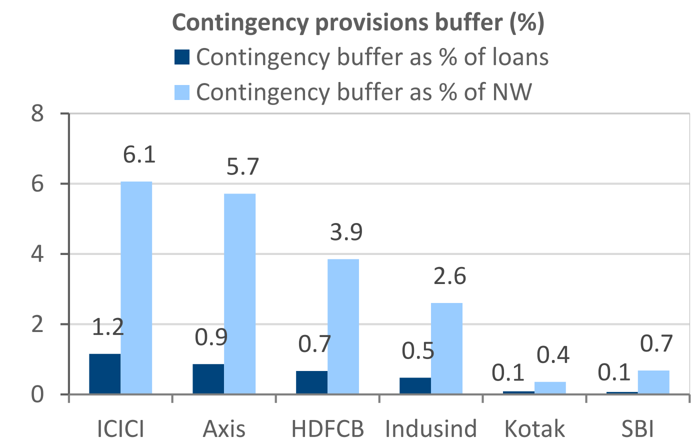
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 5.27: … but NPAs have improved significantly in both retail and corporate books



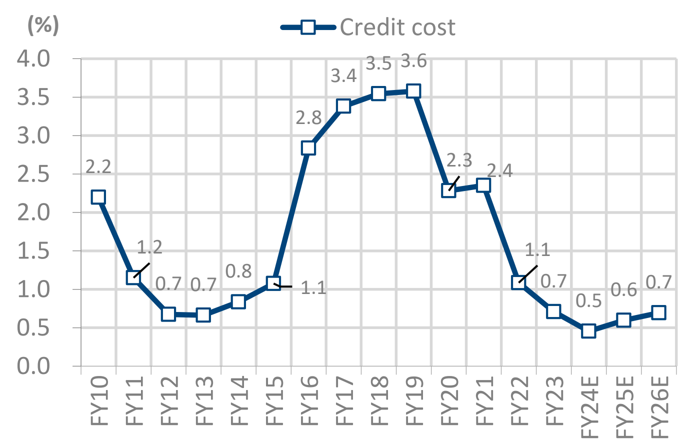
Source: Company, IIFL Research

Figure 5.28: ICICI has the highest contingency provisions at 1.2%/6.1% of loans/net worth, respectively …



Source: Company, IIFL Research, Note: SBI as on 1QFY24

Figure 5.29: … which coupled with benign asset quality environment and high PCR, should keep credit cost low



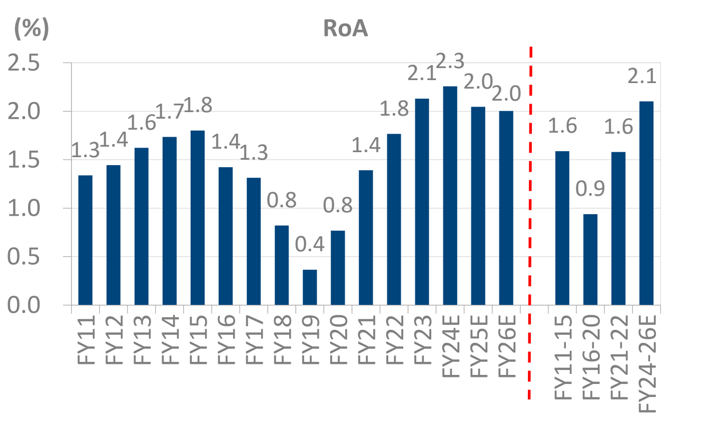
Source: Company, IIFL Research

Figure 5.30: ICICI – DuPont analysis and key ratios

DuPont analysis (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	7.8	7.9	7.7	7.3	6.7	6.9	7.3	6.8	6.5	7.3	8.3	8.2	8.0
Interest expense	4.9	4.8	4.6	4.3	3.9	3.9	4.0	3.4	2.9	3.1	4.0	4.2	3.9
Net interest income	**2.9**	**3.1**	**3.1**	**2.9**	**2.8**	**2.9**	**3.2**	**3.3**	**3.6**	**4.1**	**4.2**	**4.1**	**4.0**
Fee Income	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.1	1.2	1.2	1.2	1.2	1.2
Trading Profits	0.2	0.3	0.6	1.1	0.7	0.1	0.1	0.4	0.1	0.0	0.0	0.0	0.0
Dividend from Subs & other income	0.3	0.4	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-interest income	1.8	2.0	2.2	2.6	2.1	1.6	1.6	1.6	1.4	1.3	1.3	1.3	1.3
Total revenue	**4.8**	**5.0**	**5.3**	**5.5**	**4.9**	**4.5**	**4.8**	**5.0**	**5.0**	**5.5**	**5.6**	**5.4**	**5.4**
Employee expense	0.7	0.8	0.7	0.8	0.7	0.7	0.8	0.7	0.7	0.8	0.9	0.9	0.9
Other expense	1.1	1.1	1.1	1.2	1.2	1.2	1.3	1.2	1.3	1.4	1.4	1.4	1.3
Total expenses	**1.8**	**1.9**	**1.9**	**2.0**	**1.9**	**2.0**	**2.1**	**1.9**	**2.0**	**2.2**	**2.3**	**2.3**	**2.2**
Pre-provision operating profit	**2.9**	**3.2**	**3.5**	**3.5**	**3.0**	**2.5**	**2.7**	**3.1**	**3.0**	**3.3**	**3.3**	**3.1**	**3.1**
Provisions	0.5	0.6	1.7	2.0	2.1	2.1	1.4	1.4	0.7	0.4	0.3	0.4	0.5
Profit before tax	2.5	2.6	1.8	1.5	0.9	0.4	1.4	1.7	2.3	2.8	3.0	2.7	2.7
Taxes	0.7	0.7	0.4	0.2	0.1	0.0	0.6	0.3	0.6	0.7	0.7	0.7	0.7
ROA	**1.7**	**1.8**	**1.4**	**1.3**	**0.8**	**0.4**	**0.8**	**1.4**	**1.8**	**2.1**	**2.3**	**2.0**	**2.0**
Leverage	8.1	8.1	8.0	7.9	8.0	8.6	9.2	8.8	8.3	8.1	8.1	8.2	8.2
ROE	**14.0**	**14.5**	**11.4**	**10.3**	**6.6**	**3.2**	**7.1**	**12.3**	**14.7**	**17.2**	**18.2**	**16.7**	**16.4**
Key metrics													
Loan growth	17	14	12	7	10	14	10	14	17	19	19	18	17
Deposit growth	13	9	17	16	14	16	18	21	14	11	21	15	16
Credit-deposit ratio	102	107	103	95	91	90	84	79	81	86	85	87	88
Yield on IEA	8.3	8.6	8.5	8.0	7.3	7.6	7.9	7.3	7.0	7.7	8.7	8.6	8.3
Cost of funds	6.0	5.9	5.6	5.3	4.6	4.7	4.7	4.1	3.5	3.8	4.9	5.1	4.7
NIM	**3.1**	**3.3**	**3.4**	**3.2**	**3.1**	**3.2**	**3.5**	**3.6**	**3.8**	**4.4**	**4.5**	**4.3**	**4.2**
Cost-to-income ratio	38.3	36.8	34.7	35.8	38.8	43.6	43.5	37.2	40.5	40.1	41.1	42.2	41.7
GNPA ratio	3.1	3.8	6.0	8.8	10.0	7.5	6.1	5.4	3.8	3.0	2.4	2.6	2.9
NNPA ratio	1.0	1.6	3.1	5.5	5.4	2.3	1.6	1.3	0.8	0.5	0.4	0.5	0.5
Credit cost	**0.8**	**1.1**	**2.8**	**3.4**	**3.5**	**3.6**	**2.3**	**2.4**	**1.1**	**0.7**	**0.5**	**0.6**	**0.7**
CET1 ratio	**12.8**	**12.8**	**13.1**	**14.4**	**15.9**	**15.1**	**14.7**	**18.1**	**18.3**	**17.6**	**16.2**	**16.2**	**16.0**
CAR	17.7	17.0	16.6	17.4	18.4	16.9	16.1	19.1	19.2	18.3	16.9	16.9	16.7

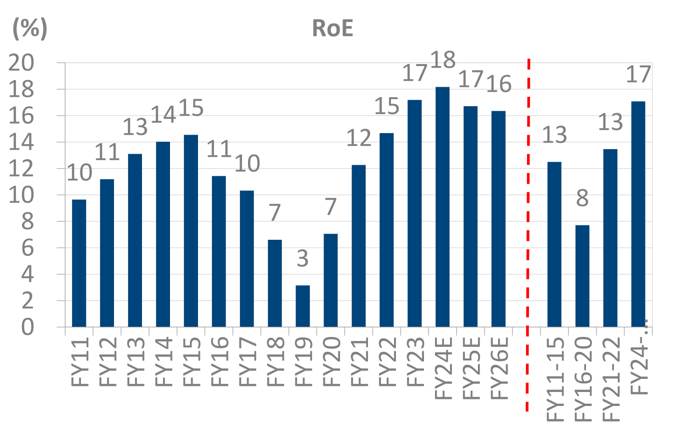
Source: Company, IIFL Research

Figure 5.31: Expect ROA/ROE to peak in FY24E and normalise lower over FY25-26E …



Source: Company, IIFL Research

Figure 5.32: … but would still be higher than the history



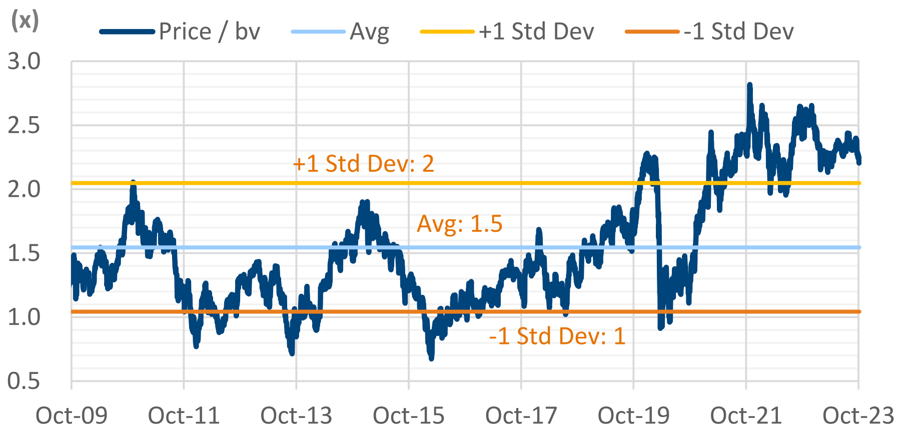
Source: Company, IIFL Research

Figure 5.33: ICICI – SOTP based on September 2025 (INR)

Particular	Stake	Value (INR bn)	Value (USD bn)	Value/ Sh. (INR)	% of total	Target Multiple (x)	Rationale
Core business		**6,350**	**79.4**	**910**	**91**	**2.3**	**PABV**
Key Ventures							
Life Insurance	51.3	502	6.3	72	7	1.9	PEV
General Insurance	48.0	414	5.2	59	6	30.0	PE
AMC	51.0	218	2.7	31	3	20.0	PE
Securities	74.9	176	2.2	25	3	15.0	PE
Home Finance	100.0	49	0.6	7	1	1.5	PBV
U.K. Subsidiary	100.0	15	0.2	2	0	0.5	PBV
Canada Subsidiary	100.0	26	0.3	4	0	0.8	PBV
Primary Dealership	100.0	25	0.3	4	0	1.0	PBV
Ventures	100.0	5	0.1	1	0	2.0	PBV
Total Value of Ventures		**1,431**	**17.9**	**205**	**21**		
Less: 20% holding discount		286	3.6	41	4		
Value of Key Ventures		**1,145**	**14.3**	**164**	**16**		
SOTP		**7,495**	**94**	**1,070**	**107**		

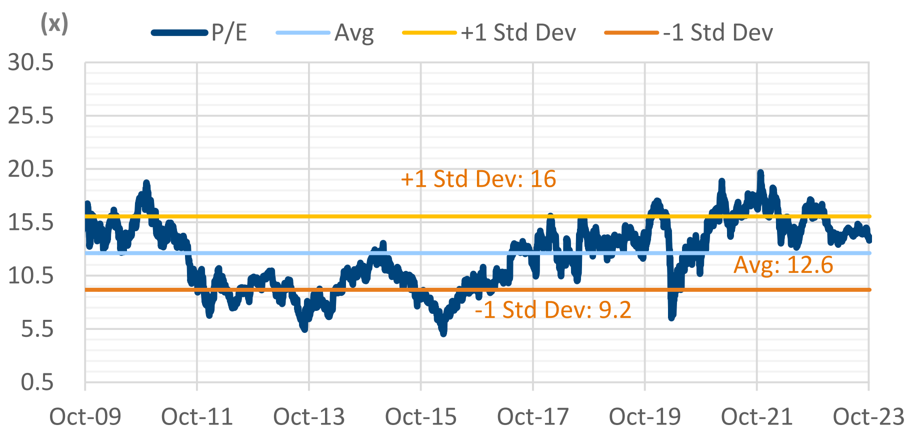
*ABV = BV adjusted for investment in subsidiaries

Figure 5.34: The stock trades at 2.3x 1YF P/BV, above the long-term average of 1.5x



Source: Bloomberg, IIFL Research

Figure 5.35: The stock trades at 14x 1YF P/E, above the long-term average of 12.6x



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 5.36: ICICI – net interest margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	10.0	9.8	9.5	8.8	8.4	8.7	9.3	8.3	8.0	8.9	10.0	9.9	9.5
Yield on investments	6.6	6.3	6.7	7.1	6.3	6.2	6.4	6.2	5.5	6.2	7.1	6.8	6.4
Yield on bank balances	2.9	6.8	6.2	4.7	3.2	3.2	2.6	4.2	4.1	3.1	2.8	3.2	3.0
Yield on interest earning assets	**8.3**	**8.6**	**8.5**	**8.0**	**7.3**	**7.6**	**7.9**	**7.3**	**7.0**	**7.7**	**8.7**	**8.6**	**8.3**
Cost of deposits	5.7	6.2	5.8	5.3	4.7	4.6	4.8	4.1	3.5	3.6	4.6	4.8	4.5
Cost of borrowings	6.6	5.3	5.0	5.1	4.4	4.7	4.3	4.4	4.3	6.1	7.5	7.6	7.2
Cost of interest bearing liabilities	**6.0**	**5.9**	**5.6**	**5.3**	**4.6**	**4.7**	**4.7**	**4.1**	**3.5**	**3.8**	**4.9**	**5.1**	**4.7**
Interest spread	2.3	2.7	2.9	2.7	2.7	2.9	3.2	3.2	3.4	3.9	3.9	3.6	3.5
Net interest margin	**3.1**	**3.3**	**3.4**	**3.2**	**3.1**	**3.2**	**3.5**	**3.6**	**3.8**	**4.4**	**4.5**	**4.3**	**4.2**
Loan-to-deposit ratio	102.0	107.2	103.3	94.7	91.3	89.8	83.7	78.7	80.7	86.3	84.6	86.9	87.9
Incremental loan-to-deposit ratio	123.3	164.7	79.8	42.2	67.9	80.8	49.7	54.7	94.9	138.1	76.2	102.4	94.1
CASA ratio	42.9	45.5	45.8	50.4	51.7	49.6	45.1	46.3	48.7	45.8	39.7	39.5	39.9

Source: Company, IIFL Research

Figure 5.37: ICICI – efficiency and productivity analysis

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	61	61	58	53	57	65	67	67	72	76	76	75	75
Fee income / total non-interest income	74	68	58	48	59	83	83	67	85	91	90	90	91
Fee income / total revenue	29	27	24	23	26	29	28	22	24	22	22	22	22
Non-interest income / revenue	39	39	42	47	43	35	33	33	28	24	24	25	25
Employee expense / total opex	41	41	39	39	38	38	38	38	36	37	39	39	40
Other expense / total opex	59	59	61	61	62	62	62	62	64	63	61	61	60
Cost to income ratio (CIR)	**38.3**	**36.8**	**34.7**	**35.8**	**38.8**	**43.6**	**43.5**	**37.2**	**40.5**	**40.1**	**41.1**	**42.2**	**41.7**
Cost to avg. asset ratio	1.82	1.85	1.86	1.98	1.90	1.96	2.10	1.85	2.02	2.19	2.30	2.27	2.23
Provisions / PPOP	16	20	49	57	70	84	50	45	22	14	9	13	15
Tax rate	30	29	20	13	9	11	44	20	24	25	25	25	25
ROA	**1.7**	**1.8**	**1.4**	**1.3**	**0.8**	**0.4**	**0.8**	**1.4**	**1.8**	**2.1**	**2.3**	**2.0**	**2.0**
Core ROA	1.5	1.6	1.2	1.1	0.7	0.3	0.7	1.3	1.6	2.0	2.2	2.0	1.9
ROE	**14.0**	**14.5**	**11.4**	**10.3**	**6.6**	**3.2**	**7.1**	**12.3**	**14.7**	**17.2**	**18.2**	**16.7**	**16.4**
Core ROE	14.7	14.7	11.0	9.9	6.0	2.4	6.5	12.2	14.3	17.0	18.0	16.4	16.0
Productivity ratios													
No. of branches	**3,753**	**4,050**	**4,450**	**4,850**	**4,867**	**4,874**	**5,324**	**5,266**	**5,418**	**5,900**	**6,785**	**7,599**	**8,511**
Loans / branch (mn)	1,093	1,033	1,075	1,043	1,056	1,205	1,324	1,378	1,631	1,882	2,052	2,101	2,198
Deposits / branch (mn)	1,071	963	1,041	1,101	1,157	1,342	1,582	1,752	2,022	2,179	2,427	2,419	2,502
CASA deposits / branch (mn)	459	438	477	555	598	666	714	811	984	999	963	956	999
No. of employees	**72,226**	**67,857**	**72,175**	**82,841**	**82,724**	**86,763**	**99,319**	**98,750**	**105,844**	**129,020**	**147,083**	**157,379**	**168,395**
Employees / branch	19	17	16	17	17	18	19	19	20	22	22	21	20
Avg. remuneration per employee (mn)	0.63	0.68	0.71	0.74	0.71	0.80	0.89	0.82	0.95	1.03	1.13	1.18	1.27
Loans / employee (mn)	47	57	60	56	62	68	65	74	81	79	82	91	99
Deposits / employee (mn)	46	53	58	59	68	75	78	94	101	92	97	104	113
CASA deposits / employee (mn)	20	24	27	30	35	37	35	44	49	42	39	41	45
Net profit / employee (mn)	1.4	1.6	1.3	1.2	0.8	0.4	0.8	1.6	2.2	2.5	2.7	2.6	2.8

Source: Company, IIFL Research

Figure 5.38: ICICI – asset quality analysis

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	105,540	152,420	267,210	425,515	540,625	462,916	414,092	413,734	339,195	311,837	298,369	383,731	491,387
NNPA (mn)	33,010	63,250	132,970	254,510	278,863	135,774	101,139	91,802	69,609	51,551	50,723	65,234	83,536
GNPA ratio	**3.1**	**3.8**	**6.0**	**8.8**	**10.0**	**7.5**	**6.1**	**5.4**	**3.8**	**3.0**	**2.4**	**2.6**	**2.9**
NNPA ratio	**1.0**	**1.6**	**3.1**	**5.5**	**5.4**	**2.3**	**1.6**	**1.3**	**0.8**	**0.5**	**0.4**	**0.5**	**0.5**
Slippage ratio	1.6	2.5	4.5	8.0	6.4	2.5	2.5	3.9	2.9	2.4	2.1	2.6	2.6
Upgrades & Recoveries ratio	0.5	0.6	0.7	0.8	2.0	1.7	1.4	1.2	2.5	2.1	1.6	1.4	1.3
Net Slippage ratio	1.1	1.9	3.9	7.1	4.4	0.8	1.2	2.7	0.4	0.2	0.5	1.2	1.3
Write-off ratio	0.8	0.5	0.9	3.5	2.0	2.3	2.0	2.7	1.4	0.6	0.6	0.5	0.5
PCR (Excl Technical write off)	**68.7**	**58.5**	**50.2**	**40.2**	**48.4**	**70.7**	**75.6**	**77.8**	**79.5**	**83.5**	**83.0**	**83.0**	**83.0**
Credit cost (% of avg. loans)	**0.8**	**1.1**	**2.8**	**3.4**	**3.5**	**3.6**	**2.3**	**2.4**	**1.1**	**0.7**	**0.5**	**0.6**	**0.7**
Total provisions as % of gross loans	**2.6**	**2.8**	**3.7**	**4.4**	**5.4**	**5.7**	**5.5**	**5.7**	**4.6**	**4.2**	**-**	**-**	**-**
Net NPA as % of networth	4.5	7.9	14.8	25.5	26.5	12.5	8.7	6.2	4.1	2.6	2.2	2.5	2.7

Source: Company, IIFL Research

Figure 5.39: ICICI – capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	-	-	-	-	14.4	13.6	13.4	16.8	17.6	17.1	16.1	16.1	16.0
AT1 ratio	-	-	-	-	1.5	1.5	1.3	1.3	0.7	0.5	0.1	0.1	0.1
Tier 1 ratio	12.8	12.8	13.1	14.4	15.9	15.1	14.7	18.1	18.3	17.6	16.2	16.2	16.0
Tier 2 ratio	4.9	4.2	3.6	3.0	2.5	1.8	1.4	1.1	0.8	0.7	0.7	0.7	0.7
Capital adequacy ratio	17.7	17.0	16.6	17.4	18.4	16.9	16.1	19.1	19.2	18.3	16.9	16.9	16.7
RWA intensity	83.8	84.3	84.2	81.0	72.2	71.3	69.1	63.8	62.6	67.6	71.1	72.1	73.1

Source: Company, IIFL Research

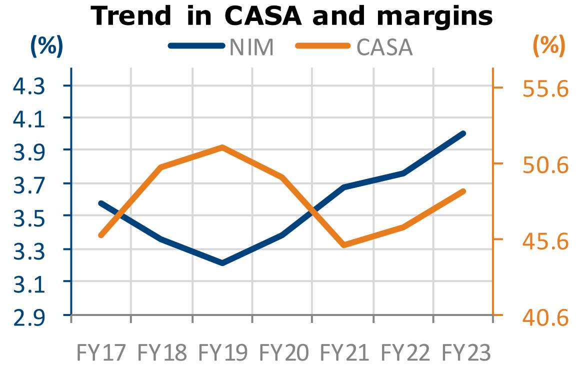
Figure 5.40: ICICI - Senior Management

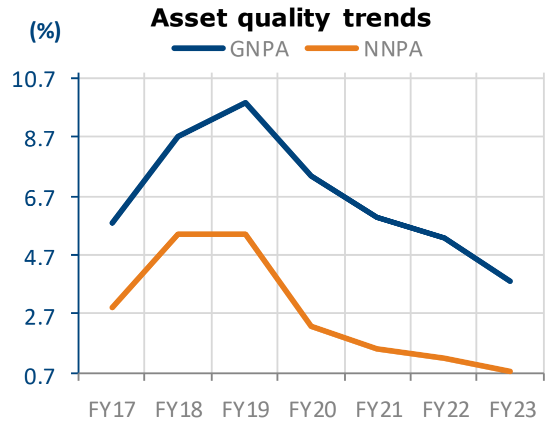
Key Management Personnel		Profile
Sandeep Bakhshi	Managing Director & CEO	• Mr. Bakshi did his Management studies from XLRI, Jamshedpur. He also holds a Master's degree in Economics of Money, Banking, and Finance from the University of Sheffield, UK and is a Chartered Accountant. • He has an overall banking experience of 30+ years, with a 3yr stint at Deutsche Bank, AG, Mumbai and the rest at HDFC Bank, where he has worked in several capacities including as the CFO of HDFC Bank.
Anindya Banerjee	Chief Financial Officer	• Mr. Banerjee is a Chartered Accountant (CA) and was an all-India rank holder in the CA final examination. He was a key member of the team that worked on the merger of ICICI Limited with ICICI Bank. • Over the years, Mr. Banerjee has worked in the areas of investor and analyst relations, management of ICICI Bank's external credit ratings, corporate planning and strategy, financial and business performance analysis, group company oversight, mergers and acquisitions, investments, management of the CEO's office and CSR.
Rakesh Jha	Executive Director	• Mr. Jha holds a Management degree from the IIM, Lucknow and an Engineering degree from the IIT, Delhi. He heads the retail banking business of ICICI Bank; responsible for the retail banking, rural & agriculture and SME businesses of the bank. • He serves on the Board of ICICI Lombard General Insurance and ICICI Venture and has worked in various areas including financial reporting, planning, strategy, asset-liability management and investor relations.
Sandeep Batra	Executive Director	• Mr. Batra is a Chartered Accountant and Company Secretary by qualification. He has been with ICICI since 2000 and his previous stints included being Executive Director, CFO at ICICI Prudential life and Group Compliance officer at ICICI Bank. • He also serves on the Board of ICICI Prudential Life Insurance, ICICI Lombard General Insurance, ICICI Prudential Asset Management and ICICI Venture; and is responsible for Corporate Centre since July 2018.

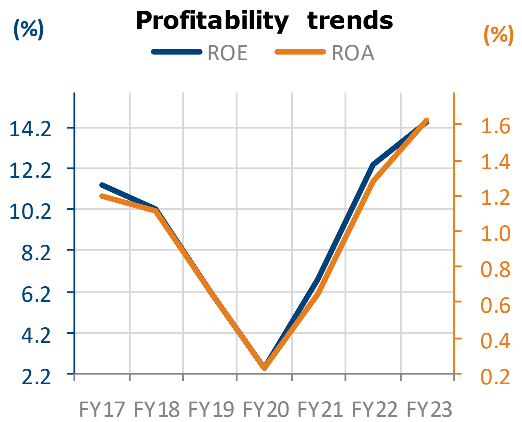
Source: Company, IIFL Research

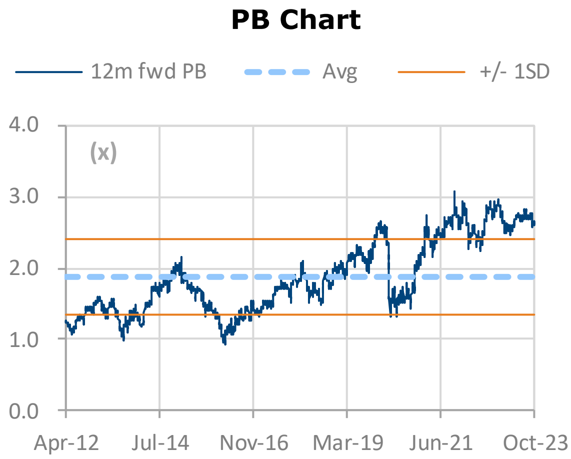
Company snapshot

Background: ICICI Bank is India's second-largest private bank with a loan book size of Rs10.2tn in FY23. It enjoyed a ~7.5% market share in system loans as of FY23. The bank has a strong distribution network of 5,900 branches and 13,031 ATMs. The bank and its specialised subsidiaries offer a wide range of banking products and financial services to corporate and retail customers. The Group is among the top players in life and non-life businesses among private players. Investment banking was set up in 1995 in a JV with JP Morgan.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	17.1	18.7	18.8	17.7	17.2
Deposit Growth (%)	14.2	10.9	21.2	14.6	15.8
Yield on IEA (%)	7.0	7.7	8.7	8.6	8.3
Cost of Funds (%)	3.5	3.8	4.9	5.1	4.7
Net Interest Margin (%)	3.8	4.4	4.5	4.3	4.2
Cost/income ratio (%)	40.5	40.1	41.1	42.2	41.7
Gross NPLs as % of loans (%)	3.8	3.0	2.4	2.6	2.9
Credit cost (%)	1.1	0.7	0.5	0.6	0.7
Return on Average Assets (%)	1.8	2.1	2.3	2.0	2.0
Return on Average Equity (%)	14.7	17.2	18.2	16.7	16.4

Source: Company data, IIFL Research

Management

Name	Designation
Sandeep Bakhshi	Managing Director & CEO
Anindya Banerjee	CFO
Rakesh Jha	Executive Director

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**474.7**	**621.3**	**736.3**	**820.3**	**939.1**
Non-interest income	**185.2**	**198.3**	**232.8**	**266.6**	**305.3**
Fee Income	156.9	180.0	209.4	240.8	276.9
Portfolio gains	9.0	(0.5)	3.4	3.7	4.1
Others	19.3	18.8	20.0	22.1	24.3
Total operating income	**659.8**	**819.6**	**969.1**	**1,086.9**	**1,244.4**
Total operating expenses	267.3	328.7	398.1	458.8	518.3
Pre provision operating profit	**392.5**	**490.9**	**571.0**	**628.1**	**726.0**
Total provisions	86.4	66.7	50.6	78.6	107.5
Profit before tax	**306.1**	**424.2**	**520.4**	**549.5**	**618.5**
Taxes	72.7	105.2	129.2	136.3	153.4
Net profit-pre exceptional	**233.4**	**319.0**	**391.1**	**413.1**	**465.1**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**233.4**	**319.0**	**391.1**	**413.1**	**465.1**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	8,590.2	10,196.4	12,109.6	14,256.3	16,703.9
Placements to other banks	583.0	509.1	467.1	624.9	826.8
Cash & equivalents	1,095.2	685.3	778.5	982.0	1,136.9
Investments	3,102.4	3,623.3	4,429.5	4,891.4	5,445.7
Total interest-earning assets	**13,370.8**	**15,014.1**	**17,784.7**	**20,754.7**	**24,113.3**
Fixed assets	93.7	96.0	103.7	109.9	115.4
Other assets	648.4	732.0	936.8	691.3	643.5
Total assets	**14,113.0**	**15,842.1**	**18,825.2**	**21,555.9**	**24,872.1**
Customer deposits	10,645.7	11,808.4	14,317.6	16,414.3	19,014.1
Borrowings	1,072.3	1,193.3	1,252.9	1,440.9	1,657.0
Total interest-bearing liabilities	**11,718.0**	**13,001.7**	**15,570.5**	**17,855.2**	**20,671.0**
Non-interest-bearing liabilities	689.8	833.3	958.2	1,054.1	1,159.5
Total liabilities	**12,407.9**	**13,834.9**	**16,528.7**	**18,909.2**	**21,830.5**
Total Shareholders' equity	**1,705.1**	**2,007.2**	**2,296.5**	**2,646.6**	**3,041.6**
Total liabilities & equity	**14,113.0**	**15,842.1**	**18,825.2**	**21,555.9**	**24,872.1**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	80.7	86.3	84.6	86.9	87.9
Loan Growth	17.1	18.7	18.8	17.7	17.2
Deposit Growth	14.2	10.9	21.2	14.6	15.8
Total Assets Growth	14.7	12.3	18.8	14.5	15.4
Profitability Ratios (%)					
Net Interest Margin	3.8	4.4	4.5	4.3	4.2
ROA	1.8	2.1	2.3	2.0	2.0
ROE	14.7	17.2	18.2	16.7	16.4
Non-Int Income as % of Total Income	28.1	24.2	24.0	24.5	24.5
Net Profit Growth	44.1	36.7	22.6	5.6	12.6
FDEPS Growth	43.5	36.0	22.3	5.6	12.6
Efficiency Ratios (%)					
Cost to Income Ratio	40.5	40.1	41.1	42.2	41.7
Salaries as % of Non-Interest costs	36.2	36.7	39.2	39.3	39.8

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	3.8	3.0	2.4	2.6	2.9
NPL coverage ratio	79.5	83.5	83.0	83.0	83.0
Total prov charges as % avg loans	1.1	0.7	0.5	0.6	0.7
Net NPLs as % of net loans	0.8	0.5	0.4	0.5	0.5
Capital Adequacy Ratios (%)					
Total CAR	19.2	18.3	16.9	16.9	16.7
Tier I capital ratio	18.3	17.6	16.2	16.2	16.0

Source: Company data, IIFL Research

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CMP	Rs138
Target 12m	Rs170 (23%)
Market cap (US$ m)	3,513
Bloomberg	FB IN
Sector	Banking & Fin

Oct 26 2023

52Wk High/Low (Rs)	151/120
Shares o/s (m)	2424
Daily volume (US$ m)	27
Dividend yield FY25ii (%)	1.1
Free float (%)	100.0

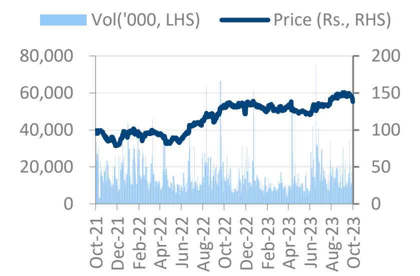
Shareholding pattern (%)

Promoters	0.0
Pledged (as % of promoter share)	0.0
FII	27.0
DII	44.0

Price performance (%)

	1M	3M	1Y
Federal Bank	(6.6)	4.0	3.7
Absolute (US$)	(6.6)	2.4	3.1
Rel.to Midcap	(2.0)	1.5	(18.5)
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		22.5	24.6

Stock movement



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Federal Bank — BUY

High growth and bottomed-out NIM

Federal Bank's (FB) profitability has improved, owing to the superior execution and macro tailwinds. Hereon, we expect FB to deliver 14% earnings Cagr over FY24-26, and 30bps higher ROA relative to the LT avg. This should be driven by further market share gains, improved efficiency and rising share of higher-yielding new products. At 1.1x 1YF P/B, valuations are still inexpensive. We recommend BUY with TP of Rs170 (23% upside). FedFina listing can add around Rs8/share to SOTP.

Superior execution and macro tailwinds underpinned record-high profitability: In FY23, Federal Bank's record-high ROA of 1.25% and ROE of 15% respectively, is a culmination of: (1) Steady market share (MS) gain of 30-40 bps in the business over the last five to six years. (2) Favourable rate cycle driving the NIM expansion. (3) Rise in the share of recurring core fee income. (4) In FY23, low slippages (especially corporate), coupled with good recoveries are leading to a credit cost of 0.5%.

Willingness to invest in new high-yielding businesses to drive the next leg of growth: Despite NIM pressures, key levers for stable RoA would be: (1) Consistent business growth, (2) improve efficiency with light branch and heavy distribution, (3) increase fee income and cross-selling by leveraging data, (4) maintaining asset quality, and (5) enhance yields with focus on high-yielding segments - the share has risen 3pp in last three years to 20.7%. With FB's unsecured loans at only 8% vs 10-16% for the larger peers, there is enough headroom to grow. We expect net profit to grow at 14% Cagr over FY24-26.

Valuation inexpensive; FedFina listing offers optionality: As the bank continues to execute its new businesses, we expect it to deliver an avg. ROA of 1.2% over FY24-26 vs 5yr and 10yr avg. of 0.9%. Following the capital raise of Rs40bn (13% dilution), CET1 ratio increases by ~250 bps to 13.8%; but the avg. ROEs soften to ~14%. We recommend BUY, and our GGM-based TP of Rs170 (23% upside) is derived using fair FY25 P/B of 1.2x. We estimate that the listing of its subsidiary FedFina could add around Rs8/share to its SOTP. Since our initiation (link), the stock has re-rated; but at 1.1x 1YF P/B and 8x P/E, valuations are undemanding.

Financial summary (Rs bn)

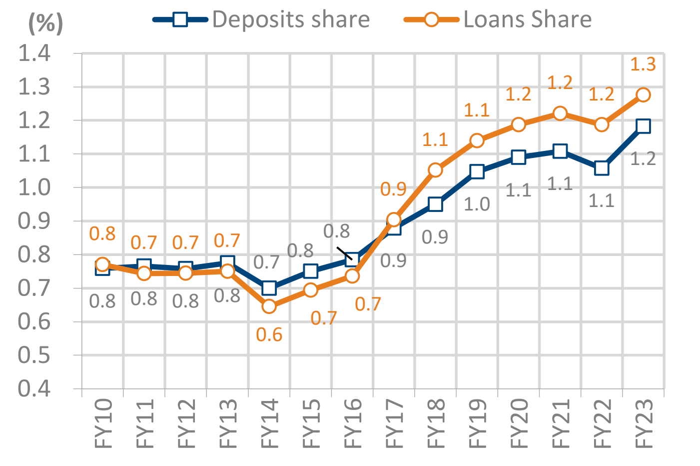
Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	59.6	72.3	84.0	100.5	116.4
PPOP	37.6	47.9	54.9	67.8	80.5
Reported PAT	**18.9**	**30.1**	**36.2**	**40.4**	**45.1**
EPS (Rs)	9.0	14.2	15.4	17.2	19.2
Growth (%)	12.8	58.3	8.2	11.6	11.7
IIFL vs consensus (%)			(0.1)	(1.1)	(3.2)
PER (x)	15.4	9.7	9.0	8.0	7.2
Book value (Rs)	89	102	118	133	151
PB (x)	**1.5**	**1.4**	**1.2**	**1.0**	**0.9**
CAR (%)	15.8	14.8	15.4	15.0	14.7
ROA (%)	0.9	1.3	1.3	1.2	1.2
ROE (%)	**10.8**	**14.9**	**14.7**	**13.7**	**13.5**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

Superior execution and macro tailwinds underpinned good performance, so far

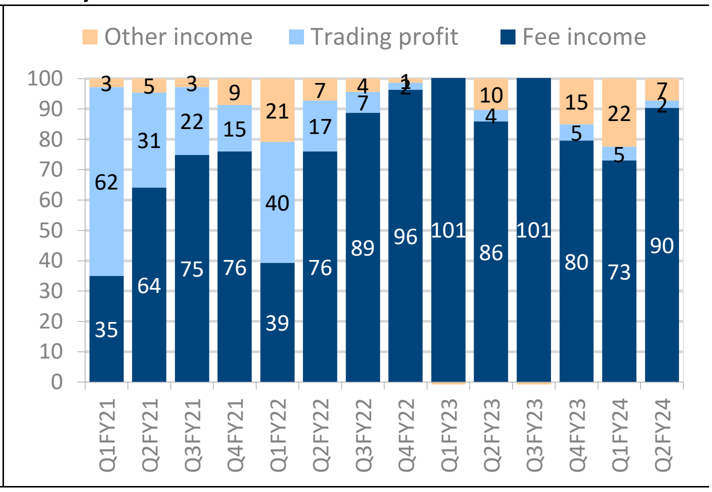
In FY23, Federal Bank's record-high ROA/ROE is a culmination of: (1) Steady MS gain in the business over the last five to six years. (2) Favourable rate cycle driving the NIM expansion. (3) Higher share of core fee income. (4) Low slippages, coupled with good recoveries.

Figure 6.1: In the last few years, FB has been steadily gaining loan and deposit MS



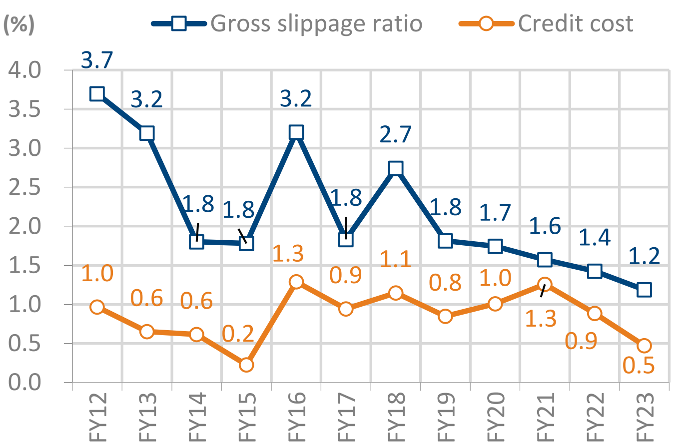
Source: Company, IIFL Research

Figure 6.2: Share of recurring core fee income in non-II has steadily increased



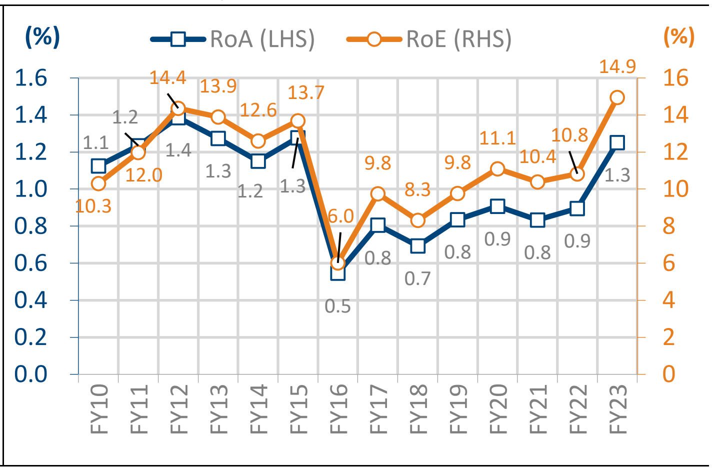
Source: Company, IIFL Research

Figure 6.3: Low slippages, coupled with good recoveries have led to low credit costs



Source: Company, IIFL Research

Figure 6.4: Profitability at a record-high level in FY23, which has sustained in 2QFY24

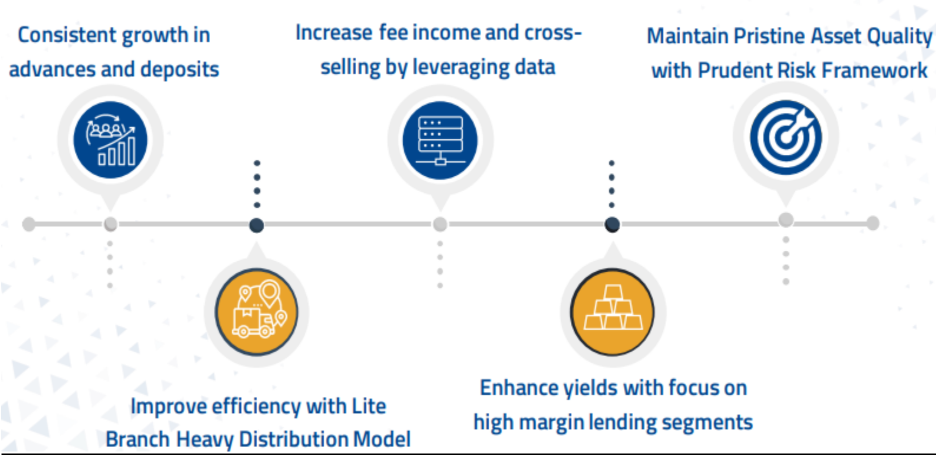


Source: Company, IIFL Research

Willingness to invest in new high-yielding businesses to drive the next leg of growth

Key levers for RoA expansion would be: (a) Consistent growth in the business, (b) Improve efficiency with light branch and heavy distribution, (c) increase fee income and cross-selling by leveraging data, (d) enhance yields with focus on high-yielding segments and (e) superior asset quality. The bank focusses on: (1) Having net NPL within an acceptable range. (2) Keeping Net Promoter Score in the top tier. (3) Doubling the net worth in three years.

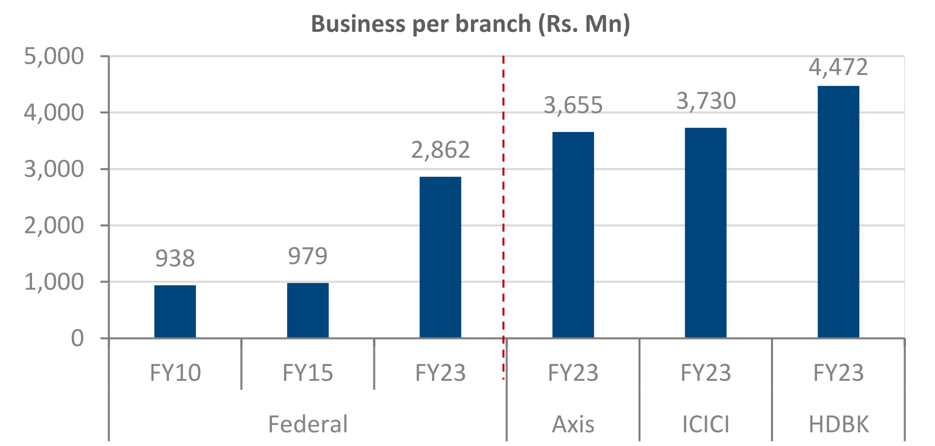
Figure 6.5: Key levers for ROA expansion, going ahead



Source: Company, IIFL Research

Over FY15-FY22 (+1% overall), FB's branch network was virtually flat as the focus was more on driving higher productivity from the existing branches. However, the bank has started adding branches in FY23 (73 new branches), and intends to open another 100 branches in FY24. The branches are chosen to look at the opportunities that are strong on high-yielding segments, which could aid faster breakeven of the branches. The bank is mostly onboarding most clients from outside of Kerala.

Figure 6.6: FB's branch productivity has improved, but it still lags larger Private banks



Note: Business refers to loans and deposits. Source: Company, IIFL Research

The bank is pursuing a multi-pronged approach between branches, relationship managers (2.5x increase by FY25), DSAs/ connectors, digital and business correspondents. Focus would be to have a light branch but a heavy distribution approach, to building the business.

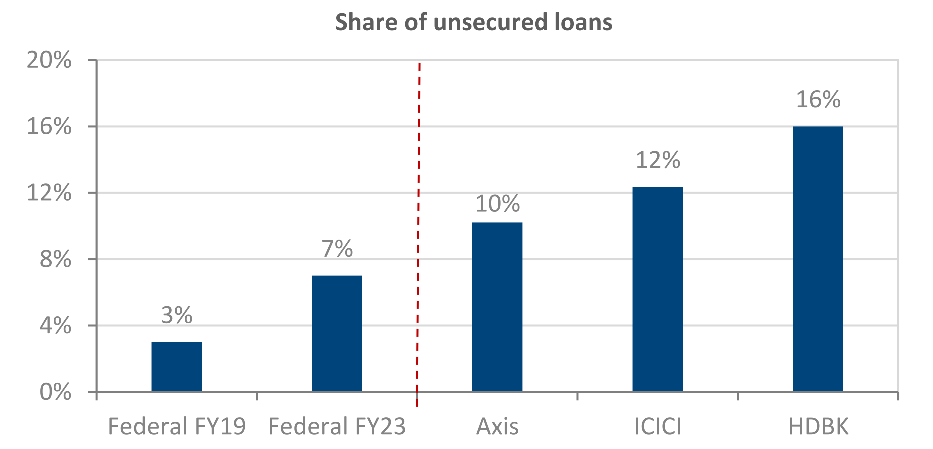
Figure 6.7: FB has adopted a multi-pronged approach to distribution

Source: Company, IIFL Research

Increasing the share of higher-yielding loans

The bank is pivoting towards higher-margin products viz. credit cards, personal loans, MSME, MFI and CV/CE. Its share has risen from 17.4% in 3QFY20 to 20.7% as of FY23. Share of Federal Bank's unsecured loans (personal loans and credit cards) has increased from 3% in FY19 to 7%, but it is still lower than the 10-16% share at the larger Private bank peers, leaving enough headroom for growth.

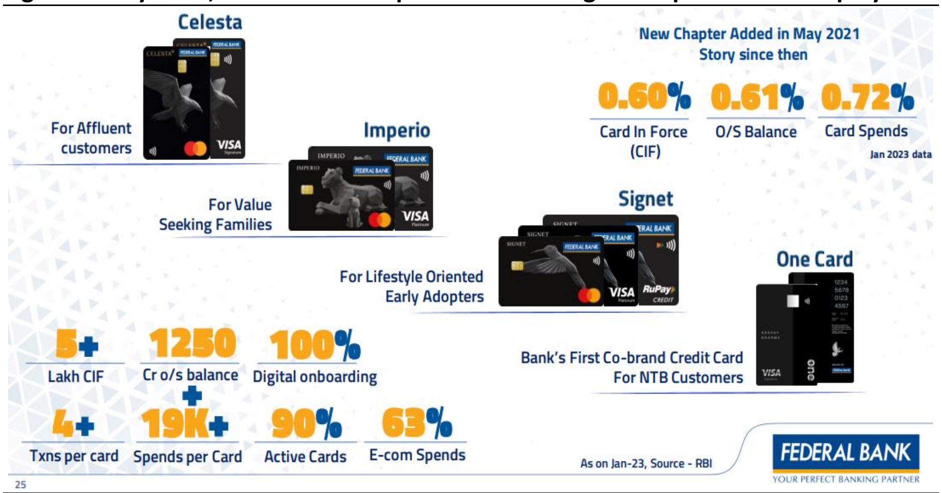
Figure 6.8: At 7%, FB's share of unsecured loans still lower vs peers



Source: Company, IIFL Research. Note: As of FY23

- **Personal loans:** Over the last four years, loan book has grown at 33% Cagr to Rs24bn (1.3% of loans). The bank expects this to double in the next two years. While so far, the banks' focus has been on ETB customers, it will now be on the NTB customers as well. Two-third of personal loans are disbursed organically, and the balance one-third through FinTech partnerships.
- **Credit cards:** This product was launched two years back; it has a 0.6% market share in cards, balance and 0.7% in spends (as of Jan'23). The bank is looking to be among the top 7 card issuers in India by 2024. 25% of cards are organic and 75% are through FinTech partnerships.

Figure 6.9: By 2024, Federal Bank aspires to be among the Top 7 credit card players



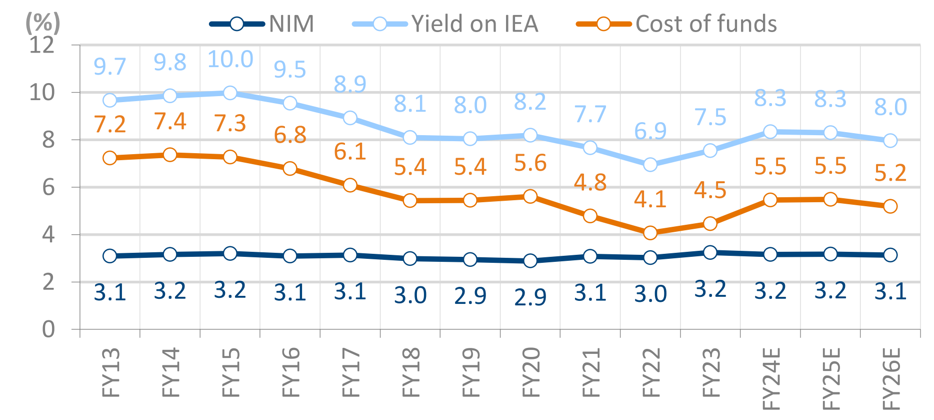
Source: Company, IIFL Research

- **Microfinance:** The bank has expanded presence from two states in 2019 to 11 states, one Union Territory and 11 BC partners. Loan book has grown at 77% Cagr from the low base of Rs1.9 bn in FY19 to Rs1.1 bn as of Dec'22.

- **MSME:** Business banking loans stand at Rs142bn (8% of total loans); 80% of these loans are compliant from a priority-sector lending perspective. It has ~30,000 customers in this segment. The average ticket size is Rs7.5 mn. This portfolio allows the bank to generate liabilities as well. Other sources of income include forex and trade finance business. The bank is growing through a combination of deeper penetration in newer geographies, partnerships and newer forms of distribution. FB is focusing in segments that have a higher potential to grow such as Nagpur, Indore, Kanpur and Hyderabad. This has resulted in ~13% Cagr in the loan portfolio vs ~7-8% Cagr for the industry.

Given the relatively-faster growth in these higher-yielding products, we expect yield on advances to increase 60-90 bps over FY24-25 vs FY23 levels. Our analysis of the residual asset-yield and funding cost re-pricing remaining suggests stable spreads. We expect NIMs to expand 1-3 bps from the 2QFY24-level, due to the endowment benefit from capital raise. We have built 8 bps of NIM contraction in FY24 vs management guidance of 5 bps rise YoY. We expect NIMs to contract in FY26, having built in policy rate-cut from 2QFY25; therefore, having built in a 10 bps YoY decline in NIMs in FY26.

Figure 6.10: NIMs should expand in near term, led by benefit from capital raise

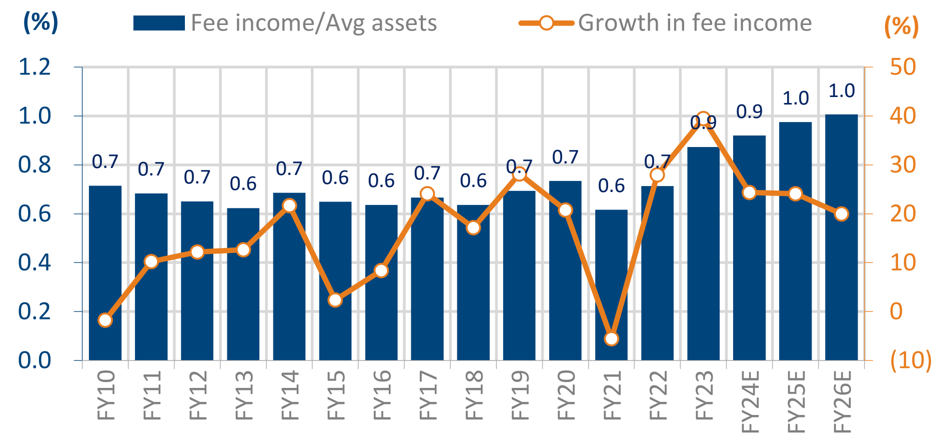


Source: Company, IIFL Research

Increase fee income by cross-selling

In FY23, core fee to average assets reached a level of ~90bps and management aims to increase this by ~10bps annually. This would be aided by 2.5x rise in the RMs (front-line revenue generating staff), strengthening partnerships on the bancassurance and wealth management fronts (currently 7 & 1 partners respectively), enhanced digital capabilities and a multi-channel distribution strategy. This includes building new products (life settlement, venture capital and dollar equity funds). The bank has been doing this through its relationship partner Equirus.

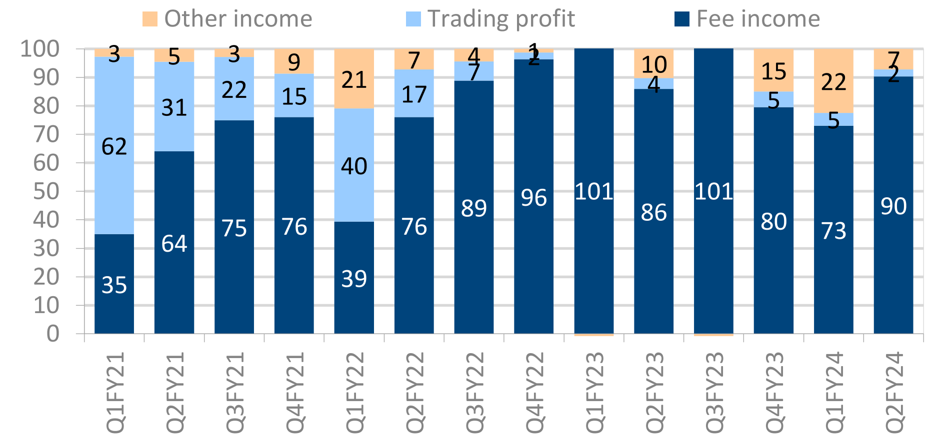
Figure 6.11: With focus on heavy distribution and deepening corporate relationships, contribution of fee income to overall profitability is improving



Source: Company, IIFL Research

Not only has non-interest income growth been strong, its quality has also seen a marked improvement, with 75-85% share coming from recurring processing and transaction-based fee income.

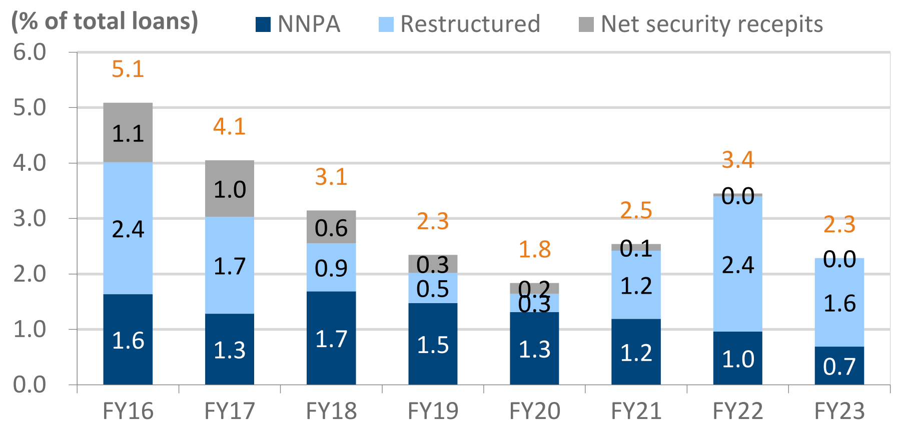
Figure 6.12: Share of recurring core fee income in non-II has steadily increased



Source: Company, IIFL Research

Significant improvement in asset quality; management focus to keep it resilient

Figure 6.13: Residual unrecognised stress has declined to 2.3% of loan



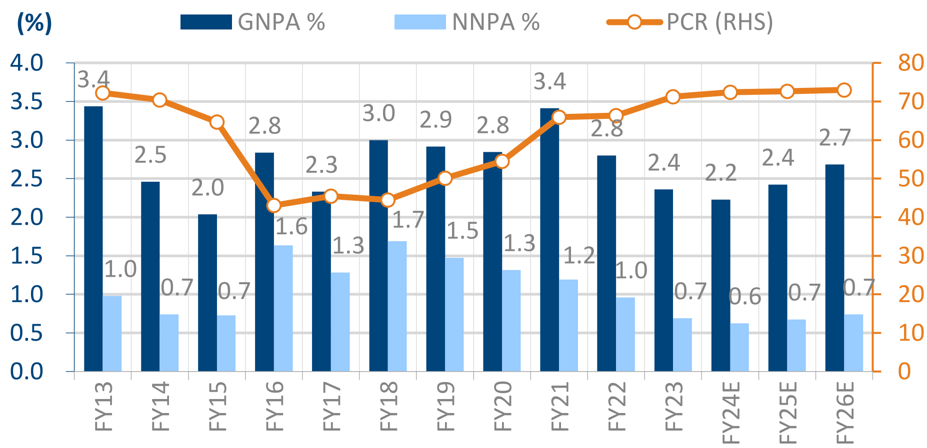
Source: Company, IIFL Research

Figure 6.14: Negligible slippages in corporate loans and good recoveries have underpinned improvement in corporate NPAs, and thus, in overall NPAs

(GNPA ratio, %)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Retail	1.7	1.6	2.1	1.9	1.9	2.7	2.3	2.1
Agri	2.3	2.3	3.0	4.1	4.6	4.5	4.6	4.2
SME	4.2	5.2	6.0	6.3	6.0	6.6	6.1	5.1
BuB				6.2	6.4	7.0	7.2	6.6
CoB				6.3	5.7	6.2	5.2	3.9
CV/CE							0.6	1.4
Corporate	2.6	1.3	2.1	1.8	1.7	2.1	0.9	0.6
Gross NPA ratio	**2.7**	**2.4**	**3.0**	**2.9**	**2.8**	**3.4**	**2.8**	**2.4**

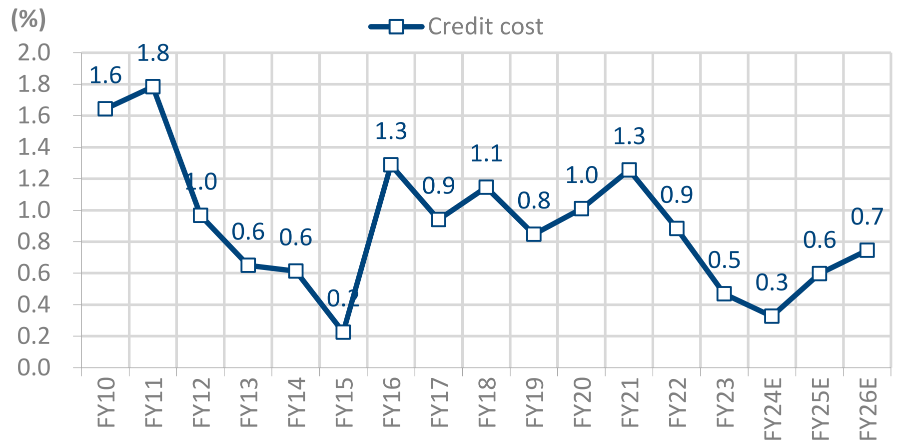
Source: Company, IIFL Research

Figure 6.15: Asset quality likely to stay benign; PCR stands at 70%



Source: Company, IIFL Research

Figure 6.16: Expect a modest rise in credit cost, but likely to remain low relative to longer-term history, on account of benign asset quality and higher coverage



Source: Company, IIFL Research

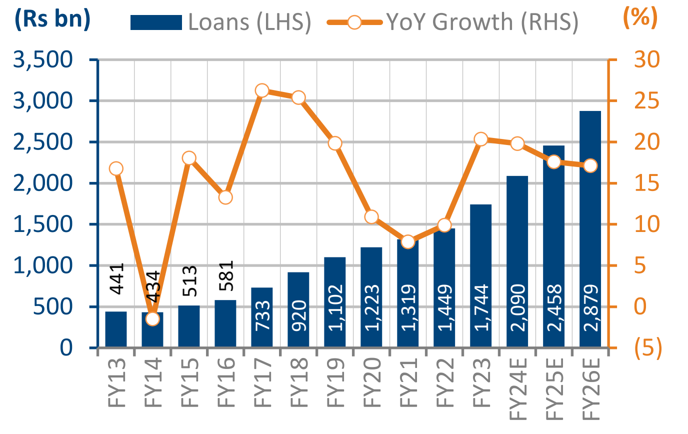
Figure 6.17: DuPont analysis and key financial ratios

DuPont (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	9.5	9.4	8.9	8.4	7.7	7.7	7.8	7.2	6.5	7.0	7.8	7.9	7.6
Interest expense	6.5	6.4	6.0	5.5	4.9	4.9	5.0	4.3	3.6	4.0	4.9	4.9	4.6
Net interest income	**3.1**	**3.0**	**2.9**	**3.0**	**2.8**	**2.8**	**2.7**	**2.9**	**2.8**	**3.0**	**3.0**	**3.0**	**3.0**
Fee Income	0.7	0.6	0.6	0.7	0.6	0.7	0.7	0.6	0.7	0.9	0.9	1.0	1.0
Trading Profits	0.2	0.3	0.1	0.3	0.2	0.2	0.4	0.3	0.2	0.0	0.0	0.0	0.0
Dividend from Subs & other income	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Total non-interest income	1.0	1.1	0.9	1.0	0.9	0.9	1.1	1.0	1.0	1.0	1.1	1.1	1.1
Total revenue	**4.0**	**4.1**	**3.8**	**4.0**	**3.7**	**3.7**	**3.9**	**3.9**	**3.8**	**4.0**	**4.0**	**4.1**	**4.1**
Employee expense	1.1	1.1	1.2	1.1	1.0	0.9	1.0	1.1	1.1	0.9	0.9	0.9	0.9
Other expense	0.9	0.9	0.9	1.0	1.0	0.9	0.9	0.9	0.9	1.1	1.2	1.1	1.1
Total expenses	**2.0**	**2.1**	**2.2**	**2.1**	**1.9**	**1.9**	**2.0**	**1.9**	**2.0**	**2.0**	**2.1**	**2.1**	**2.0**
PPOP	**2.0**	**2.1**	**1.6**	**1.9**	**1.8**	**1.9**	**1.9**	**2.0**	**1.8**	**2.0**	**1.9**	**2.0**	**2.1**
Provisions	0.4	0.1	0.8	0.6	0.7	0.6	0.7	0.8	0.6	0.3	0.2	0.4	0.5
Profit before tax	1.7	1.9	0.8	1.3	1.1	1.3	1.2	1.1	1.2	1.7	1.7	1.6	1.6
Taxes	0.5	0.7	0.3	0.5	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4
ROA	**1.2**	**1.3**	**0.5**	**0.8**	**0.7**	**0.8**	**0.9**	**0.8**	**0.9**	**1.3**	**1.3**	**1.2**	**1.2**
Leverage	10.9	10.7	11.0	12.1	12.0	11.7	12.2	12.5	12.1	11.9	11.5	11.3	11.6
ROE	**12.6**	**13.7**	**6.0**	**9.8**	**8.3**	**9.8**	**11.1**	**10.4**	**10.8**	**14.9**	**14.7**	**13.7**	**13.5**
Key metrics													
Loan growth	-1	18	13	26	25	20	11	8	10	20	20	18	17
Deposit growth	4	19	12	23	15	21	13	13	5	17	18	17	17
Credit-deposit ratio	73	72	73	75	82	82	80	76	80	82	83	84	84
Yield on IEA	9.8	10.0	9.5	8.9	8.1	8.0	8.2	7.7	6.9	7.5	8.3	8.3	8.0
Cost of funds	7.4	7.3	6.8	6.1	5.4	5.4	5.6	4.8	4.1	4.5	5.5	5.5	5.2
NIM	**3.2**	**3.2**	**3.1**	**3.1**	**3.0**	**2.9**	**2.9**	**3.1**	**3.0**	**3.2**	**3.2**	**3.2**	**3.1**
Cost-to-income ratio	49.3	50.0	56.9	53.1	51.7	50.0	51.3	49.7	53.3	49.9	52.0	50.4	49.5
GNPA ratio	2.5	2.0	2.8	2.3	3.0	2.9	2.8	3.4	2.8	2.4	2.2	2.4	2.7
NNPA ratio	0.7	0.7	1.6	1.3	1.7	1.5	1.3	1.2	1.0	0.7	0.6	0.7	0.7
Credit cost	**0.6**	**0.2**	**1.3**	**0.9**	**1.1**	**0.8**	**1.0**	**1.3**	**0.9**	**0.5**	**0.3**	**0.6**	**0.7**
Tier 1 ratio	**14.6**	**14.8**	**13.4**	**11.8**	**14.2**	**13.4**	**13.3**	**13.8**	**14.4**	**13.0**	**13.6**	**13.3**	**13.0**
CAR	15.1	15.5	13.9	12.4	14.7	14.1	14.3	14.6	15.8	14.8	15.4	15.0	14.7

Source: Company, IIFL Research

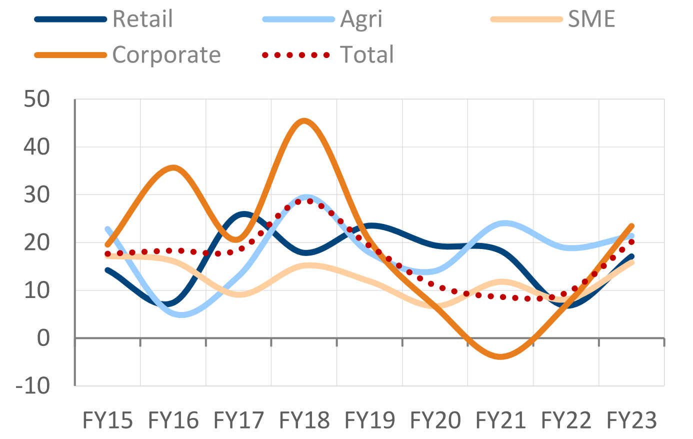
Key operational trends

Figure 6.18: Expect 18% loan Cagr over FY24-26E vs 20% in FY23



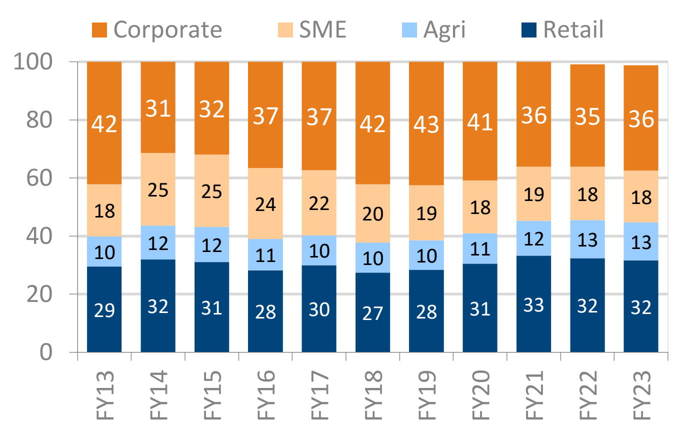
Source: Company, IIFL Research

Figure 6.19: Corporate and Agri loans grew relatively faster in FY23



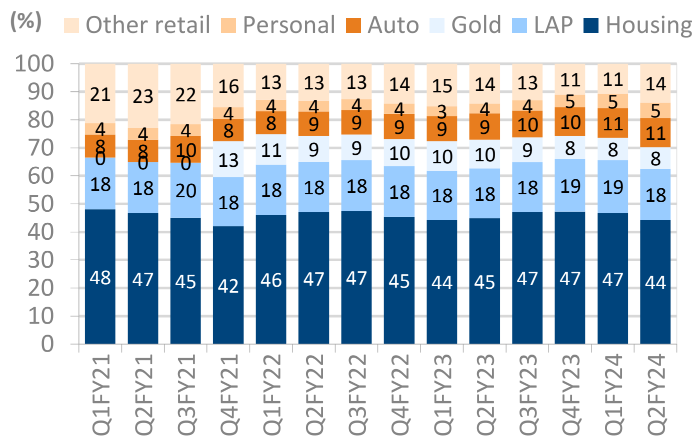
Source: Company, IIFL Research

Figure 6.20: Retail (inc. agri) and wholesale (inc. SME) mix broadly unchanged at 45:55



Source: Company, IIFL Research

Figure 6.21: Within retail loans, housing constitutes 44% and personal loans growing faster



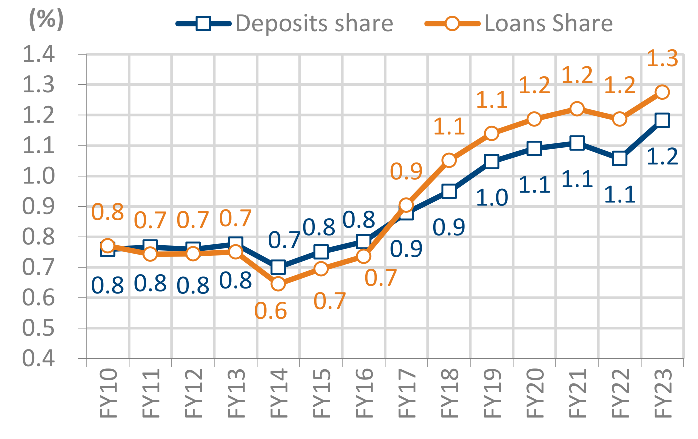
Source: Company, IIFL Research

Figure 6.22: Federal Bank's loan breakdown across different segments

Rsbn	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Housing	201.2	208.2	216.9	214.4	221.1	244.9	254.5	251.0	255.3	264.5
LAP	77.8	79.7	82.6	84.5	87.6	91.8	95.7	99.8	103.9	108.9
Gold	47.6	41.1	41.6	45.7	52.2	52.6	47.6	43.7	43.8	45.4
Auto	35.8	38.4	40.4	42.3	44.5	48.5	51.3	54.5	57.7	63.0
Personal	17.7	17.4	17.5	17.5	17.3	18.3	19.6	23.9	28.0	32.3
Other retail	56.0	58.2	57.6	66.8	75.9	68.3	70.6	58.2	58.5	82.9
Retail	**436.1**	**443.0**	**456.6**	**478.4**	**498.6**	**524.4**	**539.4**	**560.3**	**584.2**	**643.3**
Agri	**168.3**	**178.9**	**184.2**	**192.4**	**199.9**	**210.9**	**220.5**	**233.6**	**251.1**	**251.2**
SME	**245.4**	**263.1**	**262.5**	**271.9**	**281.6**	**298.6**	**310.3**	**315.0**	**334.6**	**357.3**
BuB / business banking	115.8	124.6	120.6	124.8	128.1	136.2	142.4	142.2	151.0	160.0
CoB / commercial banking	129.6	138.5	141.9	147.1	153.5	162.4	168.0	172.8	183.7	197.3
CV/CE	0.0	0.0	11.1	12.8	14.3	16.4	18.4	21.9	24.6	27.3
Corporate	**477.9**	**488.5**	**522.0**	**520.9**	**549.6**	**589.3**	**621.8**	**643.1**	**671.4**	**680.6**
Total loans	**1327.6**	**1373.5**	**1436.4**	**1476.4**	**1543.9**	**1639.6**	**1710.4**	**1773.8**	**1865.9**	**1959.7**

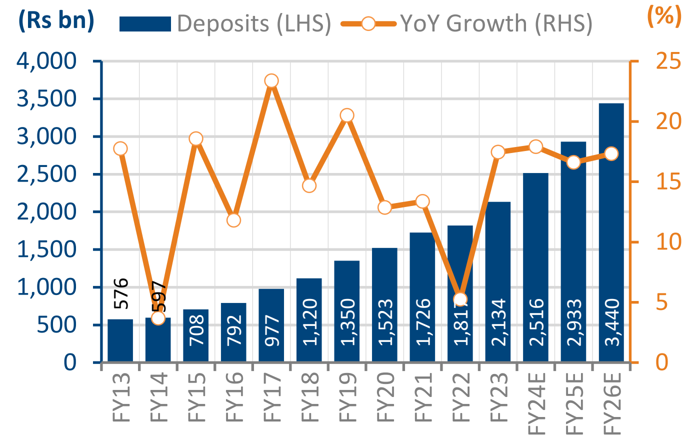
Source: Company, IIFL Research

Figure 6.23: In the last six years, FB gained 30/40 bps of loans/deposit market share



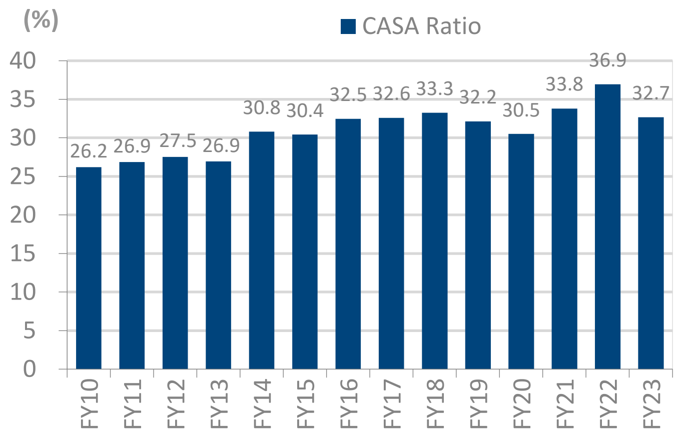
Source: Company, IIFL Research

Figure 6.24: Expect deposits to grow at 17% Cagr over FY24-26E vs 17% in FY23



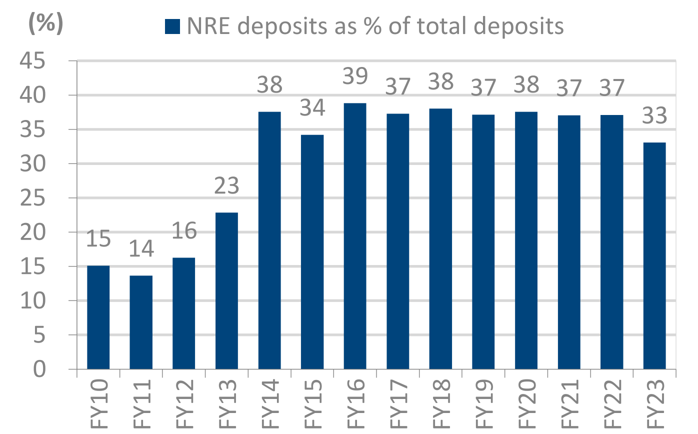
Source: Company, IIFL Research

Figure 6.25: CASA ratio declined in FY23, as rising rates underpinned faster growth in term deposits



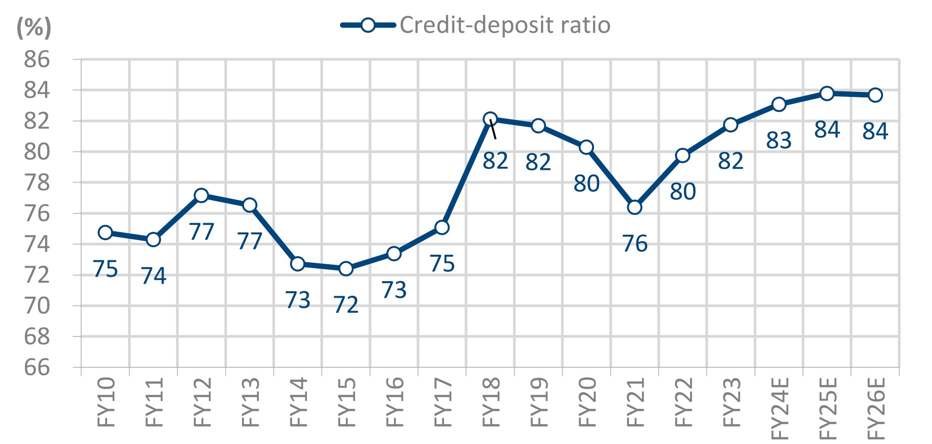
Source: Company, IIFL Research

Figure 6.26: At 33%, FB has high share of non-resident deposits in total deposits



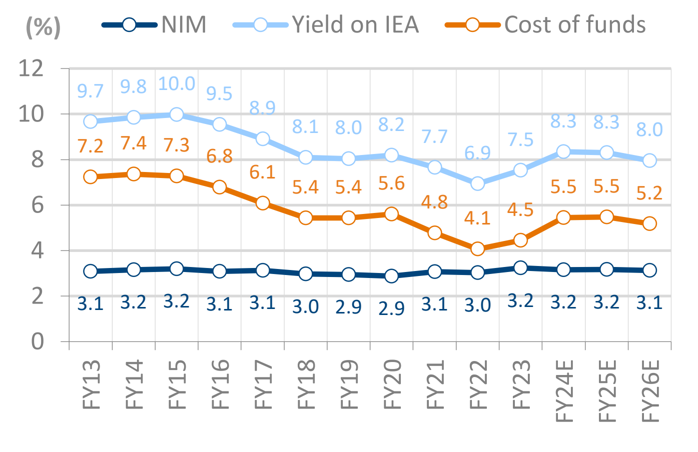
Source: Company, IIFL Research

Figure 6.27: Credit-deposit ratio expected to rise from 82% to ~84% over FY24-26E



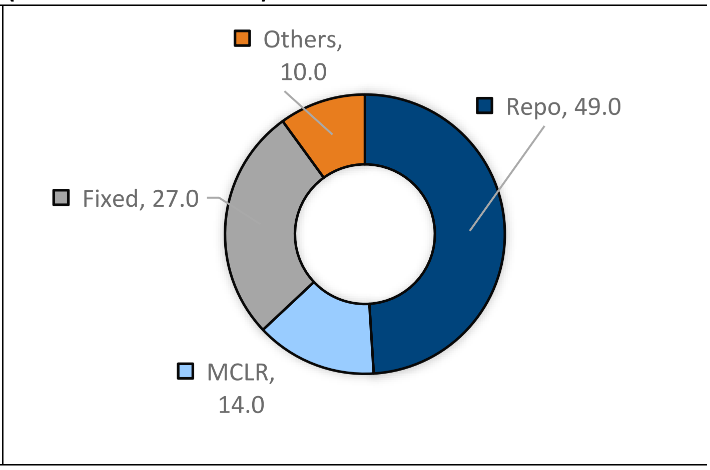
Source: Company, IIFL Research

Figure 6.28: NIMs should be resilient as deposits got majorly re-priced in 4QFY23



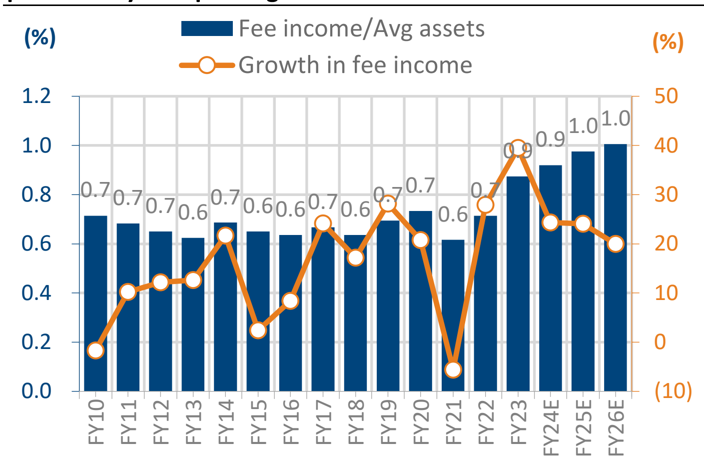
Source: Company, IIFL Research

Figure 6.29: Federal Bank has 65% floating rate loan book (EBLR linked is at ~50%)



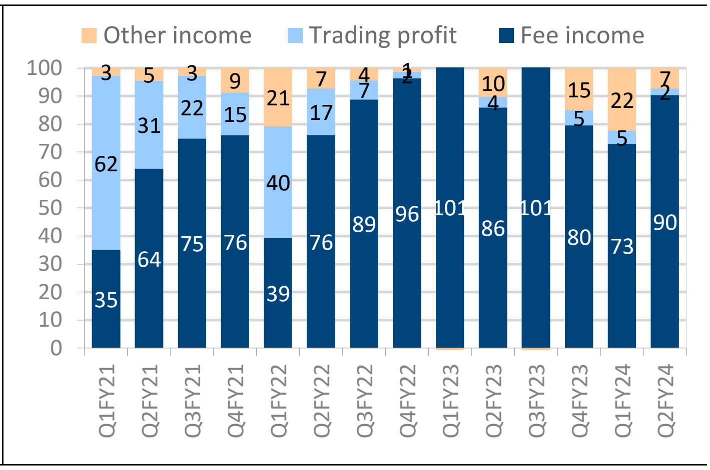
Source: Company, IIFL Research

Figure 6.30: With focus on heavy distribution and deepening corporate relationships, contribution of fee income to overall profitability is improving



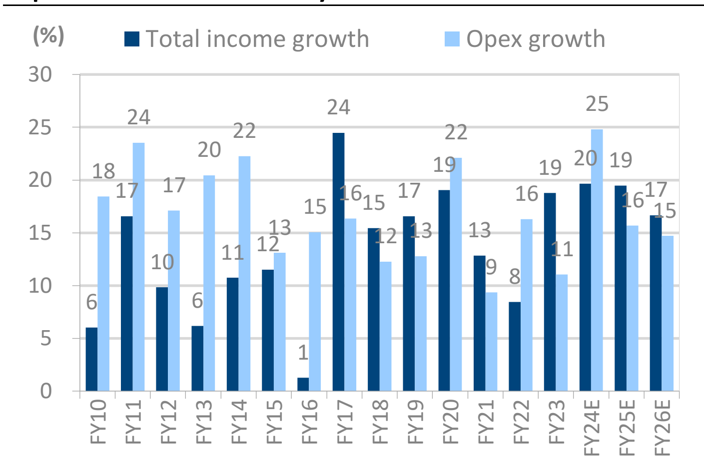
Source: Company, IIFL Research

Figure 6.31: Share of recurring core fee income in non-II has steadily increased



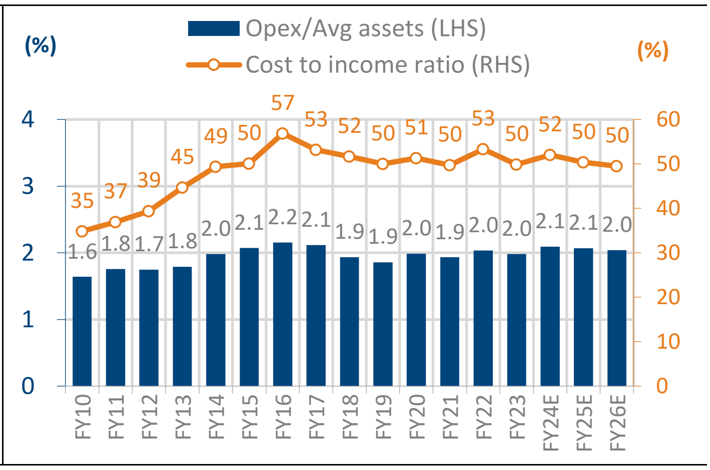
Source: Company, IIFL Research

Figure 6.32: Expect mid-teens growth in both revenue and expenses over the next few years



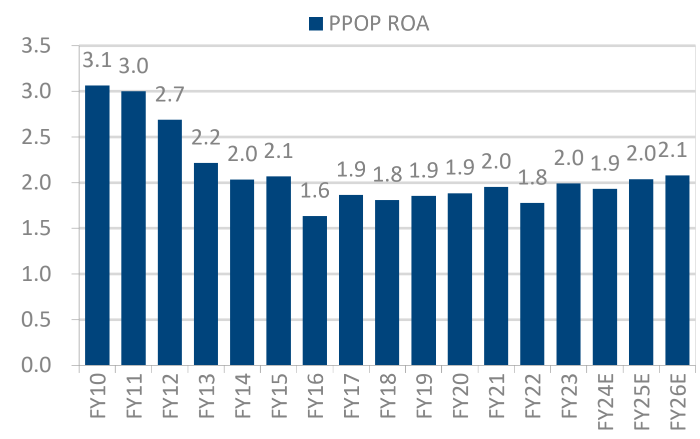
Source: Company, IIFL Research

Figure 6.33: Expect steady cost-to-income ratio



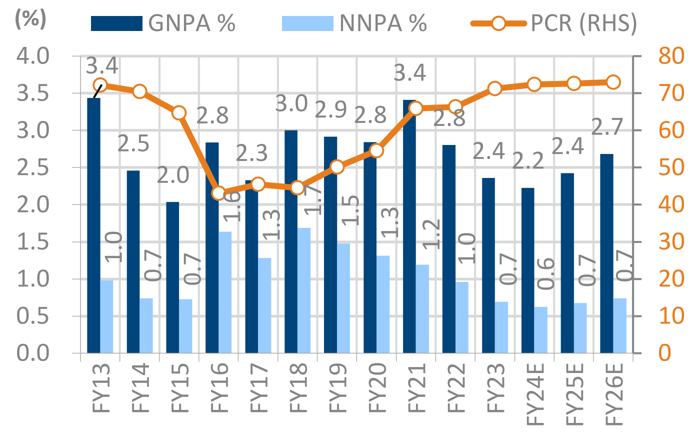
Source: Company, IIFL Research

Figure 6.34: PPOP ROA has been ~2% over the last decade; expect it to be steady



Source: Company, IIFL Research

Figure 6.35: Asset quality likely to stay benign; PCR stands at 70%



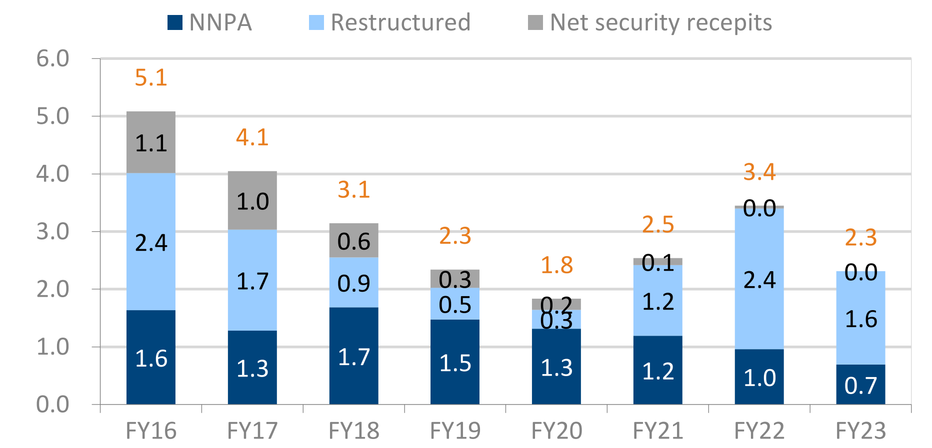
Source: Company, IIFL Research

Figure 6.36: Decline in corporate NPAs driving improvement in overall NPAs

(GNPA ratio, %)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Retail	1.7	1.6	2.1	1.9	1.9	2.7	2.3	2.1
Agri	2.3	2.3	3.0	4.1	4.6	4.5	4.6	4.2
SME	4.2	5.2	6.0	6.3	6.0	6.6	6.1	5.1
BuB				6.2	6.4	7.0	7.2	6.6
CoB				6.3	5.7	6.2	5.2	3.9
CV/CE							0.6	1.4
Corporate	2.6	1.3	2.1	1.8	1.7	2.1	0.9	0.6
Gross NPA ratio	**2.7**	**2.4**	**3.0**	**2.9**	**2.8**	**3.4**	**2.8**	**2.4**

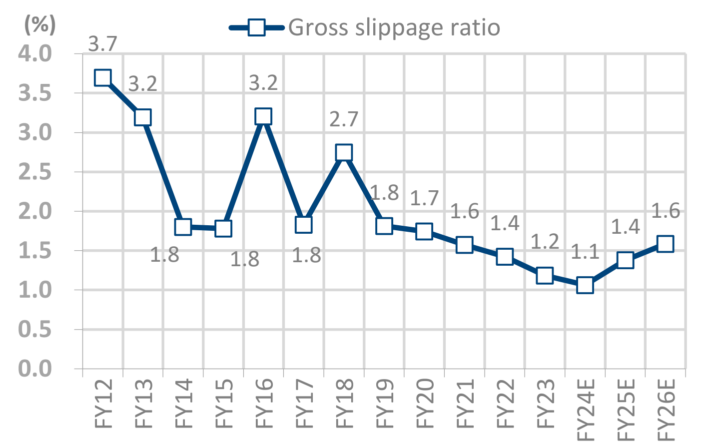
Source: Company, IIFL Research

Figure 6.37: Residual unrecognised stress has declined to 2.3% of loan



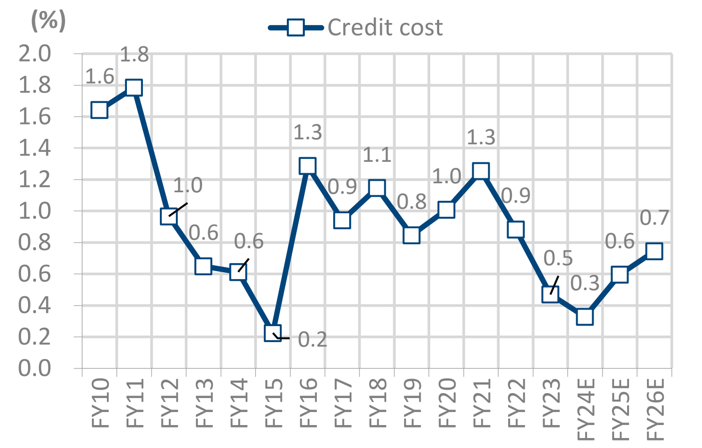
Source: Company, IIFL Research

Figure 6.38: Gross slippage ratio in FY23 the lowest ever; expect 20-40 bps increase over the next few years



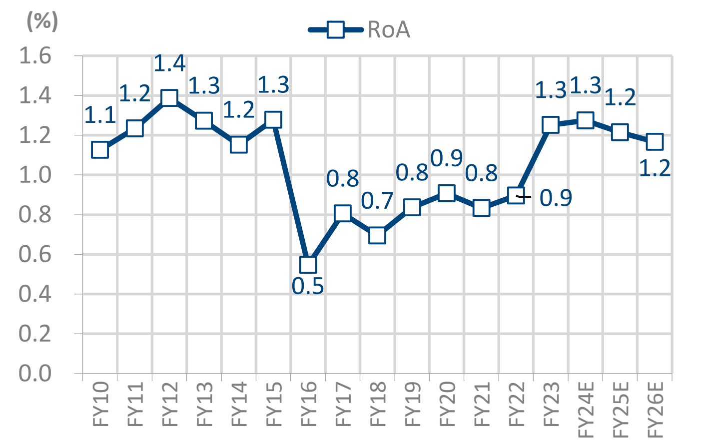
Source: Company, IIFL Research

Figure 6.39: Expect a modest rise in credit cost, but likely to remain low relative to longer-term history on account of benign asset quality and higher coverage



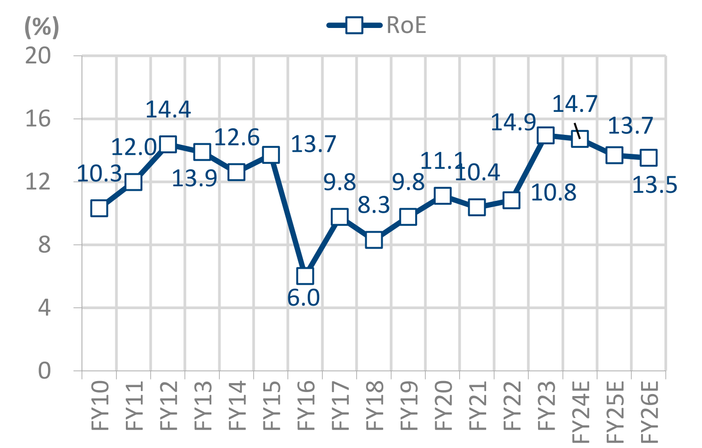
Source: Company, IIFL Research

Figure 6.40: ROAs expected to remain stable around 1.2%; the levels last seen during FY10-FY15



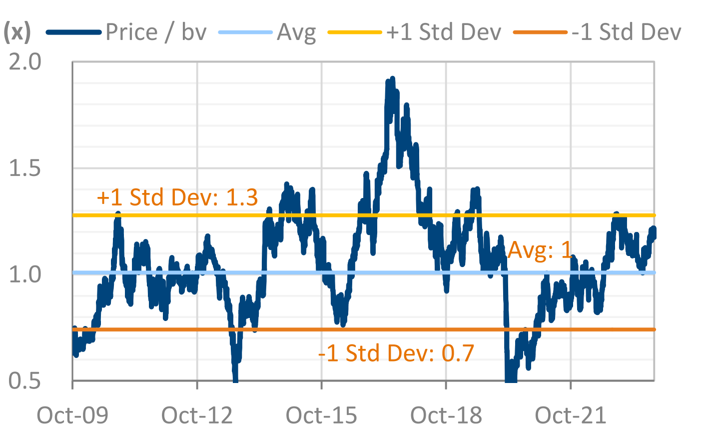
Source: Company, IIFL Research

Figure 6.41: After building in the capital raise during FY24E, expect avg. ROE of ~14% over FY24-26E vs record-high ROE of 15% in FY23



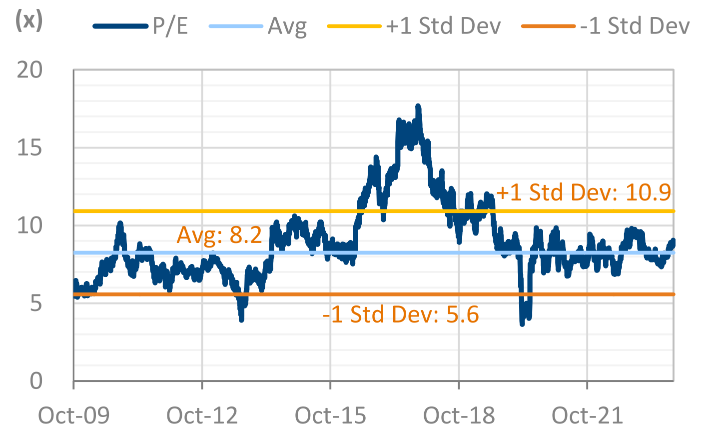
Source: Company, IIFL Research

Figure 6.42: Federal Bank is trading at 1.2x 1YF P/B, which is close to one standard deviation above the long-term average



Source: Bloomberg, IIFL Research

Figure 6.43: Federal Bank is trading at ~9.0x 1YF P/E, which is 0.5 standard deviation above the long-term historical average



Source: Bloomberg, IIFL Research

Key financial ratios

Figure 6.44: Federal Bank – Margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	11.4	11.5	10.4	10.0	9.1	9.0	9.2	8.5	7.8	8.4	9.3	9.3	8.9
Yield on investments	7.8	7.4	8.2	7.1	6.5	6.5	6.5	6.4	6.1	6.3	6.7	6.5	6.2
Yield on bank balances	3.8	6.9	6.2	5.1	3.6	3.0	3.1	3.8	2.4	2.7	4.0	4.0	3.7
Yield on interest earning assets	**9.8**	**10.0**	**9.5**	**8.9**	**8.1**	**8.0**	**8.2**	**7.7**	**6.9**	**7.5**	**8.3**	**8.3**	**8.0**
Cost of deposits	7.2	7.1	6.8	6.2	5.5	5.6	5.7	4.9	4.2	4.5	5.5	5.5	5.2
Cost of borrowings	9.3	10.3	4.7	3.5	4.1	3.8	3.8	2.8	1.5	4.3	4.8	4.9	4.7
Cost of interest bearing liabilities	**7.4**	**7.3**	**6.8**	**6.1**	**5.4**	**5.4**	**5.6**	**4.8**	**4.1**	**4.5**	**5.5**	**5.5**	**5.2**
Interest spread	2.5	2.7	2.8	2.8	2.7	2.6	2.6	2.9	2.9	3.1	2.9	2.8	2.8
Net interest margin	**3.2**	**3.2**	**3.1**	**3.1**	**3.0**	**2.9**	**2.9**	**3.1**	**3.0**	**3.2**	**3.2**	**3.2**	**3.1**
Loan-to-deposit ratio	72.7	72.4	73.4	75.1	82.1	81.7	80.3	76.4	79.8	81.8	83.1	83.8	83.7
Incremental loan-to-deposit ratio	(31.2)	70.8	81.5	82.4	130.0	79.5	69.5	47.2	144.1	93.2	90.5	88.0	83.0
CASA ratio	30.8	30.4	32.5	32.6	33.3	32.2	30.5	33.8	36.9	32.7	30.3	30.1	30.3

Figure 6.45: Federal Bank – efficiency and productivity ratios

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	76	73	76	74	76	76	71	75	74	76	73	74	73
Fee income / total non-II	72	58	70	65	70	76	65	62	72	90	86	90	90
Fee income / total revenue	17	16	17	17	17	19	19	16	19	22	23	24	24
Non-interest income / revenue	24	27	24	26	24	24	29	25	26	24	27	26	27
Employee expense / total opex	54	55	56	53	51	50	53	55	54	46	44	45	45
Other expense / total opex	46	45	44	47	49	50	47	45	46	54	56	55	55
Cost to income ratio (CIR)	**49.3**	**50.0**	**56.9**	**53.1**	**51.7**	**50.0**	**51.3**	**49.7**	**53.3**	**49.9**	**52.0**	**50.4**	**49.5**
Cost to avg. asset ratio	1.98	2.07	2.15	2.12	1.94	1.86	1.99	1.93	2.03	1.98	2.09	2.07	2.04
Provisions / PPOP	18	7	49	32	41	31	37	43	33	16	11	20	25
Tax rate	31	34	34	36	35	35	24	26	25	26	26	26	26
ROA	**1.15**	**1.28**	**0.55**	**0.81**	**0.69**	**0.84**	**0.91**	**0.83**	**0.89**	**1.25**	**1.27**	**1.21**	**1.17**
ROE	**12.6**	**13.7**	**6.0**	**9.8**	**8.3**	**9.8**	**11.1**	**10.4**	**10.8**	**14.9**	**14.7**	**13.7**	**13.5**
Productivity ratios													
No. of branches	**1,174**	**1,247**	**1,252**	**1,252**	**1,252**	**1,251**	**1,263**	**1,272**	**1,282**	**1,355**	**1,450**	**1,522**	**1,598**
Loans / branch (mn)	394	437	466	586	734	880	977	1,044	1,139	1,361	1,543	1,695	1,891
Deposits / branch (mn)	542	603	635	780	895	1,078	1,217	1,367	1,428	1,664	1,857	2,023	2,260
CASA deposits / branch (mn)	167	184	206	254	298	347	371	462	528	544	563	609	684
No. of employees	**10,268**	**10,981**	**11,760**	**11,593**	**12,112**	**12,227**	**12,496**	**12,592**	**12,790**	**13,269**	**14,861**	**15,604**	**16,540**
Employees / branch	9	9	9	9	10	10	10	10	10	10	10	10	10
Avg. remuneration per employee	0.78	0.84	0.93	1.00	1.05	1.13	1.43	1.62	1.83	1.67	1.88	2.02	2.19
Loans / employee (mn)	42	47	49	63	76	90	98	105	113	131	141	157	174
Deposits / employee (mn)	58	64	67	84	92	110	122	137	142	161	169	188	208
CASA deposits / employee (mn)	18	20	22	27	31	35	37	46	52	53	51	57	63
Net profit / employee (mn)	0.8	0.9	0.4	0.7	0.7	1.0	1.2	1.3	1.5	2.3	2.4	2.6	2.7

Figure 6.46: Federal Bank– asset quality analysis

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
GNPA (mn)	10,874	10,577	16,678	17,271	27,956	32,607	35,308	46,024	41,367	41,838	47,316	60,611	78,786
NNPA (mn)	3,216	3,733	9,500	9,412	15,520	16,262	16,072	15,693	13,926	12,050	13,070	16,577	21,272
GNPA ratio	**2.5**	**2.0**	**2.8**	**2.3**	**3.0**	**2.9**	**2.8**	**3.4**	**2.8**	**2.4**	**2.2**	**2.4**	**2.7**
NNPA ratio	**0.7**	**0.7**	**1.6**	**1.3**	**1.7**	**1.5**	**1.3**	**1.2**	**1.0**	**0.7**	**0.6**	**0.7**	**0.7**
Slippage ratio	1.8	1.8	3.2	1.8	2.7	1.8	1.7	1.6	1.4	1.2	1.1	1.4	1.6
Upgrades & Recoveries ratio	1.8	1.1	0.9	0.9	1.0	1.0	0.8	0.4	1.2	0.9	0.7	0.5	0.5
Net Slippage ratio	0.0	0.7	2.3	0.9	1.8	0.8	0.9	1.2	0.3	0.3	0.4	0.8	1.1
Write-off ratio	1.1	0.8	1.1	0.8	0.3	0.3	0.7	0.3	0.6	0.3	0.1	0.2	0.3
PCR (Excl Technical w/off)	**70.4**	**64.7**	**43.0**	**45.5**	**44.5**	**50.1**	**54.5**	**65.9**	**66.3**	**71.2**	**72.4**	**72.7**	**73.0**
Credit cost (% of avg. loans)	**0.6**	**0.2**	**1.3**	**0.9**	**1.1**	**0.8**	**1.0**	**1.3**	**0.9**	**0.5**	**0.3**	**0.6**	**0.7**
Total provisions as % of loans	2.2	1.8	1.7	1.6	1.8	1.9	2.0	2.8	2.7	2.5			
Net NPA as % of networth	4.6	4.8	11.7	10.5	12.7	12.3	11.1	9.7	7.4	5.6	4.7	5.3	6.0

Source: Company, IIFL Research

Figure 6.47: Federal Bank – capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
CET1 ratio	-	-	-	-	14.2	13.4	13.3	13.8	14.4	13.0	13.6	13.3	13.0
AT1 ratio	-	-	-	-	-	-	-	-	-	-	-	-	-
Tier 1 ratio	14.6	14.8	13.4	11.8	14.2	13.4	13.3	13.8	14.4	13.0	13.6	13.3	13.0
Tier 2 ratio	0.6	0.7	0.6	0.6	0.5	0.8	1.1	0.8	1.3	1.8	1.8	1.7	1.7
Capital adequacy ratio	15.1	15.5	13.9	12.4	14.7	14.1	14.3	14.6	15.8	14.8	15.4	15.0	14.7
RWA intensity	-	61.4	63.8	62.9	60.1	58.8	58.6	55.4	55.3	60.3	59.4	60.4	60.4

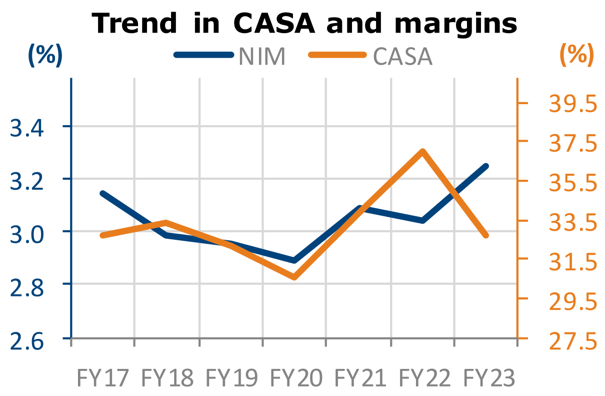
Source: Company, IIFL Research

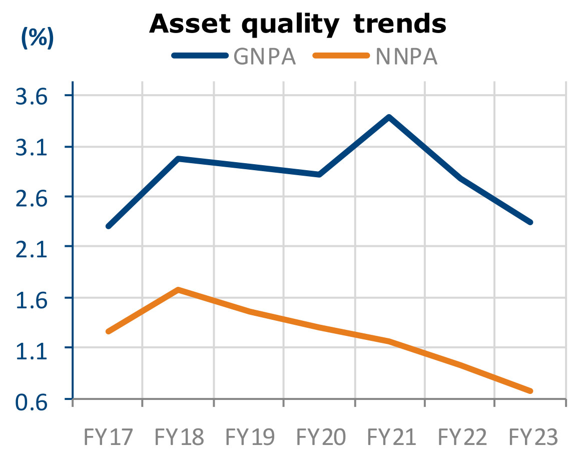
Figure 6.48: Management

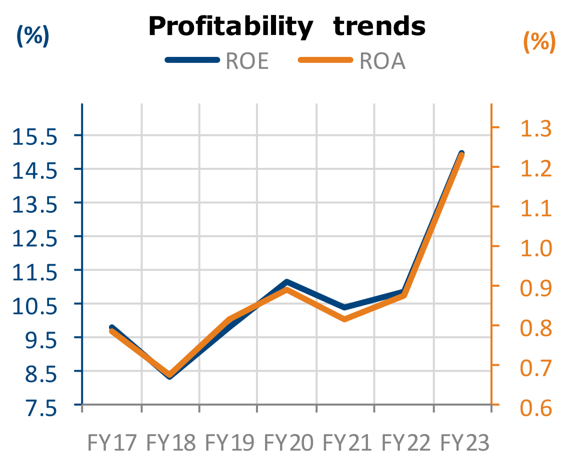
Key Management Personnel		
Shyam Srinivasan	Managing Director & CEO	• Mr. Srinivasan got his Bachelor of Engineering degree from Regional Engineering College, Tiruchirappalli (now known as National Institute of Technology, Tiruchirappalli) and his PGDM from Indian Institute of Management, Calcutta. • He has spent 20+ years with leading multinational banks in India, Middle East and South East Asia, working primarily in retail lending, wealth management and SME banking. Previously, he worked at WIPRO, Citi Bank and Standard Chartered, where he also served on the Global Executive Forum (the top 100 executives) of Standard Chartered Bank.
Venkatraman Venkateshwaran	Group President & Chief Financial Officer	• Mr. Venkateshwaran is a qualified Chartered Accountant with graduate degrees in Law and Economics. • He has a vast experience working with HSBC and SCB in Global Finance Operations, Financial Compliance, Operations, Technology and support functions in various leadership roles. Previously, he worked with corporates like Indian Rayon Industries (Aditya Birla Group), Kewalram Chanrai Group (Singapore) in senior roles responsible for financial management.
Damodaran C	Chief Risk Officer	• Mr. Damodaran has more than 13 years of experience in Risk Management covering market risk, credit risk, and operational risk. He was heading planning, MIS and analytics department of the bank prior to his appointment as CRO. • He has 23+ years of experience in the various facets of banking, which includes branch banking, risk management and planning.
Kapil Bhatia	EVP & Country Head - Corporate & Institutional Banking	• Mr. Bhatia holds an MBA (Finance), PG Diploma in Marketing from Rutgers University, USA. • He has 20+ years of experience in trade finance, credit and transaction banking and has worked as VP and Unit Head - Corporate Banking at HDFC Bank and Associate Director at BNP Paribas.
Harsh Dugar	Group President & Country Head - Wholesale Banking	• Mr. Dugar holds a Bachelor's degree with Honors in Accounting & Finance from the University of Calcutta. He is a qualified CWA and CFA. He has prior experience of 20 years at HDFC Bank and is currently responsible for Corporate Banking, Capital Market Operations, Institutional Banking, Commercial Banking, Government Business and Rural Banking.

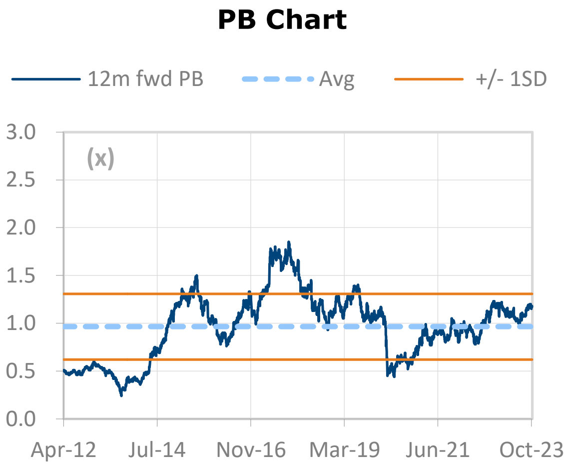
Company snapshot

Background: Federal Bank Limited is a major Indian commercial bank in the private sector headquartered at Aluva, Kerala having >13,270 employees, spread over 1,355 branches as of FY23. The history of Federal Bank dates back to the pre-independence era. It was initially known as the Travancore Federal Bank, later gradually transformed into a full-fledged bank under the able leadership of its Founder, Mr. K P Hormis. The name Federal Bank Limited was officially announced in the year 1947 with its headquarters nestled on the banks of the river Periyar. As at the end of FY23, bank had a balance sheet of Rs 2.6tn, with advances of Rs1.7tn.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	9.9	20.4	19.8	17.6	17.1
Deposit Growth (%)	5.2	17.4	17.9	16.6	17.3
Yield on IEA (%)	6.9	7.5	8.3	8.3	8.0
Cost of Funds (%)	4.1	4.5	5.5	5.5	5.2
Net Interest Margin (%)	3.0	3.2	3.2	3.2	3.1
Cost/income ratio (%)	53.3	49.9	52.0	50.4	49.5
Gross NPLs as % of loans (%)	2.8	2.4	2.2	2.4	2.7
Credit cost (%)	0.9	0.5	0.3	0.6	0.7
Return on Average Assets (%)	0.9	1.3	1.3	1.2	1.2
Return on Average Equity (%)	10.8	14.9	14.7	13.7	13.5

Source: Company data, IIFL Research

Management

Name	Designation
C. Balagopal	Part Time Chairman
Shyam Srinivasan	Managing Director & CEO
Ashutosh Khajuria	Executive Director

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**59.6**	**72.3**	**84.0**	**100.5**	**116.4**
Non-interest income	**20.9**	**23.3**	**30.4**	**36.1**	**43.1**
Fee Income	15.1	21.0	26.1	32.4	38.9
Portfolio gains	3.8	0.8	1.0	1.1	1.3
Others	2.0	1.5	3.3	2.6	2.9
Total operating income	**80.5**	**95.6**	**114.4**	**136.7**	**159.4**
Total operating expenses	42.9	47.7	59.5	68.8	79.0
Pre provision operating profit	**37.6**	**47.9**	**54.9**	**67.8**	**80.5**
Total provisions	12.2	7.5	6.3	13.6	19.9
Profit before tax	**25.4**	**40.4**	**48.6**	**54.2**	**60.6**
Taxes	6.5	10.3	12.4	13.8	15.5
Net profit-pre exceptional	**18.9**	**30.1**	**36.2**	**40.4**	**45.1**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**18.9**	**30.1**	**36.2**	**40.4**	**45.1**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	1,449.3	1,744.5	2,090.2	2,457.6	2,878.9
Placements to other banks	110.1	51.0	54.0	79.5	93.2
Cash & equivalents	100.0	125.9	163.9	190.9	223.6
Investments	391.8	489.8	602.9	690.8	807.9
Total interest-earning assets	**2,051.2**	**2,411.2**	**2,911.0**	**3,418.8**	**4,003.5**
Fixed assets	6.3	9.3	10.3	11.5	12.7
Other assets	151.9	182.9	158.2	142.9	150.0
Total assets	**2,209.5**	**2,603.4**	**3,079.5**	**3,573.2**	**4,166.2**
Customer deposits	1,817.0	2,133.9	2,515.7	2,933.0	3,440.4
Borrowings	153.9	193.2	216.4	248.8	286.2
Total interest-bearing liabilities	**1,970.9**	**2,327.1**	**2,732.1**	**3,181.8**	**3,726.6**
Non-interest-bearing liabilities	50.6	61.3	70.5	77.5	85.3
Total liabilities	**2,021.5**	**2,388.4**	**2,802.5**	**3,259.4**	**3,811.9**
Total Shareholders' equity	**187.9**	**215.1**	**277.0**	**313.9**	**354.3**
Total liabilities & equity	**2,209.5**	**2,603.4**	**3,079.5**	**3,573.2**	**4,166.2**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	79.8	81.8	83.1	83.8	83.7
Loan Growth	9.9	20.4	19.8	17.6	17.1
Deposit Growth	5.2	17.4	17.9	16.6	17.3
Total Assets Growth	9.7	17.8	18.3	16.0	16.6
Profitability Ratios (%)					
Net Interest Margin	3.0	3.2	3.2	3.2	3.1
ROA	0.9	1.3	1.3	1.2	1.2
ROE	10.8	14.9	14.7	13.7	13.5
Non-Int Income as % of Total Income	25.9	24.4	26.5	26.4	27.0
Net Profit Growth	18.8	59.3	20.3	11.6	11.7
FDEPS Growth	12.8	58.3	8.2	11.6	11.7
Efficiency Ratios (%)					
Cost to Income Ratio	53.3	49.9	52.0	50.4	49.5
Salaries as % of Non-Interest costs	54.1	45.6	44.4	44.7	44.6

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	2.8	2.4	2.2	2.4	2.7
NPL coverage ratio	66.3	71.2	72.4	72.7	73.0
Total prov charges as % avg loans	0.9	0.5	0.3	0.6	0.7
Net NPLs as % of net loans	1.0	0.7	0.6	0.7	0.7
Capital Adequacy Ratios (%)					
Total CAR	15.8	14.8	15.4	15.0	14.7
Tier I capital ratio	14.4	13.0	13.6	13.3	13.0

Source: Company data, IIFL Research

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CMP	**Rs547**
Target 12m	**Rs640 (17%)**
Market cap (US$ m)	**58,654**
Bloomberg	**SBIN IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	620/496
Shares o/s (m)	8925
Daily volume (US$ m)	121
Dividend yield FY25ii (%)	3.1
Free float (%)	43.0

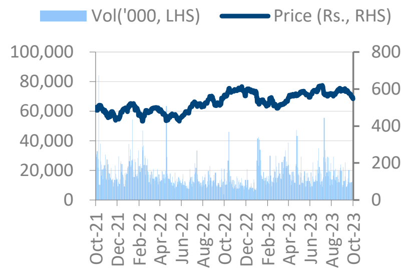
Shareholding pattern (%)

Promoters	56.9
Pledged (as % of promoter share)	0.0
FII	11.1
DII	25.0

Price performance (%)

	1M	3M	1Y
State Bank of India	(8.0)	(11.1)	(3.6)
Absolute (US$)	(8.0)	(12.4)	(4.2)
Rel.to Nifty	(3.9)	(6.4)	(10.4)
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		51.4	NA

Stock movement



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State Bank of India ADD

Plateauing of ROAs to cap re-rating

SBI ranks 2nd in our liability franchise scorecard, thanks to its huge and matured distribution network that should keep it in a good stead amid the race for deposits. We build 14% loan growth, largely in line with the system. We expect NIMs to remain under pressure, due to limited scope for the MCLR -led yield increase and one of the highest residual funding cost increases ahead. With sticky cost-efficiency ratios and normalisation in credit costs, we expect ROAs to peak at 1% in FY24E, and thus see limited scope for re-rating. Initiate with BUY and TP of Rs640.

Unparalleled liability franchise. SBI ranks 2nd in our liability franchise scorecard, led by high market share (MS) in deposits, branches, retail deposits, excess liquidity and the cost ratios. Given its huge and matured distribution network (>2.5x of HDFCB), it has the highest presence in 'fast growing' and 'high potential' districts. Consequently, it has been able to maintain its 25% deposit MS, despite flattish branches in the past five years. However, it lags in CA deposit mobilisation (6% only and is the lowest) due to the reduction in government flows and low MS in customer transaction flows. For the bank, this is a clear focus area and it intends to open MSME-intensive branches in each district in India, and also improve NEFT/RTGS MS.

Margin contraction + sticky cost ratio = plateauing ROAs: While 40% of SBI's loan book is MCLR-linked, pricing pressures in corporate loans and peaking overseas NIMs should drive only 15-20 bps rise in yields. Residual cost of deposit re-pricing is one of the highest for SBI as per our analysis; thus, we expect margins to remain under pressure. CIR is expected to remain sticky due to higher retirement benefits and wage provisions. We are not worried about its unsecured loan exposure (13% of loans) as 85% of its loans are to existing-to-bank and salaried customers (mainly government employees). Its personal loan NPA ratio has been in the tight range of 0.5-0.7%, and is the lowest among peers. We would be watchful of AQ trends in MSME (high vintage delinquencies for the PSU banks) and Agri (deficient monsoons). We expect ROAs to peak at 1% in FY24 and decline modestly by 10 bps over FY25-26E.

Plateauing profitability to cap re-rating: Valuations are inexpensive at 0.9 1YF P/B for 16% avg. ROE over FY24-26E. However, we see limited scope for re-rating in the backdrop of plateauing profitability. We initiate with a BUY rating and SOTP-based TP of Rs640 (17% upside), valuing the bank at 1.0x Sep'25 ABV and subs at Rs165/share. Key risk is increase in risk-weights on personal loans (CET1 ratio of 10.2%).

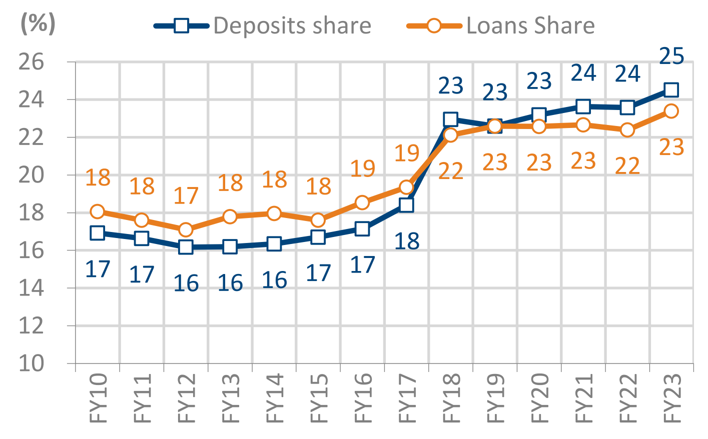
Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	1,207.1	1,448.4	1,581.8	1,797.8	2,032.1
PPOP	678.7	837.1	937.7	1,088.0	1,265.1
Reported PAT	**316.8**	**502.3**	**571.3**	**620.8**	**692.9**
EPS (Rs)	35.5	56.3	64.0	69.6	77.6
Growth (%)	55.2	58.6	13.7	8.7	11.6
IIFL vs consensus (%)			(2.0)	0.3	3.8
PER (x)	15.4	9.7	8.5	7.9	7.0
Book value (Rs)	314	367	416	469	526
PB (x)	**1.7**	**1.5**	**1.3**	**1.2**	**1.0**
CAR (%)	13.8	14.7	14.4	14.4	14.1
ROA (%)	0.7	1.0	1.0	0.9	0.9
ROE (%)	**11.9**	**16.5**	**16.3**	**15.7**	**15.6**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

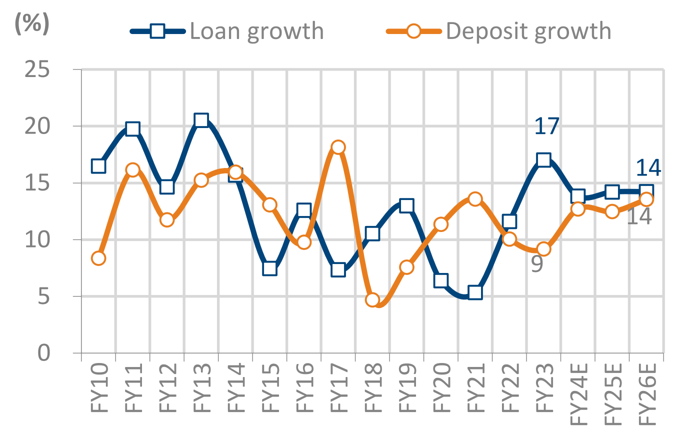
Focus Charts

Figure 7.1: SBI has the highest MS in loans and deposits in India



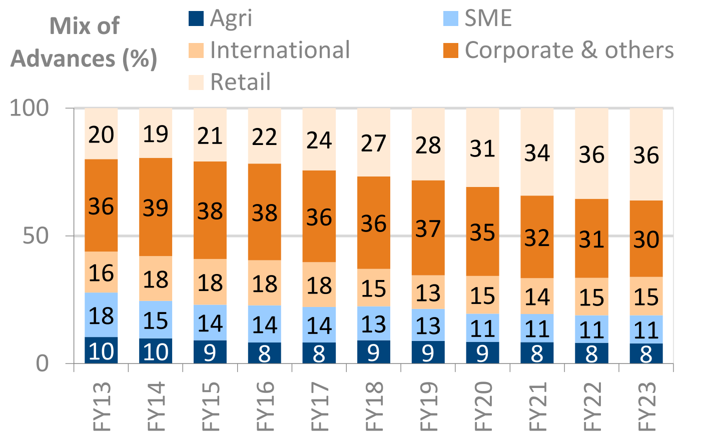
Source: Company, IIFL Research, Note: Increase in FY18 market share due to merger of SBI with its associates

Figure 7.2: Expect mid-teens credit and deposit growth, largely in line with the system



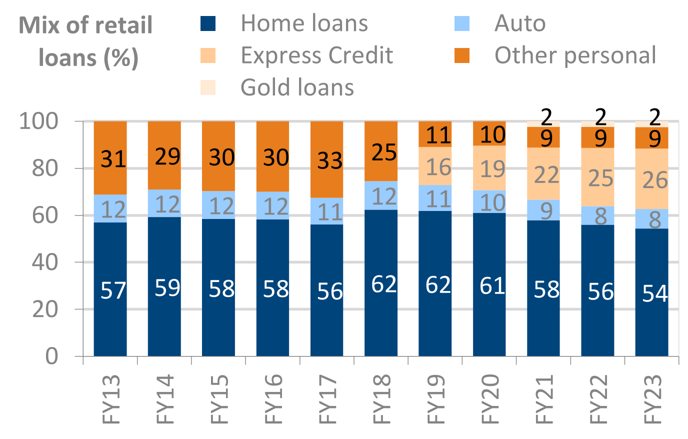
Source: Company, IIFL Research, Note: FY18 growth numbers adjusted for mega-merger

Figure 7.3: Share of retail loans has increased to 36% from 20% a decade ago



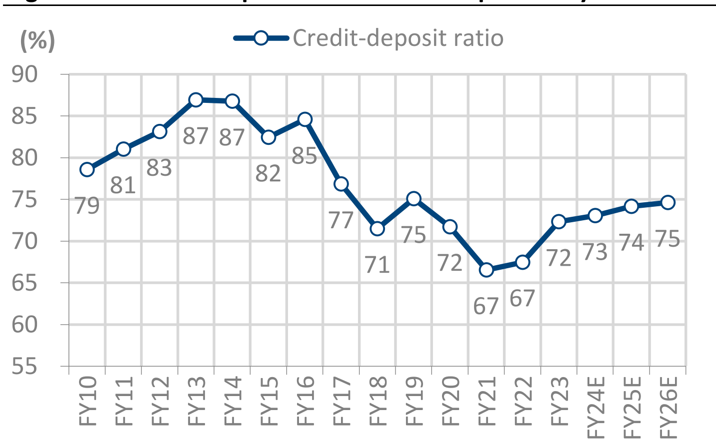
Source: Company, IIFL Research

Figure 7.4: Within retail, the mix has been fairly stable; however, personal loan has seen an uptick in recent years



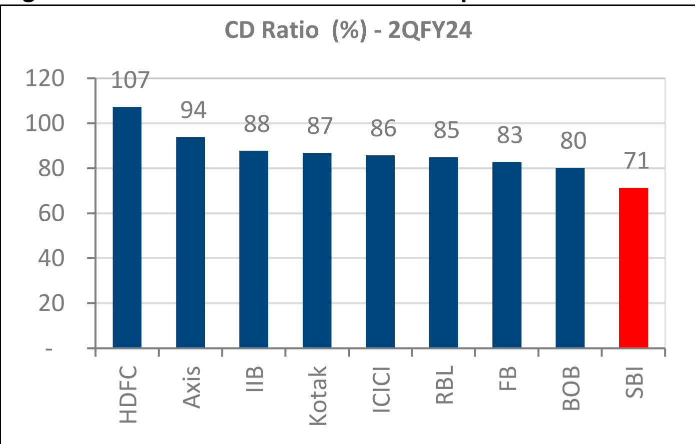
Source: Company, IIFL Research

Figure 7.5: Credit-deposit ratio low in the past five years …



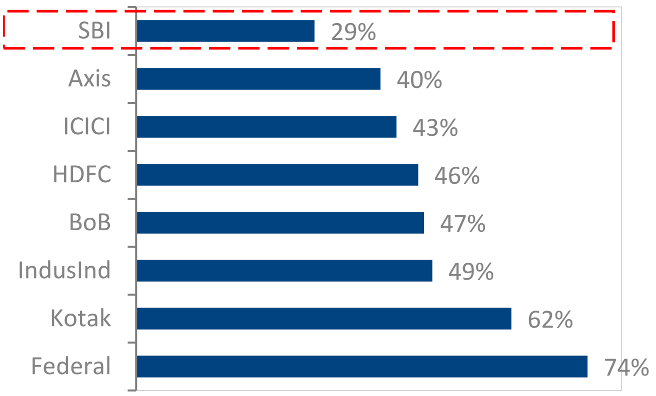
Source: Company, IIFL Research

Figure 7.6: … and is one of the lowest vs peer banks



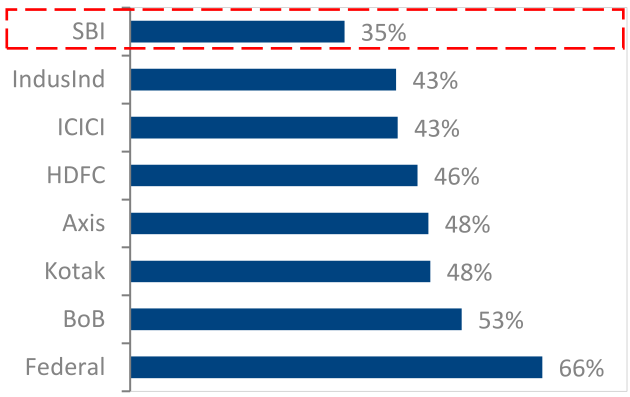
Source: Company, IIFL Research, Note: For SBI and BoB as on 1QFY24

Figure 7.7: Concentration in top 3 states - SBI has the lowest deposit concentration …



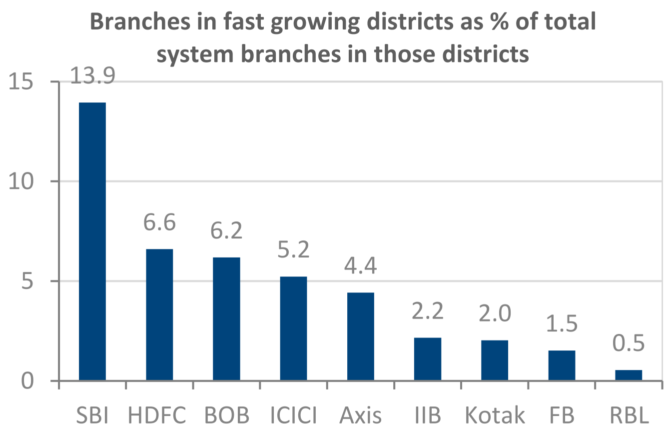
Source: Company, IIFL Research

Figure 7.8: … as well as loan concentration among the banks under coverage



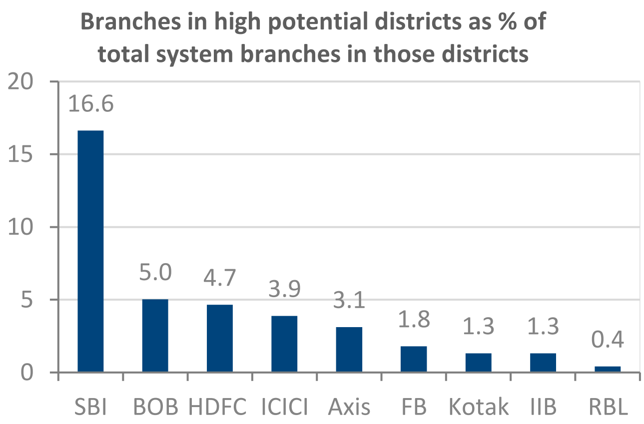
Source: Company, IIFL Research

Figure 7.9: SBI, BOB and HDFC have dominant branch MS in FGD; branch MS <1% for Kotak, IIB, Federal and RBL



Source: RBI, SLBC, IIFL Research

Figure 7.10: SBI, BOB, HDFC, ICICI and Axis have higher share of branches in the districts, representing high deposit accretion potential



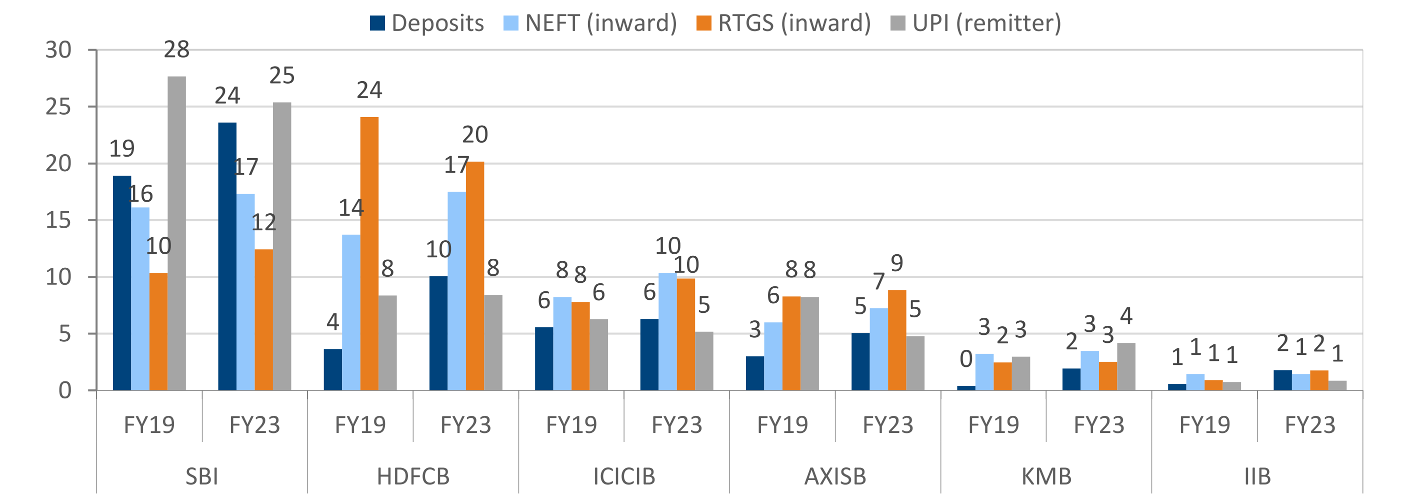
Source: RBI, SLBC, IIFL Research

Figure 7.11: Scorecard ranking of individual banks on 15 comprehensive liability franchise metrics – SBI ranks number 2

On a scale of (1-9)	Weights	HDFCB	ICICI	Kotak	Axis	IndusInd	SBI	BOB	Federal	RBL
Market share	20%									
Deposit market share	4%	8	6	4	5	3	9	7	2	1
change in last 3Y	4%	9	8	2	7	6	2	1	2	2
Branch market share	4%	7	6	3	5	4	9	8	2	1
change in last 3Y	4%	9	7	4	6	8	5	1	2	3
NEFT MS - Deposit MS	3%	9	8	6	7	4	1	2	3	5
RTGS MS - Deposit MS	3%	9	7	6	8	4	1	2	3	5
Key liability ratios	35%									
Liability mix - share of deposits	5%	4	8	9	1	3	7	5	6	2
CASA ratio	10%	6	7	9	8	4	5	3	1	1
Retail deposits (per LCR)	10%	7	5	4	3	2	8	6	9	1
Liquidity coverage ratio	5%	5	1	2	3	7	9	8	4	6
Cost of funds	5%	6	8	9	4	1	7	5	3	2
Productivity ratios	15%									
Deposit / Branch (Rs.mn)	8%	9	7	8	5	2	6	1	4	3
CASA / Branch (Rs. mn)	8%	9	7	8	6	3	5	2	1	4
Branch analysis	30%									
Fast-growing districts	10%	7	6	4	5	3	9	8	2	1
High Potential districts	10%	7	6	3	5	2	9	8	4	1
Vintage analysis	10%	6	5	4	7	8	2	3	1	9
Weighted Average scale	100%	7.1	6.2	5.4	5.3	3.8	6.3	4.7	3.2	2.8
Ranking		1	3	4	5	7	2	6	8	9

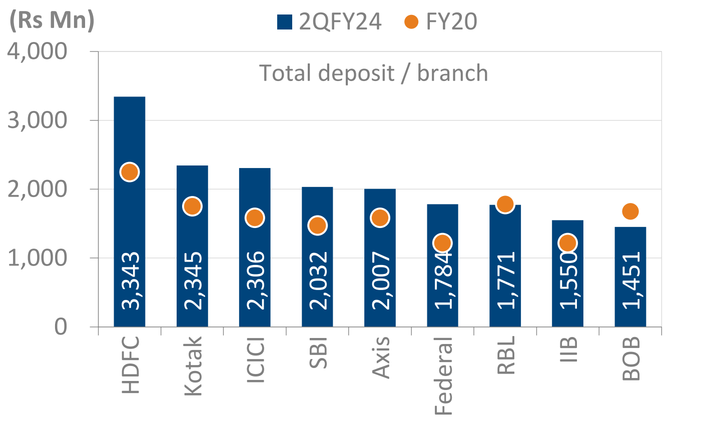
Source: Company, IIFL Research. Note: The ranking of each parameter is an ordinal ranking of 1-9 (9 being the best) on the 1QFY24 reported numbers. The rankings are not fractional rankings relative to each other.

Figure 7.12: While SBI has high deposit MS, it has been traditionally weaker in capturing customer transaction flows



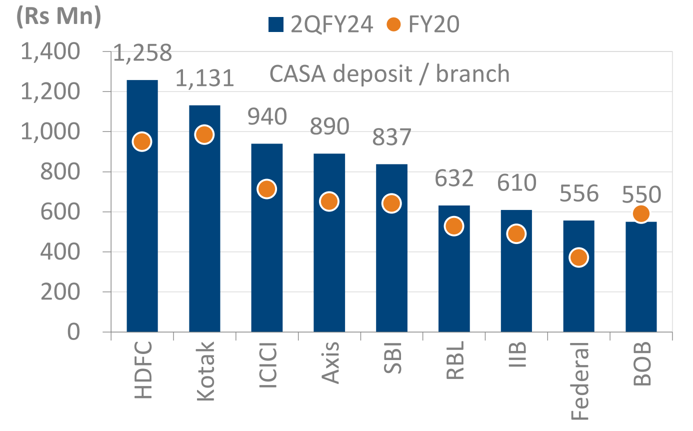
Source: RBI, NPCI, IIFL Research

Figure 7.13: Despite huge branch network, SBI trails behind Private banking peers …



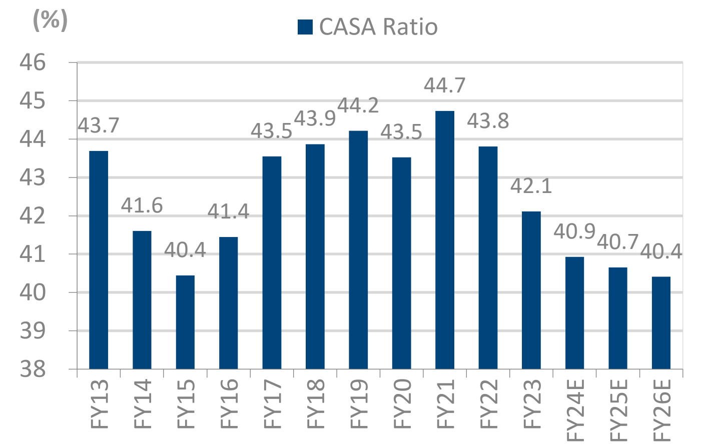
Source: Company, IIFL Research. Note: Branches are 1Y lagged, SBI and BoB as on 1QFY24

Figure 7.14: … in terms of both deposit/branch and CASA/branch



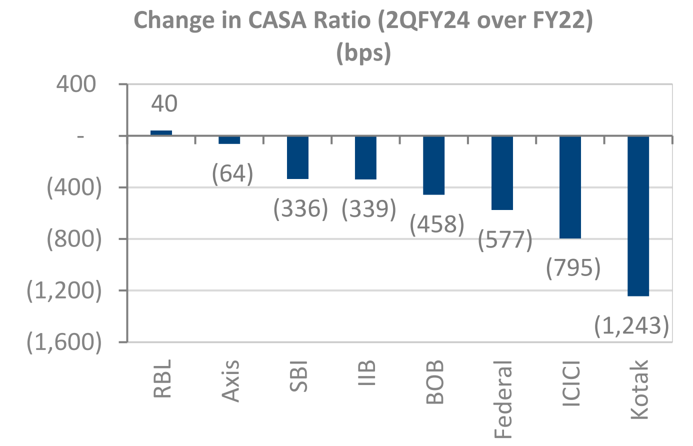
Source: Company, IIFL Research. Note: Branches are 1Y lagged, SBI and BoB as on 1QFY24

Figure 7.15: Historically, CASA ratio stable between 40% and 46% …



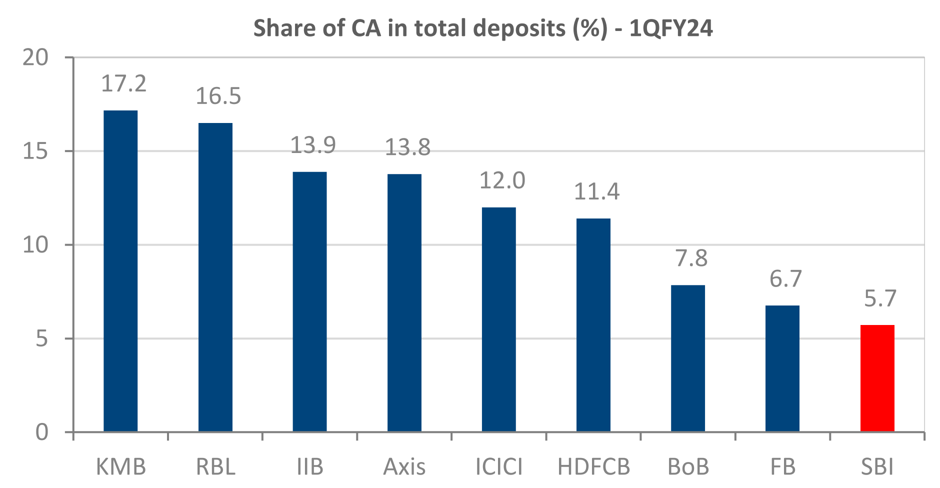
Source: Company, IIFL Research

Figure 7.16: … and declined the least vis-à-vis peers



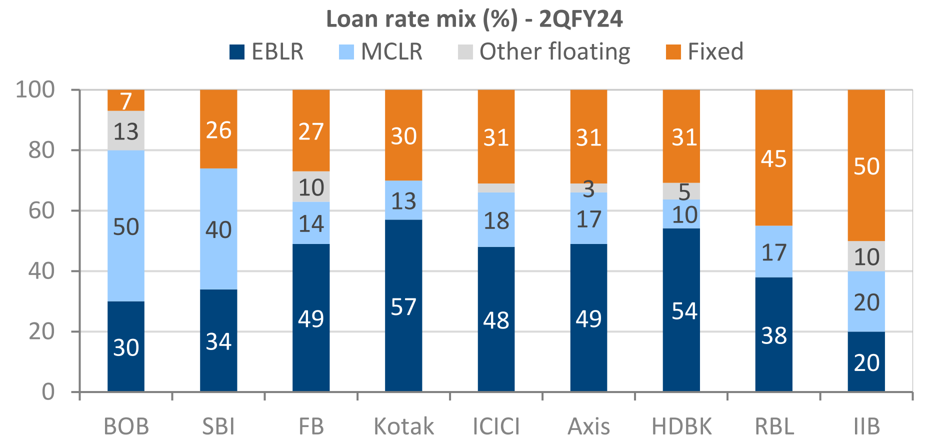
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 7.17: SBI's share of current account deposits the lowest among peers; with the government balances for different schemes moving from SNA to CAN and potentially to just in time, this float will not be available going ahead



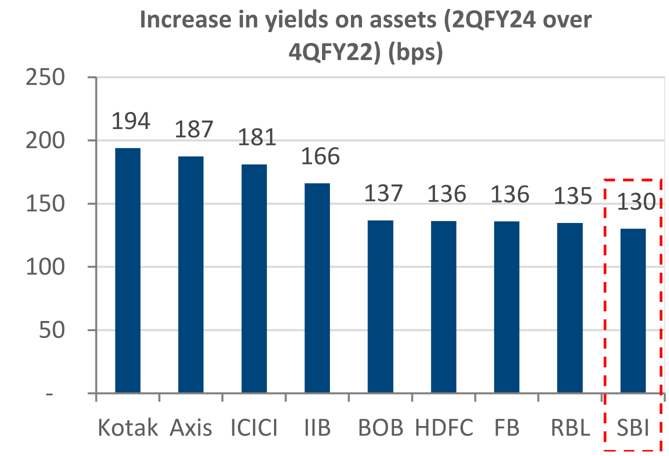
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 7.18: SBI has one of the highest share (after BOB) of MCLR-linked book, which should aid asset re-pricing (maturity 50/50 between 6months/12months)



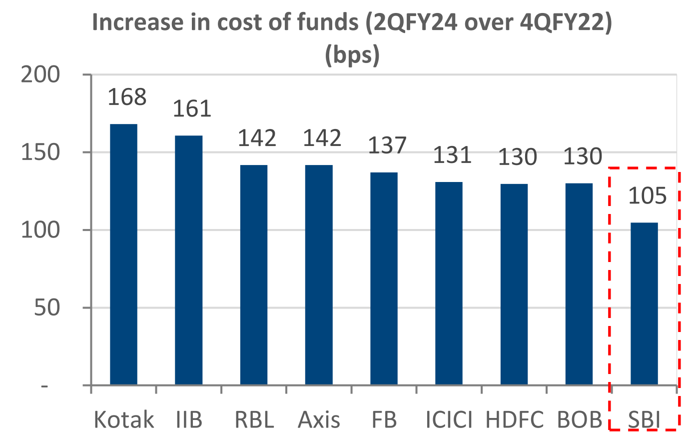
Source: Company, IIFL Research

Figure 7.19: Yield re-pricing has been slower for SBI vs other banks, mainly due to higher share of MCLR



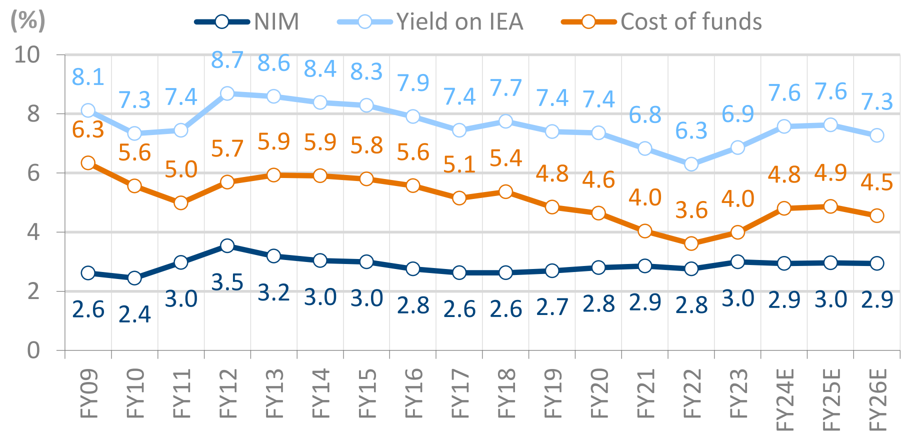
Source: Company, IIFL Research

Figure 7.20: Similarly, deposit re-pricing too has been the slowest and should inch up, going forward



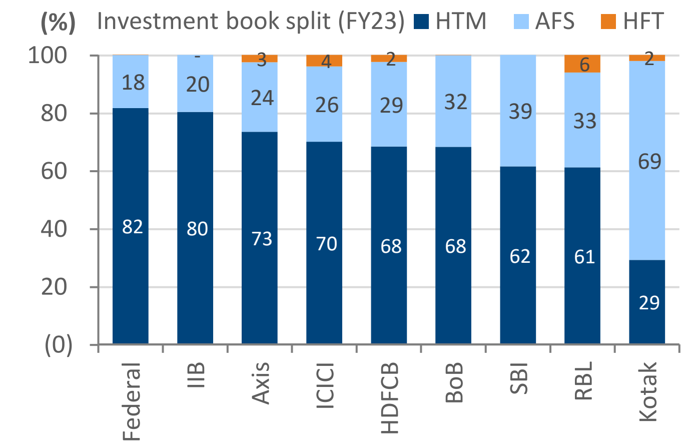
Source: Company, IIFL Research

Figure 7.21: We expect bank's margins to remain stable in the near term



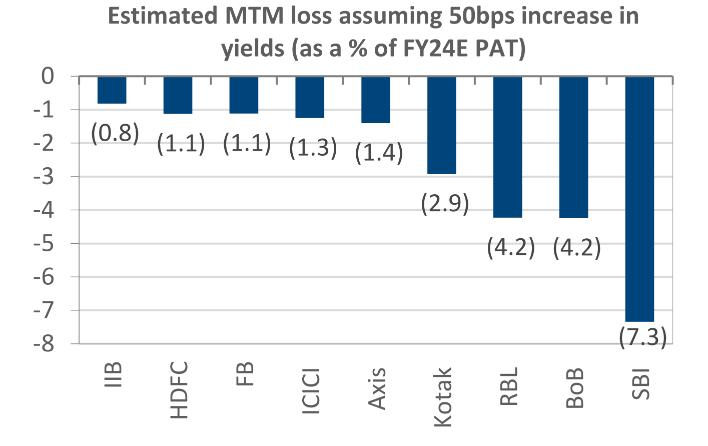
Source: Company, IIFL Research

Figure 7.22: Bank has a higher share of AFS book...



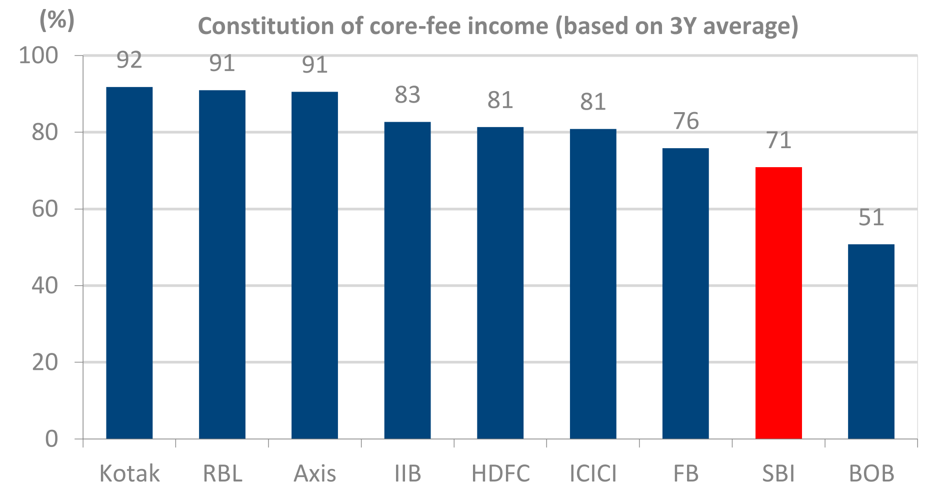
Source: Company, IIFL Research

Figure 7.23: ... and hence, is more sensitive to the rise in rates



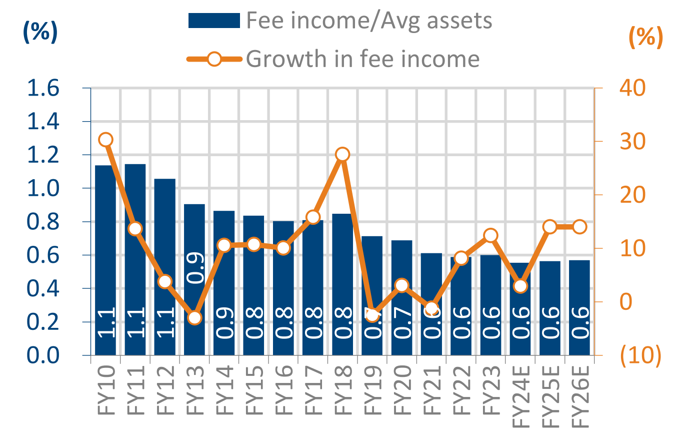
Source: Company, IIFL Research

Figure 7.24: Share of core-fee income is low for Public banks including SBI, as total non-II is more volatile due to treasury income and recoveries from written-off accounts



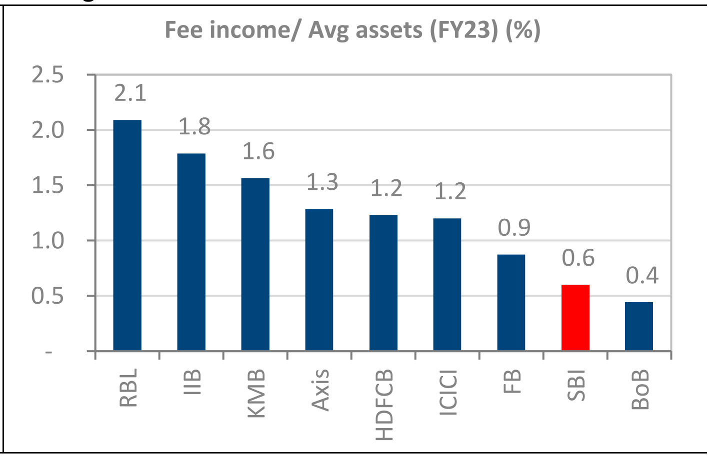
Source: Company, IIFL Research

Figure 7.25: Core fee income has been steadily declining over the years ...



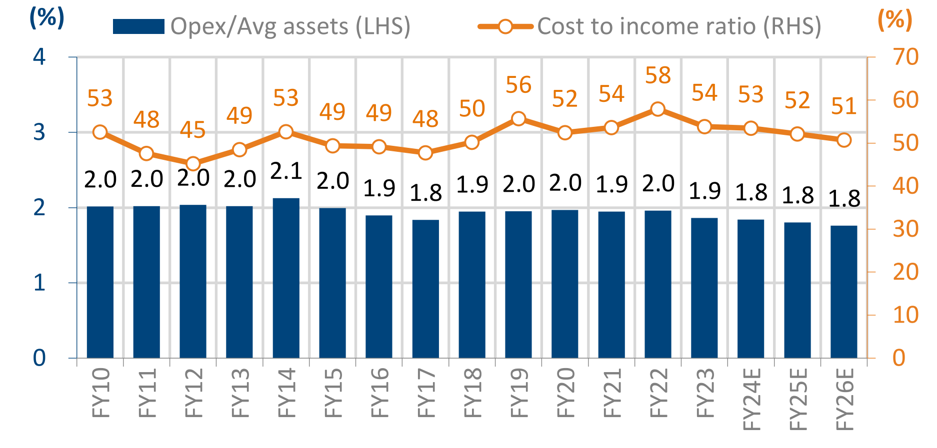
Source: Company, IIFL Research

Figure 7.26: .. and is among the lowest vs peers due to absence of fee income from PSLC sale (due to higher share of non-PSL compliant corporate loans) and lack of focus on transaction banking led fees



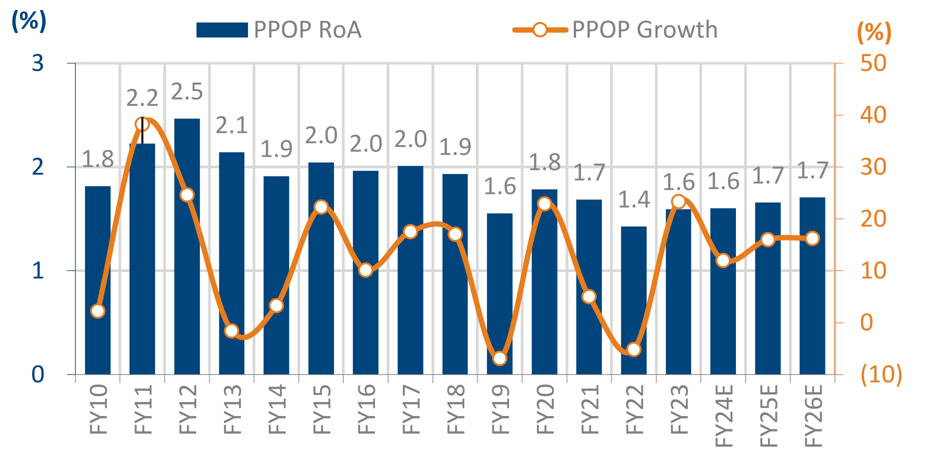
Source: Company, IIFL Research

Figure 7.27: Cost-to-income ratio higher for SBI relative to private peers, due to higher employee salaries on account of higher retirement and benefits; expect modest improvement as it sweats its existing network and improves productivity



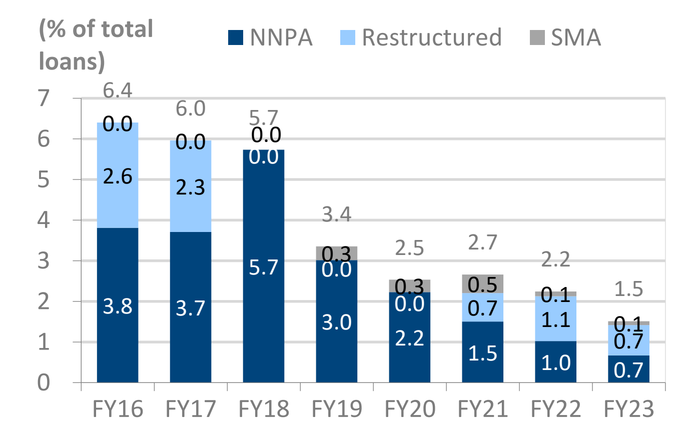
Source: Company, IIFL Research

Figure 7.28: Expect a modest 10 bps of PPOP ROA improvement



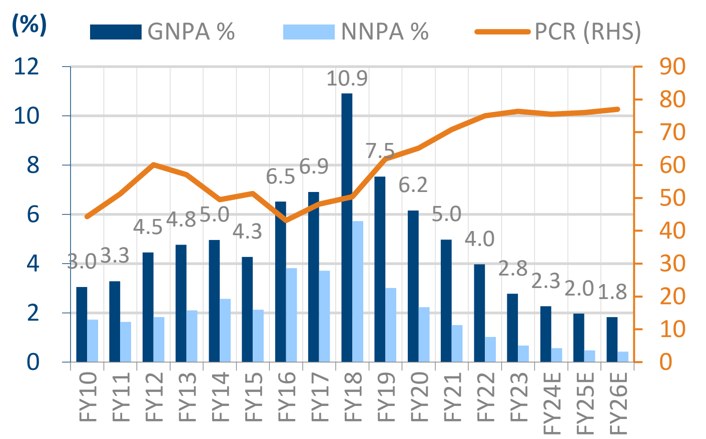
Source: Company, IIFL Research

Figure 7.29: Asset quality has improved significantly with stressed asset pool just at 1.5%, as on FY23



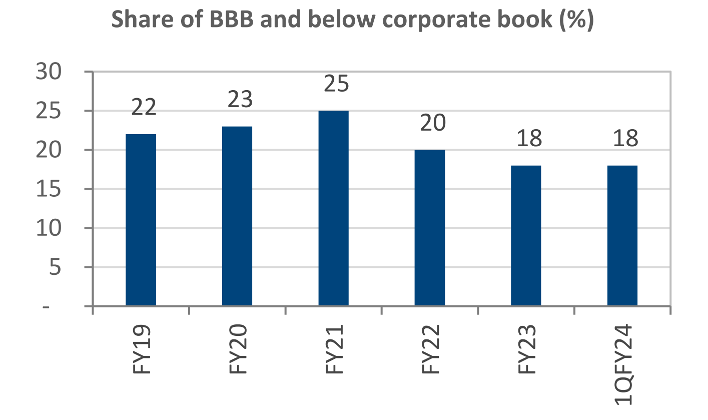
Source: Company, IIFL Research

Figure 7.30: Bank has been continuously improving its PCR, with NNPA now down to the decadal best of 0.7%



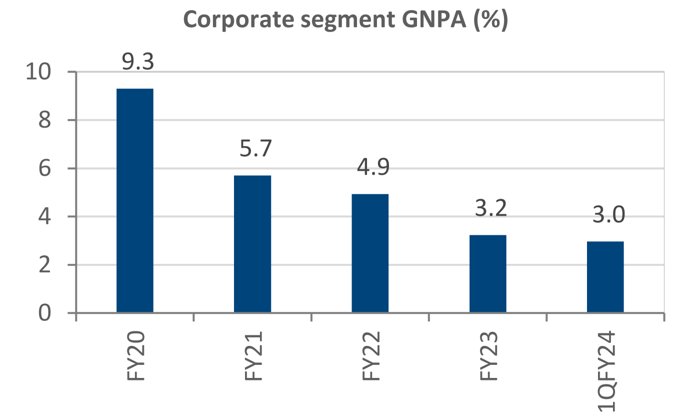
Source: Company, IIFL Research

Figure 7.31: Exposure to riskier corporates (BBB and below) has declined ...



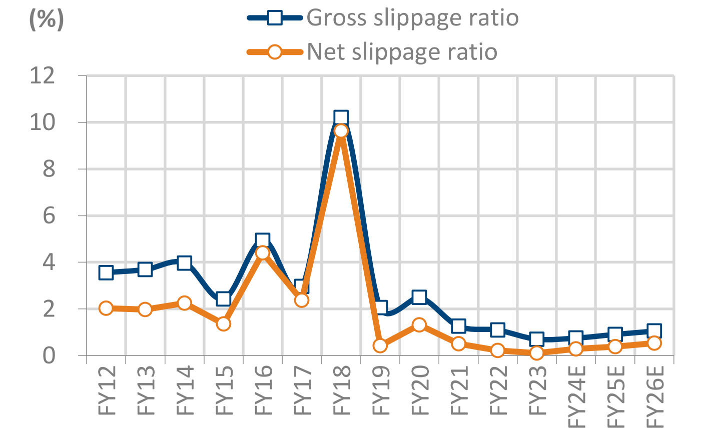
Source: Company, IIFL Research

Figure 7.32: ... and along with turnaround in corporate India's health, corporate NPAs have improved meaningfully



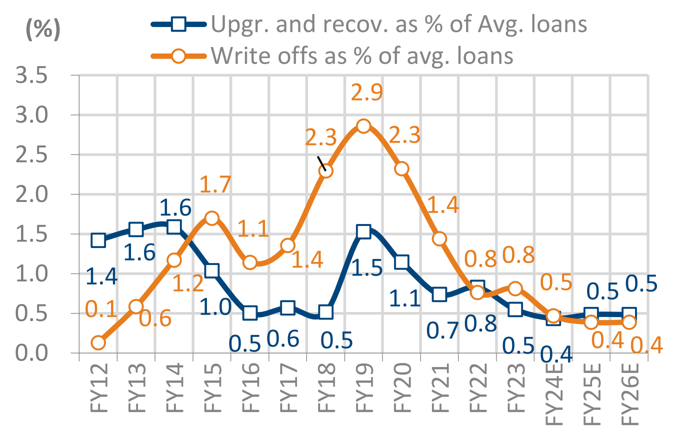
Source: Company, IIFL Research

Figure 7.33: Expect a modest uptick in gross slippages, but should remain below 1%



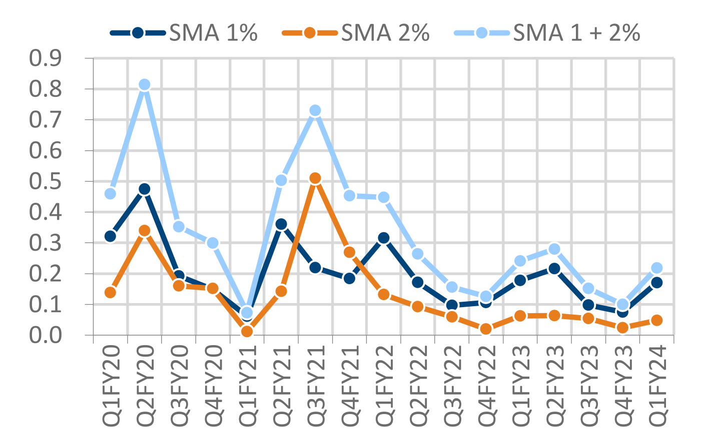
Source: Company, IIFL Research

Figure 7.34: Expect moderation in upgrades and recoveries (change it to as avg. % of loans)



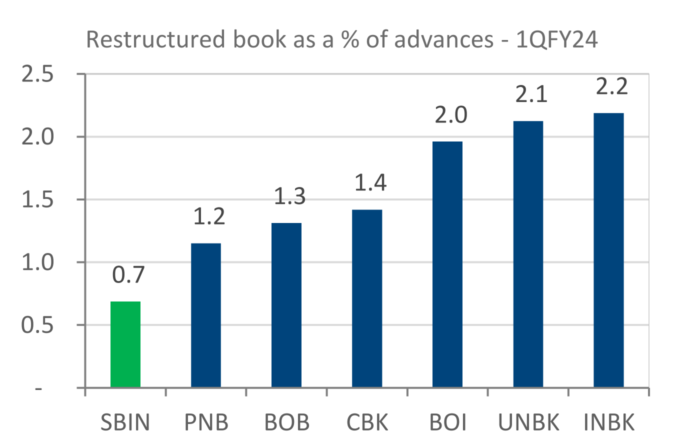
Source: Company, IIFL Research

Figure 7.35: SMA pool has seen a seasonal uptick in 1Q, but remains benign overall



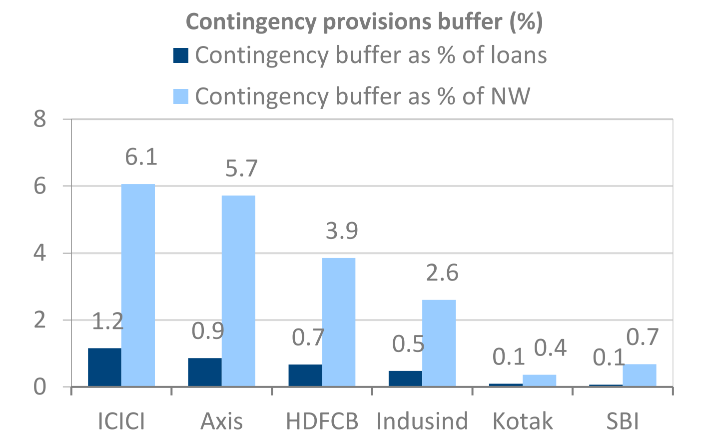
Source: Company, IIFL Research

Figure 7.36: SBI has the lowest standard restructured pool outstanding among peer PSU banks



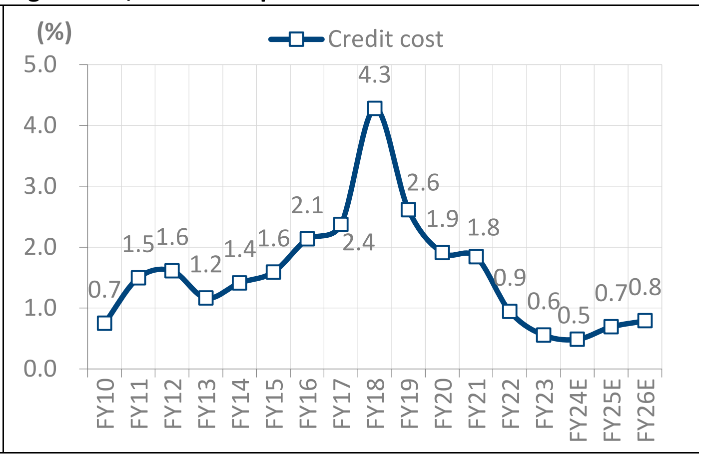
Source: Company, IIFL Research

Figure 7.37: Bank holds 0.1% of advances as contingency buffer ...



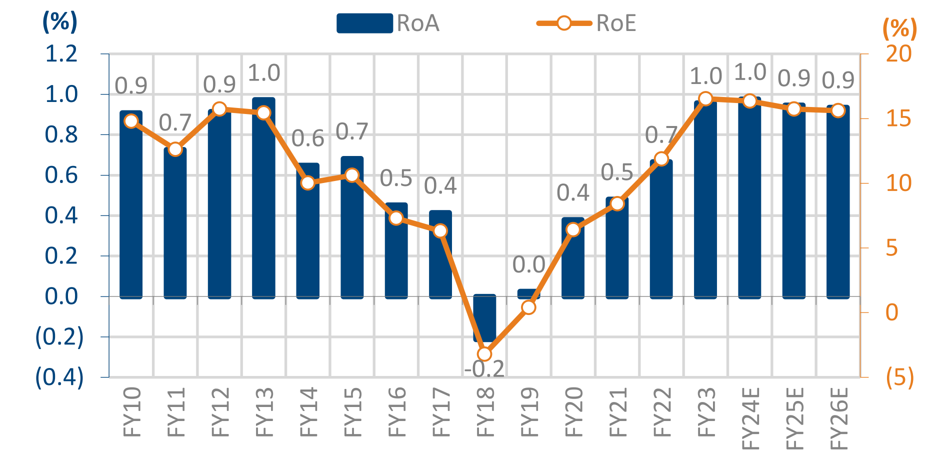
Source: Company, IIFL Research

Figure 7.38: .. which coupled with contained slippages and higher PCR, should keep credit cost at 0.5-0.8%



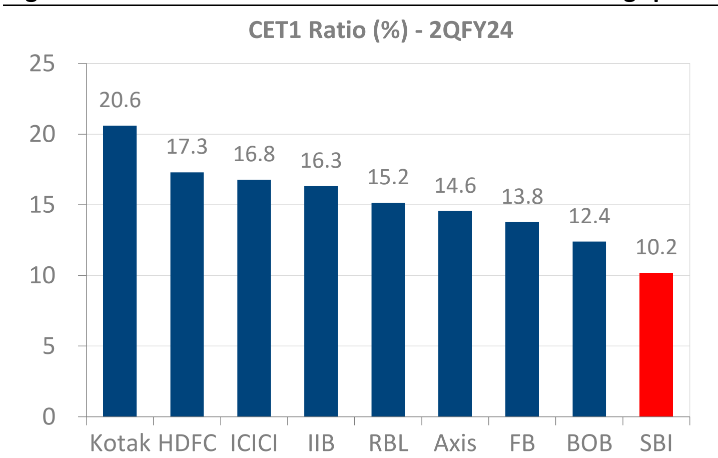
Source: Company, IIFL Research

Figure 7.39: Expect 90-100 bps of ROA and mid-teen ROEs over FY24-26E



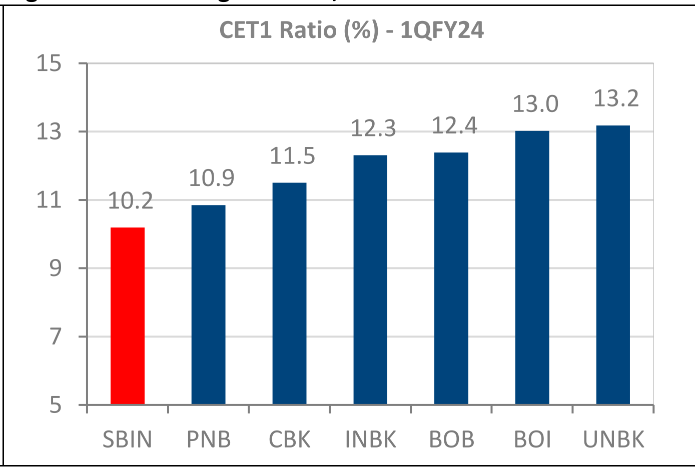
Source: Company, IIFL Research

Figure 7.40: SBI has the lowest CET1 ratio in the Banking space



Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24

Figure 7.41: Among PSBs too, SBI has the lowest CET1 ratio

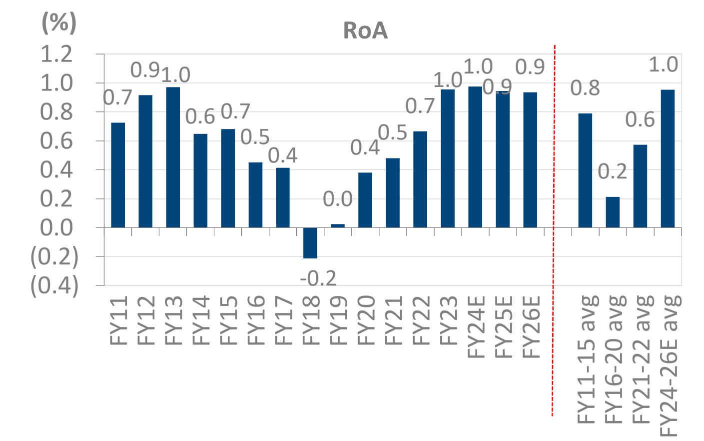


Source: Company, IIFL Research, Note: Union bank includes capital raise of Rs50bn in 2QFY24, Note: SBI and BoB as on 1QFY24

Figure 7.42: SBI – DuPont analysis and key ratios

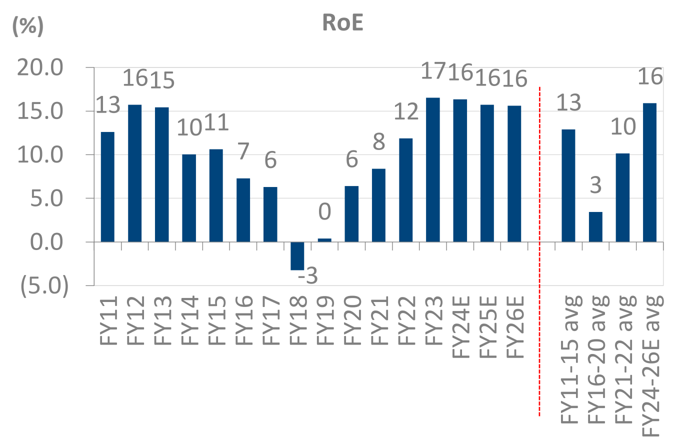
DuPont analysis (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24ii	FY25ii	FY26ii
Interest income	8.1	7.9	7.4	6.9	7.2	6.8	6.7	6.2	5.8	6.3	7.0	7.1	6.8
Interest expense	5.2	5.1	4.8	4.5	4.7	4.3	4.2	3.6	3.3	3.6	4.3	4.3	4.0
Net interest income	**2.9**	**2.9**	**2.6**	**2.4**	**2.4**	**2.5**	**2.6**	**2.6**	**2.5**	**2.8**	**2.7**	**2.7**	**2.7**
Fee Income	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Trading Profits	0.1	0.2	0.2	0.4	0.4	0.0	0.2	0.1	0.1	(0.0)	0.1	0.1	0.1
Dividend from Subs & other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.3	0.2	0.1	0.1	0.1	0.1
Total non-interest income	1.1	1.2	1.3	1.4	1.4	1.0	1.2	1.0	0.9	0.7	0.7	0.7	0.7
Total revenue	**4.0**	**4.0**	**3.9**	**3.8**	**3.9**	**3.5**	**3.8**	**3.6**	**3.4**	**3.5**	**3.4**	**3.5**	**3.5**
Employee expense	1.3	1.2	1.1	1.0	1.1	1.2	1.2	1.2	1.2	1.1	1.1	1.1	1.0
Other expense	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.7	0.8	0.8	0.7	0.7	0.7
Total expenses	**2.1**	**2.0**	**1.9**	**1.8**	**1.9**	**2.0**	**2.0**	**1.9**	**2.0**	**1.9**	**1.8**	**1.8**	**1.8**
Pre-provision operating profit	**1.9**	**2.0**	**2.0**	**2.0**	**1.9**	**1.6**	**1.8**	**1.7**	**1.4**	**1.6**	**1.6**	**1.7**	**1.7**
Provisions	0.9	1.0	1.3	1.4	2.4	1.5	1.1	1.0	0.5	0.3	0.3	0.4	0.4
Profit before tax	1.0	1.0	0.6	0.6	(0.5)	0.0	0.7	0.6	0.9	1.3	1.3	1.3	1.3
Taxes	0.3	0.3	0.2	0.2	(0.3)	0.0	0.3	0.2	0.2	0.3	0.3	0.3	0.3
ROA	**0.6**	**0.7**	**0.5**	**0.4**	**(0.2)**	**0.0**	**0.4**	**0.5**	**0.7**	**1.0**	**1.0**	**0.9**	**0.9**
Leverage	15.5	15.6	16.2	15.2	15.1	16.2	16.9	17.5	17.8	17.3	16.7	16.6	16.7
ROE	**10.0**	**10.6**	**7.3**	**6.3**	**(3.2)**	**0.4**	**6.4**	**8.4**	**11.9**	**16.5**	**16.3**	**15.7**	**15.6**
Key metrics													
Loan growth	15.7	7.5	12.6	7.3	23.2	13.0	6.4	5.3	11.6	17.0	13.8	14.2	14.2
Deposit growth	15.9	13.1	9.8	18.1	32.4	7.6	11.3	13.6	10.1	9.2	12.7	12.5	13.5
Credit-deposit ratio	86.8	82.4	84.6	76.8	71.5	75.1	71.7	66.5	67.5	72.3	73.0	74.2	74.6
Yield on IEA	8.4	8.3	7.9	7.4	7.7	7.4	7.4	6.8	6.3	6.9	7.6	7.6	7.3
Cost of funds	5.9	5.8	5.6	5.1	5.4	4.8	4.6	4.0	3.6	4.0	4.8	4.9	4.5
NIM	**3.0**	**3.0**	**2.8**	**2.6**	**2.6**	**2.7**	**2.8**	**2.9**	**2.8**	**3.0**	2.9	3.0	2.9
Cost-to-income ratio	52.7	49.4	49.1	47.8	50.2	55.7	52.5	53.6	57.9	53.9	53.5	52.1	50.7
GNPA ratio	5.0	4.3	6.5	6.9	10.9	7.5	6.2	5.0	4.0	2.8	2.3	2.0	1.8
NNPA ratio	2.6	2.1	3.8	3.7	5.7	3.0	2.2	1.5	1.0	0.7	0.6	0.5	0.4
Credit cost	**1.4**	**1.6**	**2.1**	**2.4**	**4.3**	**2.6**	**1.9**	**1.8**	**0.9**	**0.6**	**0.5**	**0.6**	**0.7**
Tier 1 ratio	**9.7**	**9.6**	**9.9**	**10.4**	**10.4**	**10.7**	**11.0**	**11.4**	**11.4**	**12.1**	**11.6**	**11.6**	**11.5**
CAR	12.4	12.0	13.1	13.1	12.6	12.7	13.1	13.7	13.8	14.7	14.4	14.4	14.1

Figure 7.43: Expect ROAs to peak in FY24 at 1% and then decline by 10 bps over FY25-26E …



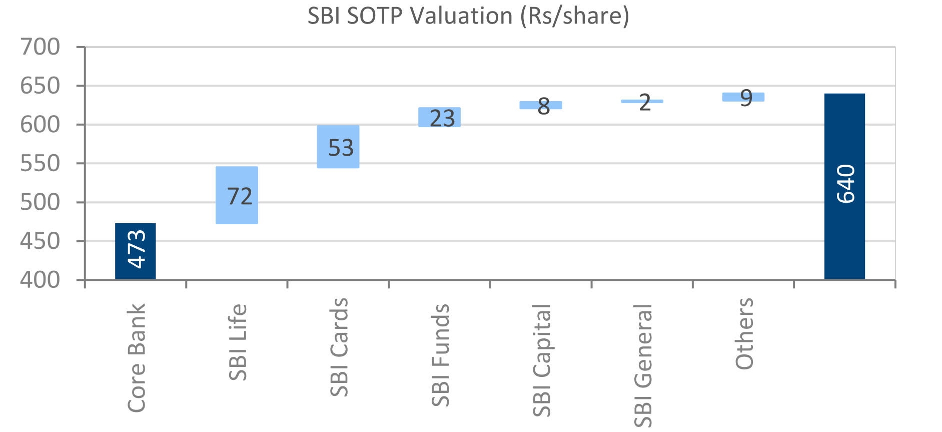
Source: Company, IIFL Research

Figure 7.44: … similarly, ROEs have peaked in FY23; we forecast avg. ROE of 15% over FY24-26E



Source: Company, IIFL Research

Figure 7.45: We value SBI's subsidiaries at Rs165/share, post applying 20% holding company discount to arrive at a TP of Rs680



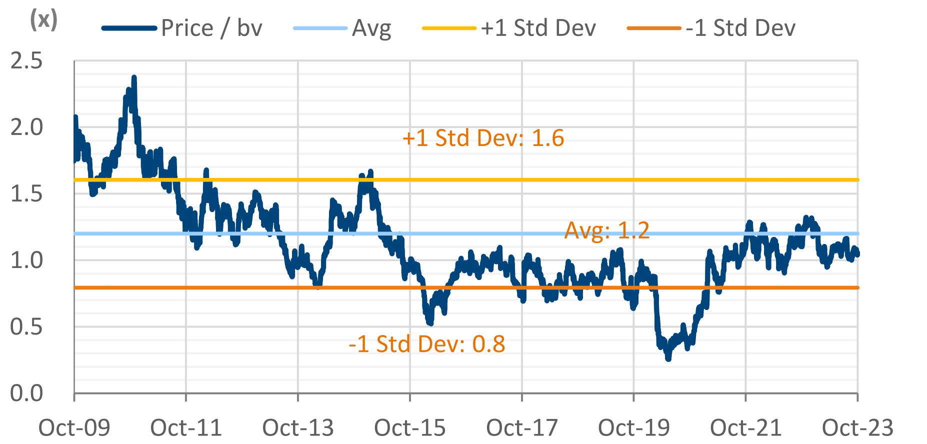
Source: IIFL Research

Figure 7.46: SBI - SOTP Sept 2025 Based (INR)

Particular	Stake (%)	Value (Rs bn)	Value USD bn)	Value/ Sh. (INR)	% of total	Target Multiple (x)	Rationale
Bank (A)		**4,222**	**52.8**	**473**	**79**	**1.0**	**PBV**
Other Businesses							
Life Insurance	55.5	793	9.9	89	15	2.0	PEV
SBI Cards	69.0	587	7.3	66	11	22	PE
Asset Management	62.5	257	3.2	29	5	20	PE
Capital Markets	100.0	93	1.2	10	2	15	PE
General Insurance	70.0	25	0.3	3	0	15	PE
Others		89	1.1	10	2		
Value of Other businesses		**1,843**	**23.0**	**206**	**34**		
Holding Company 20% discount		369	4.6	41	7		
Value Post Holdco Discount (B)		**1,474**	**18.4**	**165**	**28**		
Sum of the Part Value (A+B)		**5,696**	**71.2**	**640**	**107**		

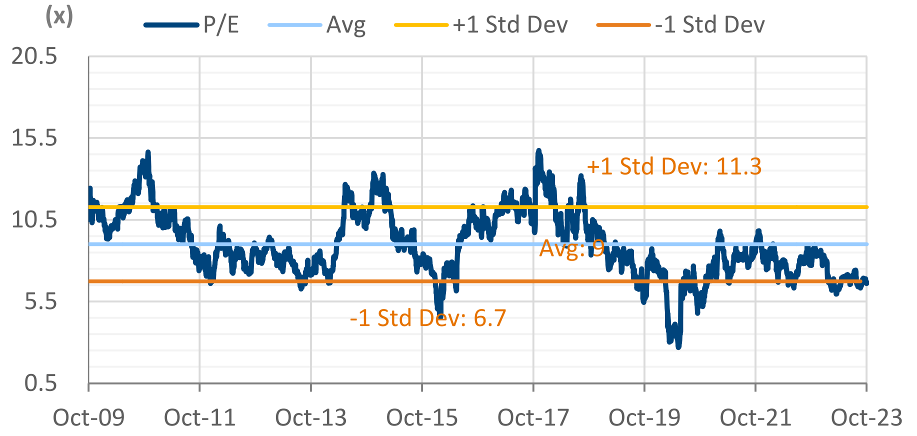
*ABV = BV adjusted for investment in subsidiaries

Figure 7.47: SBI is trading at 1x 1YF P/B, which is half standard deviation below the long-term historical avg. of 1.4x



Source: Bloomberg, IIFL Research

Figure 7.48: SBI is trading at 7x 1YF P/B, which is one standard deviation below the long-term historical avg. of 10x



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 7.49: SBI – net interest margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	9.1	9.0	8.4	7.9	8.1	7.8	8.0	7.2	6.6	7.5	8.4	8.4	8.1
Yield on investments	8.5	8.0	8.0	7.2	7.7	7.3	6.8	6.7	6.0	6.3	6.4	6.5	6.0
Yield on bank balances	1.5	3.3	3.6	4.6	4.8	3.3	4.0	4.7	5.1	4.2	5.1	5.2	5.0
Yield on interest earning assets	**8.4**	**8.3**	**7.9**	**7.4**	**7.7**	**7.4**	**7.4**	**6.8**	**6.3**	**6.9**	**7.6**	**7.6**	**7.3**
Cost of deposits	6.0	6.0	6.0	5.6	5.7	5.0	4.8	4.1	3.7	3.8	4.7	4.8	4.4
Cost of borrowings	2.9	2.0	1.6	1.2	1.6	2.6	1.9	1.7	1.8	3.9	3.9	4.1	3.8
Cost of interest bearing liabilities	**5.9**	**5.8**	**5.6**	**5.1**	**5.4**	**4.8**	**4.6**	**4.0**	**3.6**	**4.0**	**4.8**	**4.9**	**4.5**
Interest spread	2.5	2.5	2.3	2.3	2.4	2.6	2.7	2.8	2.7	2.9	2.8	2.8	2.7
Net interest margin	**3.0**	**3.0**	**2.8**	**2.6**	**2.6**	**2.7**	**2.8**	**2.9**	**2.8**	**3.0**	**2.9**	**3.0**	**2.9**
Loan-to-deposit ratio	86.8	82.4	84.6	76.8	71.5	75.1	71.7	66.5	67.5	72.3	73.0	74.2	74.6
Incremental loan-to-deposit ratio	85.7	49.5	106.3	34.2	55.0	122.4	42.2	28.3	76.8	125.0	78.7	83.2	78.0
CASA ratio	41.6	40.4	41.4	43.5	43.9	44.2	43.5	44.7	43.8	42.1	40.9	40.7	40.4

Source: Company, IIFL Research

Figure 7.50: SBI – efficiency and productivity analysis

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	73	71	67	64	63	71	68	72	75	80	78	79	79
Fee income / total non-interest income	78	71	63	58	59	69	58	60	69	86	75	78	79
Fee income / total revenue	21	21	21	21	22	20	18	17	17	17	16	16	16
Non-interest income / revenue	27	29	33	36	37	29	32	28	25	20	22	21	21
Employee expense / total opex	63	61	60	57	55	59	61	62	62	59	61	60	59
Other expense / total opex	37	39	40	43	45	41	39	38	38	41	39	40	41
Cost to income ratio (CIR)	**52.7**	**49.4**	**49.1**	**47.8**	**50.2**	**55.7**	**52.5**	**53.6**	**57.9**	**53.9**	**53.5**	**52.1**	**50.7**
Cost to avg. asset ratio	2.13	2.00	1.90	1.84	1.95	1.95	1.97	1.95	1.96	1.86	1.84	1.80	1.76
Provisions / PPOP	50	51	68	71	126	97	63	62	36	20	18	23	26
Tax rate	33	32	28	29	58	46	42	26	27	25	26	26	26
ROA	**0.6**	**0.7**	**0.5**	**0.4**	**(0.2)**	**0.0**	**0.4**	**0.5**	**0.7**	**1.0**	**1.0**	**0.9**	**0.9**
Core ROA	0.6	0.7	0.4	0.4	(0.2)	0.0	0.4	0.5	0.7	0.9	1.0	0.9	0.9
ROE	**10.0**	**10.6**	**7.3**	**6.3**	**(3.2)**	**0.4**	**6.4**	**8.4**	**11.9**	**16.5**	**16.3**	**15.7**	**15.6**
Core ROE	10.3	10.9	7.5	6.4	(3.6)	0.2	6.7	8.8	12.5	17.4	17.0	16.3	16.1
Productivity ratios													
No. of branches	**15,869**	**16,333**	**16,784**	**17,170**	**22,414**	**22,010**	**22,141**	**22,219**	**22,266**	**22,405**	**22,629**	**22,855**	**23,084**
Loans / branch (mn)	817	819	896	936	1,127	975	1,056	1,106	1,230	1,437	1,625	1,838	2,079
Deposits / branch (mn)	941	994	1,060	1,218	1,576	1,299	1,473	1,663	1,823	1,987	2,225	2,478	2,786
CASA deposits / branch (mn)	392	402	439	531	691	574	641	744	799	837	911	1,007	1,126
No. of employees	**222,033**	**213,238**	**207,739**	**209,572**	**264,041**	**257,252**	**249,448**	**245,652**	**244,250**	**235,858**	**226,424**	**224,159**	**221,918**
Employees / branch	14	13	12	12	12	12	11	11	11	11	10	10	10
Avg. remuneration per employee (mn)	1.00	1.08	1.19	1.27	1.40	1.58	1.80	2.06	2.35	2.39	2.84	3.16	3.48
Loans / employee (mn)	54	61	70	75	73	85	93	100	112	136	161	186	214
Deposits / employee (mn)	63	74	83	98	102	113	130	150	166	188	220	250	287
CASA deposits / employee (mn)	26	30	35	42	45	50	57	67	73	79	90	102	116
Net profit / employee (mn)	0.5	0.6	0.5	0.5	(0.2)	0.0	0.6	0.8	1.3	2.1	2.5	2.8	3.1

Source: Company, IIFL Research

Figure 7.51: SBI – asset quality analysis

Asset quality (%)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	567,253	981,728	1,123,430	2,234,275	1,727,504	1,490,919	1,263,890	1,120,234	909,278	840,235	830,507	878,905
NNPA (mn)	275,906	558,070	582,774	1,108,547	658,947	518,713	368,097	279,657	214,666	205,858	199,322	202,148
GNPA ratio	**4.3**	**6.5**	**6.9**	**10.9**	**7.5**	**6.2**	**5.0**	**4.0**	**2.8**	**2.3**	**2.0**	**1.8**
NNPA ratio	**2.1**	**3.8**	**3.7**	**5.7**	**3.0**	**2.2**	**1.5**	**1.0**	**0.7**	**0.6**	**0.5**	**0.4**
Slippage ratio	2.4	4.9	3.0	10.2	2.1	2.5	1.3	1.1	0.7	0.8	0.9	1.1
Upgrades & Recoveries ratio	1.1	0.5	0.6	0.6	1.6	1.2	0.8	0.9	0.6	0.5	0.5	0.5
Net Slippage ratio	1.4	4.4	2.4	9.6	0.4	1.3	0.5	0.2	0.1	0.3	0.4	0.5
Write-off ratio	1.8	1.2	1.4	2.6	3.0	2.4	1.5	0.8	0.9	0.5	0.4	0.4
PCR (Excl Technical write off)	**51.4**	**43.2**	**48.1**	**50.4**	**61.9**	**65.2**	**70.9**	**75.0**	**76.4**	**75.5**	**76.0**	**77.0**
Credit cost (% of avg. loans)	**1.6**	**2.1**	**2.4**	**4.3**	**2.6**	**1.9**	**1.8**	**0.9**	**0.6**	**0.5**	**0.6**	**0.7**
Total provisions as % of gross loans	2.9	3.6	4.2	6.1	5.2	4.5	4.6	4.1	3.2	-	-	-
Net NPA as % of networth	21.5	38.7	31.0	50.6	29.8	22.4	14.5	10.0	6.6	5.5	4.8	4.3

Source: Company, IIFL Research

Figure 7.52: SBI – capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	9.6	9.3	9.8	9.8	9.7	9.6	9.8	10.0	9.9	10.3	9.9	10.1	10.1
AT1 ratio	0.1	0.3	0.1	0.5	0.7	1.0	1.2	1.4	1.5	1.8	1.6	1.5	1.4
Tier 1 ratio	9.7	9.6	9.9	10.4	10.4	10.7	11.0	11.4	11.4	12.1	11.6	11.6	11.5
Tier 2 ratio	2.7	2.4	3.2	2.8	2.2	2.1	2.1	2.3	2.4	2.6	2.9	2.8	2.7
Capital adequacy ratio	12.4	12.0	13.1	13.1	12.6	12.7	13.1	13.7	13.8	14.7	14.4	14.4	14.1
RWA intensity	62.9	59.6	-	-	54.7	52.4	53.1	49.6	49.7	50.5	50.8	51.3	51.7

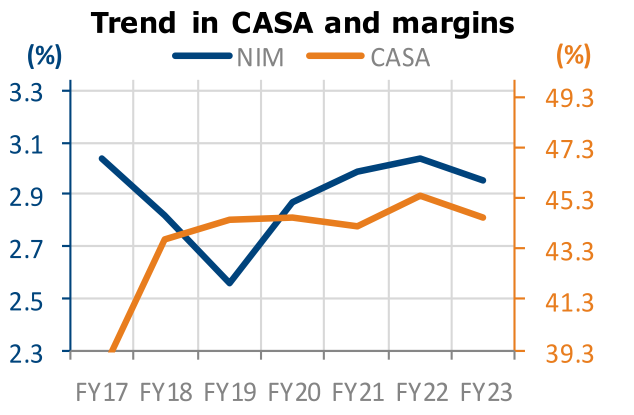
Source: Company, IIFL Research

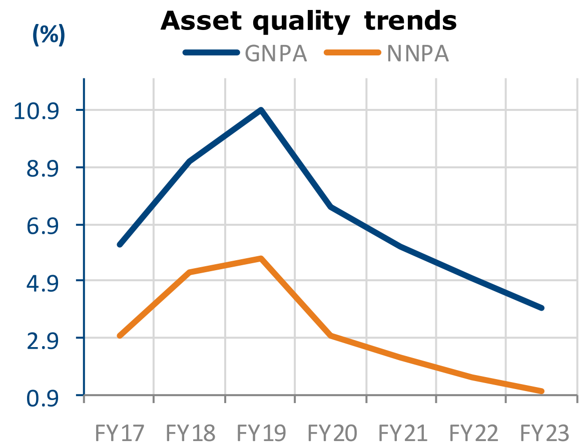
Figure 7.53: Key Management profile

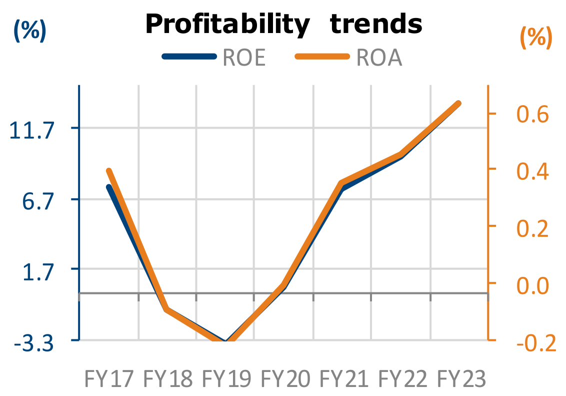
Key Management Personnel		Profile
Dinesh Kumar Khara	Chairman	• Mr. Khara is a Post Graduate in Commerce from Delhi School of Economics and an MBA from FMS, New Delhi. He is a Fellow of Indian Institute of Banking & Finance. • Having joined the bank as a Probationary Officer in 1984, he has rich experience in all facets of Banking. Before assuming office as Chairman, Mr. Khara has held several key positions in SBI such as MD (Global Banking & Subsidiaries), MD (Associates & Subsidiaries), MD & CEO (SBI Mutual Funds) and Chief General Manager - Bhopal Circle.
Challa Sreenivasulu Setty	Managing Director (International Banking, Global Markets & Technology)	• Mr. Challa Sreenivasulu Setty joined the Board of SBI as MD in January 2020. Currently, he is heading International Banking, Global Markets & Technology wings of the Bank. Prior to the present assignment, Shri Setty headed the Retail & Digital Banking vertical. He has also been heading various task forces/committees formed by the Government of India. • A BSc in Agriculture and also, a Certified Associate of Indian Institute of Bankers, he started his career with SBI in 1988 as a Probationary Officer. Across a career spanning over three decades, he has rich experience in Corporate credit, Retail, Digital and International banking, as well as banking in developed markets.
Ashwini Kumar Tewari	Managing Director (Risk, Compliance & SARG)	• Mr. Tewari is an Electrical Engineer by degree, and is a Certified Associate of Indian Institute of Bankers (CAIIB), Certified Financial Planner (CFP) and has done a Certificate Course in Management from XLRI. He also served on the Board of International Institute of Bankers, New York, and the Board of University of Washington Global Bankers Program. • He has been a part of SBI for almost three decades and has handled several assignments across various locations in India and abroad. Prior to becoming MD at SBI, he served as MD and CEO of SBI Cards and Payment Services Ltd.
Alok Kumar Choudhary	Managing Director (Retail Business & Operations)	• Mr. Choudhary is a Science graduate and also holds a Masters in Rural Development. He is a Certified Associate of Indian Institute of Banking & Finance. He has also attended Global Advanced Management Program in Silicon Valley, USA. • Prior to his elevation as MD, he was heading the Finance vertical of the bank working as Deputy MD (Finance) where he was responsible for Strategic Planning and Budgeting, Performance Analysis to support optimum business and strategic decisions, Capital Planning and Capital Raising, Asset & Liability Management and Balance Sheet Management.
Saloni Narayan	Deputy Managing Director (Finance)	• Ms Saloni has a 32yr experience in multiple areas of Banking. Currently, she looks after the various Business Units in Retail & Digital Banking Vertical, such as Personal Banking, Real Estate & Housing, SME and Wealth Management. • Prior to this, she was Deputy MD (Chief Operating Officer) from June 2020.

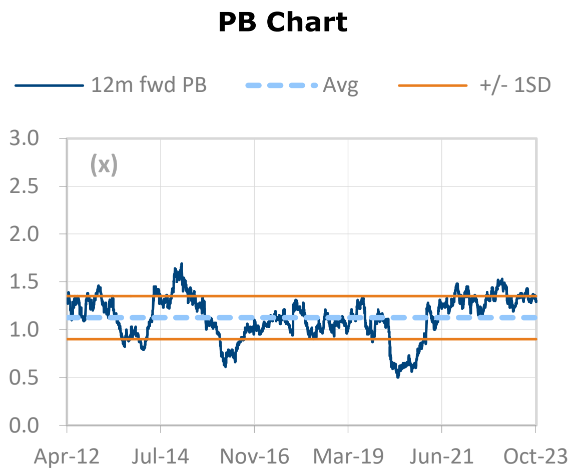
Company snapshot

Background: SBI is the country's largest commercial bank, in terms of assets, deposits, branches and employees. On the credit front, the bank has loans of Rs32 tn, as of FY23, implying a market share of ~23%. It has a stronghold in most segments, including SME, corporate, government, rural and international, despite inroads made by private banks. SBI has a strong deposit profile with a standalone CASA ratio of ~42%, as of FY23. As of FY23, SBI has a network of 22,640 branches and 65,627 ATMs. In addition to banking services, the bank, through its subsidiaries, provides a range of financial services including life and general insurance, merchant banking, mutual funds, credit cards etc.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	11.6	17.0	13.8	14.2	14.2
Deposit Growth (%)	10.1	9.2	12.7	12.5	13.5
Yield on IEA (%)	6.3	6.9	7.6	7.6	7.3
Cost of Funds (%)	3.6	4.0	4.8	4.9	4.5
Net Interest Margin (%)	2.8	3.0	2.9	3.0	2.9
Cost/income ratio (%)	57.9	53.9	53.5	52.1	50.7
Gross NPLs as % of loans (%)	4.0	2.8	2.3	2.0	1.8
Credit cost (%)	0.9	0.6	0.5	0.6	0.7
Return on Average Assets (%)	0.7	1.0	1.0	0.9	0.9
Return on Average Equity (%)	11.9	16.5	16.3	15.7	15.6

Source: Company data, IIFL Research

Management

Name	Designation
Dinesh Kumar Khara	Chairman
Swaminathan Janakiraman	Managing Director
Ashwini Kumar Tewari	Managing Director

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**1,207.1**	**1,448.4**	**1,581.8**	**1,797.8**	**2,032.1**
Non-interest income	**405.6**	**366.2**	**433.3**	**473.7**	**536.5**
Fee Income	280.4	315.3	324.5	369.9	421.7
Portfolio gains	32.2	(13.5)	58.3	47.7	52.5
Others	93.0	64.4	50.6	56.1	62.3
Total operating income	**1,612.7**	**1,814.6**	**2,015.1**	**2,271.6**	**2,568.5**
Total operating expenses	934.0	977.4	1,077.4	1,183.5	1,303.5
Pre provision operating profit	**678.7**	**837.1**	**937.7**	**1,088.0**	**1,265.1**
Total provisions	244.5	165.1	166.4	249.9	329.5
Profit before tax	**434.2**	**672.1**	**771.3**	**838.1**	**935.5**
Taxes	117.5	169.7	200.0	217.3	242.6
Net profit-pre exceptional	**316.8**	**502.3**	**571.3**	**620.8**	**692.9**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**316.8**	**502.3**	**571.3**	**620.8**	**692.9**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	27,339.7	31,992.7	36,414.9	41,588.1	47,507.8
Placements to other banks	762.9	608.1	824.8	925.7	1,048.0
Cash & equivalents	3,182.7	2,470.9	2,749.3	3,085.8	3,493.5
Investments	14,814.5	15,703.7	17,063.1	19,036.8	21,532.2
Total interest-earning assets	**46,099.6**	**50,775.4**	**57,052.1**	**64,636.5**	**73,581.5**
Fixed assets	377.1	423.8	432.3	445.3	458.6
Other assets	3,399.2	3,970.6	4,348.0	4,419.7	4,669.8
Total assets	**49,876.0**	**55,169.8**	**61,832.4**	**69,501.5**	**78,709.9**
Customer deposits	40,515.3	44,237.8	49,857.6	56,074.7	63,664.1
Borrowings	4,260.4	4,931.4	5,128.6	5,641.5	6,205.6
Total interest-bearing liabilities	**44,775.8**	**49,169.1**	**54,986.2**	**61,716.2**	**69,869.7**
Non-interest-bearing liabilities	2,299.3	2,724.6	3,133.3	3,603.2	4,143.7
Total liabilities	**47,075.1**	**51,893.7**	**58,119.4**	**65,319.5**	**74,013.5**
Total Shareholders' equity	**2,800.9**	**3,276.1**	**3,713.0**	**4,182.1**	**4,696.5**
Total liabilities & equity	**49,876.0**	**55,169.8**	**61,832.4**	**69,501.5**	**78,709.9**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	67.5	72.3	73.0	74.2	74.6
Loan Growth	11.6	17.0	13.8	14.2	14.2
Deposit Growth	10.1	9.2	12.7	12.5	13.5
Total Assets Growth	10.0	10.6	12.1	12.4	13.2
Profitability Ratios (%)					
Net Interest Margin	2.8	3.0	2.9	3.0	2.9
ROA	0.7	1.0	1.0	0.9	0.9
ROE	11.9	16.5	16.3	15.7	15.6
Non-Int Income as % of Total Income	25.2	20.2	21.5	20.9	20.9
Net Profit Growth	55.2	58.6	13.7	8.7	11.6
FDEPS Growth	55.2	58.6	13.7	8.7	11.6
Efficiency Ratios (%)					
Cost to Income Ratio	57.9	53.9	53.5	52.1	50.7
Salaries as % of Non-Interest costs	61.6	58.6	60.9	60.2	59.5

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	4.0	2.8	2.3	2.0	1.8
NPL coverage ratio	75.0	76.4	75.5	76.0	77.0
Total prov charges as % avg loans	0.9	0.6	0.5	0.6	0.7
Net NPLs as % of net loans	1.0	0.7	0.6	0.5	0.4
Capital Adequacy Ratios (%)					
Total CAR	13.8	14.7	14.4	14.4	14.1
Tier I capital ratio	11.4	12.1	11.6	11.6	11.5

Source: Company data, IIFL Research

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sCMP	**Rs189**
Target 12m	**Rs205 (8%)**
Market cap (US$ m)	**11,767**
Bloomberg	**BOB IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	218/140
Shares o/s (m)	5171
Daily volume (US$ m)	48
Dividend yield FY25ii (%)	3.9
Free float (%)	36.0

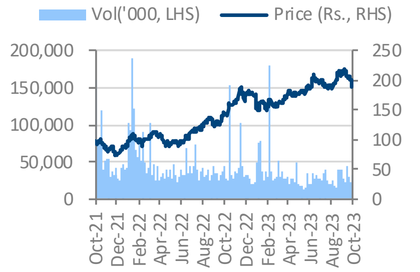
Shareholding pattern (%)

Promoters	64.0
Pledged (as % of promoter share)	0.0
FII	10.9
DII	17.0

Price performance (%)

	1M	3M	1Y
Bank of Baroda	(11.5)	(4.3)	31.3
Absolute (US$)	(11.5)	(5.8)	30.5
Rel.to Nifty	(7.4)	0.3	24.5
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		171.9	NA

Stock movement



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Bank of Baroda REDUCE

RBI embargo to dampen profitability

BOB's good part of the last decade was marred by corporate NPA surge during the RBI's AQR, merger impact during FY19-20 and then Covid. However, with all these issues dissipating, FY23 was the best in terms of growth and profitability in the last decade. We expect stable margins from hereon, aided by higher share of MCLR book, lower liability re-pricing and faster retail/SME loan growth. BOB ranks low in our liability franchise scorecard; the recent RBI embargo should further weigh on customer acquisition. Initiate with a REDUCE rating and TP of Rs205.

Stronger retail/SME growth and revamped overseas book to help sustain margins: Following the corporate NPA surge in FY18 and merger woes in FY19-20, BoB has embarked upon its journey to pivot to a retail bank. It has also revamped its international book, which now has a better mix akin to SBI; margins have also improved to ~2%. While we expect the retail and SME loans to grow at a faster clip, the recent RBI embargo should curtail the growth. Consequently, we build 14% loan Cagr vs 18% now, and expect the bank to miss its retail mix guidance of 65% by FY26 (from 47% currently). Residual MCLR book re-pricing (50% of loans), relatively faster growth in retail loans and limited liability re-pricing should help sustain NIMs at the current levels.

Liability franchise under the pump with RBI embargo: In our scorecard-based ranking of the liability franchise, BoB ranks low (#6 out of 9) due to deposit market share (MS) loss in recent years, low MS in transaction flows, weak CASA ratio and the lowest share of developing branches (just 4% of branches with a more than 5yr vintage). Furthermore, RBI's recent embargo (link) on onboarding the new clients via its digital app (BoB World has 30mn registered customers and 4mn of active customers); should weigh on both liability and asset acquisitions (Fig. 19).

Adequate provisioning should keep credit costs benign: Corporate GNPAs are now insignificant (vs 13-19% during FY17-20), share of BBB and below-rated book has declined to 13% from 71% in FY16. PCR has improved to ~80% and its NNPA ratio of 0.8% is one of the lowest among PSU banks. Consequently, we build avg. credit cost of ~100bps over FY23-26E vs the last decade average of 230 bps.

Initiate with REDUCE: We forecast lackluster profit growth of 7% Cagr over FY24-26E and avg. RoA/RoE of 1%/15% respectively. The recent RBI embargo and relatively-weaker liability franchise are the medium-term growth concerns that underpin our REDUCE rating. We value the bank at 0.8x Sep'25 BV to arrive at a TP of Rs205. **Key upside risks:** Faster-than-expected lifting of RBI embargo and higher business growth.

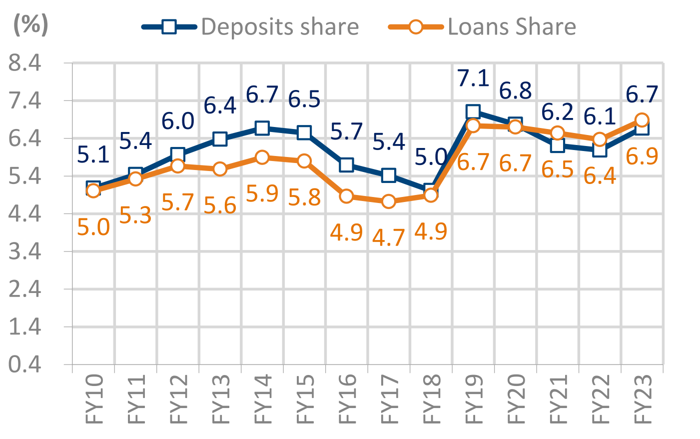
Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	326.2	413.6	467.6	530.9	566.4
PPOP	222.0	265.8	307.6	344.8	364.7
Reported PAT	**70.8**	**138.2**	**160.3**	**172.2**	**170.2**
EPS (Rs)	14.0	27.3	31.5	33.8	33.4
Growth (%)	730.6	94.0	15.5	7.4	(1.1)
IIFL vs consensus (%)			1.4	0.5	(6.8)
PER (x)	13.5	6.9	6.0	5.6	5.7
Book value (Rs)	166	190	215	241	267
PB (x)	**1.1**	**1.0**	**0.9**	**0.8**	**0.7**
CAR (%)	16.0	16.2	15.7	15.5	14.8
ROA (%)	0.6	1.0	1.1	1.0	0.9
ROE (%)	**8.9**	**15.3**	**15.6**	**14.8**	**13.2**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

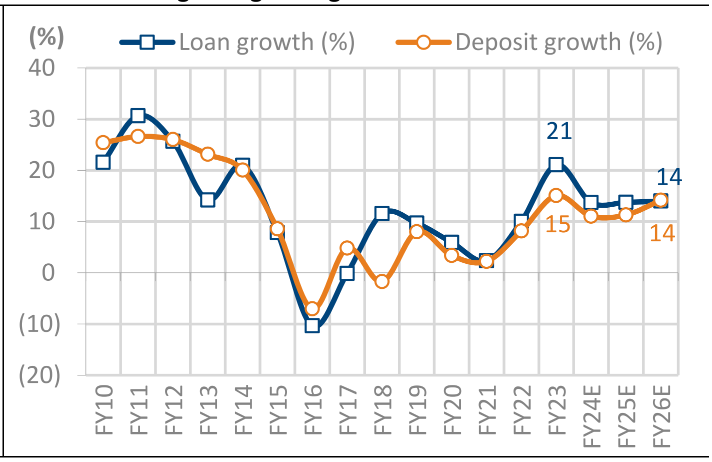
Stronger retail/SME growth and revamped overseas book to aid margins

Figure 8.1: During AQR, BoB's MS declined; the bank has also ceded MS post the merger in FY19



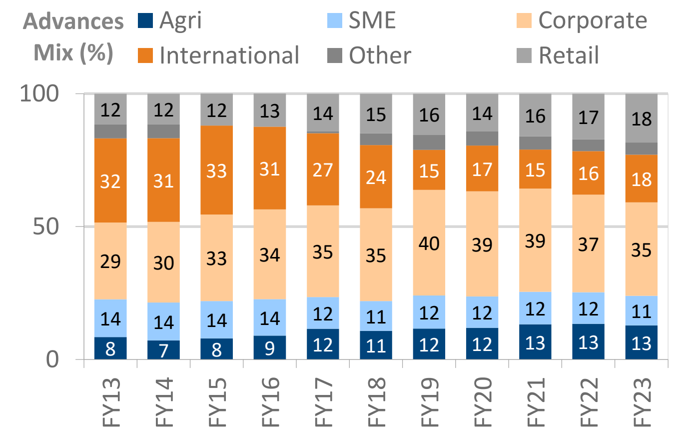
Source: Company, IIFL Research

Figure 8.2: Expect loan growth to soften from 21% in FY23, as the RBI embargo weighs on growth in select retail loans



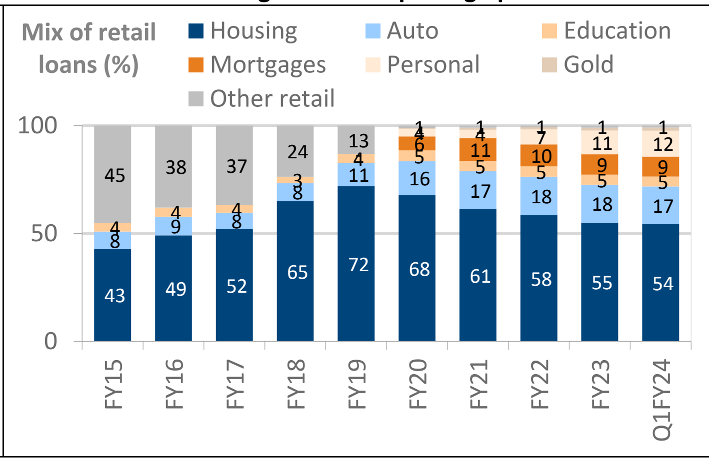
Source: Company, IIFL Research

Figure 8.3: BoB' retail pivot is relatively later than peers; and is still low at 18%, though rising



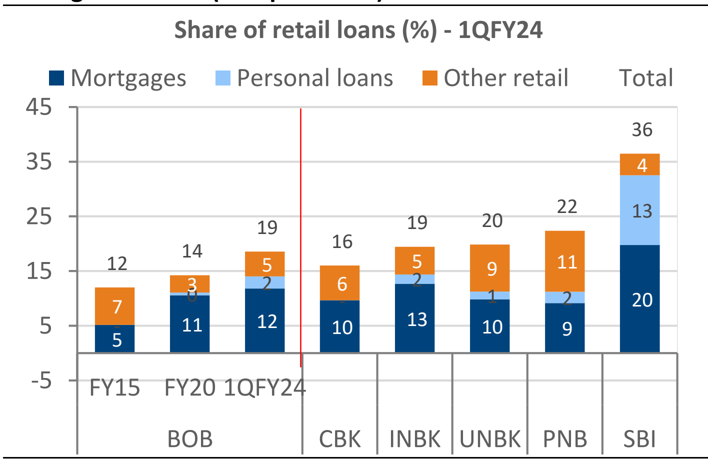
Source: Company, IIFL Research

Figure 8.4: Home loans dominated the Retail segment, but PL and other Retail loan growth now picking up



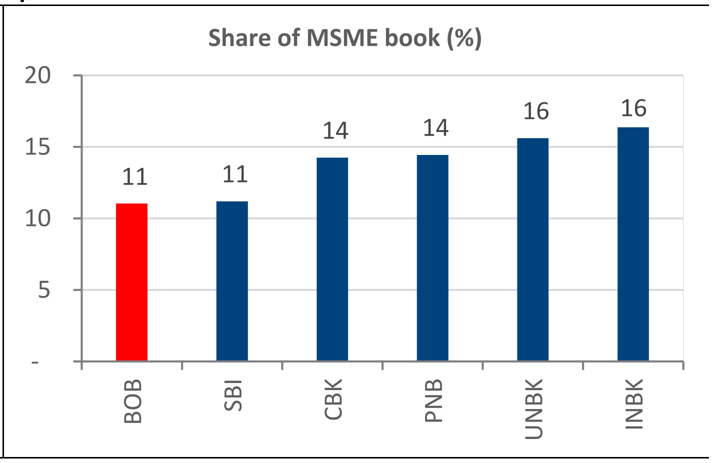
Source: Company, IIFL Research

Figure 8.5: For BoB, Retail loan share is one of the lowest among PSU banks (except Canara) …



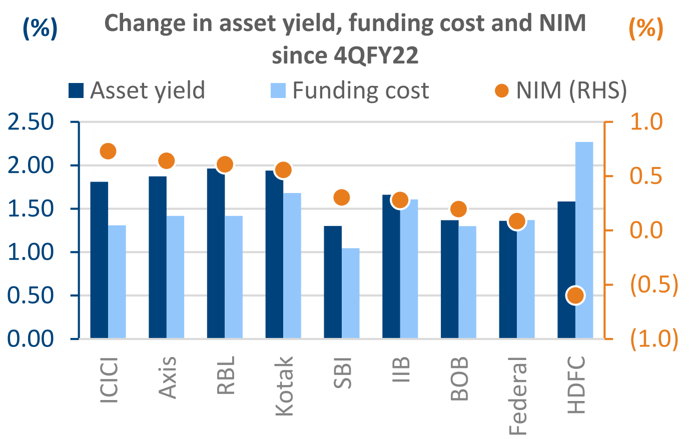
Source: Company, IIFL Research

Figure 8.6: … and the share of MSME too, is the lowest among peers



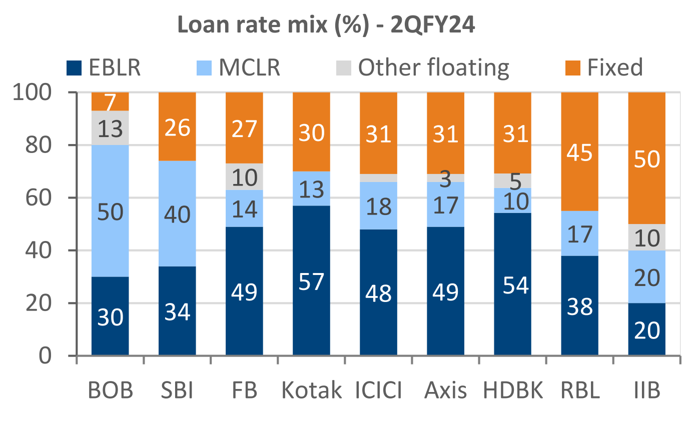
Source: Company, IIFL Research

Figure 8.7: Yield re-pricing has been almost in line with deposit re-pricing over the rate cycle



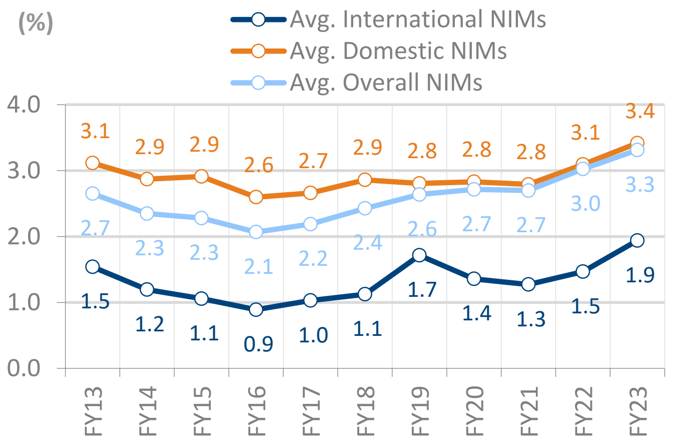
Source: Company, IIFL Research, Note: (1) HDFC spread lower due to merger impact, (2) BoB and SBI as on 1QFY24, rest as on 2QFY24

Figure 8.8: BoB has the highest share of MCLR-linked book, which should benefit from delayed re-pricing



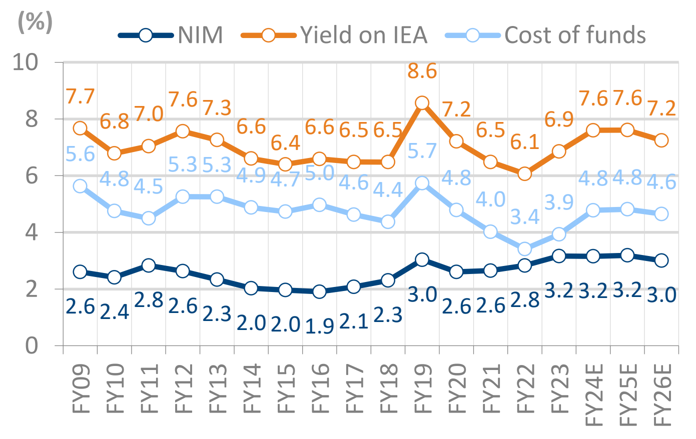
Source: Company, IIFL Research, Note: (1) Assumed for the merged HDFC Bank, (2) BoB and SBI as on 1QFY24, rest as on 2QFY24

Figure 8.9: The bank has revamped its international book, which now has a better mix and improved margins of ~2%



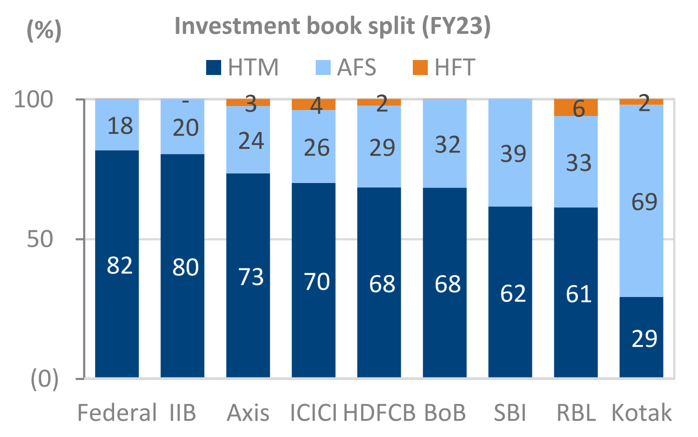
Source: Company, IIFL Research

Figure 8.10: MCLR book re-pricing, faster growth in retail loans and limited residual liability repricing — should aid NIMs



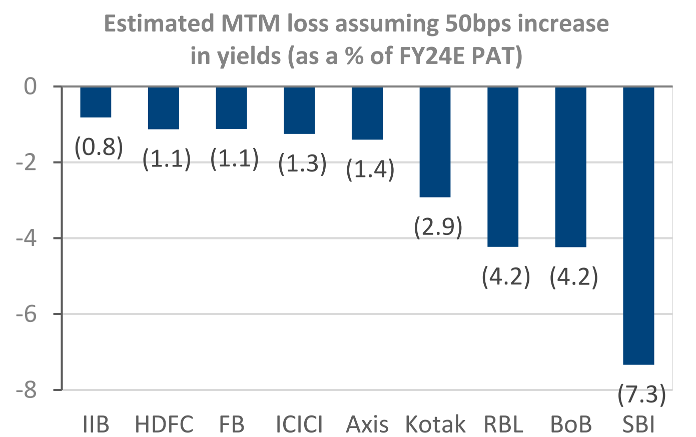
Source: Company, IIFL Research

Figure 8.11: The bank has a high share of AFS book ...



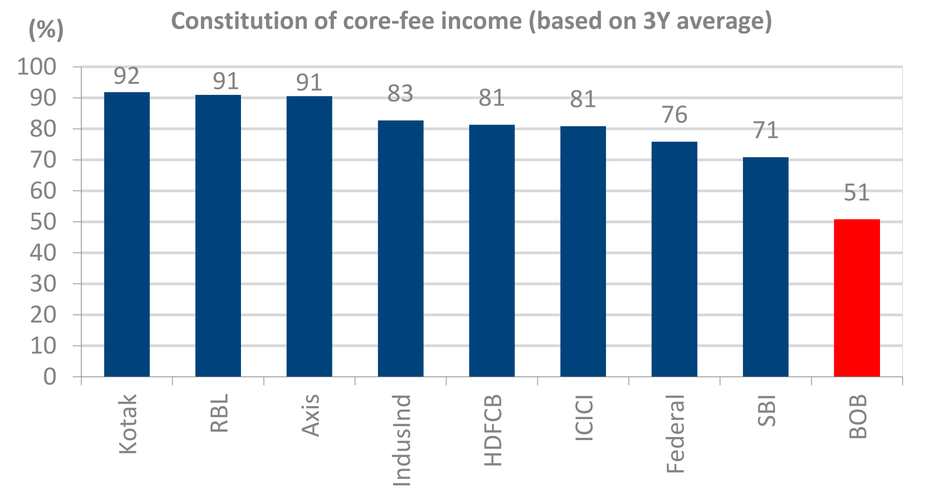
Source: Company, IIFL Research

Figure 8.12: ... and hence, is sensitive to the rise in rates



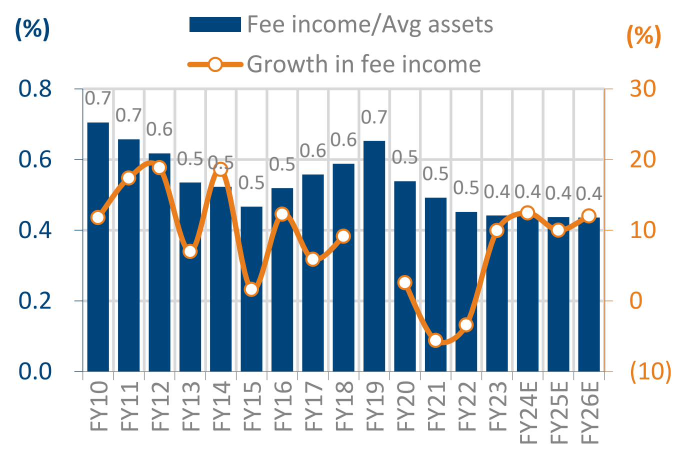
Source: Company, IIFL Research Estimates

Figure 8.13: For BoB, core fee income share is the lowest at just ~50% vs 70-90% for peers



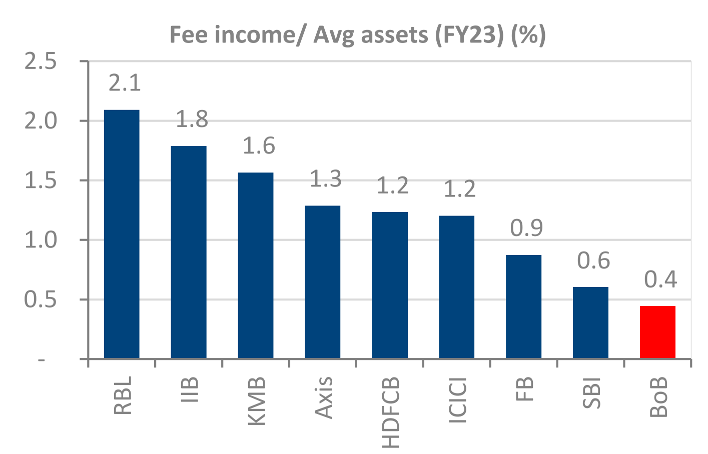
Source: Company, IIFL Research

Figure 8.14: Over the years, core fee income has been declining; is unlikely to change much…



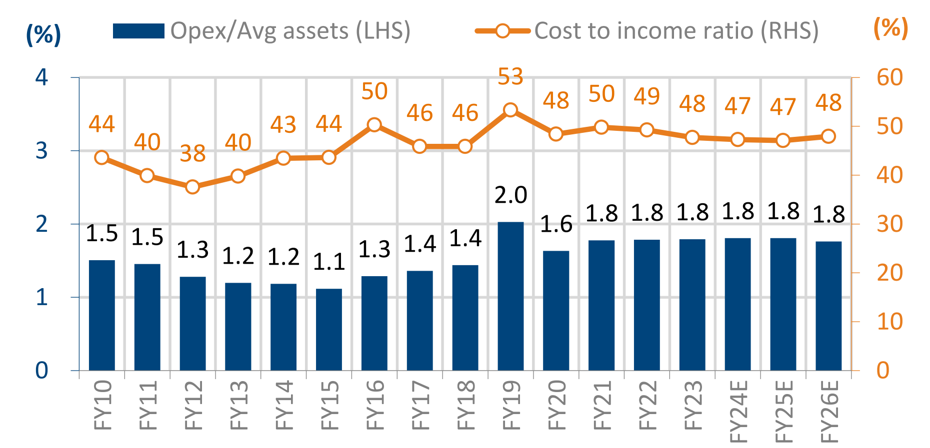
Source: Company, IIFL Research

Figure 8.15: … and is also one of the lowest among peers



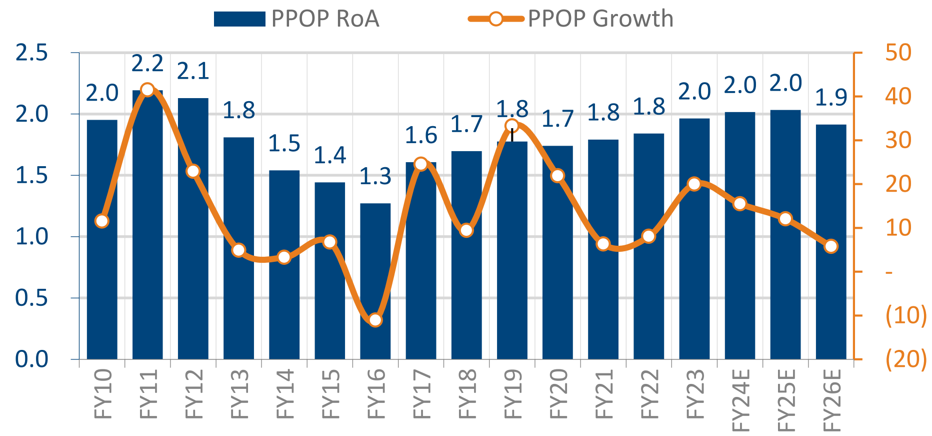
Source: Company, IIFL Research

Figure 8.16: For BoB, CIR has been higher historically, which we expect to remain sticky as the bank continues to invest in growing its Retail business



Source: Company, IIFL Research

Figure 8.17: Expect PPoP growth to decelerate in FY24-25E, due to business growth slowdown, on the back of RBI embargo on onboarding new customers digitally, and rate-cut impacting NIMs in FY26E



Source: Company, IIFL Research

Liability franchise under the pump with RBI embargo

Figure 8.18: Based on our scorecard ranking on 15 comprehensive liability franchise metrics — BoB ranks #6 among 9 banks

On a scale of (1-9)	Weights	HDFCB	ICICI	Kotak	Axis	IndusInd	SBI	BOB	Federal	RBL
Market share	20%									
Deposit market share	4%	8	6	4	5	3	9	7	2	1
change in last 3Y	4%	9	8	2	7	6	2	1	2	2
Branch market share	4%	7	6	3	5	4	9	8	2	1
change in last 3Y	4%	9	7	4	6	8	5	1	2	3
NEFT MS - Deposit MS	3%	9	8	6	7	4	1	2	3	5
RTGS MS - Deposit MS	3%	9	7	6	8	4	1	2	3	5
Key liability ratios	35%									
Liability mix - share of deposits	5%	4	8	9	1	3	7	5	6	2
CASA ratio	10%	6	7	9	8	4	5	3	1	1
Retail deposits (per LCR)	10%	7	5	4	3	2	8	6	9	1
Liquidity coverage ratio	5%	5	1	2	3	7	9	8	4	6
Cost of funds	5%	6	8	9	4	1	7	5	3	2
Productivity ratios	15%									
Deposit / Branch (Rs.mn)	8%	9	7	8	5	2	6	1	4	3
CASA / Branch (Rs. mn)	8%	9	7	8	6	3	5	2	1	4
Branch analysis	30%									
Fast-growing districts	10%	7	6	4	5	3	9	8	2	1
High Potential districts	10%	7	6	3	5	2	9	8	4	1
Vintage analysis	10%	6	5	4	7	8	2	3	1	9
Weighted Average scale	100%	7.1	6.2	5.4	5.3	3.8	6.3	4.7	3.2	2.8
Ranking		1	3	4	5	7	2	6	8	9

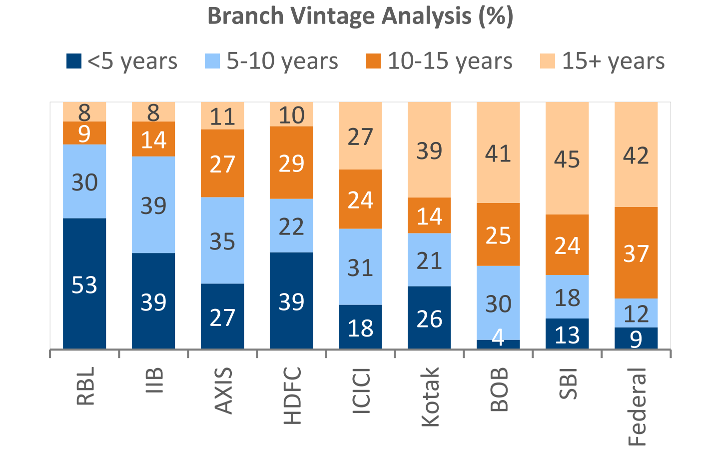
Source: Company, IIFL Research. Note: The ranking of each parameter is an ordinal ranking of 1-9 (9 being the best) on the 1QFY24 reported numbers.

Figure 8.19: Through BoB World, digital acquisitions (both asset and liability side) shall be impacted due to the recent RBI embargo

	Digital Acquisitions	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24
A	**Liability acquisition**					
1	New SA acquisition digitally (%)	87%	88%	82%	79%	98%
2	New CA acquisition digitally (%)	85%	90%	92%	92%	91%
3	Digital FDs	66%	66%	66%	67%	58%
4	% of FD/RD through BoB World	15%	15%	26%	35%	43%
5	**Overall FD acquisition through BoB World (calculated 3x4)**	**10%**	**10%**	**17%**	**23%**	**25%**
6	PPF account opening through Bob World	36%	30%	39%	37%	44%
B	**Asset acquisition**					
1	New SHG acquisition	85%	91%	97%	97%	98%
2	Credit cards sourced digitally	59%	74%	42%	49%	61%
3	MSME loans renewed digitally	48%	52%	46%	48%	48%
4	MSME loans sanctioned digitally	39%	45%	46%	46%	35%
5	Personal loan digitally	80%	84%	85%	86%	89%
6	Housing loan digitally	65%	66%	68%	69%	68%
7	Auto loan digitally	60%	61%	64%	66%	67%
8	Digital retail loans sanctioned	68%	69%	71%	65%	74%

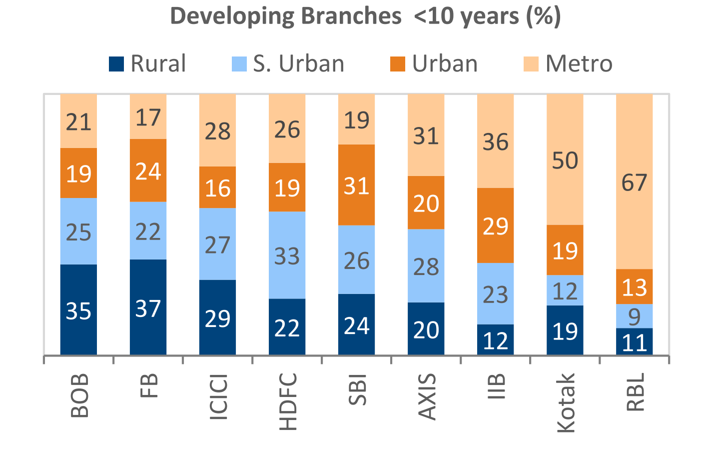
Source: Company, IIFL Research

Figure 8.20: BoB has the lowest share of 'developing' branches with just 4% of branches with <5 years vintage



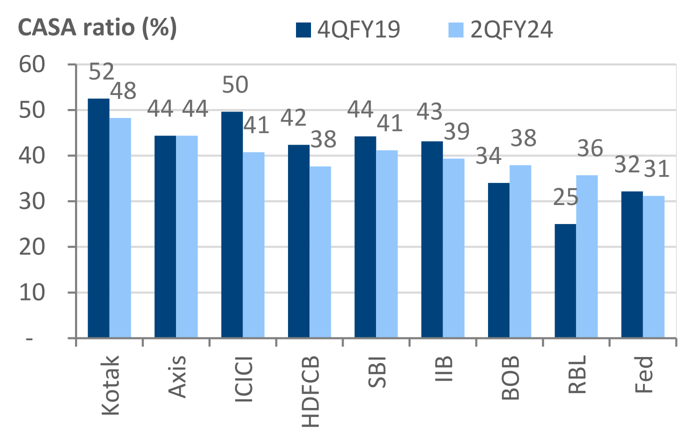
Source: Company, IIFL Research

Figure 8.21: Among developing branches too, BoB has 60% share in Rural and S. Urban areas which shall see slower deposit compounding compared to urban/metro regions



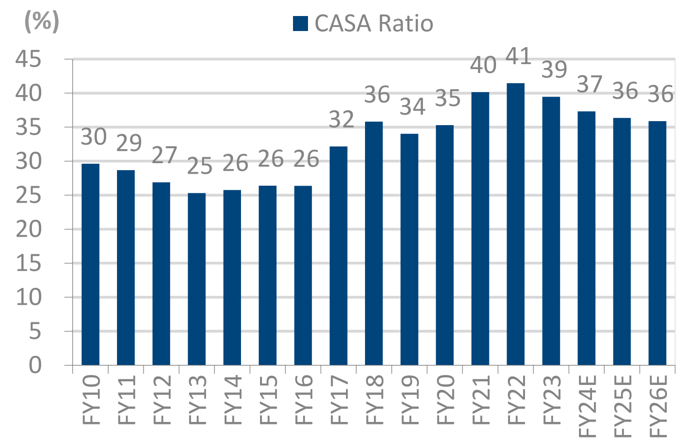
Source: Company, IIFL Research

Figure 8.22: Over the last 3yrs, BoB has seen 4ppt improvement in CASA ratio…



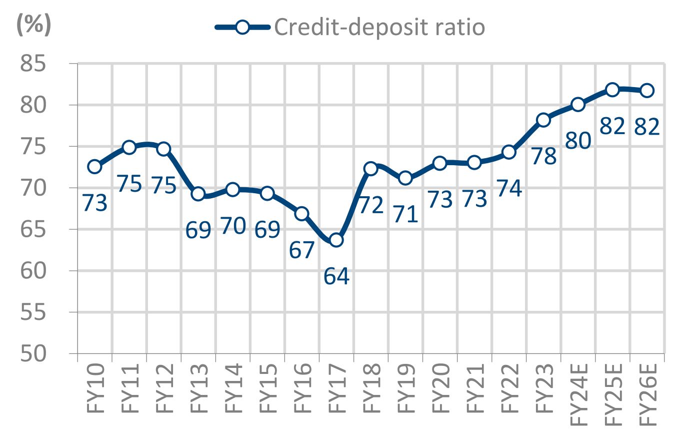
Source: Company, IIFL Research, Note: SBI and BoB as on 1QFY24, rest as on 2QFY24

Figure 8.23: … however, we expect CASA ratio to decline from hereon



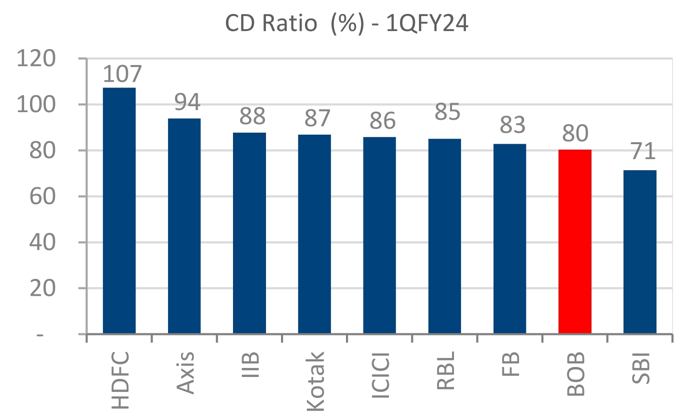
Source: Company, IIFL Research

Figure 8.24:Currently, LDR is at historical highs…



Source: Company, IIFL Research

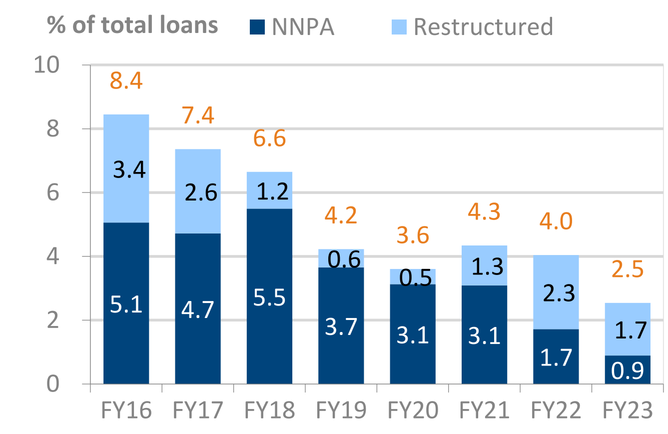
Figure 8.25: … and more comparable to Private banks



Source: Company, IIFL Research

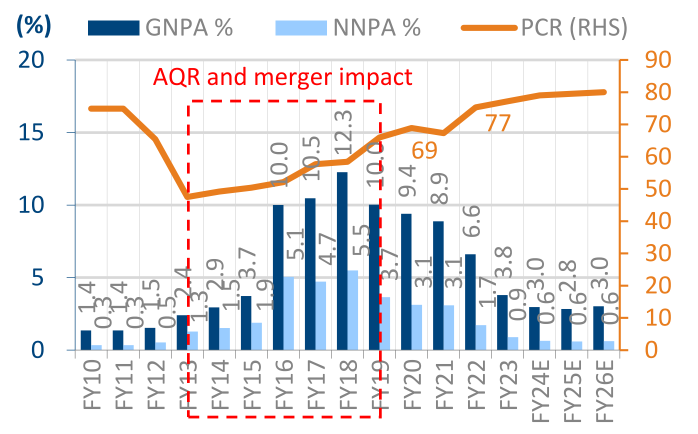
Provision buffers in place to limit asset-quality shocks

Figure 8.26: With residual unprovided stressed pool at 2.5%, asset quality has seen a stark improvement.



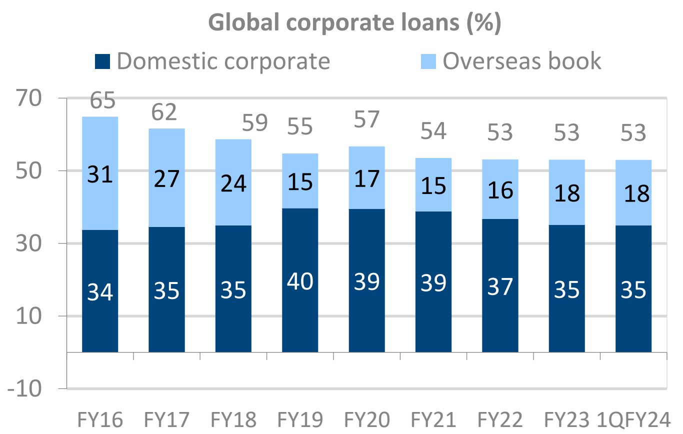
Source: Company, IIFL Research

Figure 8.27: In FY18, BoB had seen GNPA rise to 12.3% due to AQR, which has reduced to 3.8% as on FY23



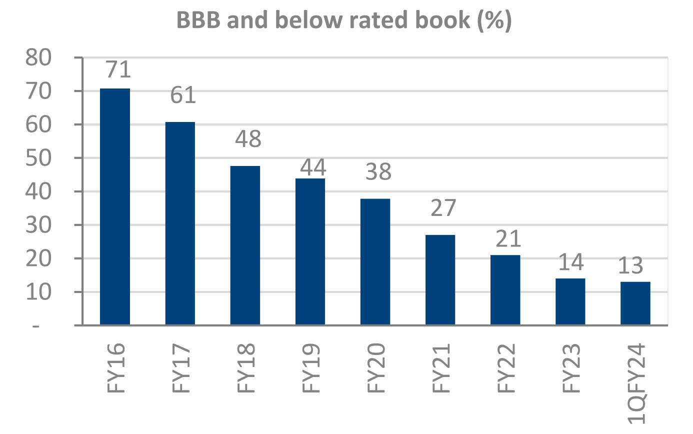
Source: Company, IIFL Research

Figure 8.28:Share of international loans has been reducing, leading to decline in corporate share for the bank



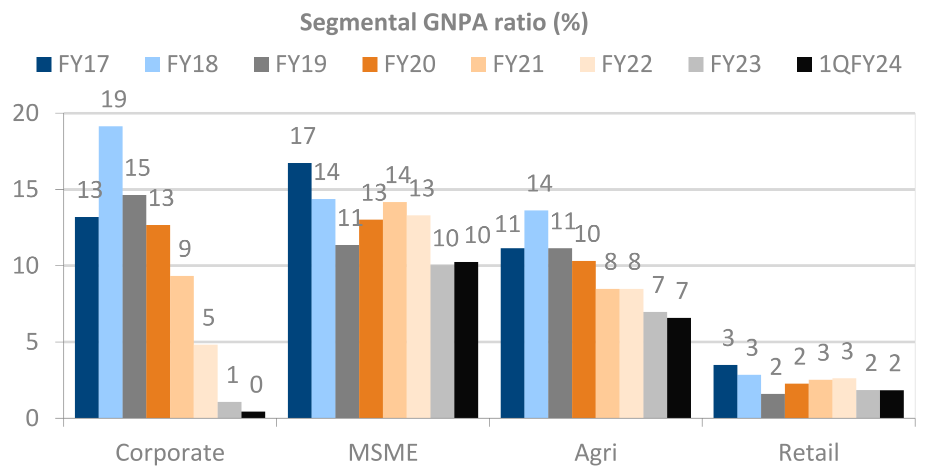
Source: Company, IIFL Research

Figure 8.29: Corporate portfolio too, has improved with BBB and below share coming down to just 13%



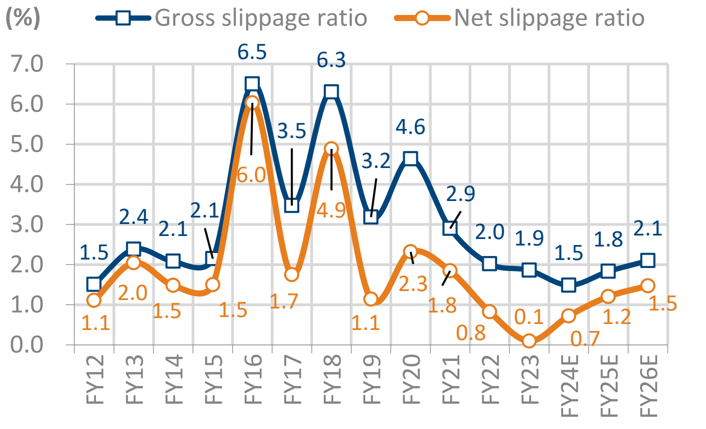
Source: Company, IIFL Research

Figure 8.30: BoB's corporate NPAs are now insignificant vs the peak of 19% in FY18



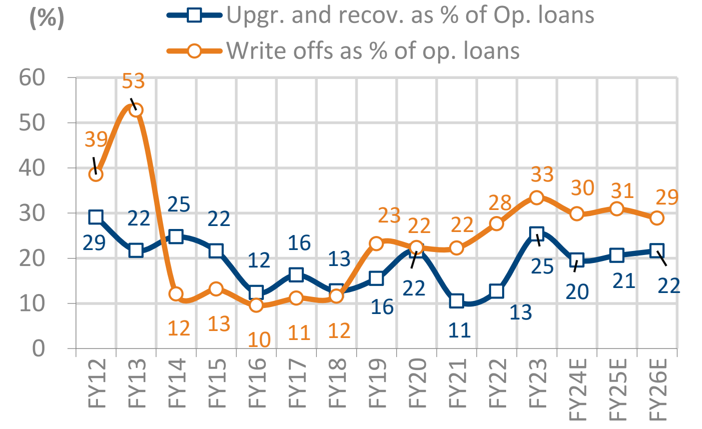
Source: Company, IIFL Research

Figure 8.31:We expect slippages to inch up over FY24-26E …



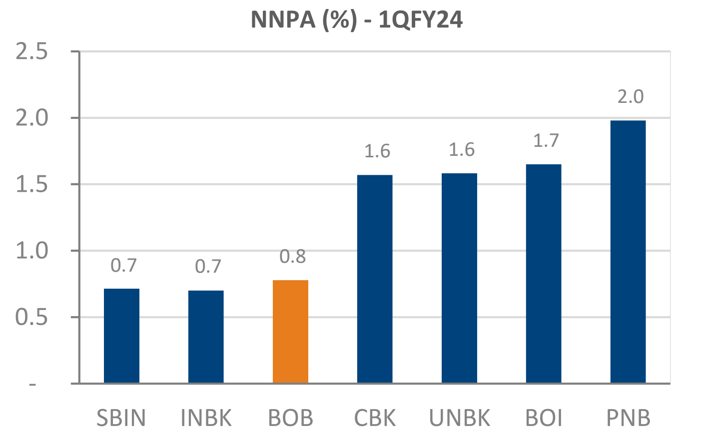
Source: Company, IIFL Research

Figure 8.32: … and moderation in upgrades and recoveries



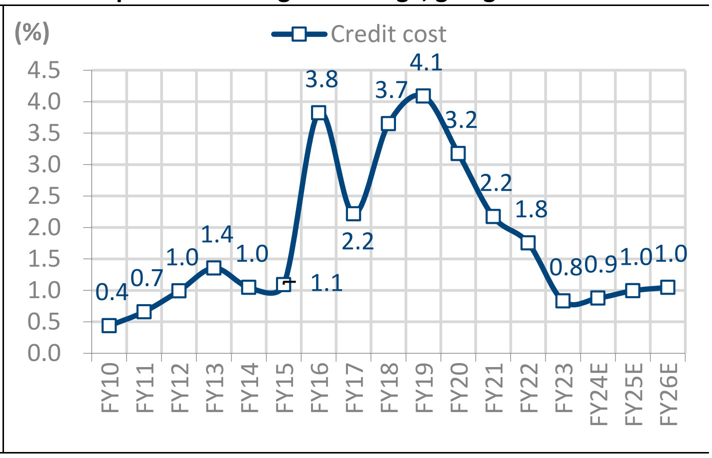
Source: Company, IIFL Research

Figure 8.33: Among PSU peers, BoB has one of the lowest NNPA ratios



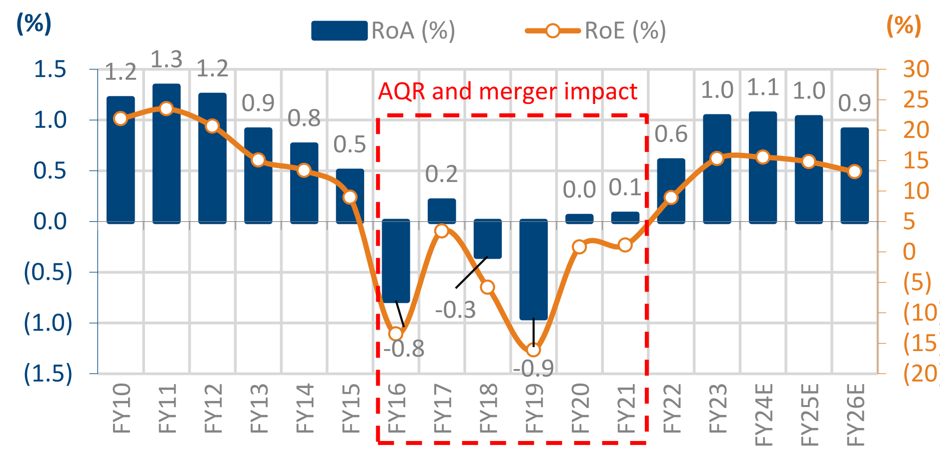
Source: Company, IIFL Research

Figure 8.34: Expect credit cost to normalise; but higher PCR shall keep it within the guided range, going forward



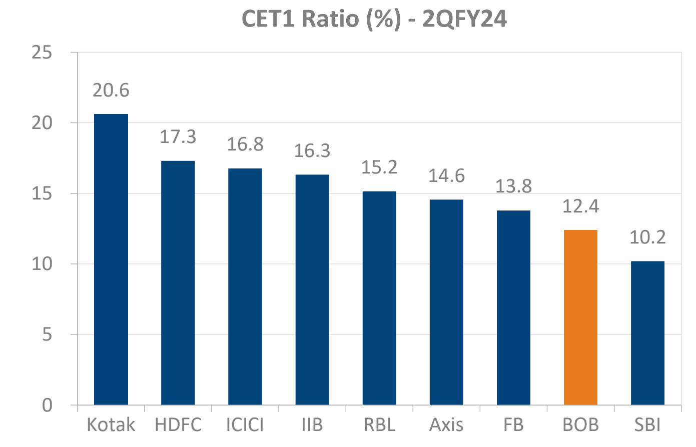
Source: Company, IIFL Research

Figure 8.35: Expect ROAs and ROEs to peak in FY24 and decline modestly over FY25-26E



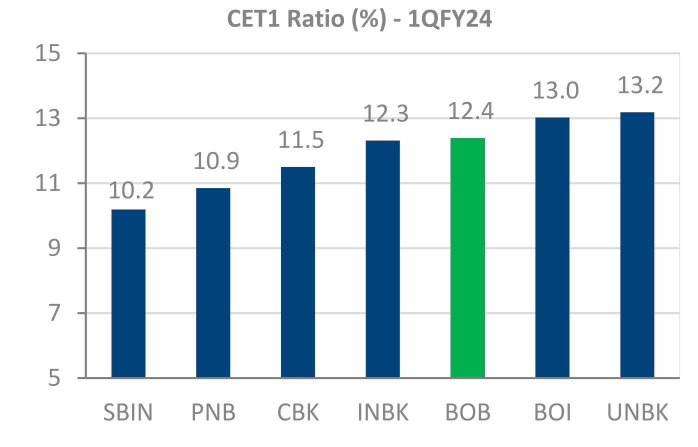
Source: Company, IIFL Research

Figure 8.36:BoB has lower CET1 vs private peers …



Source: Company, IIFL Research, Note: (1) Tier1 for Kotak, (2) BoB and SBI as on 1QFY24, rest as on 2QFY24

Figure 8.37: … but is comfortably placed among PSU banks



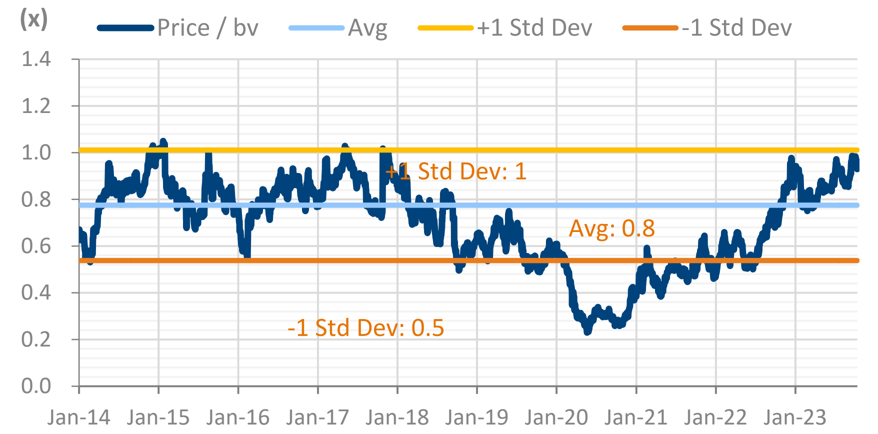
Source: Company, IIFL Research,

Figure 8.38: Bank of Baroda – DuPont analysis and key ratios

DuPont analysis (% of avg. assets)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	6.5	6.3	6.4	6.2	6.2	8.1	6.8	6.1	5.7	6.5	7.3	7.4	7.1
Interest expense	4.5	4.3	4.5	4.2	4.0	5.2	4.3	3.6	3.1	3.5	4.3	4.3	4.2
Net interest income	**2.0**	**1.9**	**1.8**	**2.0**	**2.2**	**2.9**	**2.5**	**2.5**	**2.7**	**3.0**	**3.0**	**3.1**	**2.9**
Fee Income	0.5	0.5	0.5	0.6	0.6	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Trading Profits	0.1	0.1	0.2	0.4	0.3	0.1	0.2	0.3	0.2	0.0	0.1	0.1	0.1
Dividend from Subs & other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other income	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Total non-interest income	0.7	0.6	0.7	1.0	0.9	0.9	0.9	1.1	0.9	0.7	0.8	0.7	0.7
Total revenue	**2.7**	**2.6**	**2.6**	**3.0**	**3.1**	**3.8**	**3.4**	**3.6**	**3.6**	**3.8**	**3.8**	**3.8**	**3.7**
Employee expense	0.7	0.6	0.7	0.7	0.7	1.1	0.8	1.0	1.0	1.0	1.0	1.0	1.0
Other expense	0.5	0.5	0.6	0.7	0.8	1.0	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total expenses	**1.2**	**1.1**	**1.3**	**1.4**	**1.4**	**2.0**	**1.6**	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**	**1.8**
Pre-provision operating profit	**1.5**	**1.4**	**1.3**	**1.6**	**1.7**	**1.8**	**1.7**	**1.8**	**1.8**	**2.0**	**2.0**	**2.0**	**1.9**
Provisions	0.6	0.7	2.2	1.2	2.1	2.4	1.9	1.3	1.1	0.5	0.6	0.7	0.7
Profit before tax	0.9	0.8	-1.0	0.4	-0.4	-0.7	-0.2	0.5	0.8	1.4	1.4	1.4	1.2
Taxes	0.2	0.3	-0.2	0.2	-0.1	0.3	-0.2	0.4	0.2	0.4	0.4	0.3	0.3
ROA	**0.8**	**0.5**	**-0.8**	**0.2**	**-0.3**	**-0.9**	**0.0**	**0.1**	**0.6**	**1.0**	**1.1**	**1.0**	**0.9**
Leverage	17.8	18.1	17.3	17.0	16.9	17.0	16.6	15.5	14.9	14.9	14.7	14.5	14.6
ROE	**13.4**	**9.0**	**-13.5**	**3.4**	**-5.8**	**-16.1**	**0.8**	**1.1**	**8.9**	**15.3**	**15.6**	**14.8**	**13.2**
Key metrics													
Loan growth	21.0	7.8	-10.3	-0.1	11.5	52.4	5.9	2.3	10.0	21.1	13.7	13.8	14.0
Deposit growth	20.0	8.6	-7.0	4.8	-1.7	54.8	3.4	2.2	8.2	15.1	11.1	11.3	14.2
Credit-deposit ratio	69.8	69.3	66.9	63.7	72.3	71.2	73.0	73.0	74.3	78.2	80.1	81.8	81.7
Yield on IEA	6.6	6.4	6.6	6.5	6.5	8.6	7.2	6.5	6.1	6.9	7.6	7.6	7.2
Cost of funds	4.9	4.7	5.0	4.6	4.4	5.7	4.8	4.0	3.4	3.9	4.8	4.8	4.6
NIM	2.0	2.0	1.9	2.1	2.3	3.0	2.6	2.6	2.8	3.2	3.2	3.2	3.0
Cost-to-income ratio	43.4	43.6	50.3	45.9	45.9	53.3	48.4	49.8	49.2	47.7	47.3	47.1	47.9
GNPA ratio	2.9	3.7	10.0	10.5	12.3	10.0	9.4	8.9	6.6	3.8	3.0	2.8	3.0
NNPA ratio	1.5	1.9	5.1	4.7	5.5	3.7	3.1	3.1	1.7	0.9	0.6	0.6	0.6
Credit cost	1.0	1.1	3.8	2.2	3.7	4.1	3.2	2.2	1.8	0.8	0.9	1.0	1.0
CET 1 ratio	9.3	9.4	10.8	9.9	10.5	11.6	10.7	12.7	13.5	14.0	13.8	13.7	13.1
CAR	12.3	12.4	13.2	12.2	12.1	13.4	13.3	15.0	16.0	16.2	15.7	15.5	14.8

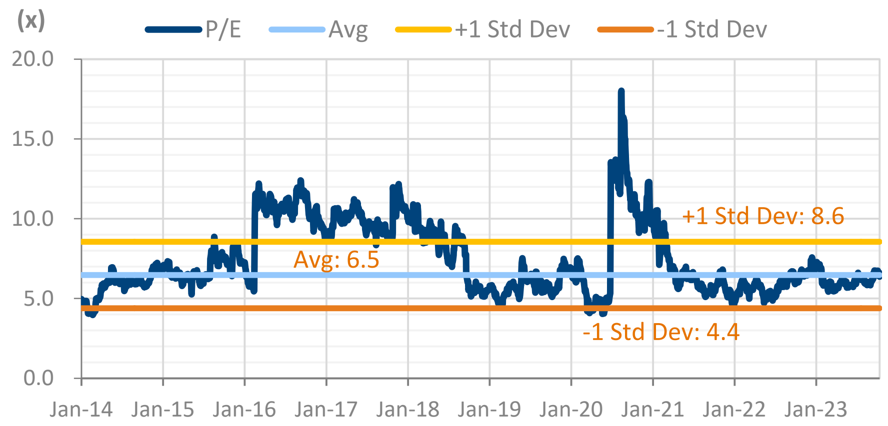
Source: Company, IIFL Research.

Figure 8.39: Bank of Baroda is trading at 0.9x 1YF P/B, which is one standard deviation above the long-term historical average



Source: Bloomberg, IIFL Research

Figure 8.40: Bank of Baroda is trading at 6x 1YF P/B, which is at around the mean long-term historical average



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 8.41: Bank of Baroda – net interest margin analysis

Margins (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	7.7	7.5	7.3	7.2	7.2	9.5	8.1	7.2	6.6	7.5	8.4	8.5	8.1
Yield on investments	7.3	7.8	8.8	8.5	7.1	8.7	6.7	6.4	6.1	6.5	6.7	6.6	6.2
Yield on bank balances	2.2	2.0	2.5	2.9	3.4	3.3	3.3	2.8	2.5	3.1	3.0	3.1	2.9
Yield on interest earning assets	**6.6**	**6.4**	**6.6**	**6.5**	**6.5**	**8.6**	**7.2**	**6.5**	**6.1**	**6.9**	**7.6**	**7.6**	**7.2**
Cost of deposits	5.1	5.0	5.1	4.6	4.4	4.3	4.7	3.9	3.3	3.7	4.6	4.6	4.4
Cost of borrowings	1.3	0.8	3.4	5.9	4.5	21.2	5.9	5.2	4.6	6.4	7.4	7.4	7.2
Cost of interest bearing liabilities	**4.9**	**4.7**	**5.0**	**4.6**	**4.4**	**5.7**	**4.8**	**4.0**	**3.4**	**3.9**	**4.8**	**4.8**	**4.6**
Interest spread	1.7	1.7	1.6	1.9	2.1	2.8	2.4	2.5	2.7	2.9	2.8	2.8	2.6
Net interest margin	**2.0**	**2.0**	**1.9**	**2.1**	**2.3**	**3.0**	**2.6**	**2.6**	**2.8**	**3.2**	**3.2**	**3.2**	**3.0**
Loan-to-deposit ratio	69.8	69.3	66.9	63.7	72.3	71.2	73.0	73.0	74.3	78.2	80.1	81.8	81.7
Incremental loan-to-deposit ratio	72.4	63.8	101.8	(1.8)	(426.4)	69.2	125.7	77.0	89.8	103.9	97.0	97.5	81.1
CASA ratio	25.7	26.4	26.4	32.2	35.8	34.0	35.3	40.2	41.5	39.5	37.3	36.4	35.9

Source: Company, IIFL Research

Figure 8.42: Bank of Baroda – efficiency and productivity analysis

Efficiency ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	73	75	72	67	70	75	73	70	74	80	79	81	80
Fee income / total non-interest income	71	73	72	56	62	70	58	46	48	60	56	59	60
Fee income / total revenue	19	18	20	19	19	17	16	14	12	12	12	11	12
Non-interest income / revenue	27	25	28	33	30	25	27	30	26	20	21	19	20
Employee expense / total opex	58	56	56	50	45	53	49	56	55	54	55	56	55
Other expense / total opex	42	44	44	50	55	47	51	44	45	46	45	44	45
Cost to income ratio (CIR)	**43.4**	**43.6**	**50.3**	**45.9**	**45.9**	**53.3**	**48.4**	**49.8**	**49.2**	**47.7**	**47.3**	**47.1**	**47.9**
Cost to avg. asset ratio	1.2	1.1	1.3	1.4	1.4	2.0	1.6	1.8	1.8	1.8	1.8	1.8	1.8
Provisions / PPOP	41	45	176	77	123	138	109	73	58	27	28	33	37
Tax rate	17	37	19	44	13	(41)	130	85	23	28	27	25	25
ROA	**0.8**	**0.5**	**(0.8)**	**0.2**	**(0.3)**	**(0.9)**	**0.0**	**0.1**	**0.6**	**1.0**	**1.1**	**1.0**	**0.9**
ROE	**13.4**	**9.0**	**(13.5)**	**3.4**	**(5.8)**	**(16.1)**	**0.8**	**1.1**	**8.9**	**15.3**	**15.6**	**14.8**	**13.2**
Productivity ratios													
No. of branches	**4,977**	**5,294**	**5,436**	**5,529**	**5,573**	**5,653**	**9,583**	**8,310**	**8,262**	**8,293**	**8,334**	**8,418**	**8,502**
Loans / branch (mn)	907	860	725	705	773	1,169	1,221	737	935	1,139	1,290	1,460	1,649
Deposits / branch (mn)	1,300	1,241	1,084	1,107	1,069	1,642	1,673	1,009	1,259	1,457	1,612	1,785	2,017
CASA deposits / branch (mn)													
No. of employees	**46,001**	**49,378**	**52,021**	**52,420**	**55,662**	**55,754**	**84,283**	**82,886**	**79,806**	**76,513**	**77,278**	**78,824**	**80,400**
Employees / branch	9	9	10	9	10	10	9	10	10	9	9	9	9
Avg. remuneration per employee (mn)	0.93	0.89	0.98	0.89	0.85	1.74	1.28	1.37	1.47	1.71	1.99	2.20	2.35
Loans / employee (mn)	86	87	74	73	77	117	82	85	97	123	138	154	173
Deposits / employee (mn)	124	125	110	115	106	164	112	117	131	157	173	189	211
CASA deposits / employee (mn)	32	33	29	37	38	56	40	47	54	62	65	69	76
Net profit / employee (mn)	1.0	0.7	(1.0)	0.3	(0.4)	(1.5)	0.1	0.1	0.9	1.8	2.1	2.2	2.2

Source: Company, IIFL Research

Figure 8.43: Bank of Baroda – asset quality analysis

Asset quality (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	118,759	162,615	405,210	427,187	564,804	699,240	693,815	666,710	540,594	367,637	325,875	353,855	430,448
NNPA (mn)	60,348	80,695	194,065	180,802	234,827	237,940	215,766	217,999	133,647	83,843	68,434	72,540	86,090
GNPA ratio	2.9	3.7	10.0	10.5	12.3	10.0	9.4	8.9	6.6	3.8	3.0	2.8	3.0
NNPA ratio	1.5	1.9	5.1	4.7	5.5	3.7	3.1	3.1	1.7	0.9	0.6	0.6	0.6
Gross Slippage ratio	2.1	2.1	6.5	3.5	6.3	3.2	4.6	2.9	2.0	1.9	1.5	1.8	2.1
Upgrades & Recoveries ratio	0.6	0.6	0.5	1.7	1.4	2.0	2.3	1.1	1.2	1.8	0.8	0.6	0.6
Net Slippage ratio	1.5	1.5	6.0	1.7	4.9	1.1	2.3	1.8	0.8	0.1	0.7	1.2	1.5
Write-off ratio	0.3	0.4	0.4	1.2	1.3	3.1	2.4	2.2	2.6	2.3	1.2	0.9	0.8
PCR (Excl Technical write off)	49.2	50.4	52.1	57.7	58.4	66.0	68.9	67.3	75.3	77.2	79.0	79.5	80.0
Credit cost (% of avg. loans)	1.0	1.1	3.8	2.2	3.7	4.1	3.2	2.2	1.8	0.8	0.9	1.0	1.0
Total provisions as % of loans	2.1	2.6	5.9	6.9	7.9	5.2	7.5	7.3	5.8	3.7	-	-	-
Net NPA as % of networth	16.8	20.3	48.3	44.9	54.1	37.9	30.0	28.3	15.6	8.5	6.2	5.8	6.2

Source: Company, IIFL Research

Figure 8.44: Bank of Baroda – capital ratio analysis

Capital ratios (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	9.6	9.3	9.8	9.8	9.7	9.6	9.8	10.0	9.9	10.3	9.9	10.1	10.1
AT1 ratio	0.1	0.3	0.1	0.5	0.7	1.0	1.2	1.4	1.5	1.8	1.6	1.5	1.4
Tier 1 ratio	9.7	9.6	9.9	10.4	10.4	10.7	11.0	11.4	11.4	12.1	11.6	11.6	11.5
Tier 2 ratio	2.7	2.4	3.2	2.8	2.2	2.1	2.1	2.3	2.4	2.6	2.9	2.8	2.7
Capital adequacy ratio	12.4	12.0	13.1	13.1	12.6	12.7	13.1	13.7	13.8	14.7	14.4	14.4	14.1
RWA intensity	62.9	59.6	-	-	54.7	52.4	53.1	49.6	49.7	50.5	50.8	51.3	51.7

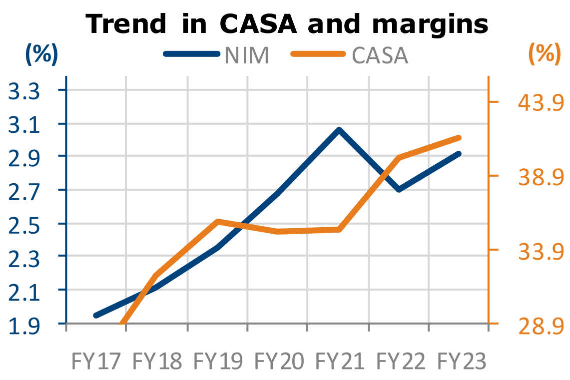
Source: Company, IIFL Research

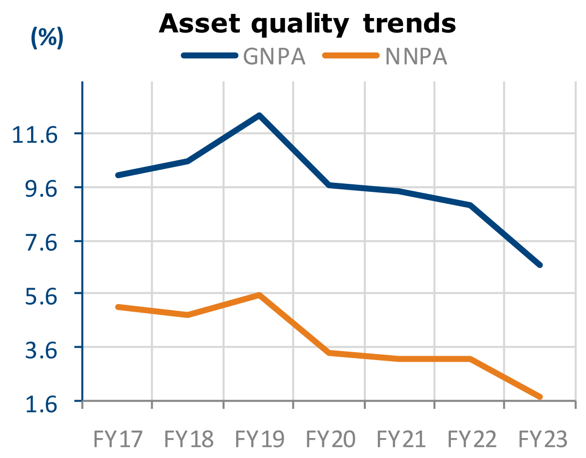
Figure 8.45:Management profile

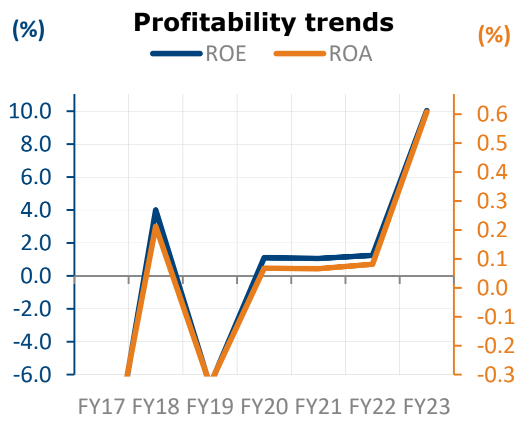
Key Management Personnel		
Debadatta Chand	Managing Director & CEO	• Mr. Chand is a B.Tech, MBA, CAIIB qualified Banker with a PG Diploma in Equity Research and a Certified Portfolio Manager. • He has 28+ years of experience in Commercial Banks and Developmental Financial Institutions. He is also on the Board of BoB Capital Markets Ltd., India Infradebt Limited, Baroda Financial Solutions Limited, Bank of Baroda (Tanzania) Ltd., Bank of Baroda (Uganda) Ltd. and Bank of Baroda (Kenya) Ltd. Earlier, when at Punjab National Bank, he was a member on the Boards of PNB Principal Mutual Fund, SWIFT India Pvt. Ltd., and was also on the Board of Governors of many private euity funds.
Ajay K Khurana	Executive Director	• Mr. Khurana is a Post Graduate in Business Management with Professional Qualification of CAIIB. Prior to joining the Board of Bank of Baroda as Executive Director, he served on the Board of Syndicate Bank as an Executive Director. • He has a vast operational experience at the field level, covering 17 years in various capacities. He has acquired rich experience while working in various key departments such as Audit, NPA Recovery, International Banking, Operations, Information Technology Dept. and Corporate Credit.
Joydeep Dutta Roy	Executive Director	• Mr. Roy holds an Honours degree in Economics from Delhi University, besides being a law graduate and MBA from the NMIMS in Mumbai and is a career banker for around 25+ years. • During his long career, he has handled a variety of functions in the bank across levels and has been instrumental in spearheading and successfully implementing many projects and initiatives for the bank viz. Business Process Reengineering Project - Project Navnirmaan, Project Udaan, a comprehensive HR Transformation Project called SPARSH.
Lalit Tyagi	Executive Director	• Mr. Tyagi has Post Graduate Diploma in Banking & Finance (PGDBF) from NIBM, Pune and is also a Certified Associate of Indian Institute of Bankers. • In 1996, he started his career as Probationary Officer in BoB and has over 26 years of experience in the various spectra of Commercial Banking, particularly in Corporate Finance, Risk Management, International Banking and administrative roles.
Lal Singh	Executive Director	• Mr. Singh is a Post Graduate in Agricultural Sciences, Certified Associate of Indian Institute of Bankers (CAIIB) and has completed a Diploma in Treasury, Investment and Risk Management (DITIRM), AMFI & CeBA and is a career Banker for around 33 years. • Post the amalgamation of Andhra Bank and Corporation Bank with Union Bank of India, he led the business transformation of the bank's MSME, Rural and Agri Business. In his last assignment, he was the Chief General Manager for the bank's strategic HR function. He directly led the bank's flagship project, Union Prerna, establishing a new performance culture, succession planning and improving talent engagement with the 75,000+ employees of the bank.

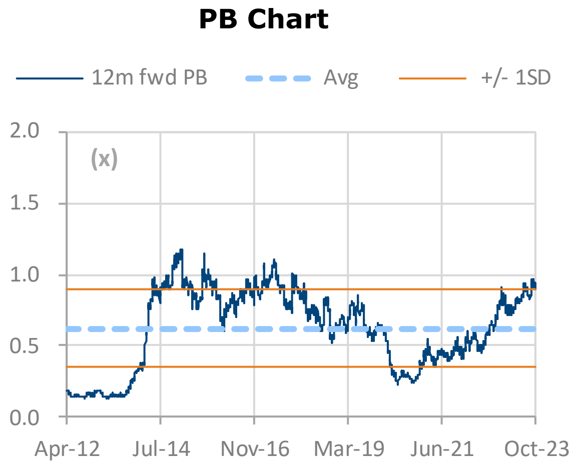
Company snapshot

Background: Bank of Baroda (BoB) is one of the leading public sector banks in India. It has a wide distribution reach across the country with a network of 8,168 branches, and over 250 domestic offices and 95 international offices across 17 countries. BOB loan portfolio comprises retail, SME, agriculture, corporate and overseas loans. However, the concentration in corporate and SME segments is high and has contributed to higher balance sheet risk. With a tier 1 capital of 12.24 % as of FY23, it is among the better capitalised PSU Banks.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	10.0	21.1	15.3	14.4	14.1
Deposit Growth (%)	8.2	15.1	13.5	13.5	13.9
Yield on IEA (%)	6.1	6.9	7.5	7.5	7.2
Cost of Funds (%)	3.4	3.9	4.8	4.8	4.6
Net Interest Margin (%)	2.8	3.2	3.1	3.0	3.0
Cost/income ratio (%)	49.2	47.7	47.9	47.9	47.7
Gross NPLs as % of loans (%)	6.6	3.8	2.9	2.7	2.8
Credit cost (%)	1.8	0.8	0.8	0.9	0.9
Return on Average Assets (%)	0.6	1.0	1.0	1.0	0.9
Return on Average Equity (%)	8.9	15.3	15.3	14.8	14.3

Source: Company data, IIFL Research

Management

Name	Designation
Debdatta Chand	MD & CEO
Ajay Khurana	Executive Director
Joydeep Dutta Roy	Executive Director

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**326.2**	**413.6**	**467.6**	**530.9**	**566.4**
Non-interest income	**113.0**	**97.4**	**118.1**	**123.0**	**136.8**
Fee Income	55.0	60.5	68.0	74.8	83.8
Portfolio gains	26.9	4.2	17.3	12.1	13.4
Others	31.1	32.8	32.8	36.1	39.7
Total operating income	**439.2**	**510.9**	**585.8**	**653.9**	**703.2**
Total operating expenses	217.2	245.2	278.1	309.1	338.5
Pre provision operating profit	**222.0**	**265.8**	**307.6**	**344.8**	**364.7**
Total provisions	130.0	71.4	88.1	113.8	136.3
Profit before tax	**92.0**	**194.4**	**219.5**	**231.1**	**228.4**
Taxes	21.1	56.2	59.2	58.9	58.3
Net profit-pre exceptional	**70.8**	**138.2**	**160.3**	**172.2**	**170.2**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**70.8**	**138.2**	**160.3**	**172.2**	**170.2**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	7,771.6	9,410.0	10,700.6	12,172.4	13,879.2
Placements to other banks	514.7	408.2	492.6	563.1	641.0
Cash & equivalents	711.8	548.8	652.0	724.0	824.2
Investments	3,158.0	3,624.9	3,785.7	4,209.4	4,697.8
Total interest-earning assets	**12,156.1**	**13,991.9**	**15,630.9**	**17,668.8**	**20,042.2**
Fixed assets	99.2	87.1	82.7	85.2	87.7
Other assets	524.7	506.7	489.5	245.7	294.1
Total assets	**12,780.0**	**14,585.6**	**16,203.1**	**17,999.7**	**20,424.0**
Customer deposits	10,459.4	12,036.9	13,367.3	14,877.5	16,982.9
Borrowings	1,039.0	1,019.1	1,121.0	1,210.7	1,331.8
Total interest-bearing liabilities	**11,498.4**	**13,056.0**	**14,488.3**	**16,088.2**	**18,314.6**
Non-interest-bearing liabilities	422.5	547.4	602.1	662.4	728.6
Total liabilities	**11,920.9**	**13,603.4**	**15,090.5**	**16,750.5**	**19,043.2**
Total Shareholders' equity	**859.1**	**982.2**	**1,112.6**	**1,249.2**	**1,380.8**
Total liabilities & equity	**12,780.0**	**14,585.6**	**16,203.1**	**17,999.7**	**20,424.0**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	74.3	78.2	80.1	81.8	81.7
Loan Growth	10.0	21.1	13.7	13.8	14.0
Deposit Growth	8.2	15.1	11.1	11.3	14.2
Total Assets Growth	10.6	14.1	11.1	11.1	13.5
Profitability Ratios (%)					
Net Interest Margin	2.8	3.2	3.2	3.2	3.0
ROA	0.6	1.0	1.1	1.0	0.9
ROE	8.9	15.3	15.6	14.8	13.2
Non-Int Income as % of Total Income	26.0	19.5	20.5	19.2	19.8
Net Profit Growth	915.0	95.1	16.0	7.4	(1.2)
FDEPS Growth	730.6	94.0	15.5	7.4	(1.1)
Efficiency Ratios (%)					
Cost to Income Ratio	49.4	48.0	47.5	47.3	48.1
Salaries as % of Non-Interest costs	55.2	54.5	55.0	55.5	55.3

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	6.6	3.8	3.0	2.8	3.0
NPL coverage ratio	75.3	77.2	79.0	79.5	80.0
Total prov charges as % avg loans	1.8	0.8	0.9	1.0	1.0
Net NPLs as % of net loans	1.7	0.9	0.6	0.6	0.6
Capital Adequacy Ratios (%)					
Total CAR	16.0	16.2	15.7	15.5	14.8
Tier I capital ratio	13.5	14.0	13.8	13.7	13.1

Source: Company data, IIFL Research

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RBL Bank ADD

All eyes on steadfast execution now

CMP	**Rs216**
Target 12m	**Rs240 (11%)**
Market cap (US$ m)	**1,558**
Bloomberg	**RBK IN**
Sector	**Banking & Fin**

Oct 26 2023

52Wk High/Low (Rs)	256/133
Shares o/s (m)	602
Daily volume (US$ m)	37
Dividend yield FY25ii (%)	1.4
Free float (%)	100.0

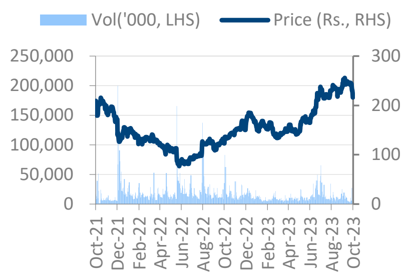
Shareholding pattern (%)

Promoters	0.0
Pledged (as % of promoter share)	0.0
FII	24.7
DII	17.9

Price performance (%)

	1M	3M	1Y
RBL Bank	(9.0)	(8.9)	76.0
Absolute (US$)	(9.0)	(10.3)	74.9
Rel.to Smallcap	(6.2)	(14.3)	50.0
CAGR (%)		3 yrs	5 yrs
EPS (Rs)		10.8	(1.6)

Stock movement



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The new management is steering RBL Bank to a multi-product retail franchise — granular and far-less volatile. Loan growth should be strong, aided by healthy momentum in cards, MFI, and the launch of new secured products. Liability franchise is the weakest (based on our scorecard ranking) and is the clear focus area for the bank. Early signs are encouraging with improvement in retail deposits, CASA and falling deposit concentration. However, the investment in liability and distribution franchise should keep the opex elevated, even in the medium term. We like the new strategy that the bank has embarked on, but return ratios should be relatively subdued. Initiate coverage with ADD and TP of Rs240.

Past woes now behind; all eyes on steadfast execution of the new strategy: In the past couple of years, the new management has made course correction in the business model. Management is steering the bank to a multi-product retail franchise, which is not only more granular, but also far-less volatile. We build ~20% loan Cagr, on the back of steady momentum in its key existing businesses (credit cards, MFI) and launch of new secured products (AHL, used cars, gold and small business loans). Among peers, liability franchise is the weakest (lowest rank in our scorecard), and is thus, a key focus area for the bank to ensure business model sustainability. The early signs are encouraging with improvement in retail deposits, CASA and decline in deposit concentration. It has a high share of 'developing branches' in urban/metro regions, which should enable faster deposit growth on productivity gains as these branches mature.

Despite sharp improvement, ROEs expected to remain subdued: We expect revenue growth of ~20% Cagr over FY23-26E, led by strong loan growth, improving margins (favourable mix change) and robust fee income growth, on the back of cross-sell opportunities to its 4.5mn card and 3.5mn MFI customers. Asset-quality outlook remains benign. However, investment in liability and distribution franchise should keep opex elevated in the medium term (avg. CIR of 66%). Therefore, despite sharp improvement in revenues, ROEs are expected to remain subdued at avg. 10%. (FY26E ROE of 12% vs management guidance of 13-15%).

Subdued return ratios keep us on the sidelines: With ~70% stock return in the last six months, RBL is now trading at 0.8x FY25E P/B for an average RoA/ RoE of 1.2%/11% respectively over FY25-26E. We like the new strategy that the bank has embarked upon, but return ratios should remain subdued in the near-term due to investment in the franchise. We initiate coverage with ADD and TP of Rs255; based on fair P/B multiple of 0.9x. **Key downside risks:** Lower than expected margins. **Upside risks**: Faster-than-expected ROE improvement led by higher NIMs and cross-sell, and lower-than-expected opex growth.

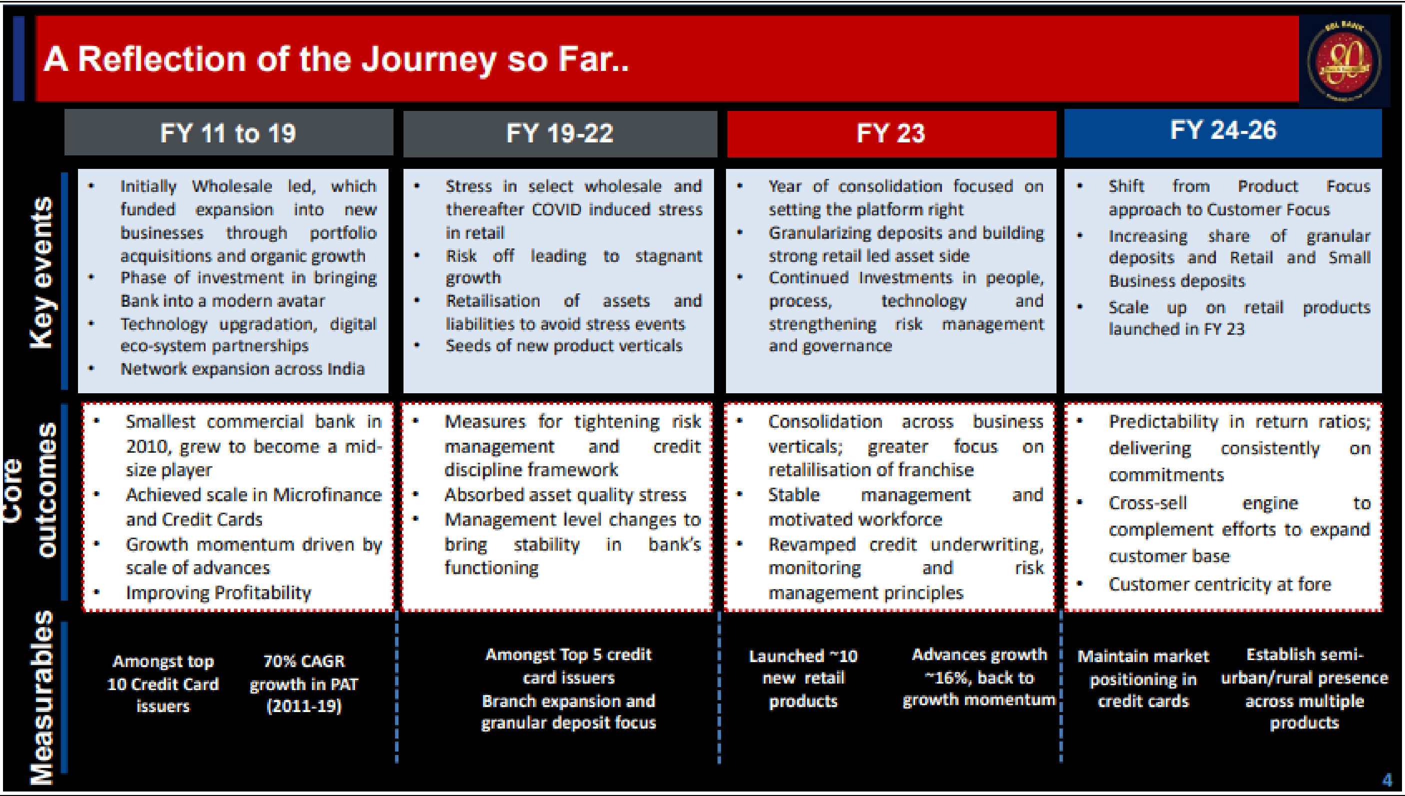
Financial summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
NII	40.3	50.0	60.8	74.1	88.9
PPOP	27.5	22.0	28.3	36.2	47.1
Reported PAT	**(0.7)**	**8.8**	**11.9**	**15.6**	**21.3**
EPS (Rs)	(1.2)	14.7	19.8	26.0	35.4
Growth (%)	NA	NA	34.7	31.0	36.1
IIFL vs consensus (%)			(3.5)	(3.2)	6.0
PER (x)	NA	14.7	10.9	8.3	6.1
Book value (Rs)	210	226	243	266	298
PB (x)	**1.0**	**1.0**	**0.9**	**0.8**	**0.7**
CAR (%)	16.8	16.9	16.2	15.3	14.6
ROA (%)	(0.1)	0.8	1.0	1.1	1.3
ROE (%)	**(0.6)**	**6.7**	**8.5**	**10.2**	**12.6**

Source: Company, IIFL Research. Price as at close of business on 26 October 2023.

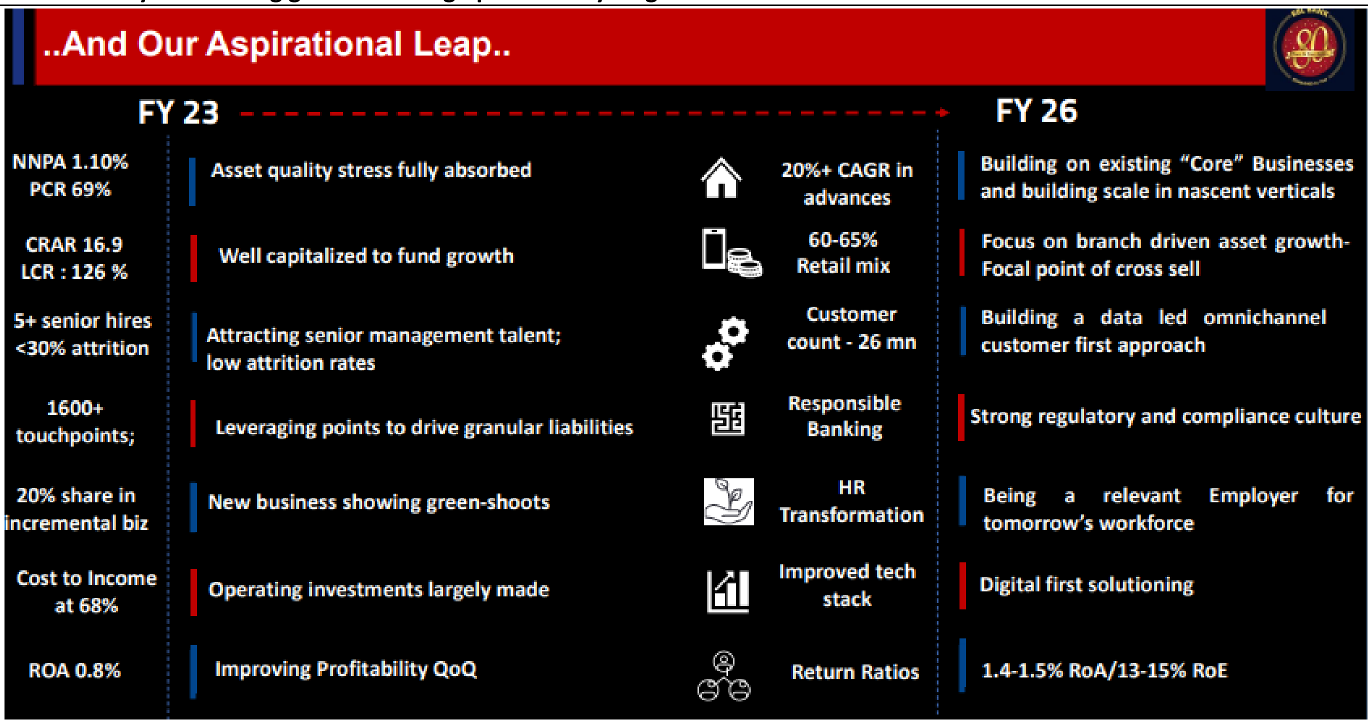
Past woes now behind; all eyes on steadfast execution of the new strategy

Figure 9.1: RBL has pivoted from being a predominantly wholesale bank to a retail franchise, with shift from 'Product focus' to 'Customer focus'



Source: Company, IIFL Research

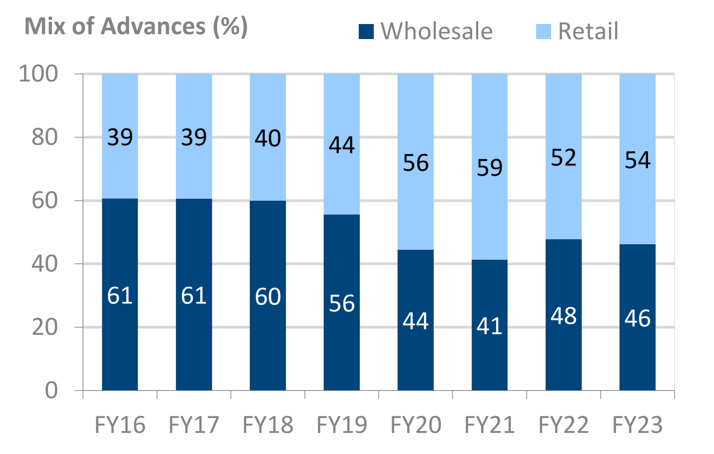
Figure 9.2: Following multiple asset and liabilities side challenges, the bank made course correction under the new management in the last few years. Strong growth and high profitability targets have been set for FY26E



Source: Company, IIFL Research

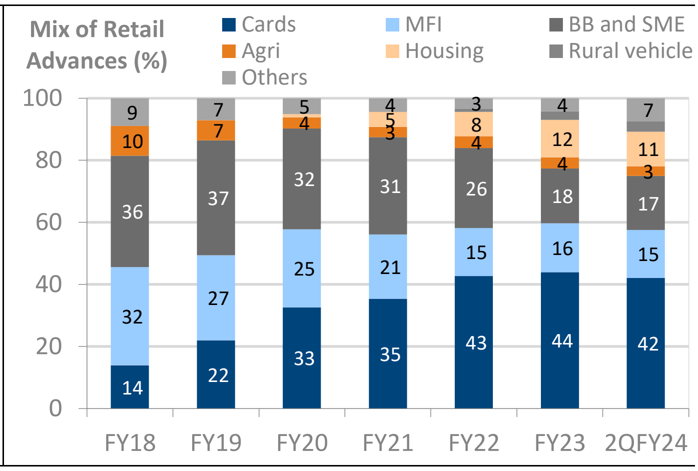
New product launches to provide further impetus to retailisation

Figure 9.3: Loan mix expected to change from 54:46 retail: wholesale to 60-65% retail over the next few years …



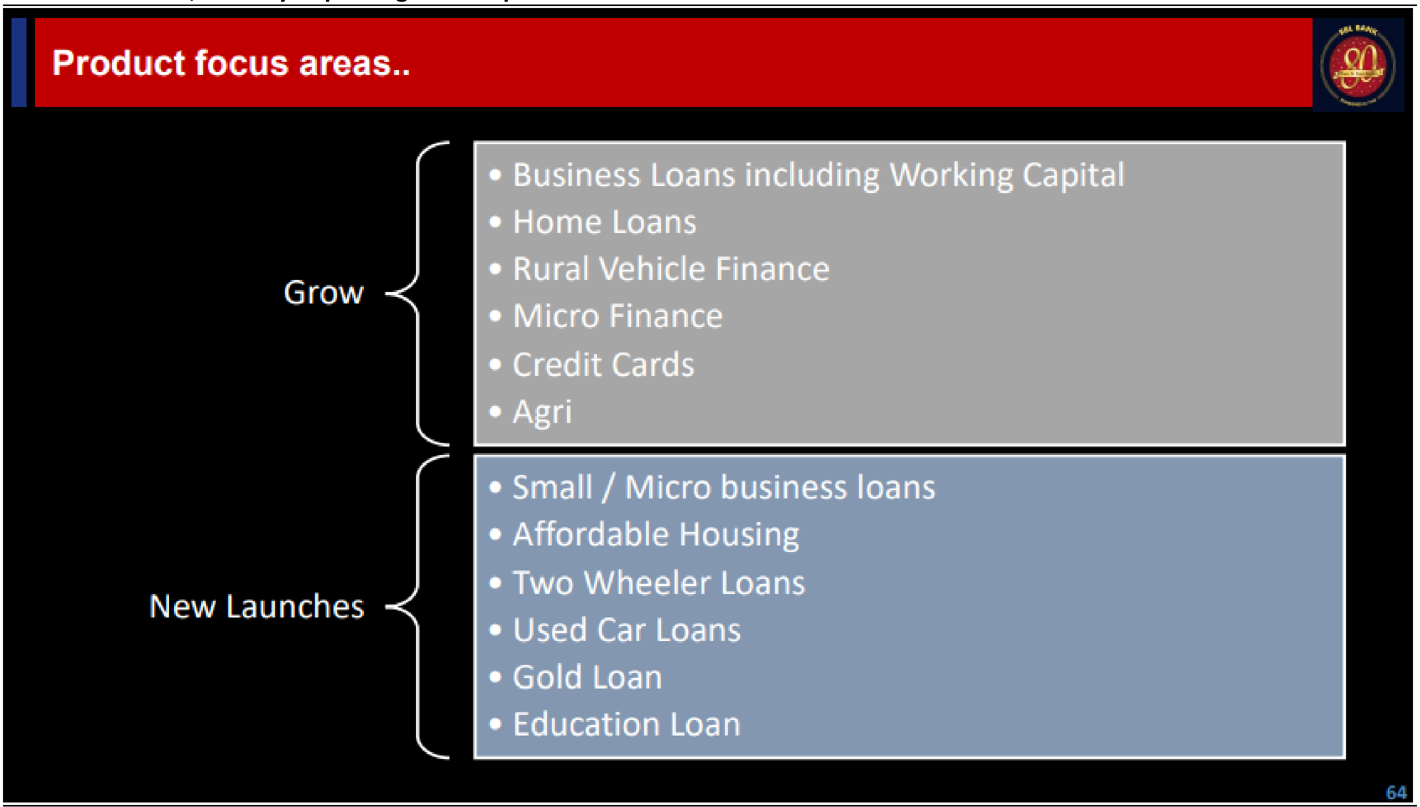
Source: Company, IIFL Research

Figure 9.4: … share of cards has increased over the years. New product launches to provide further impetus to retailisation



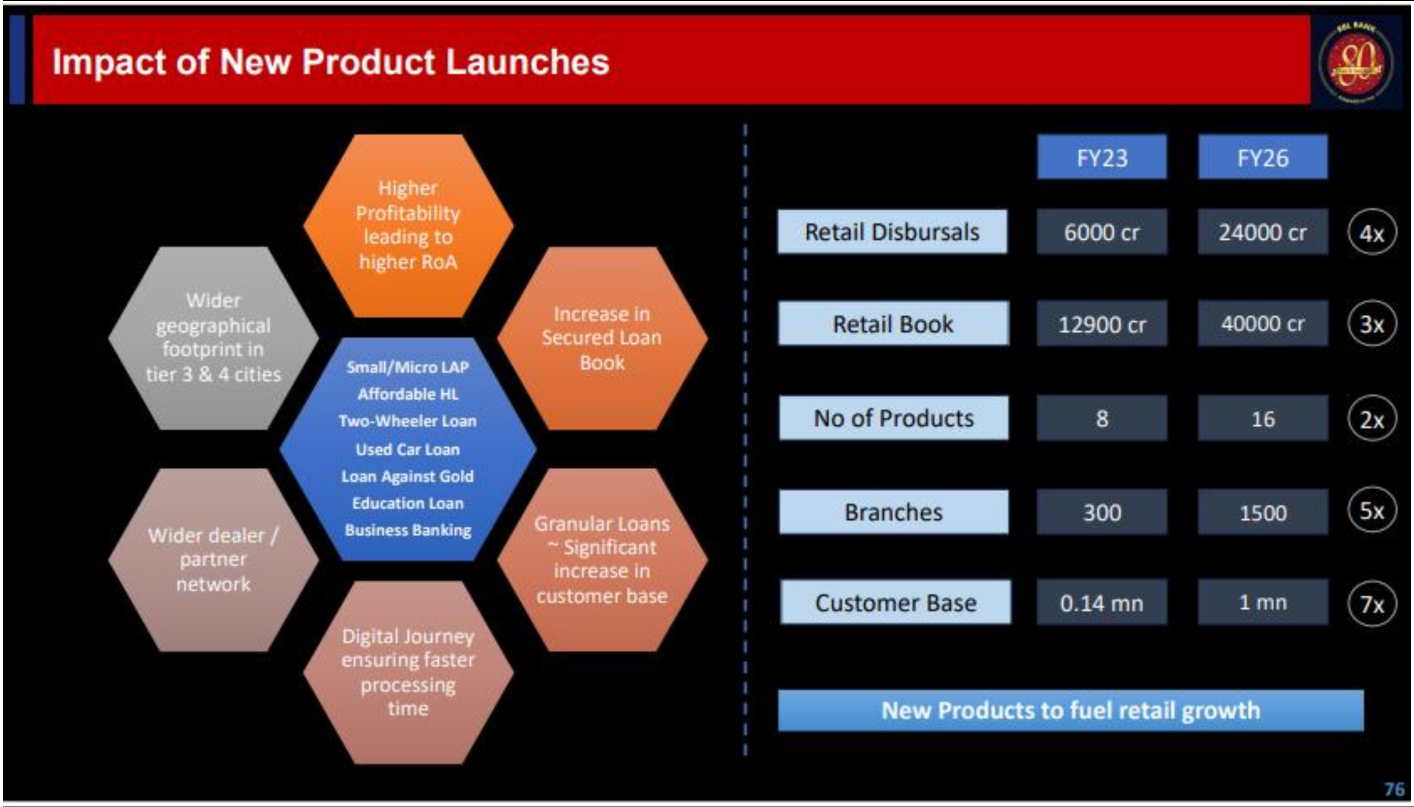
Source: Company, IIFL Research

Figure 9.5: Cross-sell of new retail products to diversify product offerings, as also increase the share of secured loans in the overall retail mix; thereby improving the risk profile of loan book



Source: Company, IIFL Research

Figure 9.6: Bank expects new products to grow by 3x and to constitute 30% of total loans by FY26

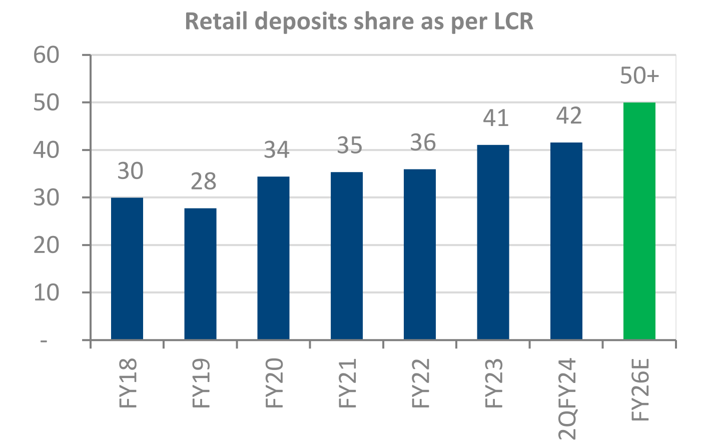


Source: Company, IIFL Research

Granularisation of liabilities is the key

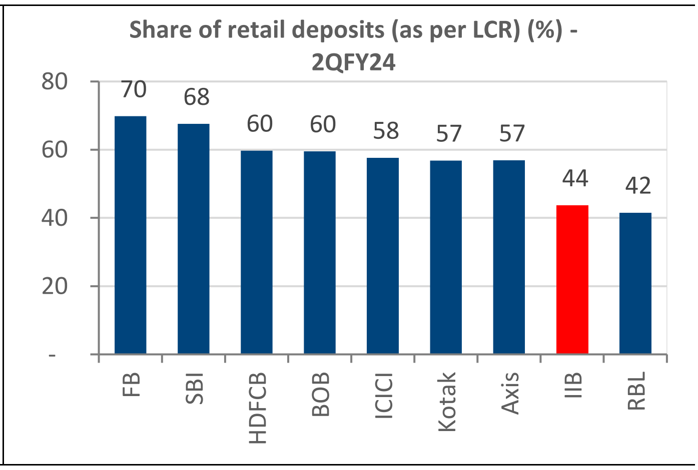
We forecast deposit growth of ~20% Cagr over FY24-26E. In the recent past, the bank faced some instances of deposit outflow driven by certain system-wide, as well as idiosyncratic events. Granularisation of the liability franchise is the key to reduce vulnerability to such risks. The bank is taking several steps on this front including: (1) Targeting specific customer segments with new products. (2) Scaling alternate acquisition channels. (3) Adding small format branches on the periphery of metro/urban cities. (4) Improving productivity of sales roles. Since FY20, the share of retail deposits has improved by 8pp to 42%, but is still materially lower than 55-70% for the frontline banks.

Figure 9.7: Retail deposit share has improved by 8pp to 42%; the bank aspires to reach 50% by FY26E ...



Source: Company, IIFL Research

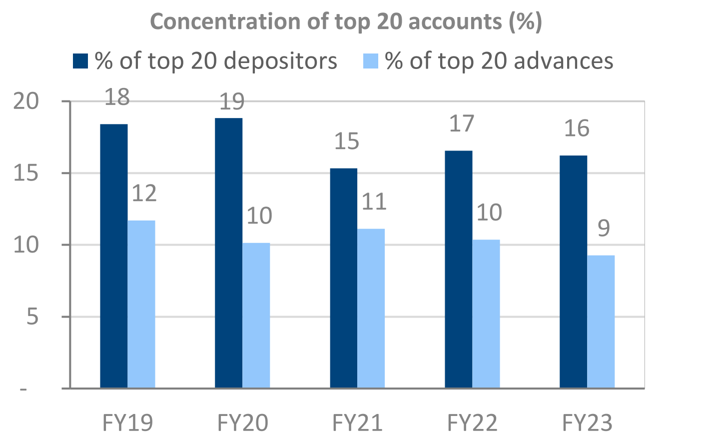
Figure 9.8: ... so as to bridge the gap relative to the frontline banks



Source: Company, IIFL Research

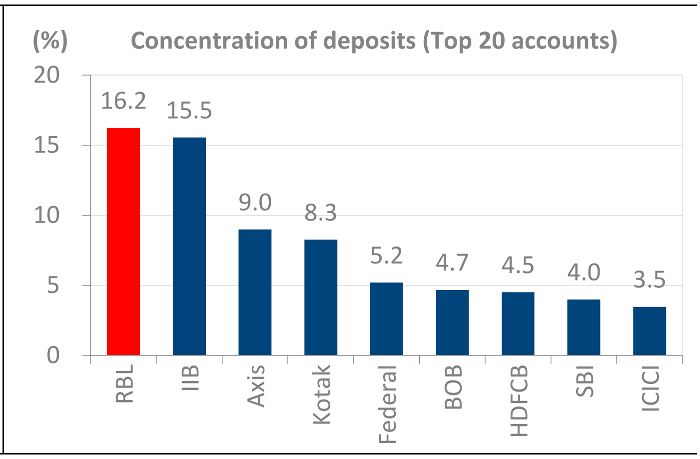
Even the deposit concentration in Top 20 accounts has reduced by 3pp to 16%, but is still higher than 4-9% for the larger banks.

Figure 9.9: Among top 20 accounts, deposit concentration has reduced for the bank …



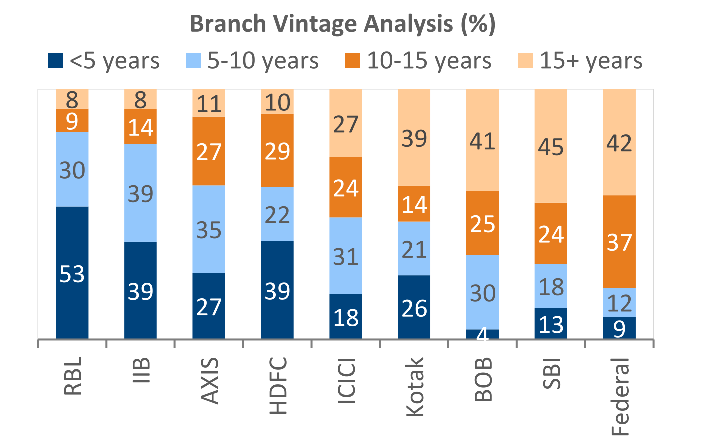
Source: Company, IIFL Research

Figure 9.10: … but remains high at 16% vs 4-9% for the larger banks



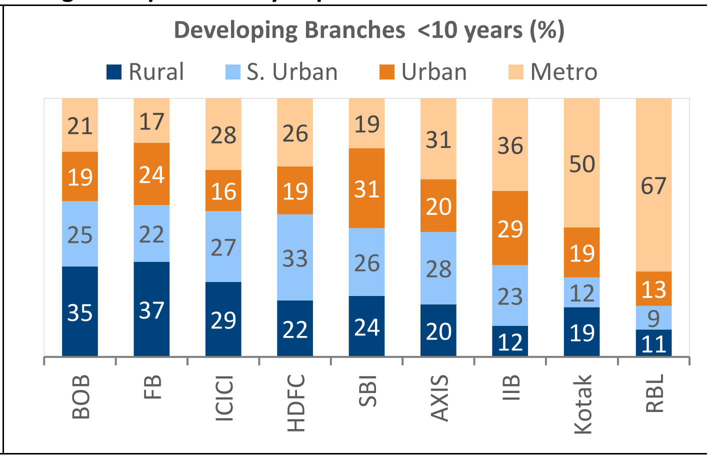
Source: Company, IIFL Research

Figure 9.11: With the fast pace of branch additions in the last few years, RBL has the highest share of 'developing' branches at 83% among the banks under our coverage …



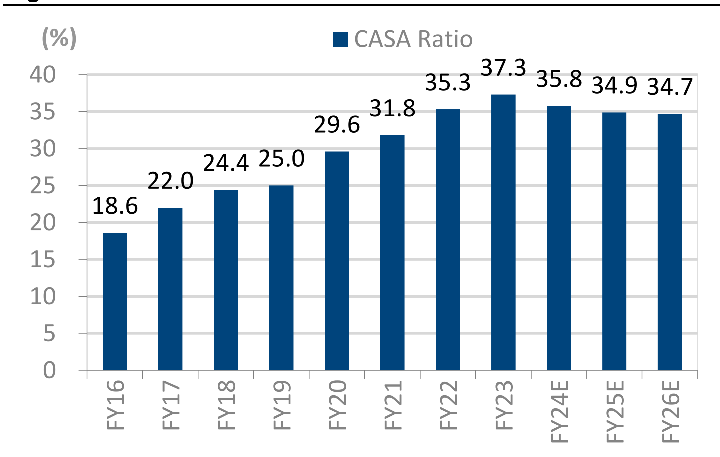
Source: Company, IIFL Research

Figure 9.12: … and with high share of these developing branches in urban/metro regions, deposit compounding should be higher as productivity improves



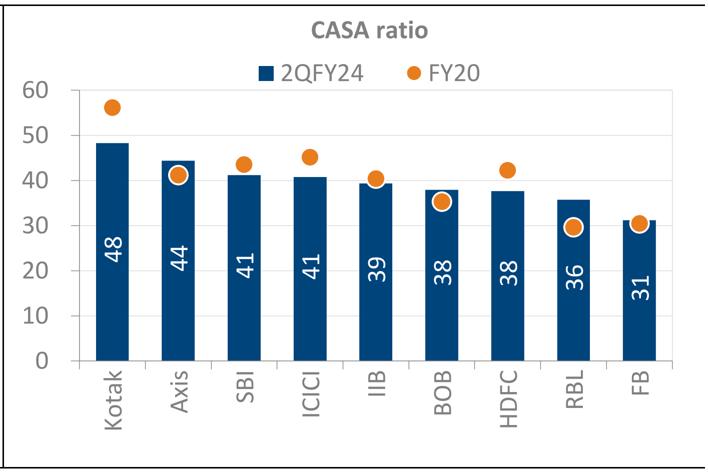
Source: Company, IIFL Research

Figure 9.13: CASA ratio has been steadily increasing for the bank from 19% in FY16 to 37% in FY23 — largely on the back of higher interest rate offered to customers



Source: Company, IIFL Research

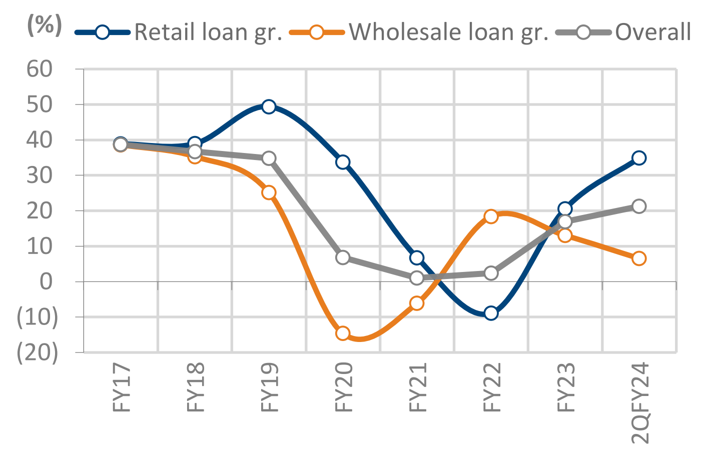
Figure 9.14: RBL is one of the few banks that has seen CASA-ratio improvement over the last 3yrs



Source: Company, IIFL Research, Note: SBI and BoB are as on 1QFY24

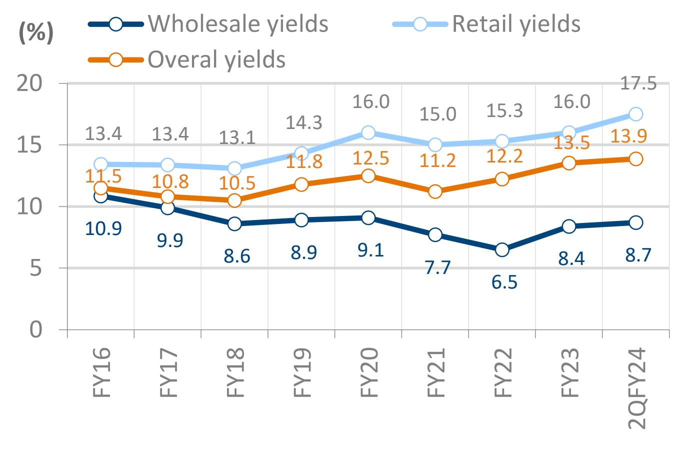
Despite sharp improvement, profitability expected to remain subdued in FY24-25E

Figure 9.15: Loan growth expected to be primarily driven by retail loans ...



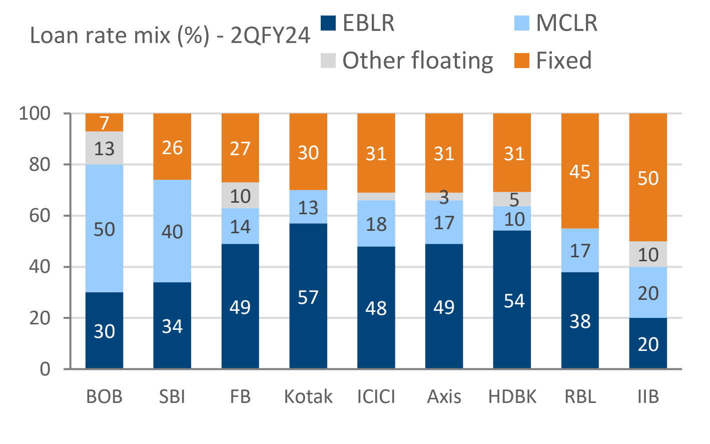
Source: Company, IIFL Research

Figure 9.16: ...which should underpin structural improvement in the blended asset yields and thus, drive margin expansion



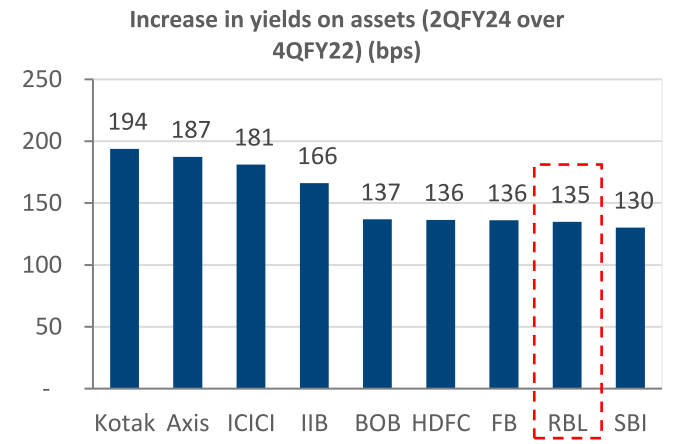
Source: Company, IIFL Research, Note: FY23 and 2QFY24 yields have been reclassified by the bank

Figure 9.17: RBL has a high share of fixed rate book ...



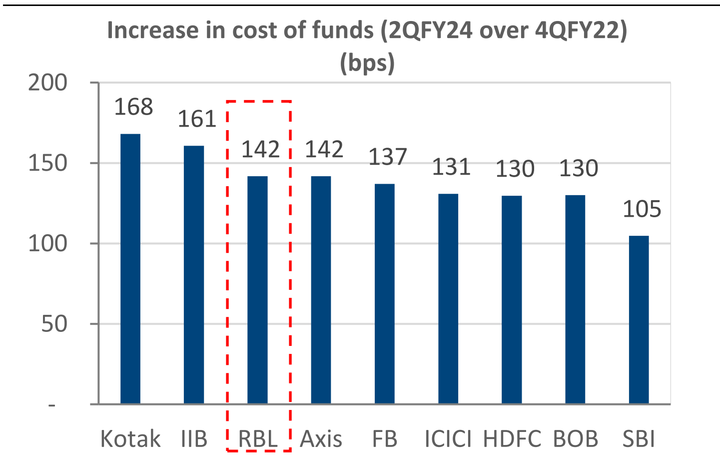
Source: Company, IIFL Research

Figure 9.18: ... resulting in lower yield expansion vs peers, but should benefit from the peaking interest environment



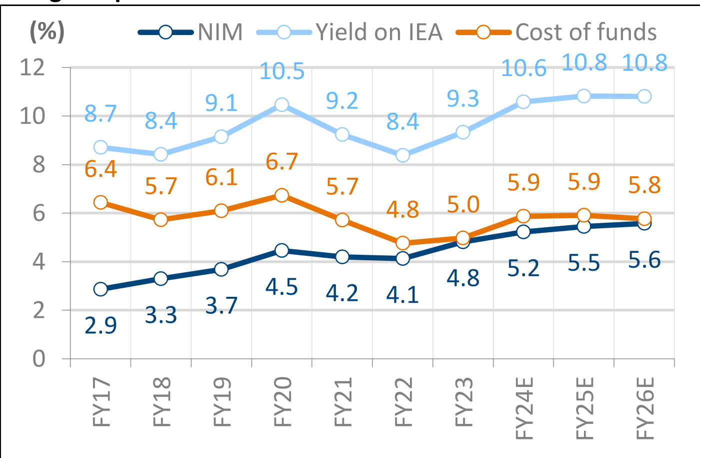
Source: Company, IIFL Research

Figure 9.19: Rise in CoF has been in line with peers; but shall be higher due to increased reliance on wholesale funding



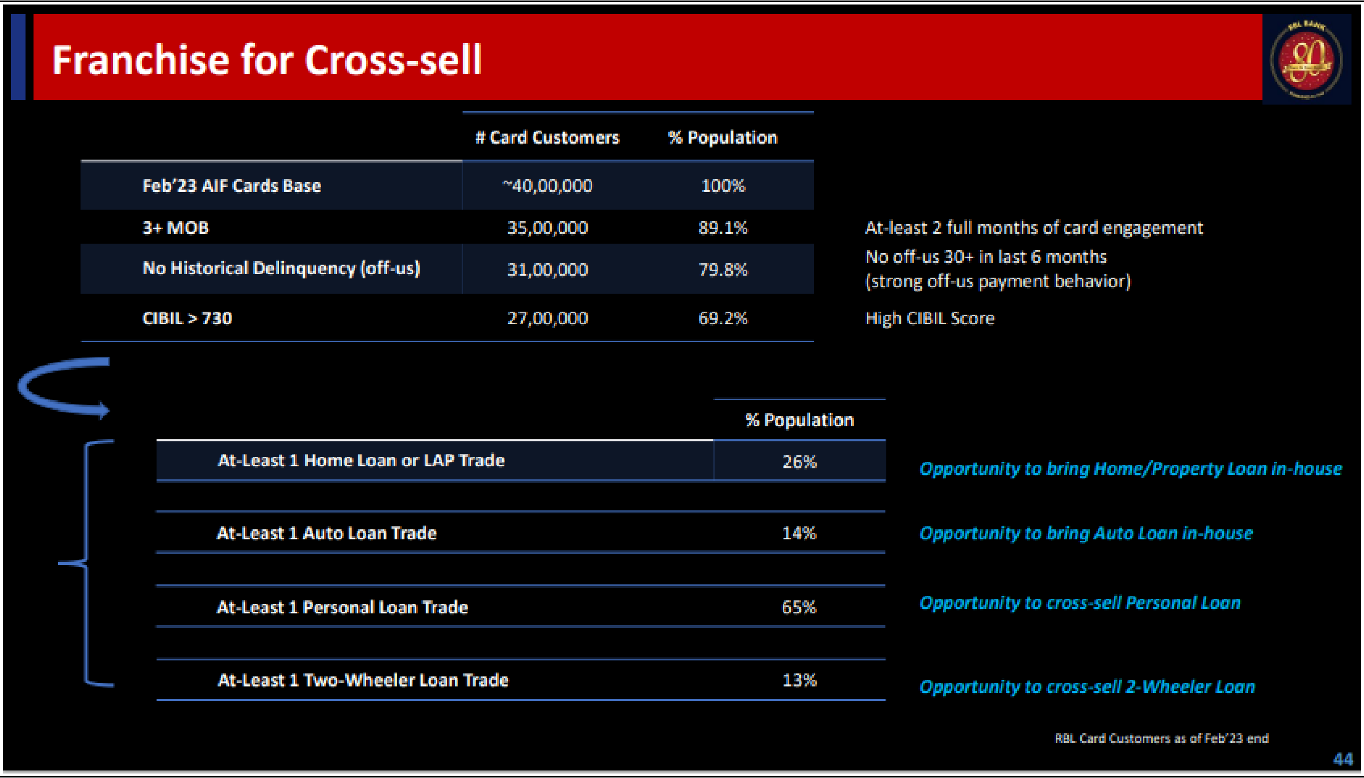
Source: Company, IIFL Research

Figure 9.20: Yield expansion, led by rising retail loan mix, should more than offset the funding-cost drag and drive margin expansion



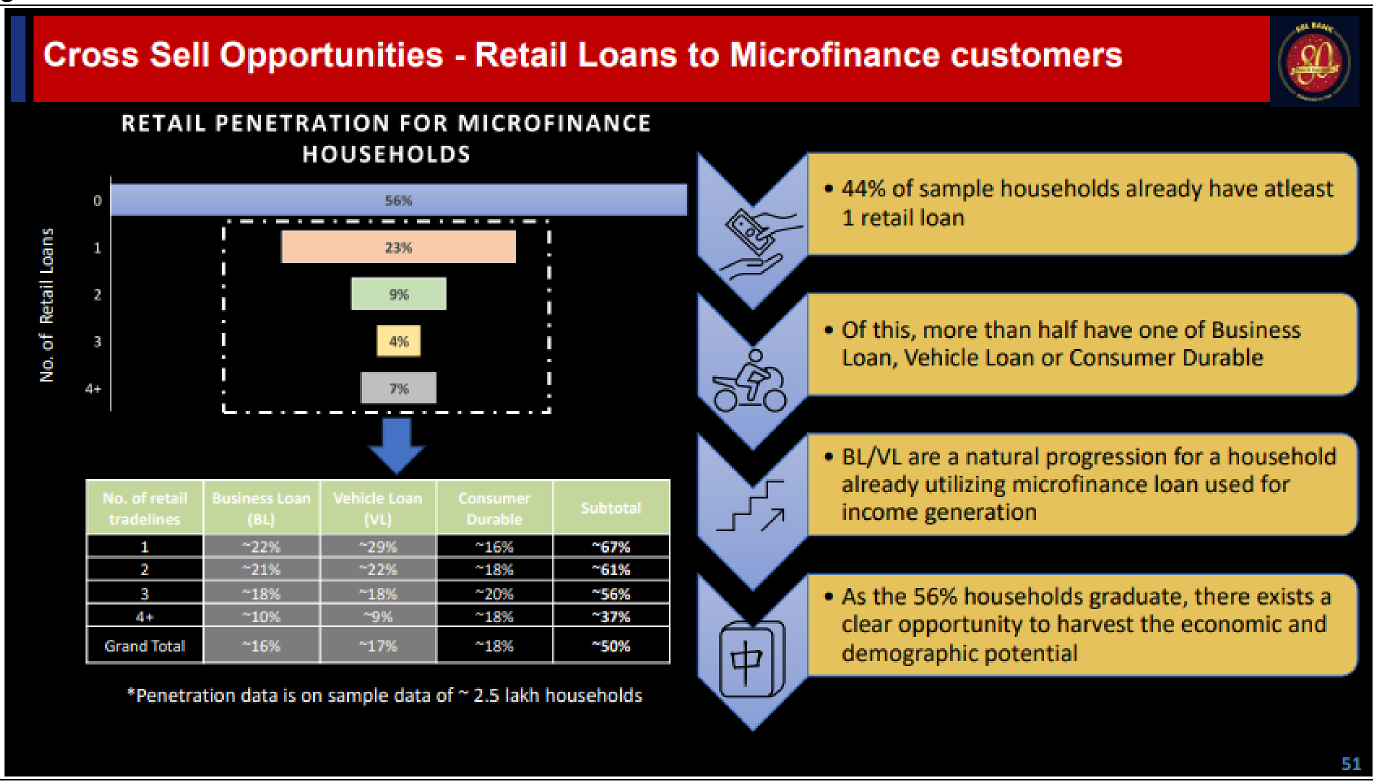
Source: Company, IIFL Research

Figure 9.21: RBL's 4mn credit card customer base should offer large cross-selling opportunity…



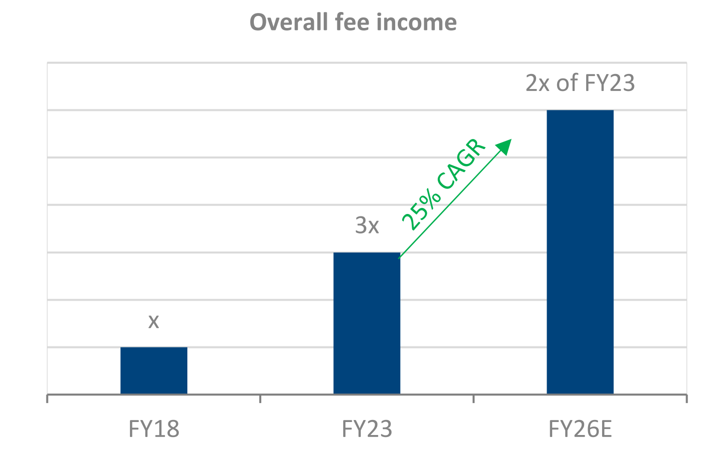
Source: Company, IIFL Research

Figure 9.22: … and so is the case for its 3.5mn MFI customer base



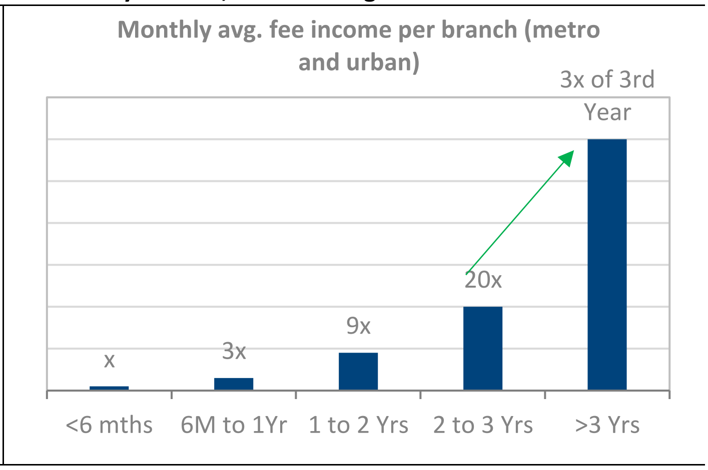
Source: Company, IIFL Research

Figure 9.23: The bank expects the overall fee income to double by FY26 at 25% Cagr, driven by cross-sell



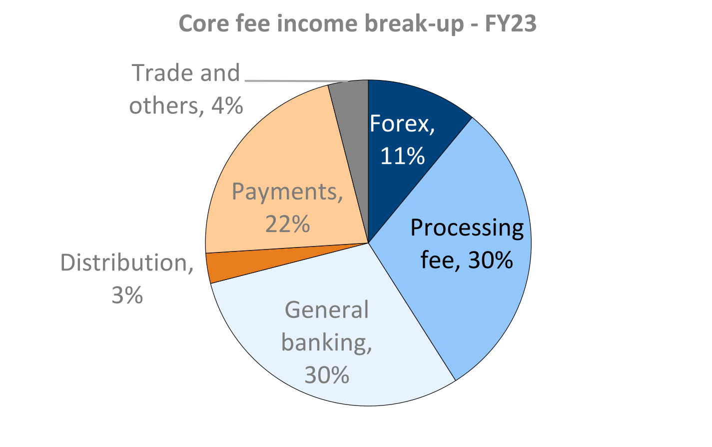
Source: Company, IIFL Research

Figure 9.24: 53% of RBL's branches are less than 5yr vintage, and as they mature, fee income growth should accelerate



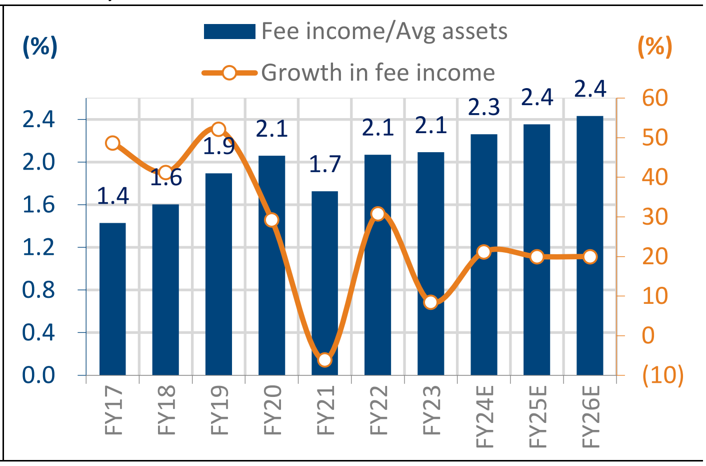
Source: Company, IIFL Research

Figure 9.25: 60% of fee income is linked to business growth, while card business constitutes 22% of fee income



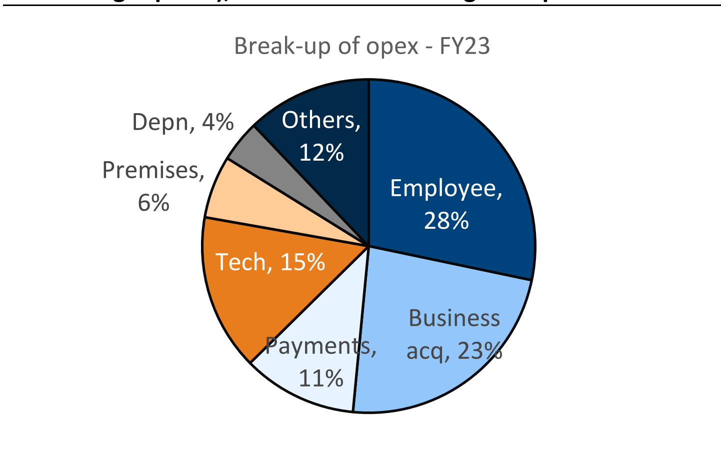
Source: Company, IIFL Research

Figure 9.26: Forecast fee income to grow at 20% Cagr over FY24-26E, with increased thrust on cross-sell



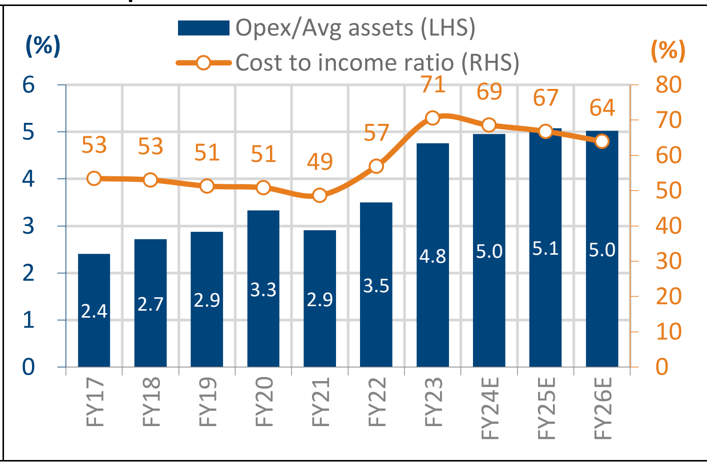
Source: Company, IIFL Research

Figure 9.27: At 15% of the total opex, tech spends higher (vs 8-9% for larger peers), as the bank builds digital capabilities



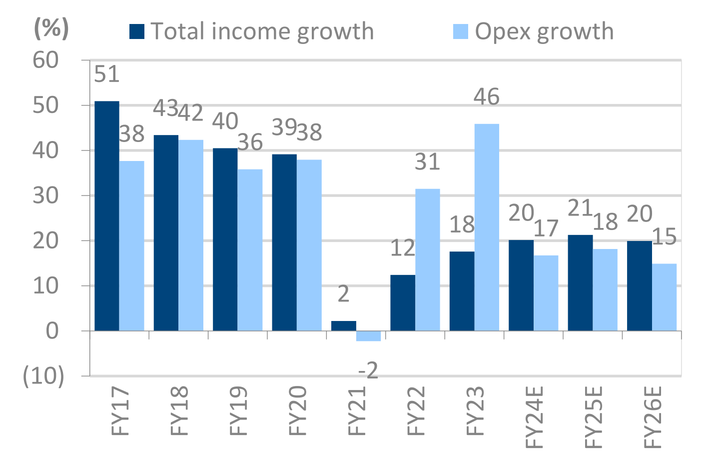
Source: Company, IIFL Research

Figure 9.28: Investment in liability and distribution franchise should keep cost ratios elevated in the medium term



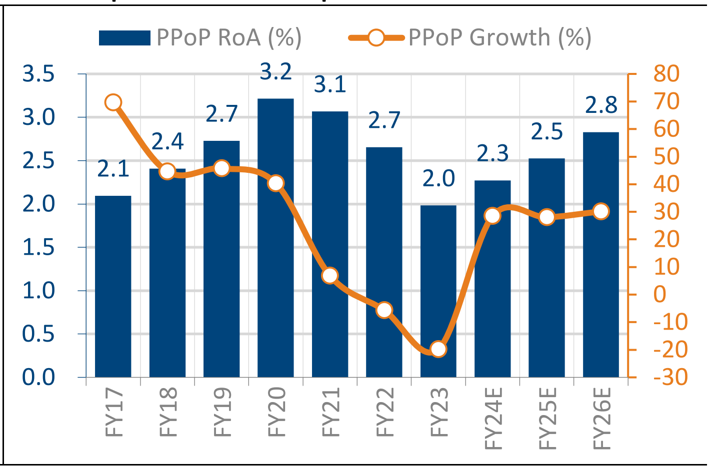
Source: Company, IIFL Research

Figure 9.29: However, expect the jaws to turn positive …



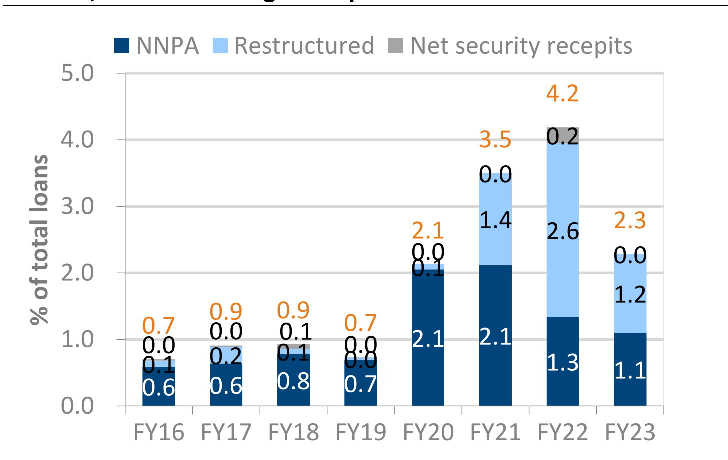
Source: Company, IIFL Research

Figure 9.30: … which, coupled with NIM expansion, should drive 80bps of PPOP ROA improvement over FY23-26E



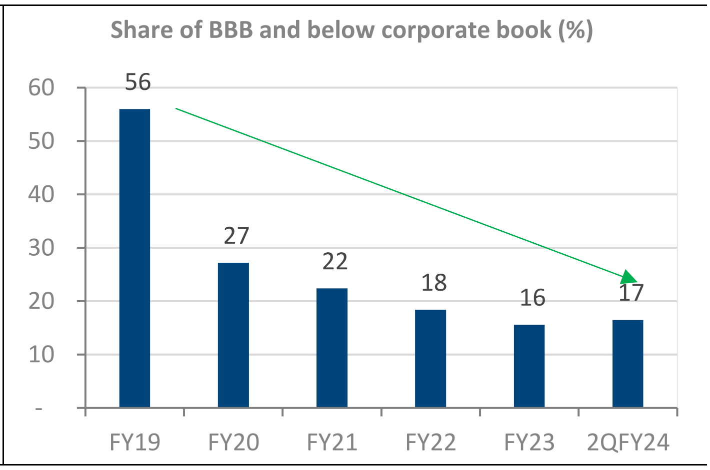
Source: Company, IIFL Research

Figure 9.31: Residual unprovided stressed loans have declined to 2.3%, but remains higher vs peers



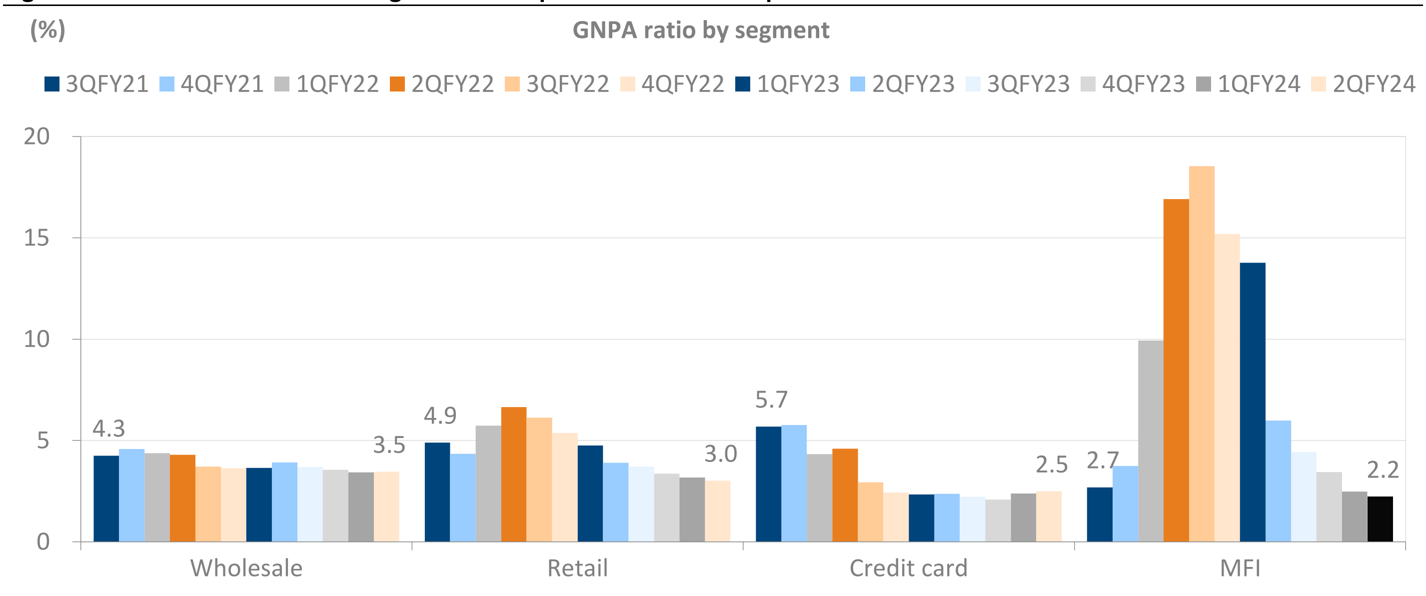
Source: Company, IIFL Research

Figure 9.32: Share of BBB and below corporate book has come down to 16%



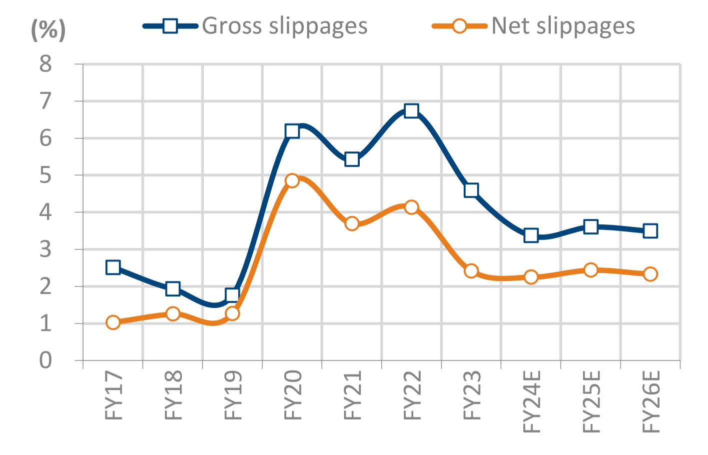
Source: Company, IIFL Research

Figure 9.33: GNPA for each loan segment has improved over last 10 quarters



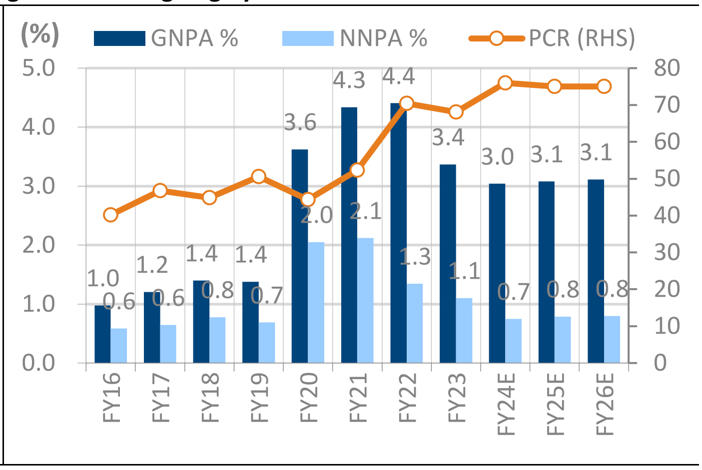
Source: Company, IIFL Research

Figure 9.34: Expect slippages to remain largely stable …



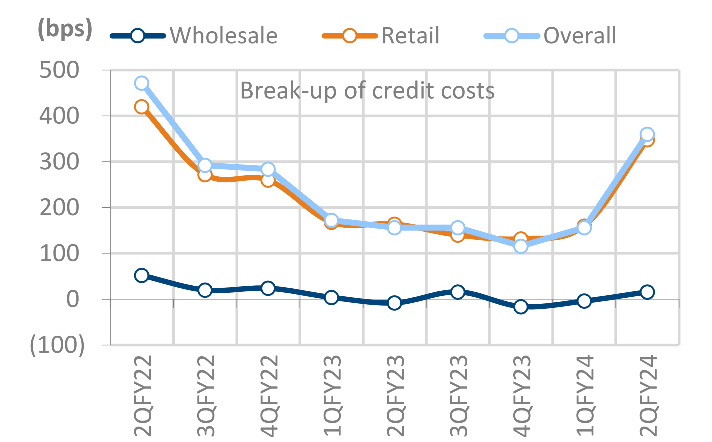
Source: Company, IIFL Research

Figure 9.35: … and asset quality to improve, with incremental growth coming largely from secured retail loans



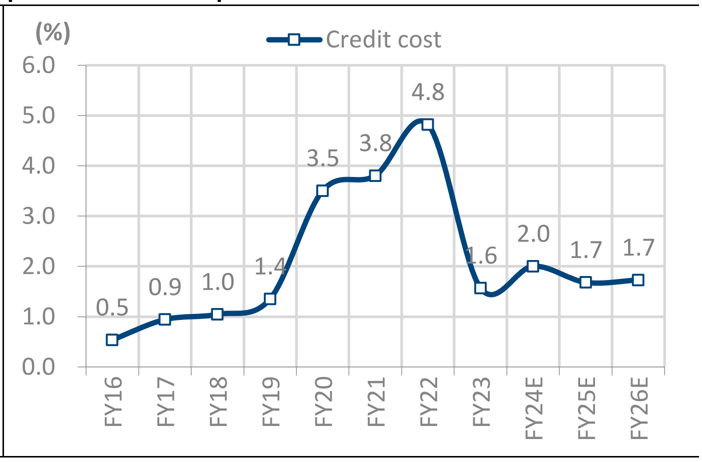
Source: Company, IIFL Research

Figure 9.36: Bank has made prudent provisions on unsecured book in Q2 utilizing tax benefit



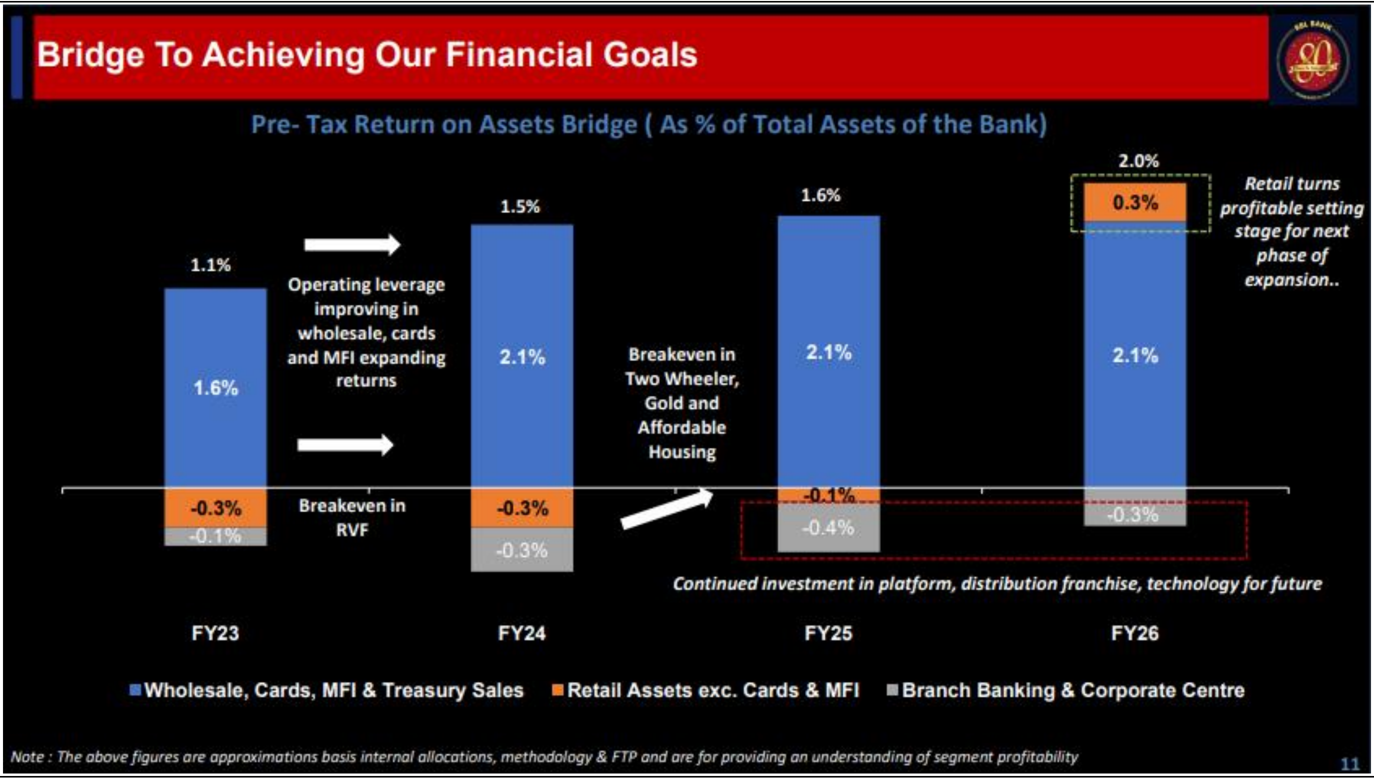
Source: Company, IIFL Research

Figure 9.37: With majority of Covid stress recognized and provided for we expect credit costs should remain flattish



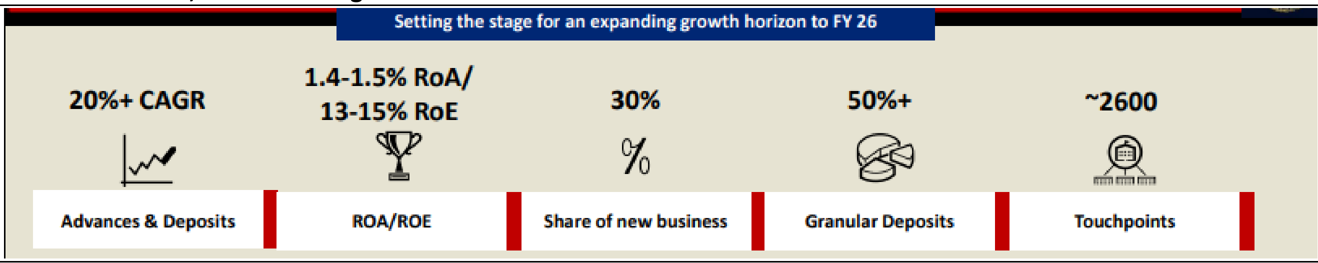
Source: Company, IIFL Research

Figure 9.38: The bank expects improved profitability from the existing as well as new businesses to drive 90bps improvement in pre-tax RoA to 2% by FY26E



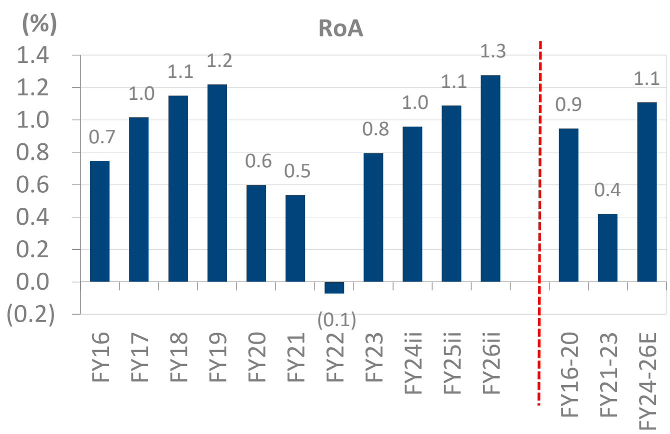
Source: Company, IIFL Research

Figure 9.39: For FY26, the bank has guided for 1.4-1.5% RoAs and mid-teen RoEs



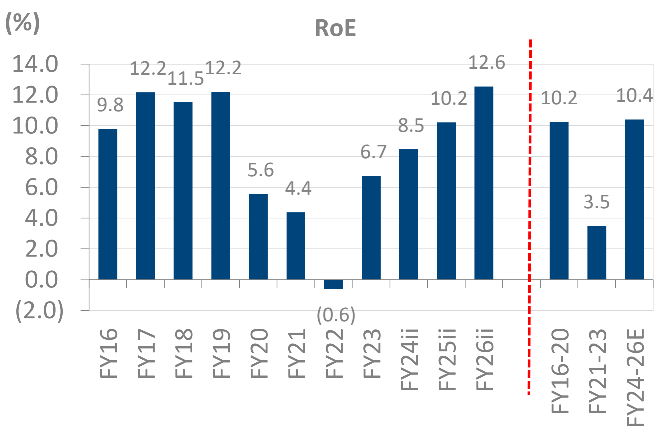
Source: Company, IIFL Research

Figure 9.40: We expect the bank to clock avg. 1.1% RoA over FY24-26E vs 0.5% avg. during FY20-23 …



Source: Company, IIFL Research

Figure 9.41: … and avg. RoEs of 10% over FY24-26E (exit ROE of 11%, which is lower than FY26 guidance of 13-15%)



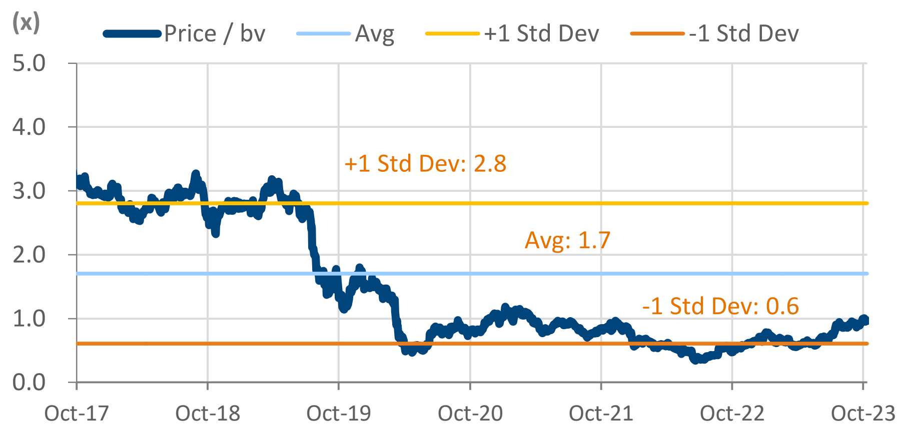
Source: Company, IIFL Research

Figure 9.42: RBL Bank – DuPont analysis and key ratios

DuPont analysis (% of avg. assets)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Interest income	8.5	8.2	8.9	10.1	8.8	7.9	8.7	9.9	10.2	10.3
Interest expense	5.7	5.0	5.3	5.8	4.8	4.0	4.2	5.0	5.1	5.0
Net interest income	**2.8**	**3.2**	**3.6**	**4.3**	**4.0**	**3.9**	**4.5**	**4.9**	**5.2**	**5.3**
Fee Income	1.4	1.6	1.9	2.1	1.7	2.1	2.1	2.3	2.4	2.4
Trading Profits	0.3	0.3	0.1	0.2	0.3	0.2	0.1	0.1	0.1	0.1
Dividend from Subs & other income	-	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	-	-	-	-
Total non-interest income	1.7	1.9	2.0	2.3	2.0	2.3	2.2	2.3	2.4	2.5
Total revenue	**4.5**	**5.1**	**5.6**	**6.5**	**6.0**	**6.2**	**6.7**	**7.2**	**7.6**	**7.9**
Employee expense	1.0	1.0	0.9	0.9	0.9	1.0	1.2	1.2	1.3	1.2
Other expense	1.4	1.7	2.0	2.4	2.0	2.5	3.6	3.7	3.8	3.8
Total expenses	**2.4**	**2.7**	**2.9**	**3.3**	**2.9**	**3.5**	**4.8**	**5.0**	**5.1**	**5.0**
Pre-provision operating profit	**2.1**	**2.4**	**2.7**	**3.2**	**3.1**	**2.7**	**2.0**	**2.3**	**2.5**	**2.8**
Provisions	0.5	0.7	0.9	2.3	2.3	2.8	0.9	1.2	1.1	1.1
Profit before tax	1.6	1.7	1.8	0.9	0.7	-0.1	1.1	1.0	1.4	1.7
Taxes	0.5	0.6	0.6	0.3	0.2	0.0	0.3	0.1	0.4	0.4
ROA	**1.0**	**1.1**	**1.2**	**0.6**	**0.5**	**-0.1**	**0.8**	**1.0**	**1.1**	**1.3**
Leverage	12.0	10.0	10.0	9.3	8.2	8.2	8.5	8.8	9.4	9.8
ROE	**12.2**	**11.5**	**12.2**	**5.6**	**4.4**	**-0.6**	**6.7**	**8.5**	**10.2**	**12.6**
Key metrics										
Loan growth	39	37	35	7	1	2	17	20	19	19
Deposit growth	42	27	33	-1	26	8	7	17	16	18
Credit-deposit ratio	85	92	93	100	80	76	83	85	87	88
Yield on IEA	8.7	8.4	9.1	10.5	9.2	8.4	9.3	10.6	10.8	10.8
Cost of funds	6.4	5.7	6.1	6.7	5.7	4.8	5.0	5.9	5.9	5.8
NIM	**2.9**	**3.3**	**3.7**	**4.5**	**4.2**	**4.1**	**4.8**	**5.2**	**5.5**	**5.6**
Cost-to-income ratio	53.4	53.0	51.3	50.9	48.6	56.9	70.6	68.6	66.8	64.0
GNPA ratio	1.2	1.4	1.4	3.6	4.3	4.4	3.4	3.0	3.1	3.1
NNPA ratio	0.6	0.8	0.7	2.0	2.1	1.3	1.1	0.7	0.8	0.8
Credit cost	**0.9**	**1.0**	**1.4**	**3.5**	**3.8**	**4.8**	**1.6**	**2.0**	**1.7**	**1.7**
CET 1 ratio	**11.4**	**13.6**	**12.1**	**15.3**	**16.6**	**16.2**	**15.3**	**14.5**	**13.6**	**13.0**
CAR	13.7	15.3	13.5	16.4	17.5	16.8	16.9	16.2	15.3	14.6

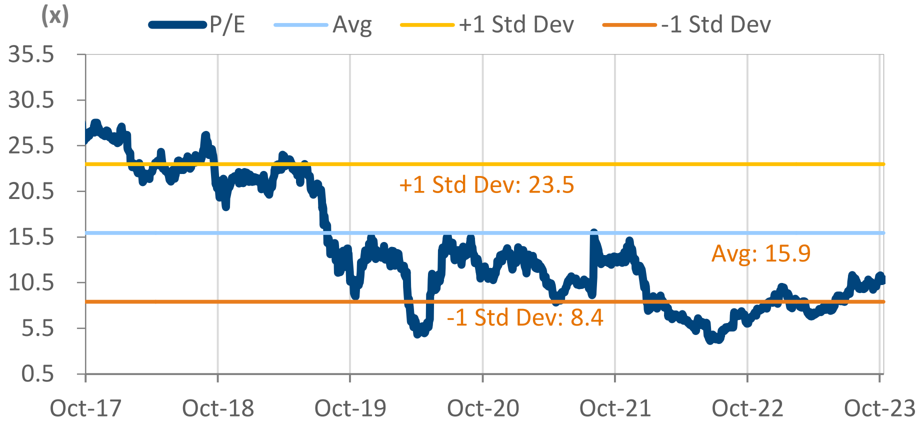
Source: Company, IIFL Research.

Figure 9.43: RBL Bank is trading at 0.96x 1YF core P/B — 44% below the long-term historical average of 1.7x



Source: Bloomberg, IIFL Research

Figure 9.44: RBL Bank is trading at 11x 1YF core P/E — 31% below the long-term historical average



Source: Bloomberg, IIFL Research

Key Financial ratios

Figure 9.45: RBL Bank – Net interest margin analysis

Margins (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Yield on advances	10.4	9.8	10.7	12.3	11.2	10.6	11.8	12.9	13.1	13.1
Yield on investments	7.0	6.9	6.8	7.8	6.6	5.9	6.4	6.8	6.7	6.6
Yield on bank balances	2.8	1.9	2.9	3.0	4.0	3.3	2.9	3.5	3.7	3.4
Yield on interest earning assets	**8.7**	**8.4**	**9.1**	**10.5**	**9.2**	**8.4**	**9.3**	**10.6**	**10.8**	**10.8**
Cost of deposits	6.8	6.2	6.5	7.1	5.8	4.9	5.2	6.1	6.1	5.9
Cost of borrowings	5.2	3.4	4.2	5.2	5.4	4.1	3.3	4.6	4.9	4.8
Cost of interest bearing liabilities	**6.4**	**5.7**	**6.1**	**6.7**	**5.7**	**4.8**	**5.0**	**5.9**	**5.9**	**5.8**
Interest spread	2.3	2.7	3.1	3.7	3.5	3.6	4.4	4.7	4.9	5.0
Net interest margin	**2.9**	**3.3**	**3.7**	**4.5**	**4.2**	**4.1**	**4.8**	**5.2**	**5.5**	**5.6**
Loan-to-deposit ratio	85.1	91.7	93.0	100.4	80.2	76.0	82.7	84.9	86.7	87.5
Incremental loan-to-deposit ratio	80.3	116.2	96.9	(637.4)	3.9	23.8	173.3	97.8	97.8	92.0
CASA ratio	22.0	24.4	25.0	29.6	31.8	35.3	37.3	35.8	34.9	34.7

Source: Company, IIFL Research

Figure 9.46: RBL Bank – Efficiency and productivity ratio analysis

Efficiency ratios (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net interest income / total revenue	62	62	64	66	67	63	67	68	68	68
Fee income / total non-interest income	83	83	93	91	87	91	93	97	97	97
Fee income / total revenue	32	31	34	31	29	34	31	31	31	31
Non-interest income / revenue	38	38	36	34	33	37	33	32	32	32
Employee expense / total opex	42	37	31	27	31	28	25	25	25	25
Other expense / total opex	58	63	69	73	69	72	75	75	75	75
Cost to income ratio (CIR)	**53.4**	**53.0**	**51.3**	**50.9**	**48.6**	**56.9**	**70.6**	**68.6**	**66.8**	**64.0**
Cost to avg. asset ratio	2.41	2.72	2.87	3.33	2.91	3.50	4.76	4.95	5.08	5.03
Provisions / PPOP	26	27	33	72	76	104	46	55	43	40
Tax rate	35	34	33	33	26	35	25	7	24	24
ROA	**1.0**	**1.1**	**1.2**	**0.6**	**0.5**	**(0.1)**	**0.8**	**1.0**	**1.1**	**1.3**
ROE	**12.2**	**11.5**	**12.2**	**5.6**	**4.4**	**(0.6)**	**6.7**	**8.5**	**10.2**	**12.6**
Productivity ratios										
No. of branches	**239**	**265**	**324**	**386**	**429**	**502**	**517**	**543**	**586**	**633**
Loans / branch (mn)	1,495	1,685	2,049	1,791	1,519	1,399	1,399	1,633	1,849	2,033
Deposits / branch (mn)	1,756	1,837	2,204	1,784	1,894	1,842	1,691	1,923	2,132	2,323
CASA deposits / branch (mn)	386	448	551	528	602	650	631	688	744	806
No. of employees	**4,902**	**5,300**	**5,843**	**7,221**	**7,816**	**9,257**	**11,032**	**12,135**	**13,470**	**14,144**
Employees / branch	21	20	18	19	18	18	21	22	23	22
Avg. remuneration per employee (mn)	1.02	1.08	1.14	1.18	1.12	1.17	1.32	1.32	1.41	1.50
Loans / employee (mn)	60	76	93	80	75	65	64	70	75	84
Deposits / employee (mn)	71	83	100	80	94	85	77	82	86	96
CASA deposits / employee (mn)	16	20	25	24	30	30	29	29	30	33
Net profit / employee (mn)	0.9	1.2	1.5	0.7	0.6	(0.1)	0.8	1.0	1.2	1.5

Source: Company, IIFL Research

Figure 9.47: RBL Bank – Asset quality analysis

Asset quality (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GNPA (mn)	3,568	5,667	7,546	21,365	26,015	27,284	24,200	26,270	31,635	38,003
NNPA (mn)	1,899	3,126	3,727	11,894	12,414	8,066	7,730	6,305	7,909	9,501
GNPA ratio	**1.2**	**1.4**	**1.4**	**3.6**	**4.3**	**4.4**	**3.4**	**3.0**	**3.1**	**3.1**
NNPA ratio	**0.6**	**0.8**	**0.7**	**2.0**	**2.1**	**1.3**	**1.1**	**0.7**	**0.8**	**0.8**
Gross Slippage ratio	2.5	1.9	1.8	6.2	5.4	6.7	4.6	3.4	3.6	3.5
Upgrades & Recoveries ratio	1.5	0.7	0.5	1.3	1.7	2.6	2.2	1.1	1.2	1.2
Net Slippage ratio	1.0	1.3	1.3	4.9	3.7	4.1	2.4	2.2	2.4	2.3
Write-off ratio	0.3	0.5	0.8	2.3	2.9	3.9	2.9	2.0	1.8	1.7
PCR (Excl Technical write off)	**46.8**	**44.8**	**50.6**	**44.3**	**52.3**	**70.4**	**68.1**	**76.0**	**75.0**	**75.0**
Credit cost (% of avg. loans)	**0.9**	**1.0**	**1.4**	**3.5**	**3.8**	**4.8**	**1.6**	**2.0**	**1.7**	**1.7**
Total provisions as % of loans	**1.0**	**1.1**	**1.1**	**2.2**	**2.9**	**4.2**	**2.9**			
Net NPA as % of networth	4.4	4.7	4.9	11.2	9.8	6.4	5.7	4.3	4.9	5.3

Source: Company, IIFL Research

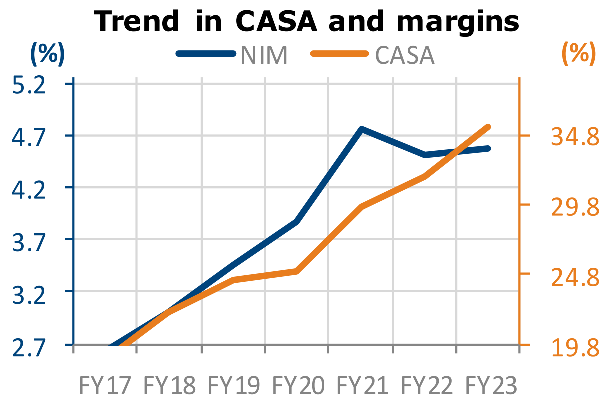
Figure 9.48: RBL Bank – Capital ratio analysis

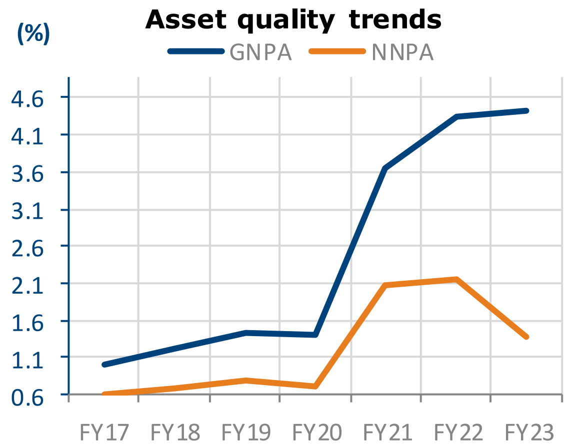
Capital ratios (%)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
CET1 ratio	-	13.6	12.1	15.3	16.6	16.2	15.3	14.5	13.6	13.0
AT1 ratio	-	-	-	-	-	-	-	-	-	-
Tier 1 ratio	11.4	13.6	12.1	15.3	16.6	16.2	15.3	14.5	13.6	13.0
Tier 2 ratio	2.3	1.7	1.4	1.1	0.9	0.6	1.7	1.7	1.7	1.7
Capital adequacy ratio	13.7	15.3	13.5	16.4	17.5	16.8	16.9	16.2	15.3	14.6
RWA intensity	76.3	77.7	74.2	75.7	73.5	71.5	73.5	72.6	73.6	74.6

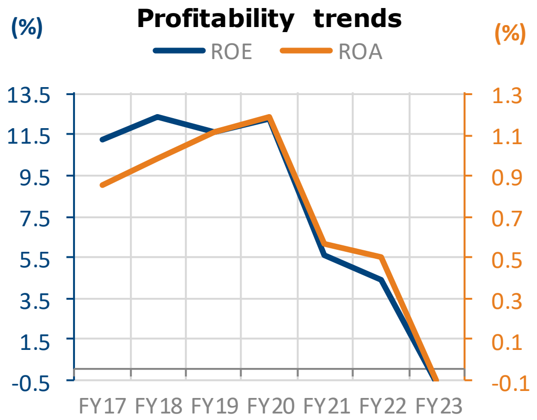
Source: Company, IIFL Research

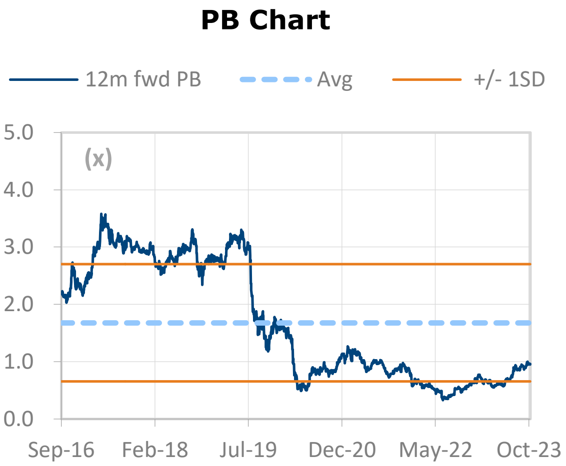
Company snapshot

Background: RBL Bank (erstwhile The Ratnakar Bank Limited) is an old generation private sector bank established in 1943. RBL Bank (RBK) is one of India's fastest growing private sector banks with an expanding presence across the country. As at end-FY23, RBK had a network of 517 branches, 414 ATMs and 1,166 business correspondent branches with loans of Rs702bn. RBK offers wholesale and retail banking services. In wholesale banking, it caters to large and mid-sized corporates and offers working capital, transaction banking and financial advisory services. In retail, it caters to individuals and small businesses in semi-urban and rural areas.









Assumptions

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Loan Growth (%)	2.4	17.0	20.3	18.9	18.7
Deposit Growth (%)	8.0	7.4	17.1	16.4	17.7
Yield on IEA (%)	8.4	9.3	10.6	10.8	10.8
Cost of Funds (%)	4.8	5.0	5.9	5.9	5.8
Net Interest Margin (%)	4.1	4.8	5.2	5.5	5.6
Cost/income ratio (%)	56.9	70.6	68.6	66.8	64.0
Gross NPLs as % of loans (%)	4.4	3.4	3.0	3.1	3.1
Credit cost (%)	4.8	1.6	2.0	1.7	1.7
Return on Average Assets (%)	(0.1)	0.8	1.0	1.1	1.3
Return on Average Equity (%)	(0.6)	6.7	8.5	10.2	12.6

Source: Company data, IIFL Research

Management

Name	Designation
R Subramaniakumar	MD & CEO
Rajeev Ahuja	Executive Director
Brijesh Mehra	Head - Corporate, Institutional and Transaction Banking

Financial summary

Income statement summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net interest income	**40.3**	**50.0**	**60.8**	**74.1**	**88.9**
Non-interest income	**23.4**	**24.9**	**29.2**	**35.0**	**42.0**
Fee Income	21.4	23.2	28.2	33.8	40.5
Portfolio gains	2.0	1.7	1.0	1.2	1.5
Others	0.0	0.0	0.0	0.0	0.0
Total operating income	**63.7**	**74.9**	**90.0**	**109.1**	**130.9**
Total operating expenses	36.2	52.8	61.7	72.9	83.7
Pre provision operating profit	**27.5**	**22.0**	**28.3**	**36.2**	**47.1**
Total provisions	28.6	10.2	15.5	15.5	19.0
Profit before tax	**(1.2)**	**11.8**	**12.8**	**20.7**	**28.2**
Taxes	(0.4)	3.0	0.9	5.1	6.9
Net profit-pre exceptional	**(0.7)**	**8.8**	**11.9**	**15.6**	**21.3**
Exceptional items	0.0	0.0	0.0	0.0	0.0
Reported net profit	**(0.7)**	**8.8**	**11.9**	**15.6**	**21.3**

Balance sheet summary (Rs bn)

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Net loans & advances	600.2	702.1	844.4	1,004.0	1,192.2
Placements to other banks	44.4	22.8	17.1	26.6	31.2
Cash & equivalents	131.1	62.4	74.2	86.5	101.5
Investments	222.7	288.8	314.6	350.7	395.6
Total interest-earning assets	**998.4**	**1,076.0**	**1,250.2**	**1,467.8**	**1,720.5**
Fixed assets	5.5	5.7	6.0	6.3	6.6
Other assets	58.2	77.0	74.9	64.9	66.4
Total assets	**1,062.1**	**1,158.8**	**1,331.2**	**1,539.1**	**1,793.6**
Customer deposits	790.1	848.9	994.4	1,157.6	1,362.1
Borrowings	110.9	133.3	146.6	173.0	199.0
Total interest-bearing liabilities	**901.0**	**982.2**	**1,141.0**	**1,330.6**	**1,561.1**
Non-interest-bearing liabilities	34.9	40.8	44.1	48.5	53.3
Total liabilities	**935.9**	**1,023.0**	**1,185.1**	**1,379.1**	**1,614.5**
Total Shareholders' equity	**126.2**	**135.8**	**146.1**	**159.9**	**179.1**
Total liabilities & equity	**1,062.1**	**1,158.8**	**1,331.2**	**1,539.1**	**1,793.6**

Source: Company data, IIFL Research

Ratio analysis - I

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Balance Sheet Structure Ratios (%)					
Loans / Deposits	76.0	82.7	84.9	86.7	87.5
Loan Growth	2.4	17.0	20.3	18.9	18.7
Deposit Growth	8.0	7.4	17.1	16.4	17.7
Total Assets Growth	5.5	9.1	14.9	15.6	16.5
Profitability Ratios (%)					
Net Interest Margin	4.1	4.8	5.2	5.5	5.6
ROA	(0.1)	0.8	1.0	1.1	1.3
ROE	(0.6)	6.7	8.5	10.2	12.6
Non-Int Income as % of Total Income	36.8	33.3	32.4	32.1	32.1
Net Profit Growth	NA	NA	35.1	31.0	36.1
FDEPS Growth	NA	NA	34.7	31.0	36.1
Efficiency Ratios (%)					
Cost to Income Ratio	56.9	70.6	68.6	66.8	64.0
Salaries as % of Non-Interest costs	27.7	25.4	24.7	24.8	24.8

Ratio analysis - II

Y/e 31 Mar, Parent	FY22A	FY23A	FY24ii	FY25ii	FY26ii
Credit Quality Ratios (%)					
Gross NPLs as % of loans	4.4	3.4	3.0	3.1	3.1
NPL coverage ratio	70.4	68.1	76.0	75.0	75.0
Total prov charges as % avg loans	4.8	1.6	2.0	1.7	1.7
Net NPLs as % of net loans	1.3	1.1	0.7	0.8	0.8
Capital Adequacy Ratios (%)					
Total CAR	16.8	16.9	16.2	15.3	14.6
Tier I capital ratio	16.2	15.3	14.5	13.6	13.0

Source: Company data, IIFL Research

Annexure 1: Key financial metrics

Figure 10.1: Expect high-teens loan growth for Private banks and mid-teens for Public banks

Loan gr. (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	22	23	26	21	27	19	19	24	21	14	21	17	58	17	17
ICICI	17	14	17	14	12	7	10	14	10	14	17	19	19	18	17
Axis	19	16	17	22	21	10	18	13	15	8	15	19	17	18	17
Kotak	33	24	9	25	79	15	25	21	7	2	21	18	20	18	18
IndusInd	34	26	24	25	29	28	28	29	11	3	12	21	19	19	19
Federal	18	17	-1	18	13	26	25	20	11	8	10	20	20	18	17
RBL						39	37	35	7	1	2	17	20	19	19
SBI	15	21	16	7	13	7	23	13	6	5	12	17	14	14	14
BOB	26	14	21	8	-10	0	12	52	6	2	10	21	14	14	14

Source: Company, IIFL Research.

Figure 10.2: Expect Private banks to grow deposits faster than Public banks led by distribution network expansion

Deposit Gr. (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	18	20	24	23	21	18	23	17	24	16	17	21	29	21	20
ICICI	13	15	13	9	17	16	14	16	18	21	14	11	21	15	16
Axis	16	15	11	15	11	16	9	21	17	9	18	15	13	17	17
Kotak	32	32	16	27	85	14	22	17	16	7	11	16	20	16	15
IndusInd	23	28	12	23	25	36	20	29	4	27	15	15	17	17	18
Federal	14	18	4	19	12	23	15	21	13	13	5	17	18	17	17
RBL						42	27	33	-1	26	8	7	17	16	18
SBI	12	15	16	13	10	18	32	8	11	14	10	9	13	12	14
BOB	26	23	20	9	-7	5	-2	55	3	2	8	15	11	11	14

Source: Company, IIFL Research

Figure 10.3: Expect loan-to-deposit ratio to continue to inch-up; Public banks still have room to lever up unlike Private banks

LDR (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	79	81	82	81	85	86	83	89	87	85	88	85	105	102	99
ICICI	99	99	102	107	103	95	91	90	84	79	81	86	85	87	88
Axis	77	78	82	87	95	90	97	90	89	88	86	89	92	93	93
Kotak	101	95	90	88	86	86	88	91	84	80	87	88	88	89	91
IndusInd	83	82	91	93	95	89	96	96	102	83	81	86	88	90	90
Federal	77	77	73	72	73	75	82	82	80	76	80	82	83	84	84
RBL					87	85	92	93	100	80	76	83	85	87	88
SBI	83	87	87	82	85	77	71	75	72	67	67	72	73	74	75
BOB	75	69	70	69	67	64	72	71	73	73	74	78	80	82	82

Source: Company, IIFL Research

Figure 10.4: We build a decline in asset yields from FY25 onwards on the rate-cut expectations

IEA yield	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	9.6	10.1	9.8	9.5	9.9	9.3	8.7	8.9	8.6	7.6	7.0	7.5	8.4	8.5	8.3
ICICI	8.0	8.4	8.3	8.6	8.5	8.0	7.3	7.6	7.9	7.3	7.0	7.7	8.7	8.6	8.3
Axis	8.6	8.9	8.7	8.8	8.8	8.5	7.7	8.0	8.0	7.3	6.7	7.3	8.2	8.3	7.9
Kotak	11.0	11.1	10.6	10.4	11.6	9.2	8.6	8.6	8.3	7.5	6.9	7.7	8.8	8.7	8.4
IndusInd	10.8	11.1	10.7	10.4	10.0	9.6	9.2	9.5	10.6	9.3	8.6	9.0	9.9	10.0	9.7
Federal	10.2	9.7	9.8	10.0	9.5	8.9	8.1	8.0	8.2	7.7	6.9	7.5	8.3	8.3	8.0
RBL						8.7	8.4	9.1	10.5	9.2	8.4	9.3	10.6	10.8	10.8
SBI	8.7	8.6	8.4	8.3	7.9	7.4	7.7	7.4	7.4	6.8	6.3	6.9	7.6	7.6	7.3
BOB	7.6	7.3	6.6	6.4	6.6	6.5	6.5	8.6	7.2	6.5	6.1	6.9	7.6	7.6	7.2

Source: Company, IIFL Research

Figure 10.5: Funding cost increase over the next few quarters is likely to be the highest for ICICI, Kotak and SBI in our view

Cost of deposits (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	5.6	6.0	5.7	5.7	5.9	5.3	4.6	4.8	4.9	4.0	3.4	3.6	4.8	4.7	4.5
ICICI	5.9	6.2	5.7	6.2	5.8	5.3	4.7	4.6	4.8	4.1	3.5	3.6	4.6	4.8	4.5
Axis	6.0	6.4	5.8	5.7	5.4	5.1	4.4	4.7	4.9	4.0	3.6	3.7	4.7	4.8	4.5
Kotak	7.4	7.5	6.9	6.8	7.4	5.6	5.1	5.3	4.9	3.7	3.1	3.5	4.7	4.8	4.6
IndusInd	8.0	8.5	7.9	7.8	7.2	6.5	6.0	6.4	6.8	5.4	4.8	5.3	6.3	6.3	6.1
Federal	7.4	7.2	7.2	7.1	6.8	6.2	5.5	5.6	5.7	4.9	4.2	4.5	5.5	5.5	5.2
RBL						6.8	6.2	6.5	7.1	5.8	4.9	5.2	6.1	6.1	5.9
SBI	5.6	6.0	6.0	6.0	6.0	5.6	5.7	5.0	4.8	4.1	3.7	3.8	4.7	4.8	4.4
BOB	5.4	5.5	5.1	5.0	5.1	4.6	4.4	4.3	4.7	3.9	3.3	3.7	4.6	4.6	4.4

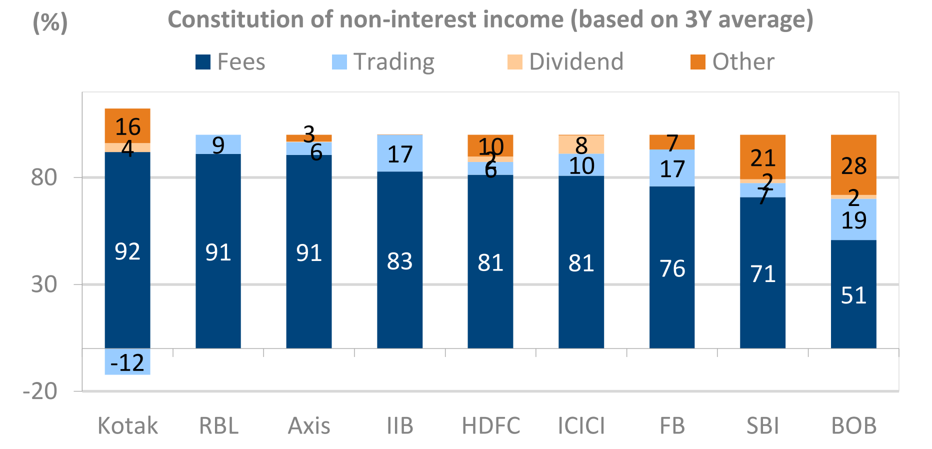
Source: Company, IIFL Research

Figure 10.6: Expect divergent margin outcomes - ICICI, Kotak and SBI should see the highest compression; Axis and BOB the least. On the other hand, it should improve for HDFC, RBL, Federal and IIB

NIM (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	4.3	4.6	4.4	4.4	4.5	4.5	4.4	4.4	4.2	4.1	3.9	4.1	3.6	3.7	3.8
ICICI	2.6	2.9	3.1	3.3	3.4	3.2	3.1	3.2	3.5	3.6	3.8	4.4	4.5	4.3	4.2
Axis	3.1	3.2	3.4	3.5	3.6	3.5	3.1	3.2	3.2	3.4	3.3	3.7	3.8	3.7	3.7
Kotak	4.5	4.4	4.5	4.5	4.9	4.2	4.2	4.0	4.2	4.3	4.3	4.9	4.9	4.7	4.6
IndusInd	3.4	3.5	3.7	3.7	3.9	4.1	4.0	3.8	4.4	4.4	4.2	4.4	4.5	4.6	4.5
Federal	3.6	3.1	3.2	3.2	3.1	3.1	3.0	2.9	2.9	3.1	3.0	3.2	3.2	3.2	3.1
RBL						2.9	3.3	3.7	4.5	4.2	4.1	4.8	5.2	5.5	5.6
SBI	3.5	3.2	3.0	3.0	2.8	2.6	2.6	2.7	2.8	2.9	2.8	3.0	2.9	3.0	2.9
BOB	2.6	2.3	2.0	2.0	1.9	2.1	2.3	3.0	2.6	2.6	2.8	3.2	3.2	3.2	3.0

Source: Company, IIFL Research

Figure 10.7: Share of core fee income higher for Kotak, RBL and Axis, while PSBs have higher share of trading and 'other' non-interest income



Source: Company, IIFL Research

Figure 10.8: Core fee income de-grew during Covid, but recovered swiftly post that. Expect mid-to-high-teen growth over FY24-26E on the back of strong business momentum

Core fee growth %	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	24	13	16	7	18	12	28	20	20	1	26	20	19	19	18
ICICI	4	3	12	7	6	7	9	16	14	-8	24	15	16	15	15
Axis	25	16	8	13	11	5	12	14	10	-3	22	23	25	17	18
Kotak	47	15	18	43	66	19	29	24	11	-8	33	24	14	20	18
IndusInd	45	36	30	37	28	24	20	21	14	-20	27	31	15	15	18
Federal	12	13	22	2	8	24	17	28	21	-6	28	39	24	24	20
RBL						49	41	52	29	-6	31	9	21	20	20
SBI	4	-3	11	11	10	16	28	-3	3	-1	8	12	3	14	14
BOB	19	7	19	2	12	6	9	41	3	-6	-3	10	12	10	12

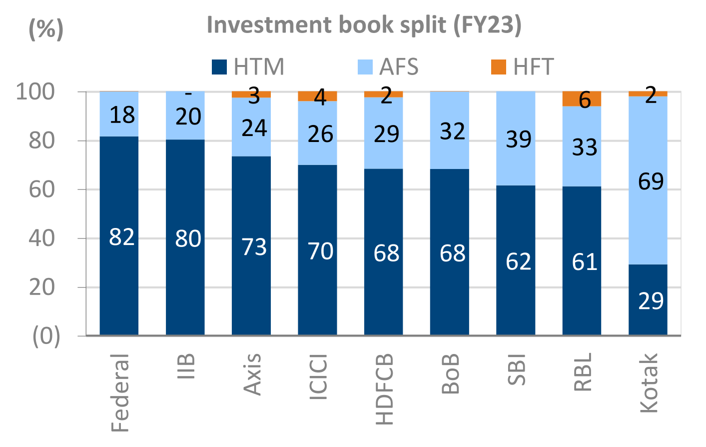
Source: Company, IIFL Research

Figure 10.9: Summary of implications of the RBI's revised classification and guidelines for the banks' investments

Category	Old regulation	New regulation
Notional Gains/losses on AFS securities	Under the old regime, net depreciation on the AFS securities was recognised in the income statement. However, net appreciation was not accounted for.	From FY25 onwards, banks are expected to create an 'AFS reserve account' to transfer the notional gains and losses on AFS securities; it shall not be routed through the income statement. Additionally, the AFS reserve will be included in CET-1 calculations.
Ceiling limit on HTM investments	HTM investments shall not exceed 25% of total investments. However, it can exceed the limit in case of investments in SLR securities being within the RBI prescribed limits (19.5%, increased to 23% for SLR acquired in Sep 2020-Mar 2024).	Ceiling on investments in the HTM category has been removed.
Sale of HTM investments	There was not a limit on sale of HTM securities, but sale of investments above 5% of opening carrying value were subject to certain disclosures.	There is restriction on selling of HTM securities above 5% of the opening carrying value in a FY. Any sale beyond 5% shall require prior approval of RBI.
Ceiling limit for HFT investments	HFT investments were required to be liquidated only after 90 days.	The new regulations eliminate the 90-day time limit. This shall allow banks to maximise gains.
Acquisition of HTM at a discount to face value	Discount on acquisition will be recognised as a one-time gain during sale of the security in the income statement.	Discount on acquisition would be amortised over the life of security in the income statement.
Equity investments in subsidiaries	Were permitted to be accounted for as HTM investments. Gains/losses on sale were taken to the P&L.	Are required to be accounted as AFS investments. Gains/losses on sale will be transferred to Capital Reserve.
Investments in corporate bonds	Corporate bonds were not allowed to be classified as HTM previously and hence, were classified as AFS only.	Corporate bonds are now allowed to be classified as HTM if they meet the SPPI (solely for payment of principal O/s and interest) criteria.
Reclassification of investments	Banks were permitted to reclassify freely between different categories once a year after obtaining Board approval.	Reclassification between categories has become more stringent and will require prior approval of the Department of Supervision, RBI in addition to Board approval.

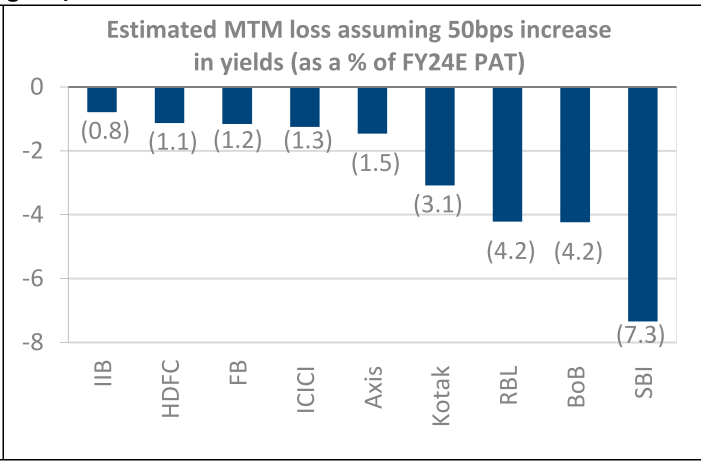
Source: RBI, IIFL Research

Figure 10.10: HTM constitutes 60-80% of total investment book; Kotak has high share of AFS investments at ~70%



Source: Company, IIFL Research

Figure 10.11: Volatility in yields historically resulted in MTM gains/losses in the P&L



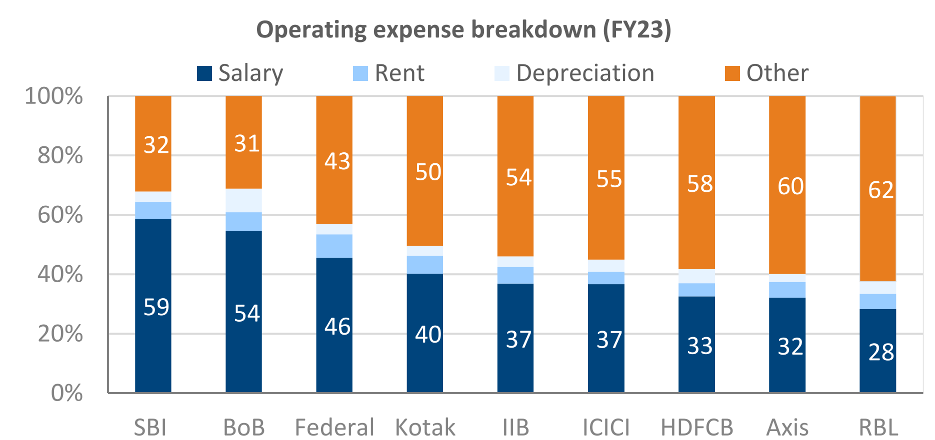
Source: IIFL Research

Figure 10.12: Non-II as a % of avg. assets too has seen a declining trend over the years. RBL and IndusInd have higher Non-II a s a % of avg. assets amongst coverage banks

Non II as % of TA	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	1.7	1.9	1.8	1.7	1.7	1.6	1.6	1.5	1.7	1.5	1.5	1.4	1.3	1.2	1.2
ICICI	1.7	1.6	1.8	2.0	2.2	2.6	2.1	1.6	1.6	1.6	1.4	1.3	1.3	1.3	1.3
Axis	2.1	2.1	2.0	2.0	1.9	2.1	1.7	1.8	1.8	1.3	1.4	1.3	1.5	1.5	1.6
Kotak	1.7	1.6	1.6	2.1	1.8	1.7	1.7	1.6	1.6	1.3	1.6	1.6	1.9	1.9	1.9
IndusInd	2.0	2.1	2.4	2.6	2.6	2.6	2.4	2.3	2.4	1.9	1.9	1.9	1.9	1.9	1.9
Federal	0.9	1.0	1.0	1.1	0.9	1.0	0.9	0.9	1.1	1.0	1.0	1.0	1.1	1.1	1.1
RBL						1.7	1.9	2.0	2.3	2.0	2.3	2.2	2.3	2.4	2.5
SBI	1.1	1.1	1.1	1.2	1.3	1.4	1.4	1.0	1.2	1.0	0.9	0.7	0.7	0.7	0.7
BOB	0.8	0.7	0.7	0.6	0.7	1.0	0.9	0.9	0.9	1.1	0.9	0.7	0.8	0.7	0.7

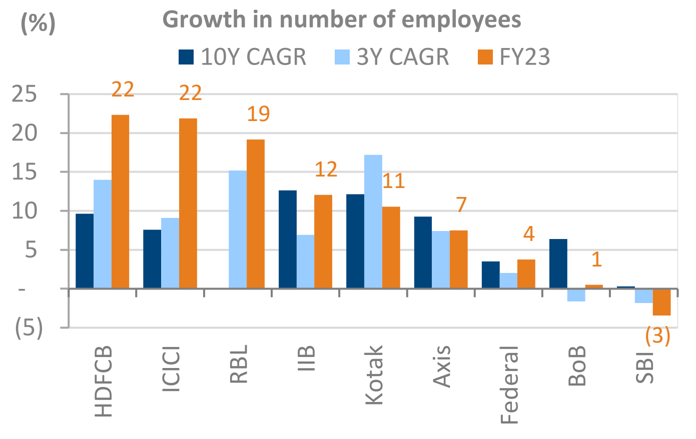
Source: Company, IIFL Research

Figure 10.13: Employee expenses constitute 30-45% of total opex for Private banks, but higher at 55-60% for the PSBs



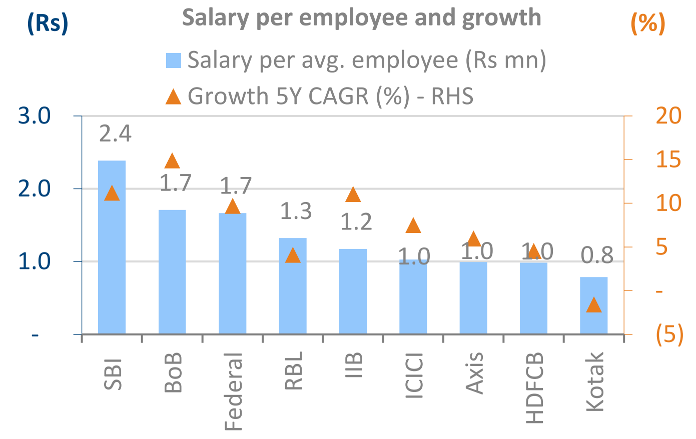
Source: Company, IIFL Research

Figure 10.14: Highest employee addition for HDFCB, ICICI and RBL on geographic and product expansions; whereas headcount has declined for PSBs



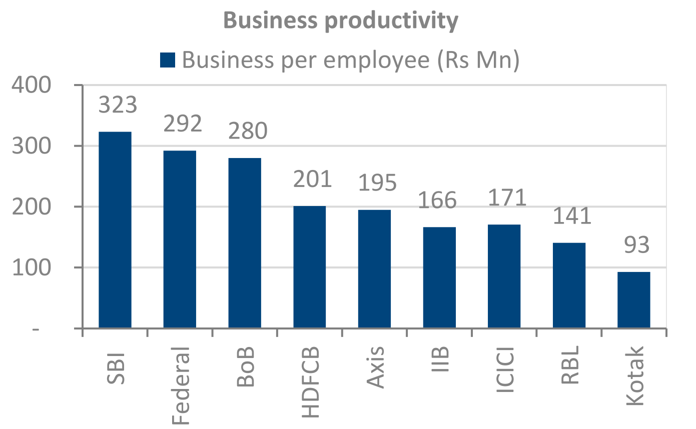
Source: Company, IIFL Research

Figure 10.15: Avg. employee salary higher for PSBs on account of higher retirement and benefits; PSBs underpay at top and overpay at the bottom



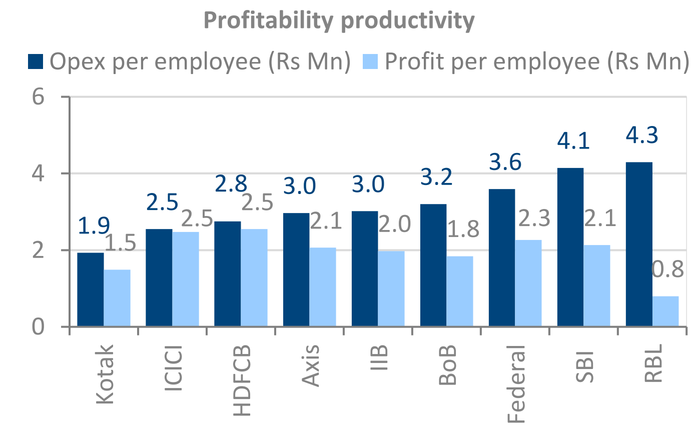
Source: Company, IIFL Research

Figure 10.16: In terms of productivity PSU banks fare better compared to private banks …



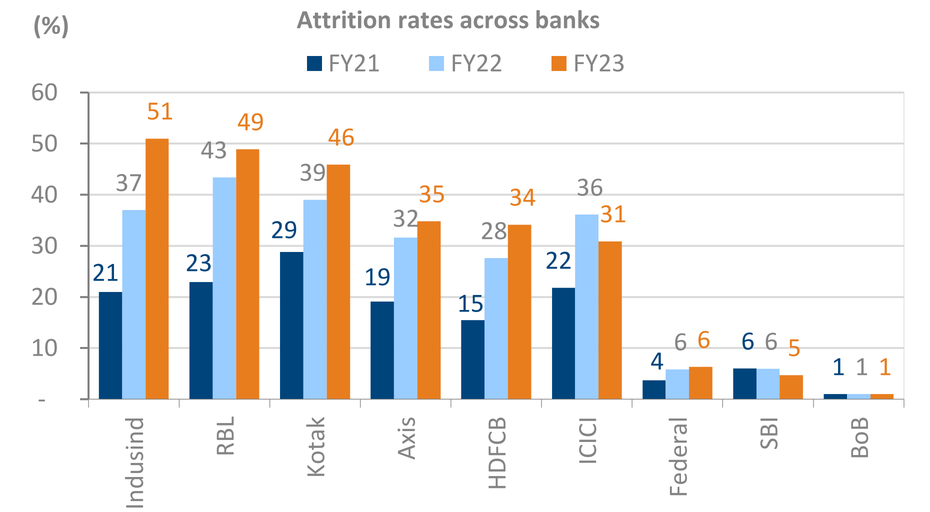
Source: Company, IIFL Research

Figure 10.17: … in profitability productivity terms too, public banks are broadly similar to private banks



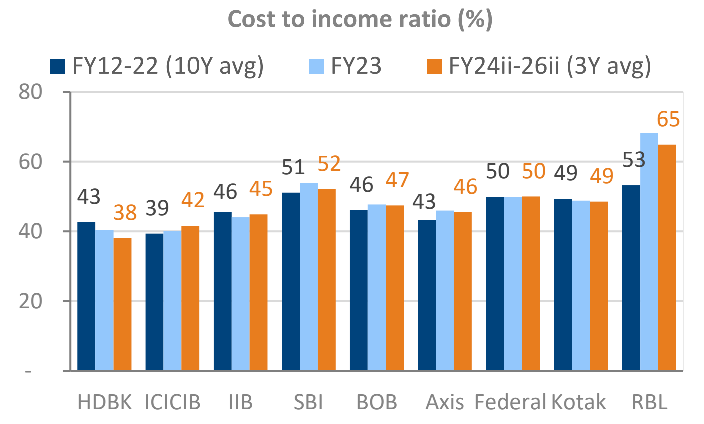
Source: Company, IIFL Research

Figure 10.18: Stark divergence in attrition rates of private vs public sector banks, with private banks witnessing attrition of 35-50% in FY23 (rising trend) vis-a-vis 1-5% in case of the public banks (largely stable)



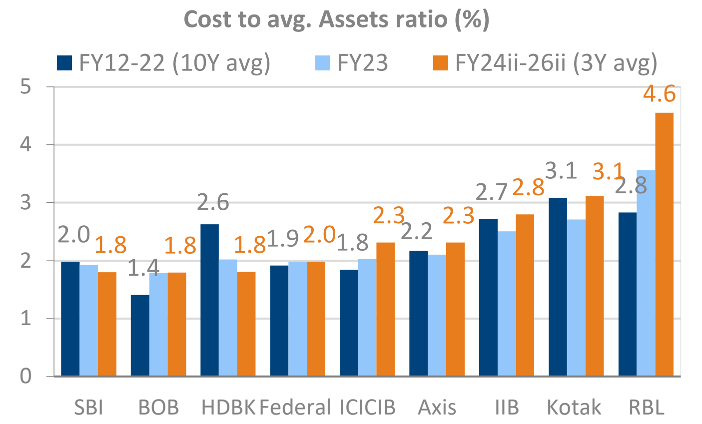
Source: Company, IIFL Research

Figure 10.19: Expect cost efficiency ratios to remain elevated as the banks continue to invest in the franchise …



Source: Company, IIFL Research

Figure 10.20: … with the exception of HDFC Bank, which will see lower cost-to-asset ratio due to the merger



Source: Company, IIFL Research

Figure 10.21: Cost-to-income ratio for individual banks

CIR	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC Bank	49	50	46	45	44	43	41	40	39	37	40	41	38	38	37
ICICI Bank	43	41	38	37	35	36	39	44	43	37	41	40	41	42	42
Axis Bank	45	43	41	41	39	41	47	45	42	44	49	46	48	45	43
Kotak Bank	53	51	50	52	58	48	47	47	47	42	48	49	46	48	48
IndusInd Bank	49	49	46	48	47	47	46	44	43	41	42	44	47	46	45
Federal Bank	39	45	49	50	57	53	52	50	51	50	53	50	52	50	50
RBL					59	53	53	51	51	49	57	71	69	67	64
SBI	45	49	53	49	49	48	50	56	52	54	58	54	53	52	51
BOB	38	40	43	44	50	46	46	53	48	50	49	48	47	47	48

Source: Company, IIFL Research

Figure 10.22: Cost-to-asset ratio for individual banks

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC Bank	2.9	3.0	2.7	2.6	2.6	2.5	2.4	2.3	2.2	2.0	2.1	2.0	1.8	1.8	1.8
ICICI Bank	1.8	1.8	1.8	1.9	1.9	2.0	1.9	2.0	2.1	1.9	2.0	2.2	2.3	2.3	2.2
Axis Bank	2.3	2.2	2.2	2.2	2.0	2.2	2.2	2.1	2.0	1.9	2.2	2.2	2.4	2.3	2.2
Kotak Bank	3.1	3.0	3.0	3.4	3.7	2.8	2.7	2.6	2.6	2.3	2.7	3.1	3.1	3.1	3.1
IndusInd Bank	2.6	2.7	2.7	2.9	2.9	3.0	2.8	2.6	2.8	2.4	2.4	2.6	2.9	2.9	2.8
Federal Bank	1.7	1.8	2.0	2.1	2.2	2.1	1.9	1.9	2.0	1.9	2.0	2.0	2.1	2.1	2.0
RBL						2.4	2.7	2.9	3.3	2.9	3.5	4.8	5.0	5.1	5.0
SBI	2.0	2.0	2.1	2.0	1.9	1.8	1.9	2.0	2.0	1.9	2.0	1.9	1.8	1.8	1.8
BOB	1.3	1.2	1.2	1.1	1.3	1.4	1.4	2.0	1.6	1.8	1.8	1.8	1.8	1.8	1.8

Source: Company, IIFL Research

Figure 10.23: Expect gross slippage ratio to inch-up …

Gross slippage ratio	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	1.0	1.6	1.9	1.6	1.6	1.5	2.3	2.2	2.1	1.6	2.4	1.8	1.7	1.4	1.5
ICICI	1.4	1.5	1.6	2.5	4.5	8.0	6.4	2.5	2.5	3.9	2.9	2.4	2.1	2.6	2.6
Axis	1.3	1.2	1.1	1.2	2.6	6.4	9.0	3.2	4.0	3.0	3.3	2.1	1.8	2.4	2.2
Kotak	1.0	1.2	1.9	1.4	4.3	1.5	1.4	1.2	1.7	2.5	1.9	1.5	1.5	1.6	1.7
IndusInd	1.1	1.3	1.4	1.6	1.2	1.6	2.9	3.7	3.1	4.0	4.8	2.9	1.9	2.1	2.3
Federal	3.7	3.2	1.8	1.8	3.2	1.8	2.7	1.8	1.7	1.6	1.4	1.2	1.1	1.4	1.6
RBL						2.5	1.9	1.8	6.2	5.4	6.7	4.6	3.4	3.6	3.5
SBI	3.6	3.7	4.0	2.4	4.9	3.0	10.2	2.1	2.5	1.3	1.1	0.7	0.8	0.9	1.1
BOB	1.5	2.4	2.1	2.1	6.5	3.5	6.3	3.2	4.6	2.9	2.0	1.9	1.3	1.6	1.5

Source: Company, IIFL Research

Figure 10.24: … and upgrades & recoveries ratio to decline

Upgrade & Recovery	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	0.2	0.8	1.0	0.8	0.8	0.7	1.3	1.1	1.0	0.4	1.4	0.9	0.9	0.7	0.7
ICICI	1.1	0.8	0.5	0.6	0.7	0.8	2.0	1.7	1.4	1.2	2.5	2.1	1.6	1.4	1.3
Axis	0.7	0.3	0.3	0.3	0.7	1.3	2.3	2.1	1.9	1.4	2.3	1.5	1.0	0.8	0.8
Kotak	0.7	0.5	0.9	0.9	1.5	0.5	0.9	0.7	0.9	1.1	1.8	1.4	1.1	0.8	0.7
IndusInd	0.5	0.5	0.6	0.6	0.5	0.8	1.7	0.8	1.1	1.8	2.8	1.2	1.0	0.9	0.8
Federal	1.7	1.4	1.8	1.1	0.9	0.9	1.0	1.0	0.8	0.4	1.2	0.9	0.7	0.5	0.5
RBL						1.5	0.7	0.5	1.3	1.7	2.6	2.2	1.1	1.2	1.2
SBI	1.5	1.7	1.7	1.1	0.5	0.6	0.6	1.6	1.2	0.8	0.9	0.6	0.5	0.5	0.5
BOB	0.4	0.3	0.6	0.6	0.5	1.7	1.4	2.0	2.3	1.1	1.2	1.7	0.7	0.6	0.5

Source: Company, IIFL Research

Figure 10.25: … resulting in net slippage ratio to increase modestly

Net slippage	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	0.8	0.8	0.9	0.8	0.8	0.8	1.1	1.1	1.2	1.2	0.9	0.9	0.8	0.6	0.7
ICICI	0.3	0.7	1.1	1.9	3.9	7.1	4.4	0.8	1.2	2.7	0.4	0.2	0.5	1.2	1.3
Axis	0.6	0.8	0.8	0.9	1.9	5.1	6.6	1.1	2.1	1.6	0.9	0.6	0.8	1.5	1.4
Kotak	0.4	0.7	1.0	0.5	2.9	1.0	0.5	0.5	0.7	1.4	0.1	0.0	0.4	0.8	1.0
IndusInd	0.6	0.7	0.8	1.0	0.7	0.8	1.3	2.9	2.0	2.3	1.9	1.7	0.9	1.3	1.5
Federal	2.0	1.8	0.0	0.7	2.3	0.9	1.8	0.8	0.9	1.2	0.3	0.3	0.4	0.8	1.1
RBL						1.0	1.3	1.3	4.9	3.7	4.1	2.4	2.2	2.4	2.3
SBI	2.0	2.0	2.3	1.4	4.4	2.4	9.6	0.4	1.3	0.5	0.2	0.1	0.3	0.4	0.5
BOB	1.1	2.0	1.5	1.5	6.0	1.7	4.9	1.1	2.3	1.8	0.8	0.1	0.6	1.1	1.0

Source: Company, IIFL Research

Figure 10.26: Write-off ratio should remain benign

Write off	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	0.6	0.6	0.6	0.6	0.5	0.5	0.6	0.7	1.0	0.9	0.8	0.8	0.7	0.5	0.5
ICICI	0.5	0.7	0.8	0.5	0.9	3.5	2.0	2.3	2.0	2.7	1.4	0.6	0.6	0.5	0.5
Axis	0.5	0.5	0.4	0.5	1.2	0.7	3.1	2.1	2.1	2.4	1.5	1.0	1.1	1.1	1.0
Kotak	0.3	0.3	0.4	0.2	0.4	0.4	0.3	0.1	0.5	0.3	0.5	0.3	0.3	0.3	0.4
IndusInd	0.3	0.4	0.4	1.1	0.4	0.5	0.7	1.3	1.4	2.0	2.1	1.6	0.9	1.1	1.1
Federal	1.5	1.1	1.1	0.8	1.1	0.8	0.3	0.3	0.7	0.3	0.6	0.3	0.1	0.2	0.3
RBL						0.3	0.5	0.8	2.3	2.9	3.9	2.9	2.0	1.8	1.7
SBI	0.1	0.6	1.3	1.8	1.2	1.4	2.6	3.0	2.4	1.5	0.8	0.9	0.5	0.4	0.4
BOB	0.5	0.8	0.3	0.4	0.4	1.2	1.3	3.1	2.4	2.2	2.6	2.4	1.0	0.8	0.7

Source: Company, IIFL Research

Figure 10.27: Expect GNPA ratio to bottom-out in FY24 for most of the banks

GNPA (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	1.0	1.0	1.0	0.9	0.9	1.1	1.3	1.4	1.3	1.3	1.2	1.1	1.3	1.2	1.2
ICICI	3.7	3.2	3.1	3.8	6.0	8.8	10.0	7.5	6.1	5.4	3.8	3.0	2.4	2.6	2.9
Axis	1.1	1.2	1.4	1.4	1.8	5.5	7.5	5.8	5.1	4.0	3.0	2.2	1.6	1.7	1.8
Kotak	1.6	1.5	2.0	1.9	2.4	2.6	2.2	2.1	2.3	3.3	2.3	1.8	1.6	1.7	2.0
IndusInd	1.0	1.0	1.1	0.8	0.9	0.9	1.2	2.1	2.5	2.7	2.3	2.0	1.7	1.6	1.7
Federal	3.3	3.4	2.5	2.0	2.8	2.3	3.0	2.9	2.8	3.4	2.8	2.4	2.2	2.4	2.7
RBL						1.2	1.4	1.4	3.6	4.3	4.4	3.4	3.0	3.1	3.1
SBI	4.5	4.8	5.0	4.3	6.5	6.9	10.9	7.5	6.2	5.0	4.0	2.8	2.3	2.0	1.8
BOB	1.5	2.4	2.9	3.7	10.0	10.5	12.3	10.0	9.4	8.9	6.6	3.8	3.0	2.8	3.0

Source: Company, IIFL Research

Figure 10.28: We expect credit costs to start inching up from FY25E onwards, but still remain low relative to the historical levels

Credit cost (%)	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	0.9	0.8	0.6	0.6	0.7	0.7	1.0	1.0	1.3	1.5	1.2	0.8	0.6	0.7	0.7
ICICI	0.7	0.7	0.8	1.1	2.8	3.4	3.5	3.6	2.3	2.4	1.1	0.7	0.5	0.6	0.7
Axis	0.7	1.0	1.0	0.9	1.2	3.4	3.8	2.6	3.5	2.4	1.1	0.3	0.5	0.6	0.7
Kotak	0.2	0.4	0.6	0.3	1.0	0.7	0.6	0.5	1.0	1.1	0.3	0.2	0.5	0.6	0.6
IndusInd	0.6	0.7	0.9	0.6	0.9	1.1	0.9	1.9	2.4	3.8	2.9	1.7	1.3	1.3	1.4
Federal	1.0	0.6	0.6	0.2	1.3	0.9	1.1	0.8	1.0	1.3	0.9	0.5	0.3	0.6	0.7
RBL						0.9	1.0	1.4	3.5	3.8	4.8	1.6	2.0	1.7	1.7
SBI	1.6	1.2	1.4	1.6	2.1	2.4	4.3	2.6	1.9	1.8	0.9	0.6	0.5	0.6	0.7
BOB	1.0	1.4	1.0	1.1	3.8	2.2	3.7	4.1	3.2	2.2	1.8	0.8	0.9	1.0	1.0

Source: Company, IIFL Research

Figure 10.29: NPA provision coverage has improved across the banks in the last few years

GNPA PCR	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	82	80	73	74	70	69	70	71	72	70	73	76	75	75	75
ICICI	80	77	69	59	50	40	48	71	76	78	79	83	83	83	83
Axis	74	71	67	68	59	59	52	62	69	72	75	81	80	80	80
Kotak	61	59	46	51	56	52	56	65	69	64	73	79	79	79	79
IndusInd	73	70	70	63	59	58	56	43	63	75	72	71	71	71	71
Federal	85	72	70	65	43	46	44	50	54	66	66	71	72	73	73
RBL						47	45	51	44	52	70	68	76	75	75
SBI	60	57	50	51	43	48	50	62	65	71	75	76	76	76	77
BOB	65	47	49	50	52	58	58	66	69	67	75	77	79	80	80

Source: Company, IIFL Research

Figure 10.30: PPOP ROA should peak for most of the banks in FY24

PPOP ROA	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	2.9	3.1	3.2	3.2	3.3	3.3	3.4	3.4	3.5	3.5	3.4	3.1	3.0	2.9	3.0
ICICI	2.3	2.6	2.9	3.2	3.5	3.5	3.0	2.5	2.7	3.1	3.0	3.3	3.3	3.1	3.1
Axis	2.8	3.0	3.2	3.2	3.3	3.1	2.4	2.5	2.7	2.4	2.3	2.6	2.6	2.8	2.9
Kotak	2.8	2.9	3.0	3.1	2.7	2.9	3.0	2.9	3.0	3.2	3.0	3.2	3.6	3.4	3.3
IndusInd	2.7	2.8	3.2	3.2	3.3	3.4	3.3	3.2	3.7	3.5	3.4	3.4	3.3	3.4	3.5
Federal	2.7	2.2	2.0	2.1	1.6	1.9	1.8	1.9	1.9	2.0	1.8	2.0	1.9	2.0	2.1
RBL					1.4	2.1	2.4	2.7	3.2	3.1	2.7	2.0	2.3	2.5	2.8
SBI	2.5	2.1	1.9	2.0	2.0	2.0	1.9	1.6	1.8	1.7	1.4	1.6	1.6	1.7	1.7
BOB	2.1	1.8	1.5	1.4	1.3	1.6	1.7	1.8	1.7	1.8	1.8	2.0	2.0	2.0	1.9

Source: Company, IIFL Research

Figure 10.31: We forecast ROAs to peak in FY24 for most of the banks

ROA	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	1.7	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.9	1.9	1.9	1.9	2.0	1.9	1.9
ICICI	1.4	1.6	1.7	1.8	1.4	1.3	0.8	0.4	0.8	1.4	1.8	2.1	2.3	2.0	2.0
Axis	1.6	1.7	1.7	1.7	1.7	0.7	0.0	0.6	0.2	0.7	1.2	0.8	1.8	1.8	1.8
Kotak	1.9	1.8	1.8	1.9	1.4	1.7	1.7	1.7	1.8	1.9	2.1	2.4	2.5	2.3	2.2
IndusInd	1.6	1.6	1.8	1.8	1.8	1.8	1.8	1.3	1.5	0.9	1.3	1.7	1.8	1.9	1.9
Federal	1.4	1.3	1.2	1.3	0.5	0.8	0.7	0.8	0.9	0.8	0.9	1.3	1.3	1.2	1.2
RBL					0.7	1.0	1.1	1.2	0.6	0.5	-0.1	0.8	1.0	1.1	1.3
SBI	0.9	1.0	0.6	0.7	0.5	0.4	-0.2	0.0	0.4	0.5	0.7	1.0	1.0	0.9	0.9
BOB	1.2	0.9	0.8	0.5	-0.8	0.2	-0.3	-0.9	0.0	0.1	0.6	1.0	1.1	1.0	0.9

Source: Company, IIFL Research

Figure 10.32: ROEs should moderate from FY24 peak, but the quality and sustainability of ROEs superior than in the past

ROE	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
HDFC	18.7	20.3	21.3	19.4	18.3	17.9	17.9	16.5	16.4	16.6	16.7	17.0	17.1	16.3	17.0
ICICI	11.2	13.1	14.0	14.5	11.4	10.3	6.6	3.2	7.1	12.3	14.7	17.2	18.2	16.7	16.4
Axis	20.3	18.5	17.4	17.8	16.8	6.8	0.5	7.2	2.1	7.1	12.0	8.0	17.9	17.4	17.2
Kotak	14.6	15.6	13.8	14.1	11.0	13.2	12.5	12.2	13.1	12.5	12.7	14.1	14.8	13.9	13.4
IndusInd	18.3	17.2	16.9	18.2	16.1	15.0	16.2	13.1	14.5	7.5	10.5	14.4	15.5	16.1	16.4
Federal	14.4	13.9	12.6	13.7	6.0	9.8	8.3	9.8	11.1	10.4	10.8	14.9	14.7	13.7	13.5
RBL					9.8	12.2	11.5	12.2	5.6	4.4	-0.6	6.7	8.5	10.2	12.6
SBI	15.7	15.4	10.0	10.6	7.3	6.3	-3.2	0.4	6.4	8.4	11.9	16.5	16.3	15.7	15.6
BOB	20.7	15.1	13.4	9.0	-13.5	3.4	-5.8	-16.1	0.8	1.1	8.9	15.3	15.6	14.8	13.2

Source: Company, IIFL Research

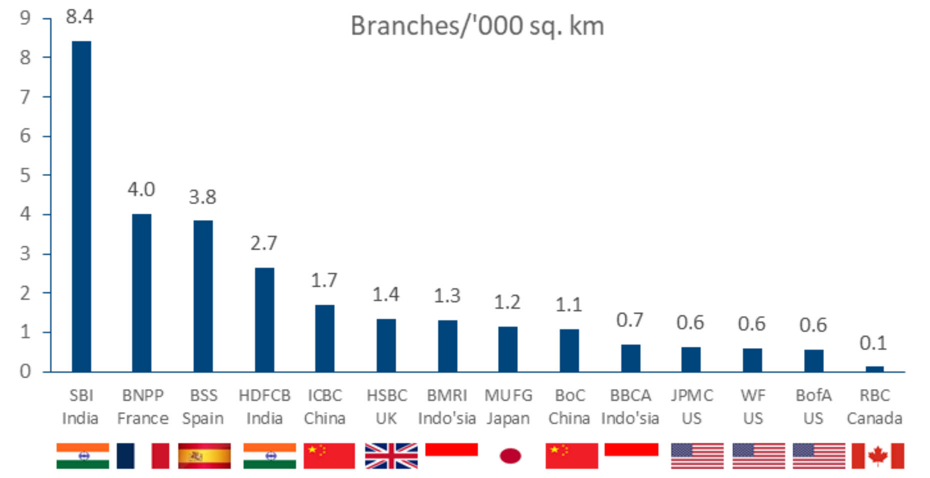
Annexures 2: Deposits

Figure 10.33: Breakdown of India's Household balance sheet

	(Rsbn)	FY19	FY20	FY21	FY22	FY23
	Household Balance Sheet - Stock					
A	Financial Assets	159,580	170,027	228,743	254,357	280,839
	Growth YoY (%)		7	35	11	10
	as % of GDP	84	84	115	108	104
B	Financial Liabilities	63,298	71,163	77,674	86,683	102,535
	Growth YoY (%)		12	9	12	18
	as % of GDP	34	35	39	37	38
C = A - B	**Net Financial Assets**	96,282	98,864	151,069	167,674	178,305
	Growth YoY (%)		3	53	11	6
	as % of GDP	**51**	**49**	**76**	**71**	**66**
	Household Balance Sheet - Flow					
D	Financial Assets	22,637	24,073	30,623	25,975	29,591
	Growth YoY (%)		6	27	(15)	14
	as % of GDP	12	12	15	11	11
E	Financial Liabilities	7,712	7,747	7,817	9,014	15,822
	Growth YoY (%)		0	1	15	76
	as % of GDP	4	4	4	4	6
F = D - E	Net Financial Assets	14,924	16,326	22,806	16,962	13,769
	Growth YoY (%)		9	40	(26)	(19)
	as % of GDP	**8**	**8**	**12**	**7**	**5**
G	Savings in Physical assets	23,095	22,522	21,194	27,690	32,000
H	Savings in Gold & silver ornaments	427	431	384	597	597
I = D + G + H	**Gross Household Assets**	46,158	47,026	52,201	54,262	62,187
	Growth YoY (%)		2	11	4	15
	as % of GDP	**24**	**23**	**26**	**23**	**23**
J = I - F	**Total Household Savings**	38,446	39,279	44,384	45,249	46,365
	Growth YoY (%)		2	13	2	2
	as % of GDP	**20**	**19**	**22**	**19**	**17**

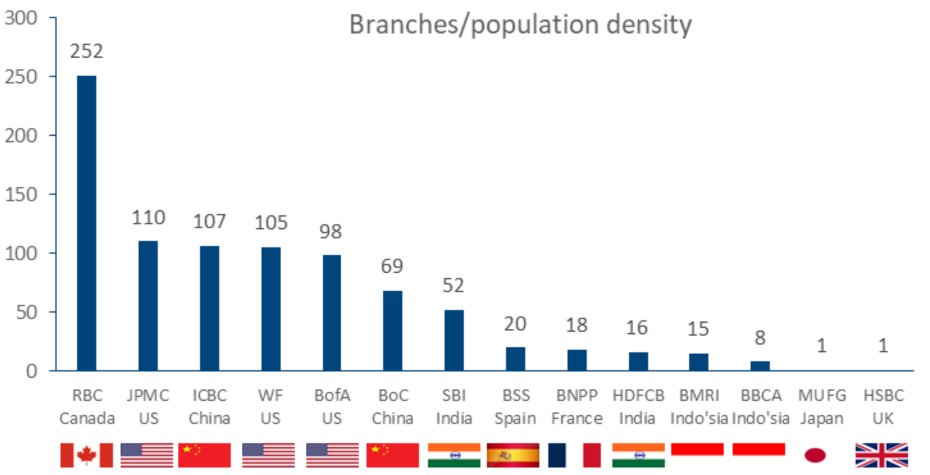
Source: Company, IIFL Research. Note: (1) Savings in physical assets and gold/silver ornaments is an estimate for FY23. (2) Data for certain financial assets (non-bank deposits, PPF, pension funds and small savings) were excluded for the period prior to FY20 and hence it is not directly comparable with the subsequent periods.

Figure 10.34: SBI has the highest number of branches per 1000sq. km in the world (8.4 branches)



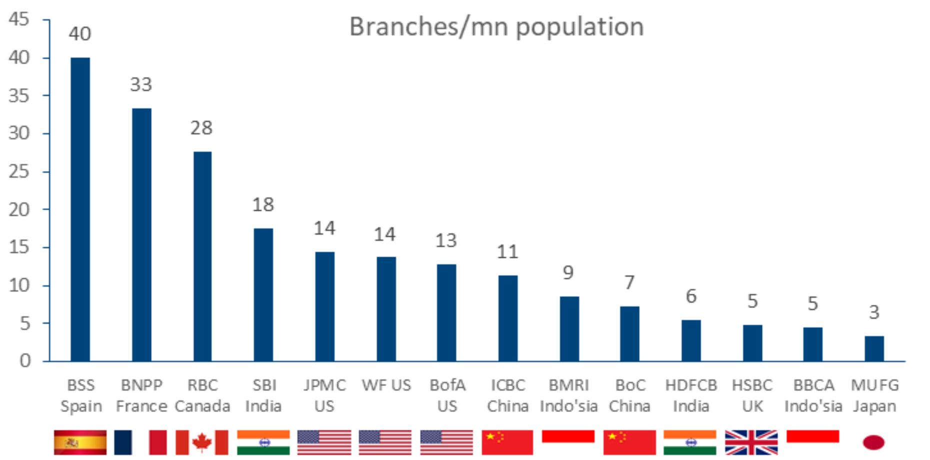
Source: Various Central banks, Company, IIFL Research

Figure 10.35: RBC has the highest branches/ population density due to low population density. SBI ranks 7th globally



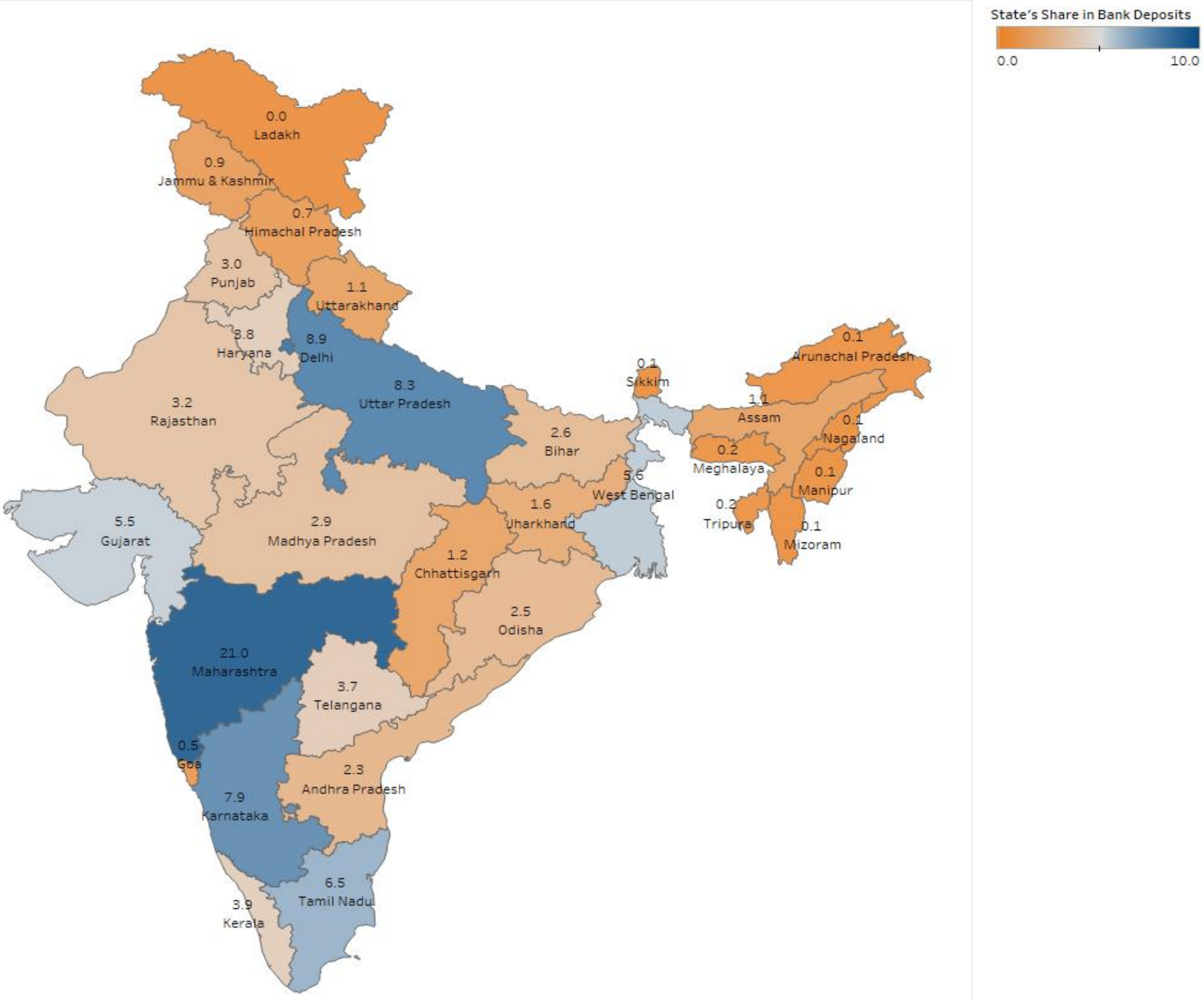
Source: Various Central banks, Company, IIFL Research

Figure 10.36: SBI is the 4th highest globally with 18 branches per mn population, while HDFC ranks 11th at 6 branches



Source: Various Central banks, Company, IIFL Research

Figure 10.37: Deposit market share of the individual Indian states



Source: RBI, IIFL Research

Figure 10.38: Proportion of deposit type across region, bank group and ownership

(By Region)	CA	SA	TD	(By Bank)	CA	SA	TD	(By Ownership)	CA	SA	TD
Rural	4	17	8	Public	37	63	60	Government	13	13	12
Semi-urban	10	22	13	Private	45	30	32	Private	39	1	17
Urban	18	23	21	Foreign	17	1	4	Financial	11	0	8
Metro	68	38	58	RRB	0	1	1	Household	35	81	56
Total (System)	100	100	100	SFB	1	5	3	Foreign	2	5	8
				Payments	0	0	0	Total (System)	100	100	100
				Total (System)	100	100	100	*Government includes public companies			

Source: RBI, IIFL Research. Note: CA – Current Account, SA – Savings Account, TD – Term Deposit

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Private Banks															
HDFC Bank	3.7	3.7	4.0	4.2	4.4	4.7	5.3	5.8	6.0	6.9	7.3	8.5	8.8	9.5	10.4
ICICI Bank	5.7	4.5	4.3	4.3	4.3	4.3	4.2	4.5	4.5	4.9	5.2	5.7	6.2	6.5	6.5
Axis Bank	3.1	3.1	3.6	3.7	3.7	3.6	3.8	3.8	3.8	4.0	4.4	4.7	4.6	5.0	5.2
Kotak Bank	0.4	0.5	0.6	0.7	0.8	0.8	0.9	1.5	1.5	1.7	1.8	1.9	1.9	1.9	2.0
IndusInd Bank	0.6	0.6	0.7	0.7	0.8	0.8	0.9	1.0	1.2	1.3	1.5	1.5	1.7	1.8	1.9
Federal Bank	0.8	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.9	1.0	1.1	1.1	1.1	1.1	1.2
IDFC First									0.4	0.4	0.6	0.5	0.6	0.6	0.8
Yes Bank	0.4	0.6	0.9	0.8	1.0	1.0	1.1	1.2	1.3	1.7	1.8	0.8	1.1	1.2	1.2
Bandhan	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.1	0.2	0.3	0.3	0.4	0.5	0.6	0.6
RBL								0.3	0.3	0.4	0.5	0.4	0.5	0.5	0.5
PSU Banks															
SBI	19	18	18	18	18	18	18	18	19	24	23	24	24	25	25
BOB	5.0	5.4	5.9	6.5	7.0	7.4	7.2	6.1	5.6	5.2	7.3	7.0	6.4	6.4	6.7
PNB	5.5	5.6	6.0	6.4	5.8	5.8	5.8	5.9	5.8	5.6	5.4	5.2	7.3	7.0	7.1
Canara	4.9	5.2	5.6	5.5	5.3	5.4	5.5	5.1	4.6	4.6	4.8	4.6	6.7	6.6	6.5
Union Bank	3.6	3.8	3.9	3.8	3.9	3.8	3.7	3.7	3.5	3.6	3.3	3.3	6.1	6.3	6.2

Source: RBI, Company, IIFL Research. Note: Increase in deposit market share for Kotak due to merger with ING Vysya Bank in FY16, merger of SBI with its associate banks in FY18, merger of Vijaya Bank and Dena Bank with Bank of Baroda in FY19, merger of OBC and UBI with PNB in FY21, merger of Syndicate Bank with Canara Bank in FY21, and merger of Andhra Bank and Corporation Bank with Union Bank in FY21.

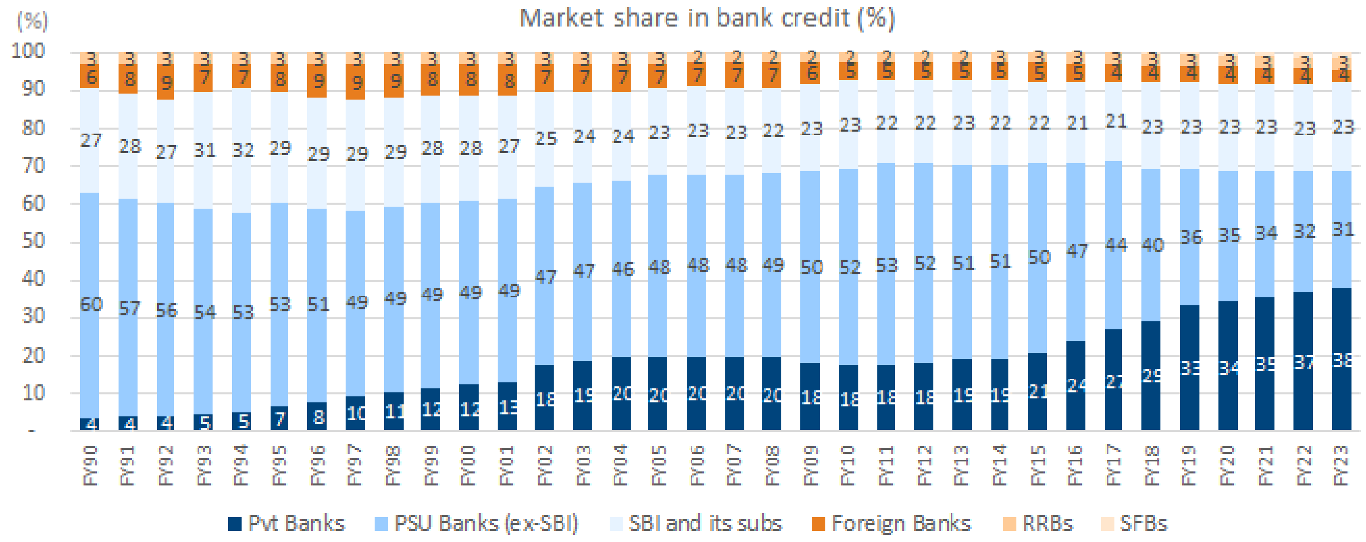
Figure 10.39: Time-series of CASA deposit market share for individual banks

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Private Banks															
HDFC Bank	4.7	5.2	5.5	5.5	5.7	5.9	6.5	6.8	7.2	7.3	7.6	8.6	9.3	10.0	10.2
ICICI Bank	4.7	5.0	5.1	5.1	5.0	5.1	5.3	5.6	5.7	6.1	6.3	6.2	6.5	6.9	6.6
Axis Bank	3.8	3.9	3.9	4.2	4.5	4.6	4.7	4.9	5.0	5.2	4.7	4.7	4.8	4.9	5.5
Kotak Bank	0.4	0.4	0.4	0.6	0.6	0.7	0.9	1.5	1.6	2.1	2.3	2.6	2.6	2.5	2.4
IndusInd Bank	0.3	0.4	0.5	0.5	0.6	0.7	0.8	0.9	1.1	1.4	1.6	1.4	1.6	1.7	1.7
Federal Bank	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.9	0.9	0.9
IDFC First									0.0	0.1	0.2	0.4	0.7	0.7	0.8
Yes Bank	0.1	0.2	0.2	0.3	0.5	0.6	0.7	0.9	1.2	1.6	1.5	0.5	0.6	0.8	0.8
Bandhan	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.2	0.3	0.4	0.5	0.5	0.5
RBL								0.1	0.2	0.2	0.3	0.3	0.4	0.4	0.4
PSU Banks															
SBI	20	21	22	21	21	21	21	21	21	25	25	25	25	24	23
BOB	4.2	4.3	4.4	4.8	4.9	5.3	5.3	4.4	4.5	4.5	6.0	5.9	5.8	5.8	5.8
PNB	6.0	6.1	6.0	6.2	6.2	6.2	6.0	6.0	6.0	5.6	5.5	5.4	7.4	7.1	6.6
Canara	4.2	4.1	4.2	3.7	3.5	3.7	3.7	3.6	3.5	3.5	3.4	3.5	5.0	4.9	4.5
Union Bank	3.1	3.2	3.2	3.2	3.3	3.2	3.0	3.2	3.0	3.0	2.9	2.8	5.1	5.0	4.9

Source: RBI, Company, IIFL Research. Note: Increase in deposit market share for Kotak due to merger with ING Vysya Bank in FY16, merger of SBI with its associate banks in FY18, merger of Vijaya Bank and Dena Bank with Bank of Baroda in FY19, merger of OBC and UBI with PNB in FY21, merger of Syndicate Bank with Canara Bank in FY21, and merger of Andhra Bank and Corporation Bank with Union Bank in FY21.

Annexures 3: Loans

Figure 10.40: Time-series of loan market share for different categories of banks



Source: RBI, IIFL Research

Figure 10.41: Time-series of loan market share for individual banks

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Private Banks															
HDFC Bank	3.5	3.8	4.0	4.1	4.4	4.9	5.4	6.2	7.0	7.6	8.4	9.5	10.3	11.3	11.4
ICICI Bank	7.9	5.6	5.5	5.4	5.4	5.5	5.8	6.0	6.1	6.1	6.3	6.4	6.9	7.2	7.4
Axis Bank	2.9	3.1	3.5	3.6	3.6	3.7	4.1	4.6	4.9	5.2	5.2	5.6	5.7	5.9	6.1
Kotak Bank	0.6	0.6	0.7	0.8	0.9	0.9	1.0	1.6	1.7	2.0	2.1	2.1	2.1	2.3	2.3
IndusInd Bank	0.6	0.6	0.6	0.7	0.8	0.9	1.0	1.2	1.4	1.7	1.9	2.0	2.0	2.0	2.1
Federal Bank	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.9	1.1	1.1	1.2	1.2	1.2	1.2
IDFC First									0.6	0.6	0.9	0.8	0.9	1.0	1.1
Yes Bank	0.4	0.7	0.8	0.8	0.9	0.9	1.1	1.3	1.7	2.3	2.5	1.9	1.7	1.6	1.5
Bandhan	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3	0.4	0.6	0.8	0.8	0.8
RBL								0.3	0.4	0.5	0.6	0.6	0.5	0.5	0.5
PSU Banks															
SBI	19.3	19.1	18.9	18.6	19.5	19.7	19.3	20.0	20.5	23.4	23.2	23.0	22.9	23.0	23.0
BOB	5.1	5.3	5.7	6.0	6.0	6.4	6.3	5.4	5.1	5.3	7.0	7.0	6.8	6.7	6.8
PNB	5.5	5.6	6.0	6.2	5.7	5.7	5.7	5.7	5.6	5.4	5.1	4.9	6.7	6.4	6.2
Canara	4.9	5.1	5.2	4.9	4.4	4.8	4.9	4.5	4.5	4.6	4.5	4.3	6.1	6.0	6.1
Union Bank	3.4	3.6	3.7	3.8	3.8	3.7	3.8	3.7	3.8	3.6	3.3	3.3	5.9	5.8	5.7

Source: RBI, Company, IIFL Research. Note: Increase in loan market share for Kotak due to merger with ING Vysya Bank in FY16, merger of SBI with its associate banks in FY18, merger of Vijaya Bank and Dena Bank with Bank of Baroda in FY19, merger of OBC and UBI with PNB in FY21, merger of Syndicate Bank with Canara Bank in FY21, and merger of Andhra Bank and Corporation Bank with Union Bank in FY21.

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Name, Qualification and Certification of Research Analyst: Rikin Shah(CA, CFA), Heet Khimawat(Chartered Accountant), Ryan Daniel(Chartered Accountant)

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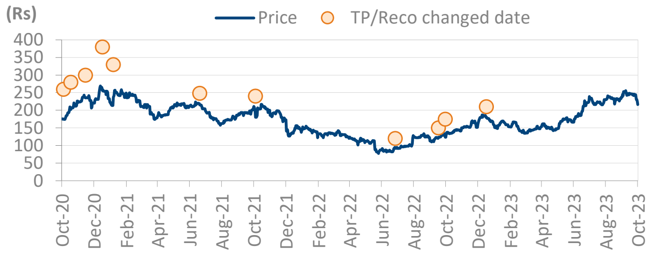

Date	Close price (Rs)	Target price (Rs)	Rating
11 Jan 2023	181	210	BUY
25 Oct 2022	133	175	BUY
12 Oct 2022	120	150	BUY
22 Jul 2022	95	120	BUY
29 Oct 2021	201	240	BUY
15 Jul 2021	219	248	BUY
01 Feb 2021	215	330	BUY
11 Jan 2021	265	380	BUY
10 Dec 2020	237	300	BUY
12 Nov 2020	206	280	BUY
29 Oct 2020	175	260	BUY
09 Oct 2020	174	250	BUY

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Name, Qualification and Certification of Research Analyst: Rikin Shah (CA, CFA), Heet Khimawat (Chartered Accountant), Ryan Daniel (Chartered Accountant)

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Stock Broker SEBI Regn.: INZ000164132, PMS SEBI Regn. No. INP000002213, IA SEBI Regn. No. INA000000623, SEBI RA Regn.:- INH000000248

Key to our recommendation structure

BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

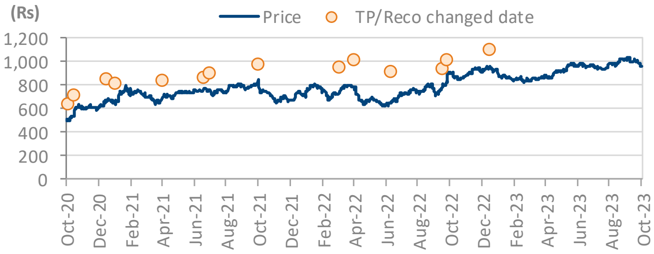
Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

Distribution of Ratings: Out of 268 stocks rated in the IIFL coverage universe, 126 have BUY ratings, 5 have SELL ratings, 89 have ADD ratings, 4 have NR ratings and 44 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

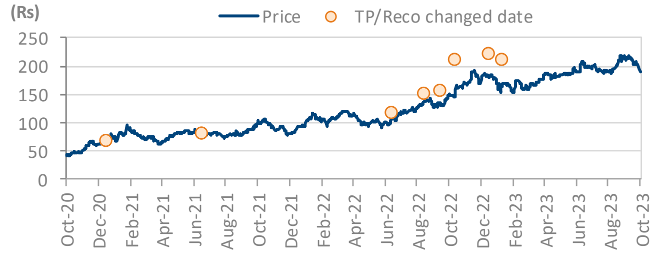
Axis Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
11 Jan 2023	952	1090	BUY
21 Oct 2022	826	1000	BUY
12 Oct 2022	786	930	BUY
08 Jul 2022	658	900	BUY
29 Apr 2022	780	1000	BUY
31 Mar 2022	750	940	BUY
27 Oct 2021	842	970	BUY
27 Jul 2021	756	890	BUY
15 Jul 2021	770	850	BUY
28 Apr 2021	700	830	BUY
28 Jan 2021	632	810	BUY
11 Jan 2021	673	840	BUY

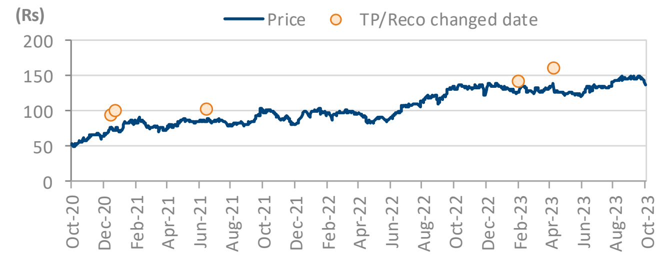
Date	Close price (Rs)	Target price (Rs)	Rating
12 Nov 2020	609	700	BUY
29 Oct 2020	505	630	BUY
09 Oct 2020	452	560	BUY

Bank of Baroda: 3 year price and rating history



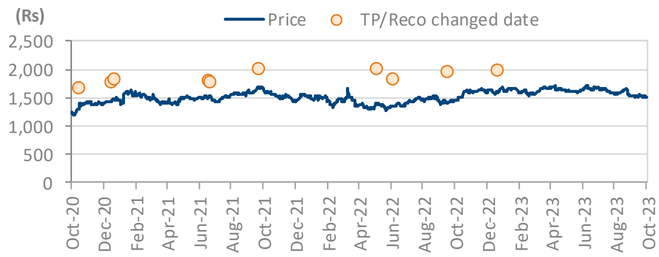
Date	Close price (Rs)	Target price (Rs)	Rating
06 Feb 2023	164	210	BUY
11 Jan 2023	181	220	BUY
07 Nov 2022	145	210	BUY
12 Oct 2022	130	155	ADD
09 Sep 2022	134	150	ADD
12 Jul 2022	110	115	REDUCE
15 Jul 2021	84	80	REDUCE
11 Jan 2021	60	66	REDUCE
09 Oct 2020	43	46	REDUCE

Federal Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
08 May 2023	128	160	BUY
01 Mar 2023	129	140	BUY
15 Jul 2021	90	100	BUY
21 Jan 2021	77	98	BUY
11 Jan 2021	76	93	BUY
19 Oct 2020	52	68	BUY
09 Oct 2020	52	65	ADD

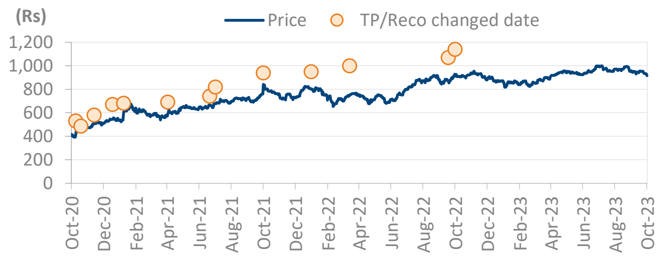
HDFC Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
20 Oct 2022	1218	1500	BUY
12 Oct 2022	1165	1400	BUY
16 Aug 2022	1080	1200	BUY
21 Jul 2022	879	1120	BUY
02 May 2022	979	1270	BUY
07 Apr 2022	968	1260	BUY
31 Jan 2022	904	1190	BUY
28 Oct 2021	1143	1500	BUY
28 Jul 2021	976	1140	BUY
15 Jul 2021	1053	1150	BUY
03 May 2021	935	1130	BUY
01 Feb 2021	846	1100	BUY

Date	Close price (Rs)	Target price (Rs)	Rating
11 Jan 2021	940	1130	BUY
12 Nov 2020	788	1030	BUY
02 Nov 2020	586	790	BUY
09 Oct 2020	618	770	BUY

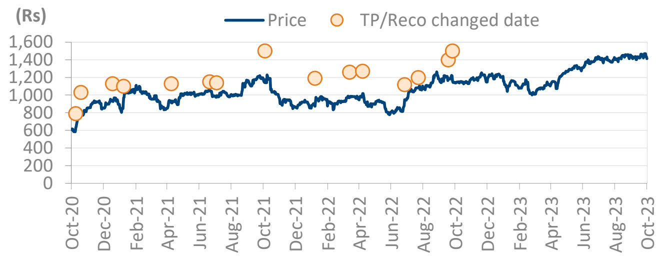
ICICI Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
25 Oct 2022	907	1140	BUY
12 Oct 2022	871	1070	BUY
07 Apr 2022	742	1000	BUY
24 Jan 2022	805	950	BUY
25 Oct 2021	759	940	BUY
26 Jul 2021	677	820	BUY
15 Jul 2021	664	740	BUY
26 Apr 2021	570	690	BUY
01 Feb 2021	537	680	BUY
11 Jan 2021	542	670	BUY
07 Dec 2020	502	580	BUY
12 Nov 2020	487	487	BUY

Date	Close price (Rs)	Target price (Rs)	Rating
02 Nov 2020	393	530	BUY
09 Oct 2020	388	500	BUY

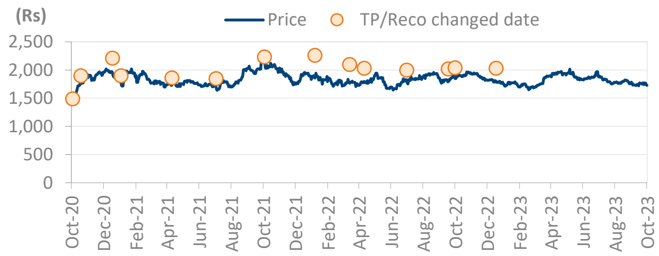
Indusind Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
20 Oct 2022	1218	1500	BUY
12 Oct 2022	1165	1400	BUY
16 Aug 2022	1080	1200	BUY
21 Jul 2022	879	1120	BUY
02 May 2022	979	1270	BUY
07 Apr 2022	968	1260	BUY
31 Jan 2022	904	1190	BUY
28 Oct 2021	1143	1500	BUY
28 Jul 2021	976	1140	BUY
15 Jul 2021	1053	1150	BUY
03 May 2021	935	1130	BUY
01 Feb 2021	846	1100	BUY

Date	Close price (Rs)	Target price (Rs)	Rating
11 Jan 2021	940	1130	BUY
12 Nov 2020	788	1030	BUY
02 Nov 2020	586	790	BUY
09 Oct 2020	618	770	BUY

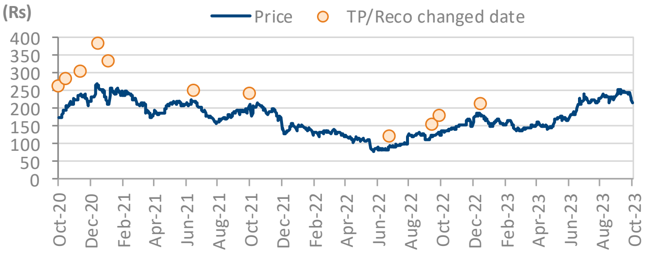
Kotak Mahindra Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
11 Jan 2023	1796	2030	ADD
25 Oct 2022	1903	2040	ADD
12 Oct 2022	1788	2020	ADD
25 Jul 2022	1827	2000	ADD
05 May 2022	1776	2030	ADD
07 Apr 2022	1779	2100	ADD
31 Jan 2022	1898	2260	ADD
27 Oct 2021	2211	2230	ADD
27 Jul 2021	1741	1850	ADD
04 May 2021	1725	1860	ADD
27 Jan 2021	1794	1900	ADD
11 Jan 2021	1971	2210	ADD

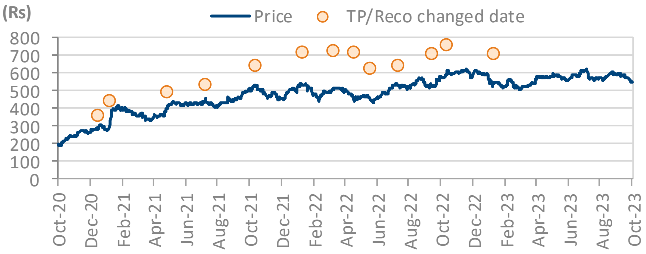
Date	Close price (Rs)	Target price (Rs)	Rating
12 Nov 2020	1808	1900	ADD
27 Oct 2020	1417	1490	ADD
09 Oct 2020	1320	1460	ADD

RBL Bank: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
11 Jan 2023	181	210	BUY
25 Oct 2022	133	175	BUY
12 Oct 2022	120	150	BUY
22 Jul 2022	95	120	BUY
29 Oct 2021	201	240	BUY
15 Jul 2021	219	248	BUY
01 Feb 2021	215	330	BUY
11 Jan 2021	265	380	BUY
10 Dec 2020	237	300	BUY
12 Nov 2020	206	280	BUY
29 Oct 2020	175	260	BUY
09 Oct 2020	174	250	BUY

State Bank of India: 3 year price and rating history



Date	Close price (Rs)	Target price (Rs)	Rating
06 Feb 2023	544	700	BUY
07 Nov 2022	594	750	BUY
12 Oct 2022	527	700	BUY
08 Aug 2022	532	640	BUY
14 Jun 2022	446	620	BUY
16 May 2022	445	710	BUY
07 Apr 2022	514	720	BUY
07 Feb 2022	530	710	BUY
08 Nov 2021	528	640	BUY
05 Aug 2021	457	530	BUY
24 May 2021	401	490	BUY
05 Feb 2021	355	440	BUY
11 Jan 2021	286	350	BUY
09 Oct 2020	192	260	BUY

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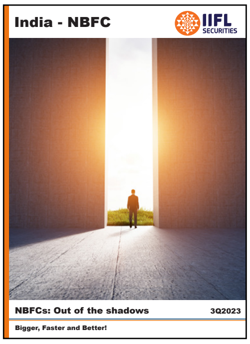

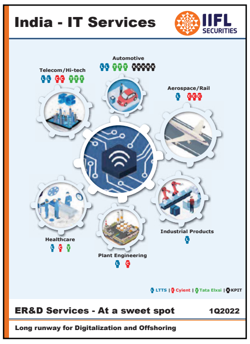

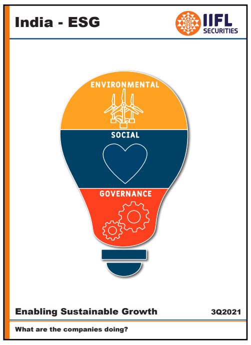

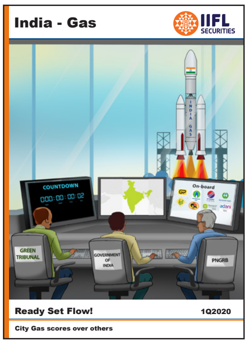

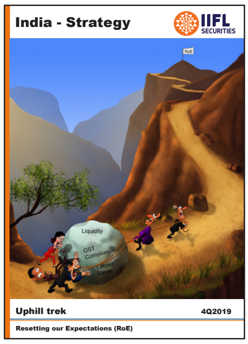

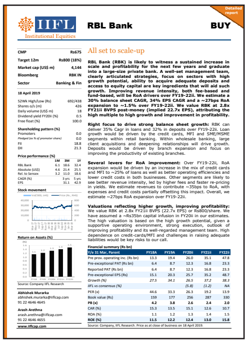

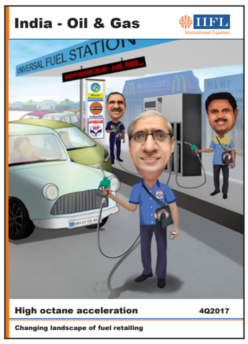

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