

NPA recognition to normalize; Asset quality and business outlook are the key things to watch

Stocks under Coverage	
<b>HDFC Bank Ltd</b>	
Rating	Accumulate
TP	1,647
<b>ICICI Bank Ltd</b>	
Rating	Accumulate
TP	647
<b>CSB Bank</b>	
Rating	Buy
TP	316
<b>State Bank of India</b>	
Rating	Buy
TP	463
<b>IndusInd Bank</b>	
Rating	Accumulate
TP	1151
<b>Axis Bank</b>	
Rating	Accumulate
TP	794
<b>IDFC First Bank</b>	
Rating	Accumulate
TP	60
<b>City Union Bank</b>	
Rating	Hold
TP	186
<b>DCB Bank</b>	
Rating	Reduce
TP	105
<b>Bandhan Bank</b>	
Rating	Accumulate
TP	355
<b>Manappuram Finance</b>	
Rating	Buy
TP	199
<b>Sundaram Finance</b>	
Rating	Hold
TP	2,070

Source: Arihant Research

Note: Our target prices are based on Q3FY21 results and it will be revised post Q4 results

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With the lifting of SC's order on asset classification, the real picture on asset quality is likely to reflect in Q4FY21 results which will aid clarity to asset quality of the bank. So far, overall trend on asset quality was better than expectation (based on proforma numbers). In Q4FY21, more focus will remain on asset quality outlook and restructuring book. With the start of recognizing NPAs, slippages are expected to be higher in Q4FY21 and there will be focus on recovery. Many of the banks have already made enough provisioning and carry additional provision buffers in their books which will lower their provisioning requirement for the quarter. Thus, aiding to the bottom-line performance. Credit cost of the banks are expected to remain elevated for the quarter.

On the business front, credit growth is expected to pick up gradually as compared to previous quarter led by growth in retail portfolio such as Housing loans, Gold loans, Auto loans etc. However, overall system loan growth remained marginally lower than last year's level. For the latest reported period (March'21), system credit growth was at 5.6% YoY as compared with last year's level of 6.1%. On liability front, overall deposits in the system continues to see strong flow with system deposits growth of 11.4% YoY from 11.3% in Q3FY21.

Operating profit of the banks is expected to remain healthy driven by lower cost of funds favoring NII growth. Hardening of bond yields from Q3FY21 level will impact treasury income of the banks. 10 year bond yields have risen from 5.9% in Q3FY21 to 6.2% at the end of Q4FY21. Margins of the bank are likely to remain stable. However, there could be some impact on margins due to recognition of NPAs.

Overall, mix results are expected from banking sector as loan growth is yet to pick up in the system and NPA recognition will be there. However, base effect and lower provisions as compared to previous quarter will support the bottom-line performance. The economy is showing signs of gradual recovery in the system, however, second wave of Covid cases pose a potential risks to the economic recovery.

**View: We continue to prefer large private sector banks and like SBI amongst PSBs on the back of their leadership position, strong capital ratio, drive towards credit cost normalization and improving efficiency. ICICI Bank and Axis Bank are our top pick amongst large private sector banks and CSB amongst small private sector banks. SBI is our preferred pick in PSU space.**

#### Key monitorables for the quarter:

- Outlook on asset quality and trend in restructuring book
- Commentary over business growth given the recent wave in covid case

## Q4FY21 Earnings Estimates:

in Cr.	Q4FY21E	Q4FY20A	Q3FY21A	YoY	QoQ	Remarks
<b>Axis Bank</b>						
NII	7,953	6,808	7,373	17%	8%	Axis Bank is expected to post advances growth of 6.5% in Q4FY21 while deposit growth is expected to remain strong. Restructuring book of the bank to remain under watch (It was 0.42% as on Q3FY21). BB & below book of the bank was Rs 8722 cr (1.37%) as on Q3FY21 and it will be key to watch out for.
PPOP	7,150	5,851	6,096	22%	17%	
PAT	2,760	-1,388	1,117	NA	147%	
<b>City Union Bank</b>						
NII	552	419	489	32%	13%	CUB's credit growth is expected to remain in the range of 7-8% YoY, supported by ECLGS. Management commentary on asset quality, restructuring will be key monitorable. Slippages to remain elevated. Cut in TD rates with improving CASA share is likely to support margins. Other income of the bank will remain subdued due to lower treasury income.
PPOP	397	335	458	18%	-13%	
PAT	120	-95	170	NA	-30%	
<b>Bandhan Bank</b>						
NII	1,997	1,680	2,072	19%	-4%	The bank is expected to post 19% NII growth followed by 16% growth in its operating profit. Credit cost to remain high given the stress on collections in key states of Assam. Asset quality of the bank will remain in check.
PPOP	1,757	1,521	1,914	16%	-8%	
PAT	376	517	633	-27%	-41%	
<b>DCB Bank</b>						
NII	308	324	335	-5%	-8%	The bank is expected to post marginal de-growth in its loan book. Credit cost to remain high on potential stress in SME/LAP book. Management commentary on asset quality to be keenly watched.
PPOP	189	212	277	-11%	-32%	
PAT	62	69	96	-10%	-35%	
<b>ICICI Bank</b>						
NII	10,154	8,927	9,912	14%	2%	NII of the bank is expected to increase by 14% YoY with operating profit growth of 12% YoY. Profit to remain strong partially base effect and drive towards credit cost normalization. Commentary on asset quality is a key monitorable given rising COVID cases.
PPOP	8,250	7,390	8,820	12%	-6%	
PAT	4,191	1,221	4,940	243%	-15%	
<b>IDFC First Bank</b>						
NII	1,953	1,563	1,744	25%	12%	NII growth should be strong at 25% YoY. Provision to remain higher in Q4FY21. Business growth momentum of the bank expected to remain strong while asset quality of the bank to remain in watchful.
PPOP	584	520	661	12%	-12%	
PAT	81	72	130	14%	-37%	
<b>HDFC Bank</b>						
NII	16,742	15,204	16,318	10%	3%	We expect a NII growth of 10% YoY with PPOP growth of 15% YoY. Margins of the bank is expected to remain steady. Profit of the bank is expected to grow by 28% YoY. Outlook on growth and asset quality are the key things to watch. Agri and unsecured book asset quality to remain watchful.
PPOP	14,849	12,959	15,186	15%	-2%	
PAT	8,849	6,928	8,758	28%	1%	
<b>SBI</b>						
NII	31,224	22,767	28,820	37%	8%	Profit growth of the bank expected to grow strongly due to lower expectation of provision as compared to previous quarter. NIMs to remain stable. Business growth is expected to show a healthy traction sequentially. 9MFY21 proforma slippages (annualized) + restructuring was at 2.1% of advances and credit cost was contained at 1.8%.
PPOP	17,823	15,734	17,333	13%	3%	
PAT	7,368	3,581	5,196	106%	42%	
<b>IndusInd Bank</b>						
NII	3,704	3,231	3,406	15%	9%	Good earning is expected from IndusInd bank given the base effect and lower provisioning. Asset quality and restructuring book to remain under watch. Margin is likely to remain stable. Deposits growth has been good from last two quarter.
PPOP	3,321	2,836	2,973	17%	12%	
PAT	1,091	302	853	261%	28%	
<b>Manappuram Finance</b>						
NII	1,037	1,025	1,087	1%	-5%	PPOP of the NBFC expected to remain healthy driven by controlled OPEX. Loan growth is expected to moderate as compared to previous quarter due to decline in gold prices. Collection efficiency (CE) in MFI to remain under watch. CE in MFI was at 99% (in. past dues).
PPOP	719	644	731	12%	-2%	
PAT	417	398	483	5%	-14%	
<b>Sundaram Finance</b>						
NII	536	426	538	26%	0%	Sundaram finance is expected to report strong quarter. NII growth is expected to grow by 26% followed by 36% growth in operating profit. NIM is expected to increase on the back of lower funding cost.
PPOP	382	281	390	36%	-2%	
PAT	227	131	242	73%	-6%	
<b>CSB Bank</b>						
NII	296	158	251	88%	18%	The bank has reported strong business performance during Q4FY21. In Q4FY21, gross advances of the bank grew by 27% driven by gold loan. Operating performance of the bank is expected to remain strong. We may see dip in its treasury income on sequential basis.
PPOP	172	107	182	61%	-6%	
PAT	80	-60	53	NA	50%	

Source: Aриhant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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