

Focus shifted back on asset quality; Operationally lower performance is expected while earnings expected to be strong

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Stocks under coverage

HDFC Bank Ltd	
Rating	Accumulate
TP	1,683
FY23E P/BV	3.2x
ICICI Bank Ltd	
Rating	Accumulate
TP	687
FY23E P/BV	2.4x
Axis Bank	
Rating	Accumulate
TP	798
FY23E P/BV	1.8x
State Bank of India	
Rating	Buy
TP	486
FY23E P/BV	1.2x
Bandhan Bank	
Rating	Hold
TP	328
FY23E P/BV	2.1x
IDFC First Bank	
Rating	Hold
TP	62
FY23E P/BV	1.5x
IndusInd Bank	
Rating	Accumulate
TP	1103
FY23E P/BV	1.5x
City Union Bank	
Rating	Hold
TP	187
FY23E P/BV	1.9x
DCB Bank	
Rating	Neutral
TP	102
FY23E P/BV	0.7x
CSB Bank	
Rating	Buy
TP	322
FY23E P/BV	2.1x
Manappuram Finance	
Rating	Buy
TP	197
FY23E P/BV	1.3x
Sundaram Finance	
Rating	Hold
TP	2,607
FY23E P/BV	3.6x

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With the second wave of covid which has kept economic activity lower and collection efficiency of the banks has impacted with an uptick in check bounce rate, focus will be back on the asset quality of banks. The regional lockdown imposed by states due to second wave has restricted the growth to some extent, despite of low base of previous year, which has kept sector loan growth subdued at ~6% and deposit growth continuing to grow at 10% YoY. Lower base of the last year & relatively lower provisioning will lead to earnings growth for the quarter. Collection efficiency, restructuring book and commentary on asset quality and growth would be the key monitorable for the quarter.

Operationally lower performance is expected but PAT is expected to be strong led by lower provisions: We expect banks under coverage to report strong 56% YoY earnings growth despite a weak PPOP growth of ~7% YoY primarily on account of NII growth of 12% YoY on the back of ~6% credit growth for the sector. Other income for the quarter is likely to be lower due to lower treasury income and sequentially lower fee income.

Credit growth for the sector was subdued while deposits base declined marginally but remained well: Credit growth for the banking sector remained subdued at ~6% (As on June 18, 2021) as compared to pre-covid loan growth rate of 7-11%. The overall credit growth continues to be driven by retail and agriculture segments. Whereas, slower growth in industry and services segment restricted the overall credit growth. On the other hand, MSME loans grew ~14% YoY with support of ECLGS scheme. Deposits growth of the sector has declined marginally from 11% in Mar'21 to 10.3% as on Jun'21. The lower growth rate in deposits can be partly attributed to the base effect and fall in deposits rate of banks. We expect CASA ratio to be broadly stable. We expect loan growth recovery to be slower due to second Covid wave and retail book will continue to dominate the overall loan growth.

Focus back on asset quality: Collection efficiency of the bank has declined in Apr/May'21 while Jun'21 has seen some pick-up. Slippages are expected to be higher resulting in higher GNPA's. However, the impact is expected to be lower than the covid 1.0 related lockdown imposed in the last year. Slippages for the quarter will mainly come from Retail and SME segment. Most of the bank has maintained strong provision buffer amidst uncertainties over macro economic. Large private sector banks are expected to withstand the impact of the second wave due to higher provision made in the previous quarters. Management commentary on collections and restructured assets would be the key focus area.

Outlook: Banks continue to be risk averse due to uncertainty led by pandemic and asset quality concerns. System credit growth stood subdued and asset quality outlook is uncertain. We expect larger private sector banks to report better operational performance as compared to mid/small sector banks. We continue to remain positive on large private sector banks like HDFC Bank, ICICI Bank and Axis Bank. SBI is our preferred pick in PSU space.

Q1FY22 Earnings Estimates:

in Cr.	Q1FY22E	Q1FY21A	Q4FY21A	YoY	QoQ	Remarks
Axis Bank						
NII	7,980	6,985	7,555	14%	6%	We expect NII growth of 14% YoY /6% QoQ supported by lower cost of funds & higher interest reversals in Q4FY21. Provisions expected to be lower on YoY. Earnings growth looks higher due to low base of last year.
PPOP	6,615	5,844	6,865	13%	-4%	
PAT	2,880	1,112	2,677	159%	8%	
City Union Bank						
NII	488	437	429	12%	14%	Loan growth expected to remain lower, primarily driven by Gold loan and MSME loans. Operating profit expected to de-grow by 2% YoY. Profit expected to decline due to higher provision.
PPOP	350	356	285	-2%	23%	
PAT	149	154	111	-4%	34%	
Bandhan Bank						
NII	2,161	1,812	1,757	19%	23%	Advances growth expected to remain healthy with strong deposits growth. NII is expected to grow by 19% YoY followed by 16% YoY growth in operating profit. PAT is expected to be lower due to higher provisions.
PPOP	1,844	1,584	1,729	16%	7%	
PAT	414	550	103	-25%	302%	
DCB Bank						
NII	343	307	311	12%	10%	We expect 26% yoy operating profit growth on the back of 12% NII growth. NIM is expected to remain largely stable. We expect PAT to grow by 11% on YoY basis. Asset quality of the bank is need to be watched.
PPOP	242	191	205	26%	18%	
PAT	88	79	78	11%	13%	
ICICI Bank						
NII	10,409	9,280	10,431	12%	0%	We expect NII growth of 12% YoY and flat on QoQ basis. Operating profit showing a de-growth of 16% YoY as in Q1FY21 there was INR 30.3 bn treasury income from stake sale. NIM to remain stable qoq at 3.8%.
PPOP	9,033	10,777	8,540	-16%	6%	
PAT	4,285	2,599	4,403	65%	-3%	
IDFC First Bank						
NII	2,035	1,626	1,960	25%	4%	NII expected to be strong at 25% YoY led by lowered rates by 100-150bps on savings deposits. We expect loan loss provisions (to decline yoy from a high base. Profit is expected to grow by 9% YoY.
PPOP	554	892	646	-38%	-14%	
PAT	102	94	128	9%	-20%	
HDFC Bank						
NII	17,785	15,665	17,120	14%	4%	We expect NII growth of 14% YoY led by loan growth of 14% YoY. Operating profit growth to be strong at 18% YoY. NIM is expected to remain stable. Profit is expected to grow by 22%YoY led by lower provisions on QoQ.
PPOP	15,199	12,829	15,533	18%	-2%	
PAT	8,137	6,659	8,187	22%	-1%	
SBI						
NII	29,455	26,642	27,067	11%	9%	SBI is expected to post 11% NII growth followed by same 11% growth in operating profit. Earnings look higher due to lower base of last year. Commentary on asset quality expected to be positive.
PPOP	18,415	16,521	19,700	11%	-7%	
PAT	7,989	4,189	6,451	91%	24%	
IndusInd Bank						
NII	3,459	3,309	3,535	5%	-2%	We expect strong earnings driven by base effect and lower provisioning. Loan growth is likely to be at 7% YoY. Deposits growth to remain strong. Commentary on CV portfolio, restructured book would be the key monitorable.
PPOP	3,121	2,861	3,062	9%	2%	
PAT	1,075	461	876	133%	23%	
CSB Bank						
NII	274	185	276	48%	-1%	The bank has reported healthy business performance during Q1FY22. In Q1FY22, gross advances of the bank grew by 24% driven by gold loan. Operating performance of the bank is expected to remain strong.
PPOP	159	129	129	23%	23%	
PAT	84	54	43	57%	95%	
Manappuram Finance						
NII	1,062	946	1,098	12%	-3%	PPOP of the NBFC expected to remain healthy driven by controlled OPEX. Loan growth is expected to be better than Q4FY21. Collection efficiency (CE) in MFI to remain under watch. PAT is expected to grow by 26% YoY.
PPOP	718	634	721	13%	0%	
PAT	464	368	468	26%	-1%	
Sundaram Finance						
NII	489	425	483	15%	1%	Sundaram finance is expected to report good quarter. NII growth is expected to grow by 15% followed by 27% growth in operating profit. NIM is expected to remain stable.
PPOP	356	280	369	27%	-4%	
PAT	232	166	209	40%	11%	

Source: Arihant 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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