

Credit growth at pre-covid high ; MTM losses to drag PPOP growth

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Stocks under coverage

HDFC Bank Ltd		
Rating		Buy
TP		1,864
FY24E P/BV		2.5x
ICICI Bank Ltd		
Rating		Buy
TP		971
FY24E P/BV		2.2x
Axis Bank		
Rating		Accumulate
TP		927
FY24E P/BV		1.4x
State Bank of India		
Rating		Buy
TP		660
FY24E P/BV		1.1x
Bandhan Bank		
Rating		Accumulate
TP		363
FY24E P/BV		1.7x
IndusInd Bank		
Rating		Buy
TP		1236
FY24E P/BV		1.1x
City Union Bank		
Rating		Accumulate
TP		147
FY24E P/BV		1.2x
DCB Bank		
Rating		Hold
TP		91
FY24E P/BV		0.5x
CSB Bank		
Rating		Buy
TP		327
FY24E P/BV		0.9x
Manappuram Finance		
Rating		Accumulate
TP		118
FY24E P/BV		0.7x
Sundaram Finance		
Rating		Accumulate
TP		1,927
FY24E P/BV		2.4x
Home First Finance		
Rating		Buy
TP		925
FY24E P/BV		3.2x

Source: Arihant Research

Raju Barnawal

raju.b@arihantcapital.com

022 6711 4870

We expect earnings of the bank to be impacted as operating profit will be lower during the quarter due to treasury loss. However, NII growth expected to be healthy on account of increased credit growth in the system. We estimate the earnings of our banking coverage universe to grow by 28% YoY and decline by 15% QoQ in Q1FY23E.

System Credit growth reached to its pre-covid high: As per the RBI's latest data, credit growth for the system improved to 13.2% YoY (As on 17th Jun'22) as compared to 9.6% in Mar'22 and 5.8% in Jun'21. The growth was led by, continued strength in the Retail and SME segment, while the Corporate segment is also seeing a gradual revival. Credit outstanding of the retail segment saw continued double-digit growth at 16% YoY supported by growth in personal loans, credit card, Home loan, unsecured business growth and consumer durable loans. Disbursement growth across several retail segment has surpassed pre-covid levels, while corporate growth was led by working capital requirements and increase in utilization levels.

The credit growth in the system was driven by utilization of working capital limits and growth in the retail segment. After witnessing modest growth in the recent years, the outlook for bank credit growth is expected to remain positive due to rise in government and private capital expenditure, implementation of PLI schemes and retail credit push. However, uncertain macro, rising inflation and rates can impact the demand environment.

As per the provisional numbers reported by the few banks shows strong recovery in loan growth. On the liabilities front, deposits growth for the system was 8.3% (as on 17th Jun'22) with steady accretion in CASA.

Healthy growth expected on NII front; MTM losses to drag operating profit growth: We expect banks under our coverage to report earnings growth of 28% YoY/-15% QoQ on the back of 16% YoY/3% QoQ growth in NII followed by lower 1% YoY growth in operating profit. Treasury profit would be subdued or negative in Q1FY23 due a significant rise in treasury yields. Margins of the bank to remain stable or witness marginal improvement supported by increased credit growth and increase in interest rate. The quantum of increase in yield on advances was higher than the increase in deposits cost.

No negative surprise expected on asset quality; Slippages expected to be stable or slight increase on a sequential basis: We expect slippages for the quarter to remain stable or slight increase is expected as compared to previous quarter. Recoveries continued to be expected on a higher side. Slippages from the corporate segment expected to be minimal. We expect credit cost to rise marginally on a sequential basis. The performance of the restructured and ECLGS book will be a key monitorable.

Outlook: Overall, we expect good quarter for the banking sector as credit growth increasing steadily, margin outlook remained steady or some improvement is anticipated and asset quality outlook expected to be stable. However, operating profit of the banks expected to be on lower side due to MTM losses on account of increase in bond yields. GNPA ratio is expected to decline further for the sector driven by recoveries and upgrades.

We maintain our positive view on the large private sector banks and HDFC Bank, ICICI Bank and IndusInd Bank are our top pick in the sector. SBI is our preferred pick in PSU space.

Q1FY23 Earnings Estimates:

in Cr.	Q1FY23E	Q1FY22A	Q4FY22A	YoY	QoQ	Remarks
Axis Bank						
NII	9,103	7,760	8,819	17%	3%	NII growth of the bank expected to be healthy due to healthy loan growth and yield on advances. Operating profit of the bank expected to be lower due to low treasury income. Margins are expected to remain steady.
PPOP	6,325	6,416	6,466	-1%	-2%	
PAT	3,632	2,160	4,118	68%	-12%	
City Union Bank						
NII	522	448	501	17%	4%	We expect strong NII growth of ~17% YoY driven by healthy loan growth expectations. Operating profit expected to be weak due to treasury loss. Management commentary on growth and asset quality would be the key thing to watch out for.
PPOP	373	383	440	-3%	-15%	
PAT	201	173	209	16%	-4%	
Bandhan Bank						
NII	2,459	2,114	2,540	16%	-3%	Margins are expected to witness slight compression at 8.5-8.6%. Credit cost and slippages would be key monitorable for the quarter, especially after the Assam floods impact. Bank in its Q1FY23 business update has reported decline in microfinance portfolio collection efficiency. Advances and deposits book has de-grown on QoQ basis.
PPOP	2,225	1,871	2,521	19%	-12%	
PAT	866	373	1,902	132%	-54%	
DCB Bank						
NII	374	309	380	21%	-2%	NII growth expected to be at 21% YoY. PAT is expected to decline sharply QoQ on account of lower treasury income. Slippages expected to remain elevated. Performance on the restructuring book would be key to watch.
PPOP	209	201	221	4%	-5%	
PAT	86	34	113	155%	-24%	
ICICI Bank						
NII	13,038	10,936	12,605	19%	3%	Loan growth of the bank expected to be strong at >17%. NII growth expected to be at 19% YoY while operating profit growth will be muted sequentially due to low other income growth. Margin is expected to be stable.
PPOP	10,320	8,894	10,293	16%	0%	
PAT	6,407	4,616	7,019	39%	-9%	
HDFC Bank						
NII	19,785	17,009	18,873	16%	5%	HDFC Bank has reported strong business performance during Q1FY23 with loan growth of >20%. NII growth of the bank expected to be strong at 16% YoY/5% QoQ. We expect NIM to be in the range of 4%.
PPOP	16,653	15,137	16,357	10%	2%	
PAT	9,308	7,730	10,055	20%	-7%	
SBI						
NII	31,651	27,638	31,198	15%	1%	Operating profit of the bank expected to be impacted significantly due to treasury loss. With lower PPOP, PAT growth expected to be weak. NII growth expected to be healthy at 15% YoY/1% QoQ. NIM to be stable QoQ.
PPOP	16,609	18,975	19,717	-12%	-16%	
PAT	6,979	6,504	9,114	7%	-23%	
IndusInd Bank						
NII	4,029	3,564	3,985	13%	1%	Loan growth for the quarter was strong at 18% YOY as per Q1FY23 business update. Operating profit growth expected to be on weaker side due to treasury loss. NIM is expected to be stable at 4%. Asset quality to remain under watch.
PPOP	3,145	3,131	3,329	0%	-6%	
PAT	1,344	975	1,361	38%	-1%	
CSB Bank						
NII	304	268	304	13%	0%	NII growth expected to be healthy while operating profit growth expected to be impacted from treasury losses. PAT expected to decline 45% sequentially due to decline in PPOP. Loan growth for the quarter was steady.
PPOP	134	175	142	-23%	-6%	
PAT	72	61	131	18%	-45%	
Manappuram Finance						
NII	976	1,070	987	-9%	-1%	Yield is expected to improve marginally on QoQ basis as bank has discontinued teaser loan rate. AUM growth expected to be steady. Credit cost expected to remain elevated due to provisioning on MFI portfolio side.
PPOP	526	698	495	-25%	6%	
PAT	324	437	261	-26%	24%	
Sundaram Finance						
NII	543	492	529	10%	3%	NII of the company is expected to increase by 10% YoY/3% QoQ. Operating profit for the quarter to grow by 6% YoY. PAT growth would be higher at 44% on YoY basis. AUM growth to remain steady.
PPOP	358	338	350	6%	2%	
PAT	276	192	299	44%	-8%	
Home First Finance						
NII	101	82	99	24%	2%	Company is expected to clock another quarter of healthy growth in AUM and disbursements. NII growth expected to be at 24% YoY followed by 16% growth in operating profit. PAT expected to be strong at 59% YoY.
PPOP	70	61	66	16%	7%	
PAT	56	35	60	59%	-7%	

Source: Arihant Research, Company

Arihant Research Desk

Email: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House 6, Lad Colony Indore - 452003, (M.P.) Tel: (91-731) 4217100 Fax: (91-731) 4217199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	instresearch@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880