ArihantCapital
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1st Oct 2020

Banking & NBFC Sector Q2FY21 Preview

Mostly under-control NPAs; fresh disbursals picking up gradually to drive for some growth in the year

HDFC Bank Ltd	
Rating	Accumulate
TP	1,257
Upside	19%
ICICI Bank Ltd	
Rating	Accumulate
TP	425
Upside	17%
State Bank of India	
Rating	Buy
TP	245
Upside	31%
IndusInd Bank	
Rating	Neutral
TP	557
Upside	0%
Axis Bank	
Rating	Accumulate
TP	535
Upside	22%
IDFC FIRST Bank	
Rating	Buy
TP	39
Upside	28%
City Union Bank	
Rating	Hold
TP	133
Upside	-1%
Bandhan Bank	
Rating	Hold
TP	383
Upside	37%
Manappuram Finance	
Rating	Accumulate
TP	184
Upside	18%
Sundaram Finance	
Rating	Hold
TP	1,461
Upside	11%

Source: Arihant Research

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Looking vulnerable amid Asset Quality concerns:

- Large Private Banks like **ICICI Bank and Axis Bank** have completed the NPA cycle from the under-rated corporate exposures and now have a high rated corporate asset/loan exposure. Hence, defaults from the corporate book will be minimal for these banks due to the pandemic. Asset Quality of ICICI Bank will deteriorate to the extent of 75/25 bps for the GNPA & NNPA to 6.31% & 1.41% respectively in the coming quarters while of that of Axis Bank will deteriorate to 6.5% & 2.5%.
- Asset Quality of **HDFC Bank and Kotak Mahindra Bank** are of top notch quality, from both corporate/wholesale book as well as retail book. Among the wholesale book, the borrowers are high rated customers while in the retail segment, the book contains mostly people from salaried class and other high credit worthy customers. Hence, both these banks will see the least spike in their NPA levels among the banking sector and HDFC Bank will command higher valuations in the time to come. GNPA/NNPA levels of these 2 banks to spike by around 40/15 bps for the GNPAs/NNPAs respectively in the subsequent quarters. However, any such spike in NPA levels will be written off within 6 months-1 year time, thereby presenting a cleaner balance-sheet.
- **SBI and other PSBs** have high exposure to corporates as well as SMEs and rural customers. However, large number of customers of SBI belong to salaried class or PSU employees across the nation. Hence, the retail segment will not have much of any impact for SBI's assets due to the pandemic. Also, since rural parts weren't much affected with the lockdowns, the Agri segment would also perform well. The large Corporate & SME segment of SBI will bring in stress to the bank's balance sheet, with significant impact from its diverse large asset portfolio, e.g. textiles, hospitality, real-estate, etc.
- **IndusInd Bank and IDFC FIRST Bank** among the mid level private banks with assets more than 1 lakh crore. IndusInd Bank has exposure to all the high impact sectors, with the likes of Lease Rental, Real-Estate, Gems & Jewellery, NBFCs and HFCs, etc., in order of majority. Therefore, we can expect heavy fluctuations in asset quality of IndusInd Bank, with GNPAs/NNPAs increasing to 3.50%/1.10% respectively in the current quarter. On the other hand, IDFC FIRST bank, is expected to post NIMs above 4.5%, mild/negligible growth in portfolio and a tightening of the balance sheet to oust the remaining non-performing assets, of which several had undergone moratorium/already provided half the exposure to these SMAs. The asset quality is expected to deteriorate the GNPA/NNPA levels by 60 bps/20 bps respectively in the subsequent quarters.

We elaborate further as per the asset exposures of the banks.

Q2FY21 Earnings Estimates:

(Rs Cr)	Q2FY21E	Q2FY20A	Q1FY21A	Remarks
State Bank of India				
NII	27,898	24,600	26,642	SBI will see healthy increase in interest income driven by healthy credit growth and stable NIM. New deposits will dwarf the fresh disbursals, but lending activities have picked up pace by the end of the quarter.
PPOP	18,652	14,714	16,521	
PAT	4,064	3,012	4,189	
HDFC Bank				
NII	16,234	13,515	15,665	HDFC Bank's highly disciplined management to almost double provisions YoY as the moratorium ended previous month. Lending has already picked up substantially with high NIMs.
PPOP	13,884	11,698	12,829	
PAT	6,789	6,345	6,659	
ICICI Bank				
NII	9,567	8,057	9,280	ICICI Bank's NIMs to stay above 3.5% for the next several quarters, with positive sequential loan book growth for the bank. Bank may have to provide similar to last quarter.
PPOP	11,265	6,874	10,776	
PAT	3,087	655	2,599	
Axis Bank				
NII	6,257	6,102	6,985	Axis Bank’s deposit growth is expected to remain strong while loan growth will remain in a low double digit. Some deterioration is expected on asset quality front.
PPOP	6,068	5,952	5,844	
PAT	1,615	-112	1,112	
IndusInd Bank				
NII	3,403	2,910	3,309	IndusInd Bank to witness a high interest income increase along with spike in NPA ratios of its impacted sector loan accounts. Provisioning to remain high.
PPOP	2,977	2,600	2,861	
PAT	631	1,383	461	
IDFC FIRST Bank				
NII	1,631	1,363	1,626	IDFC FIRST Bank's loan growth will remain stalled/marginal positive but deposit base will soar. Provisioning also to remain high with concerns on Toll, Infra and utility assets quality.
PPOP	884	418	892	
PAT	196	-680	94	
City Union Bank (CUB)				
NII	404	412	437	CUB’s Credit growth will remain in the range of 8-10% YoY, supported by ECLGS. NIM to be in the range of 3.9-4.0%. Profit growth will remain subdued due to higher provision.
PPOP	276	346	356	
PAT	104	194	154	
Bandhan Bank				
NII	1,801	1,529	1,812	Bandhan Bank’s MFI moratorium book is expected to come down from 30% with improving collection efficiency. Deposit growth is expected to remain strong. Provisions to remain low on a sequential basis.
PPOP	1,531	1,307	1,584	
PAT	808	972	550	
DCB Bank				
NII	273	313	307	Loan growth to remain in a single digit. Moratorium % need to be watch which was 26% in Q1FY21. Provisioning to remain high and some spike in NPA ratio is expected.
PPOP	155	208	191	
PAT	66	115	79	
Manappuram Finance (MFL)				
NII	974	862	946	MFL’s gold loan AUM growth is expected to remain healthy driven by higher gold prices. MFI loan book growth to remain low with some stress on asset quality. NIM will remain above 15%.
PPOP	570	496	634	
PAT	391	404	368	
Sundaram Finance (SUF)				
NII	444	467	425	On a sequential basis, SUF’s profit is expected to grow by mere 1%. Loan growth to remain subdued on the back of CV cycle downturn.
PPOP	316	375	280	
PAT	167	269	166	

Industry Wise Exposure:

Industry-wise exposure of SBIs Loan Portfolio (Q1FY21)

SBI Loans Sector-wise (Rs Cr)	Amount	% Share
Infrastructure	330,661	16.2%
of which:		
Power	194,354	9.5%
Telecommunication	38,583	1.9%
Roads & Ports	61,547	3.0%
Other Infrastructure	36,176	1.8%
Services	253,866	12.4%
Iron & Steel	54,527	2.7%
Aviation & Airports	6,933	0.3%
Tourism & Hotels	9,548	0.5%
Textiles	33,273	1.6%
Petroleum & Petrochemicals	33,089	1.6%
Engineering	20,486	1.0%
Commercial Real Estate	41,880	2.1%
Other Industries	303,770	14.9%
Total Corporate & SME	1,088,032	
Home Loans	455,443	22.3%
Auto Loans	70,151	3.4%
Other Retail Loans	223,206	10.9%
Agriculture	204,288	10.0%
Total Domestic Advances	2,041,120	100.0%

Power sector revenues have stabilized to almost pre-Covid levels.

These 3 segments are facing the worst scenario ever. Of-course, will take a long time to over come

This sector will also take time to revive. Current consumer confidence is too low with Covid spread.

Home Loans, Personal Loans etc, are the strongest support for SBI as borrowers generally belong to the salaried class PSU employees.

Corporate Rating of Loan Assets	Jun-19	Jun-20
BBB & Above	86%	85%
BB & Below	14%	15%

Source: Arihant Research, Company Website

Being SBI has its own pros and cons. Despite the banking sector reducing low rated assets from their portfolio, SBI being Public sector bank, has not been able to improve the rating profile of its portfolio.

For SBI, the credit rating of the borrower, however, does not reflect its resilience against defaults. However, some sectors could run trouble, especially from the likes of Textiles, Commercial Real Estate, etc.

Industry Wise Exposure:

Industry-wise exposure of HDFC Bank's Loan book (FY20 ended)

HDFC Bank - Sector Wise (Rs Cr)	Q4FY20
Auto Loans	83,935
Personal Loans	115,557
CVs	29,045
Loans against securities	1,801
2- wheelers	9,855
Business banking	64,124
Credit cards	57,575
Home loans	63,445
Gold loans	5,430
Kisan Gold cards	43,301
Others	20,331
Total Retail	494,401
Wholesale	
Corporate	230,000
Emerging Corporate	90,000
Business Banking	80,000
CV/CE	34,951
Others	64,351
Total Wholesale*	499,302

Source: Arihant Research, Company Website

Auto Loans, Personal Loans, etc are the high quality credit rated middle income group customers of HDFC Bank with least risk.

Business banking has been a growth driver segment for all banks, but also carries more risk compared to traditional wholesale lending.

The unsecured portfolio of Credit Cards and Personal Loans are actually one of the best credit worthy accounts across all banks in India. Some stress is expected to arise from the CV/CE and business banking segment.

Industry-wise exposure of Kotak Mahindra Bank's Funded & Non-funded Exposure (Q1FY21)

Loan Book Exposure (Rs Cr)	Jun-20	% Share
Home Loans & LAP	47,168	23.1%
Consumer Bank WC	18,240	8.9%
PL, BL & Consumer Durables	9,088	4.5%
Credit Cards	4,343	2.1%
CV/CE	18,442	9.0%
Agricultural Division	19,548	9.6%
Tractor Finance	7,503	3.7%
Corporate Banking	58,119	28.5%
SME	18,048	8.8%
Others	3,499	1.7%
Total Advances	203,998	100.0%

Source: Arihant Research, Company Website

Strong and high rated customer profile to maintain high asset quality from the Home Loans and other unsecured assets.

High concentration of CV/CE segment in overall book.

Asset Quality of highest credit worthiness from the retail segment, and some concentration of CV/CE to cause marginal stress. KMB to almost maintain asset quality.

Industry Wise Exposure:

Industry-wise exposure of ICICI Bank's Funded & Non-funded Exposure (Q1FY21)

ICICI Sector-wise Exposure (Rs Cr)	Amount	% Share
Power	35,725	2.9%
Telecommunication	17,247	1.4%
Roads & Ports	29,566	2.4%
Banks	76,378	6.2%
Electronics & Engineering	66,523	5.4%
Trade	35,725	2.9%
Services Non-Finance	33,261	2.7%
Petroleum & Petrochemicals	77,610	6.3%
Construction	29,566	2.4%
Retail Finance	505,079	41.0%
Services Finance	104,712	8.5%
Others	220,510	17.90%
Total Domestic Advances	1,231,900	100.0%

Power sector revenues have stabilized to almost pre-Covid levels.

Stress developed more, specially with most banks refraining from Road and Port asset exposure.

Very High concentration of Petroleum and Petrochemicals sector.

Credit rating of Overall Loan	Mar-20	Jun-20
BBB & Above	97%	97%
BB & Below, NPA & Unrated	3%	3%

ICICI Bank has improved rating profile of its overall loanbook.

Source: Arihant Research, Company Website

Industry-wise exposure of Axis Bank's Funded & Non-funded Exposure (Q1FY21)

Sector Wise Corporate (Rs Cr)	Total Exposure	% Share
Financial Companies	68,194	9.8%
Engineering & Electronics	36,810	5.3%
Infrastructure Construction	26,714	3.8%
Petroleum & Petrochemicals	24,856	3.6%
Power Gen & Distrib.	23,879	3.4%
Telecommunication	22,374	3.2%
Iron & Steel	18,161	2.6%
Trade	17,477	2.5%
Chemicals & Chemical Products	17,271	2.5%
Real Estate	16,859	2.4%
Other All		60.9%
Total	272,595	100.0%

Heavy stress from some of the corporates from these high impact sectors.

High stress in real estate sector could cause immense loss for the bank

Credit rating of Overall Loan	Mar-20	Jun-20
BBB & Above	97%	98%
BB & Below, NPA & Unrated	3%	2%

Axis Bank has also improved rating profile since the last couple of years.

Source: Arihant Research, Company Website

Industry Wise Exposure:

Industry-wise exposure of IndusInd Bank's Advances Portfolio (Q1FY21)

IndusInd Bank (Rs Cr)	Share (%)	Jun-20
Lease Rental	4.35%	8,616
Real Estate	3.67%	7,269
Steel	3.14%	6,219
Gems & Jewellery	3.08%	6,101
NBFCs	2.56%	5,071
Power generation	1.45%	2,872
Telecom- Cellular	1.26%	2,496
Housing Finance Companies	1.20%	2,377
Services	1.13%	2,238
Food Beverages	1.06%	2,100
Roads & Other Infra Projects	1.01%	2,000
Other Industry	18.49%	36,623
Corporate Banking	**42.40%**	**83,986**
Vehicle Loans	29.00%	57,506
CV	12.00%	23,737
UV	2.00%	4,360
Small CV	2.00%	3,606
2-Wheeler	3.00%	5,774
Car Loans	4.00%	7,245
Tractors	2.00%	4,673
Equipment Financing	4.00%	8,111
Non-Vehicle Loans	17.00%	33,111
Business Banking	6.00%	10,896
Loans against Property	5.00%	9,469
Credit Cards	2.00%	4,775
BL, PL, AL, Others	4.00%	7,971
Micro-finance	12.00%	23,466
Consumer Finance	**57.60%**	**114,083**
Total Advances		**198,069**

High stressed and concentrated segments.

High risk assets in the overall portfolio.

Growth impacted here with high mix of vehicle financing, and some stress from CV segment also.

Source: Arihant Research, Company Website

Industry Wise Exposure:

Exposure of IDFC FIRST Bank's Funded Exposure (Q1FY21)

IDFC FIRST Bank (Rs Cr)	Amount	% Share
Mortgage	20,288	19.5%
MSME Loans	9,775	9.4%
Consumer Loans	19,211	18.5%
JLG (MFI)	6,769	6.5%
Total Retail Funded Assets	56,043	53.9%
Retail Book as % of Total Funded Assets	53.9%	0.0%
Corporate	24,510	23.6%
Emerging Large Corporates	*6,411*	6.2%
Large Corporates	*1,832*	1.8%
Financial institutions Group	*12,036*	11.6%
Others	*4,231*	4.1%
Infrastructure	13,416	12.9%
Total Wholesale Funded Assets	37,926	36.5%
Priority Sector Lending (Certificates)	7,732	7.4%
Stressed Equity & Stressed SRs	2,347	2.3%
Total Wholesale Funded Assets & Others	48,005	46.1%
Total Funded Assets	104,048	100.0%

Source: Arihant Research, Company Website

Retail Loans with low asset quality risk.

Rise of NPAs from some Infra, toll, utility asset is a possibility.

Break-up of City Union Bank's loan book (Q1FY21)

City Union Bank (Rs Cr)	Amount	% Share
Agriculture	5,433	15.7%
MSME	11,030	31.9%
Large Industries	2,178	6.3%
Retail Traders	780	2.3%
Wholesale Traders	4,504	13.0%
Commercial Real Estate	2,821	8.2%
Jewel Loan Non Agriculture	821	2.4%
Housing Loans	*2,286*	6.6%
Other Personal Loans	*986*	2.9%
Loans Collateralized By Deposits	*517*	1.5%
Infrastructure	*369*	1.1%
NBFCs	249	0.7%
Others	2,562	7.4%
Total	34,536	100.0%

Source: Arihant Research, Company Website

Agri portfolio to remain healthy.

MSME segment is most impacted due to pandemic. However, Government's ECLGS scheme would be the key drivers of growth.

Gold portfolio to remain strong while personal loan, housing loan are less impacted

Industry Wise Exposure:

Industry-wise exposure of Bandhan Bank Loan Portfolio (Q1FY21)

Bandhan Bank	Jun-20	% Share
Micro-finance	47,478	63.9%
Mortgages	19,561	26.3%
Retail	662	0.9%
NBFC-MFI	2,721	3.7%
NBFC-Others	758	1.0%
SME	3,150	4.2%
Total	74,331	100.0%

Collection efficiencies are improving in MFI segment at (>80%) and expected to reach upto 90% by October

Made strong provision buffer at (>2% AUM)

Industry-wise exposure of Sundaram Finance Loan Portfolio (Q1FY21)

Sundaram Finance Ltd	Jun-20	% Share
CVs	15,589	52.7%
Cars	7,247	24.5%
Construction Equipment	3,195	10.8%
Tractors	1,893	6.4%
Others	1,656	5.6%
Total	29,580	100.0%

Some stress from CV segment as CV cycle still in low trend.

With reasonably better sales in PV segment during Q2FY21 as compared to Q1, Car portfolio is expected to witness some gain

Industry-wise exposure of Manappuram Finance Loan Portfolio (Q1FY21)

Manappuram Finance Limited	Jun-20	% Share
Gold Loans	17,737	70.0%
Microfinance	5,038	19.9%
Housing Finance	627	2.5%
Vehicle Finance	1,270	5.0%
Other Loans	673	2.7%
Total	25,346	100.0%

With the rising gold prices, Gold loan AUM is expected to remain healthy.

MFI segment is expected to witness some stress as loan growth is expected to remain low and asset quality to witness some pressure.

However, Collection trend are improving

Source: Arihant Research, Company Website

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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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