

Earnings momentum to remain strong; Lower stress formation expected as compared to previous quarter

Stocks under coverage

HDFC Bank Ltd	
Rating	Accumulate
TP	1,721
FY23E P/BV	3.4x
ICICI Bank Ltd	
Rating	Accumulate
TP	810
FY23E P/BV	2.5x
Axis Bank	
Rating	Accumulate
TP	853
FY23E P/BV	1.8x
State Bank of India	
Rating	Accumulate
TP	533
FY23E P/BV	1.2x
Bandhan Bank*	
Rating	Neutral
TP	300
FY23E P/BV	2.2x
IDFC First Bank	
Rating	Hold
TP	57
FY23E P/BV	1.2x
IndusInd Bank*	
Rating	Accumulate
TP	1,095
FY23E P/BV	1.6x
City Union Bank	
Rating	Hold
TP	168
FY23E P/BV	1.9x
DCB Bank	
Rating	Neutral
TP	95
FY23E P/BV	0.6x
CSB Bank	
Rating	Accumulate
TP	375
FY23E P/BV	1.8x
Manappuram Finance	
Rating	Neutral
TP	201
FY23E P/BV	1.4x
Sundaram Finance	
Rating	Neutral
TP	2,588
FY23E P/BV	3.4x
Indostar Capital	
Rating	Buy
TP	437
FY23E P/BV	0.9x

* TP achieved; Will revise our TP in upcoming result update
Source: Arihant Research

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With the rising pace of vaccination, relaxation in state wise lockdown norms since June' 21, recovery in business momentum has led to uptick in economic activity. In most of the retail segment, credit growth has shown pick up like Mortgage segment, Vehicle finance, Card segment etc. Large industries credit growth is yet to pick up while MSME industry would continue to grow further due to extension of ECLGS scheme.

Bank credit growth on upswing led by retail: As per RBI's latest data, credit growth for the system improved to 6.7% YoY (As on 24th Sept'21) as compared to 5.8% in Jun'21. The overall credit growth continues to be driven by retail and agriculture segments. The provisional growth numbers for Q2FY22 reported by few banks have shown pick up in credit growth with strong performance by IndusInd Bank and HDFC Bank. With upcoming festive season leading to pick up in retail credit, further improvement in economic activity, we believe loan growth to improve further in H2FY22 as well. Corporate credit growth remained moderated due to delay in capex revival and unutilized credit limit. On liability side, deposits growth of the sector stood at 9.3% (as on Sep'21) vs. 9.5% in the previous fortnight. 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 witness improvement on sequential basis.

Strong earnings growth is expected while operating performance is expected to be healthy: We expect banks under our coverage to report strong 30% YoY/18% QoQ earnings growth on the back of 9.5% YoY/4% QoQ growth in NII followed by 11.7% YoY/1.4% QoQ growth in operating profit. Earnings to gain momentum led by increase in credit growth, strong business recovery leading to fee income and expectation of gradual reduction in credit cost. Margins to remain stable or slight uptick can be seen. Pick up in loan growth (primarily retail) and low cost of funds would keep margins in range bound.

Slippages/Restructuring to remain elevated; expected to be lower than earlier: Slippages for the quarter expected to remain elevated but the fresh NPA formation is likely to be lower than the previous quarter. Collection efficiency started improving gradually, recoveries are expected to be better with resolution of DHFL and improving economy activity which will lead to some moderation in NPA. Due to likelihood of the SREI group downgrade, Corporate slippages may see uptick. Restructuring will see an marginal increase qoq. Management commentary on asset quality front and on business front would be the key monitorable.

Outlook

With recovery in business, pick up in economic activities and if there is no severe 3rd wave of Covid, we believe loan growth of the bank to accelerate further and asset quality to witness meaningful improvement from H2FY22E. We remain watchful of the slippages and restructuring numbers for Q2FY22. 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 and ICICI Bank. SBI is our preferred pick in PSU space.

Q2FY22 Earnings Estimates:

in Cr.	Q2FY22E	Q2FY21A	Q1FY22A	YoY	QoQ	Remarks
Axis Bank						
NII	8,162	7,326	7,760	11%	5%	Bank is expected to post 11% YoY growth in NII while PPOP is expected to grow by 1% YoY. Margins to remain stable at ~3.5%. Loan growth is expected to inch up sequentially.
PPOP	6,949	6,898	6,416	1%	8%	
PAT	3,011	1,683	2,160	79%	39%	
City Union Bank						
NII	481	475	448	1%	7%	CUB earnings are expected to remain low at 5% YoY. NII of the bank is expected to increase by 1% YoY followed by 2% YoY growth in PPOP. Restructuring will be key monitorable (it was ~5.5% in Q1FY22).
PPOP	392	385	383	2%	2%	
PAT	165	158	173	5%	-5%	
Bandhan Bank						
NII	2,145	1,923	2,114	12%	1%	Bandhan Bank is expected to post 17% QoQ increase in its net profit. Credit cost of the bank is expected to remain elevated given the stress in MFI. Delinquencies number would be the key thing to watch.
PPOP	1,894	1,628	1,871	16%	1%	
PAT	437	920	373	-53%	17%	
DCB Bank						
NII	318	334	309	-5%	3%	DCB Bank is expected to post good jump in net profit on QoQ basis. Credit cost of the bank is expected to remain elevated. Advances of the bank is expected to witness marginal uptick on sequential basis.
PPOP	214	225	201	-5%	7%	
PAT	66	82	34	-20%	94%	
ICICI Bank						
NII	11,047	9,366	10,936	18%	1%	ICICI Bank is expected to post another good quarter. Net profit of the bank is expected to increase by 15% YoY/6% QoQ. NIM of the bank is expected to remain stable at ~3.9%. Loan growth is expected to remain strong.
PPOP	9,538	8,261	8,894	15%	7%	
PAT	4,910	4,251	4,616	15%	6%	
IDFC First Bank						
NII	2,046	1,660	2,185	23%	-6%	NII expected to be strong at 23% YoY. PPOP to show sharp growth due to other income component. In the base quarter Q2FY21, other income was less as there was one off. Company is expected to report profit vs. loss in the previous quarter.
PPOP	765	342	1,001	123%	-24%	
PAT	260	101	-630	157%	NA	
HDFC Bank						
NII	18,135	15,776	17,009	15%	7%	HDFC Bank in its business update has reported strong advances growth. Earnings growth expected to be at 14% YoY. PPOP is expected to increase by 15% with NII growth of 15%. Margins to remain broadly in the range of ~4.1-4.2%
PPOP	15,886	13,814	15,137	15%	5%	
PAT	8,541	7,513	7,730	14%	10%	
SBI						
NII	28,915	28,182	27,638	3%	5%	NII of the bank is expected to increase by 3% YoY/5% QoQ followed by 10% YoY growth in operating profit. NIM is expected to stay above ~3%. Restructured assets and asset quality would be key monitorable.
PPOP	18,096	16,460	18,975	10%	-5%	
PAT	7,426	4,574	6,504	62%	14%	
IndusInd Bank						
NII	3,591	3,278	3,564	10%	1%	Bank in its Q2FY22 business update posted a good growth in advances (+5% QoQ). Operating performance expected to remain good as compared to Q1FY22. NIM to be in the range of ~4%. Asset quality to remain under watch.
PPOP	3,101	2,831	3,131	10%	-1%	
PAT	1,102	647	975	70%	13%	
CSB Bank						
NII	249	229	268	8%	-7%	CSB Bank performance is expected to moderate as compared to previous quarter. NII growth to remain at 8% YoY. Q2FY22 business performance of the bank was on moderation side due to softness in gold loan. NIM to witness decline.
PPOP	163	173	180	-6%	-9%	
PAT	78	69	61	13%	28%	
Manappuram Finance						
NII	1,028	995	1,070	3%	-4%	PPOP of the NBFC expected to grow by 4% YoY. NII growth is expected to be at 3% YoY. Loan growth number and asset quality in MFI would be the key monitorable.
PPOP	666	640	698	4%	-5%	
PAT	463	405	437	14%	6%	
Sundaram Finance						
NII	534	478	492	12%	9%	Sundaram finance is expected to post good quarter. NII growth is expected to grow by 12% followed by 15% growth in operating profit. NIM is expected to remain stable.
PPOP	384	334	338	15%	14%	
PAT	230	192	192	20%	20%	
Indostar Capital Finance						
NII	172	148	126	16%	36%	Indostar Capital's Q2FY22 performance expected to be on better side. We are expecting it to back into profit. Disbursements growth is to remain strong. Billing efficiency of the company stood in the range of +95%.
PPOP	81	51	33	60%	144%	
PAT	45	32	-37	43%	NA	

Source: Arianth 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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