ArihantCapital
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10th Jan 2022 | **Banking & NBFC Sector Q3FY22 Preview**

Credit growth gaining momentum; Earnings expected to remain healthy

Stocks under coverage	
HDFC Bank	
Rating	Accumulate
TP (INR)	1,935
FY24E P/BV	2.8x
ICICI Bank	
Rating	Buy
TP (INR)	942
FY24E P/BV	2.5x
Axis Bank	
Rating	Hold
TP (INR)	942
FY24E P/BV	1.5x
State Bank of India	
Rating	Buy
TP (INR)	689
FY24E P/BV	1.2x
Bandhan Bank	
Rating	Neutral
TP (INR)	296
FY24E P/BV	1.8x
IDFC First Bank	
Rating	Accumulate
TP (INR)	60
FY24E P/BV	1.1x
IndusInd Bank	
Rating	Accumulate
TP (INR)	1322
FY24E P/BV	1.1x
City Union Bank	
Rating	Accumulate
TP (INR)	189
FY24E P/BV	1.2x
DCB Bank	
Rating	Neutral
TP (INR)	95
FY24E P/BV	0.6x
CSB Bank	
Rating	Buy
TP (INR)	371
FY24E P/BV	1.3x
Manappuram Finance	
Rating	Hold
TP (INR)	219
FY24E P/BV	1.1x
Sundaram Finance	
Rating	Neutral
TP (INR)	2,592
FY24E P/BV	2.9x
Indostar Capital	
Rating	Buy
TP (INR)	439
FY24E P/BV	0.7x
Home First Finance	
Rating	Accumulate
TP (INR)	938
FY24E P/BV	3.6x

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With the rising pace of vaccination and pick up in economic activity, business outlook of the banks continues to improve and credit growth in the system picking up albeit gradually. Most of the retail segment showing healthy sign of revival with strong demand in Mortgage segment, Vehicle finance and unsecured loans. However, Corporate segment growth remain muted as capex cycle yet to revive fully.

Bank credit growth continues to be driven by retail: As per RBI's latest data, credit growth for the system improved to 7.3% YoY (As on 3rd Dec'21) as compared to 6.7% in Sep'21. The overall credit growth continues to be driven by retail segment and uptick in business activities coupled with a lower base. The credit of the retail/personal loans segment grew by 11.6% YoY in Nov' 21 (continued strong performance after registering growth of 12.1% in Sept'21 and 11.7% in Oct' 21) primarily on account of growth in other personal loans, housing, vehicles, and gold loans due to continued improvement in business activities post lockdowns, festive seasons and push for the retail credit by banks with conducting credit outreach programs. Corporate credit growth remained moderated due to delay in capex revival and unutilized credit limit. The provisional growth numbers for Q2FY22 reported by few banks have shown accelerating trends in the advances growth. On liability side, deposits growth of the sector stood at 9.3% (as on 3rd Dec'21) vs. flat in Sep'21. The outlook for bank credit growth is expected to be in the range of 8.0%-9.0% for FY22E with a low base effect, economic expansion, rise in capex (specially, capex for roads, renewables and PLI schemes and retail credit push on mortgage finance as well as small ticket lending.

Earnings momentum is expected to be healthy: We expect banks under our coverage to report strong 32% YoY/22% QoQ earnings growth on the back of 13% YoY/3% QoQ growth in NII followed by 12% YoY/8% QoQ growth in operating profit. Earnings to gain momentum led by increase in credit growth, healthy fee income and expectation of gradual reduction in credit cost. Margins to remain stable or slight compression can be expected.

Slippages to decline sequentially; Credit cost to moderate gradually: Slippages for the quarter expected to decline sequentially leading to improvement in asset quality coupled with better recovery trend. Slippages to be mainly from the Retail and SME segment while no major slippages is expected from the Corporate segment. No major addition expected in the restructuring portfolio. Management commentary on asset quality front would be the key monitorable, especially given the uncertainty around the third wave.

Outlook: With improvement in business outlook and pick up in economic activities, we believe loan growth of the bank to accelerate further and asset quality to witness improvement. However, severity of ongoing third wave to remain under watch. Commentary on the growth outlook, capex revival, and the margin outlook would be the key monitorable. We expect larger private sector banks continue 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.

Q3FY22 Earnings Estimates Snapshot:

in Cr.	Q3FY22E	Q3FY21A	Q2FY22A	YoY	QoQ	Remarks
Axis Bank						
NII	8,043	7,373	7,900	9%	2%	Axis Bank is expected to post 9% YoY growth in NII while PPOP is expected to grow by 7% YoY/10% QoQ. Margins to remain stable at ~3.7%. Loan growth is expected to inch up on a sequential basis.
PPOP	6,547	6,096	5,928	7%	10%	
PAT	3,228	1,117	3,133	189%	3%	
City Union Bank						
NII	528	489	478	8%	10%	CUB earnings expected to grew by 16% YoY. NII to increase by 8% YoY. PPOP expected to decline by 12% YoY led by weak treasury income.
PPOP	402	458	405	-12%	-1%	
PAT	197	170	197	16%	0%	
Bandhan Bank						
NII	2,098	2,072	1,935	1%	8%	Bandhan bank in its business update has reported AUM growth of 6.6% YoY. Credit cost of the bank expected to moderate compared to the previous quarter. Delinquencies number would be the key things to watch.
PPOP	1,921	1,914	1,549	0%	24%	
PAT	478	633	-3,009	-24%	NA	
DCB Bank						
NII	332	335	323	-1%	3%	PPOP of the bank expected to decline by 27% YoY as NII expected to decline by 1% YoY and lower non-interest income due to lower treasury gains. We expect PAT to decline ~20% YoY due to weak operating performance.
PPOP	203	277	175	-27%	16%	
PAT	77	96	65	-20%	18%	
ICICI Bank						
NII	11,894	9,912	11,690	20%	2%	ICICI Bank is expected to post another good quarter. We expect PPOP growth of ~19% YoY. Net profit of the bank is expected to increase by 16% YoY/4% QoQ. Loan growth is expected to remain strong.
PPOP	10,471	8,820	9,915	19%	6%	
PAT	5,726	4,940	5,511	16%	4%	
IDFC First Bank						
NII	2,365	1,744	2,272	36%	4%	NII expected to be strong at 36% YoY. PPoP is expected to register a growth of 11% YoY/6% QoQ. Net profit of the bank is expected to report an increase of 103% YoY.
PPOP	733	661	693	11%	6%	
PAT	264	130	152	103%	74%	
HDFC Bank						
NII	18,086	16,318	17,684	11%	2%	HDFC Bank in its business update has reported strong advances growth. Earnings growth expected to be at 14% YoY/13% QoQ. PPOP expected to increase by 9% YoY with NII growth of 11% YoY. Margins to remain stable at ~4%.
PPOP	16,524	15,186	15,807	9%	5%	
PAT	9,972	8,758	8,834	14%	13%	
SBI						
NII	32,600	28,820	31,184	13%	5%	NII of the bank is expected to increase by 13% YoY/5% QoQ followed by 14% YoY growth in operating profit. NIM is expected to be in the range of 3-3.1%. Treasury income expected to be lower QoQ.
PPOP	19,837	17,333	18,079	14%	10%	
PAT	7,898	5,196	7,627	52%	4%	
IndusInd Bank (IIB)						
NII	3,840	3,406	3,658	13%	5%	IIB in its business update posted strong advances growth of +10% YoY. Profit is expected to increase by 46% YoY/12% QoQ. Asset quality to remain under watch led by stress in MFI segment. NIM to remain stable at ~4-4.1%.
PPOP	3,308	2,973	3,174	11%	4%	
PAT	1,249	853	1,114	46%	12%	
CSB Bank						
NII	260	251	278	4%	-7%	CSB Bank reported healthy growth in advances led by non-gold business. NII growth of the bank expected to be at 4% YoY. Operating profit expected to be at 6% QoQ.
PPOP	158	182	149	-13%	6%	
PAT	86	53	119	63%	-27%	
Manappuram Finance						
NII	1,013	1,087	1,040	-7%	-3%	PPOP of the NBFC expected to grow by 12% QoQ. NII growth is expected to de-grow by 7% YoY led by margin compression. Commentary on gold loan demand and asset quality performance in MFI would be the key monitorable.
PPOP	648	731	580	-11%	12%	
PAT	412	482	370	-15%	11%	
Sundaram Finance						
NII	612	538	608	14%	1%	Sundaram finance is expected to post NII growth of 14% YoY followed by 16% YoY growth in operating profit. NIM is expected to remain largely stable.
PPOP	453	390	444	16%	2%	
PAT	288	242	211	19%	36%	
Indostar Capital Finance						
NII	182	155	147	17%	23%	Q3FY22 performance of the company is expected to be on better side. Disbursements growth expected to remain strong. Earnings expected to increase by 30% QoQ.
PPOP	88	77	50	15%	76%	
PAT	51	24	39	111%	30%	
Home First Finance						
NII	83	52	81	58%	2%	Company is expected to deliver another quarter of strong performance with strong growth in disbursements. Asset quality is expected to report marginal improvement led by improvement in collection efficiency.
PPOP	54	29	60	89%	-9%	
PAT	40	16	45	152%	-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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