ArihantCapital

Earnings momentum to remain strong; Loan growth improving

Stocks under coverage

HDFC Bank Ltd	
Rating	Buy
ТР	1,910
FY24E P/BV	2.8x
ICICI Bank Ltd	
Rating	Buy
TP	968
FY24E P/BV	2.3x
Axis Bank	2.57
Rating	Buy
TP	942
FY24E P/BV	1.6x
State Bank of India	1.04
	Dung
Rating	Buy
	689
FY24E P/BV	1.2x
Bandhan Bank	
Rating	Hold
TP	323
FY24E P/BV	2.1x
IDFC First Bank	
Rating	Accumulate
ТР	60
FY24E P/BV	1.0x
IndusInd Bank	
Rating	Accumulate
ТР	1,322
FY24E P/BV	1.2x
City Union Bank	
Rating	Accumulate
ТР	189
FY24E P/BV	1.2x
DCB Bank	
Rating	Hold
TP	91
FY24E P/BV	0.6x
CSB Bank	
Rating	Buy
TP	371
FY24E P/BV	1.1x
Manappuram Finance	
Rating	Buy
TP	160
FY24E P/BV	0.9x
Sundaram Finance	0.5X
Rating	Neutral
TP	
FY24E P/BV	2,373
	2.6x
Home First Finance	
Rating	Buy
	917
FY24E P/BV	3.3x

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Arihant Capital Markets Ltd

We expect earnings trajectory of the bank to gain momentum driven by healthy loan growth, improving asset quality trends and lower provisions. We estimate the earnings of our banking coverage universe to grow by 47% YoY/8% QoQ in Q4FY22E.

Credit growth trend improving: As per the RBI's latest data, credit growth for the system improved to 8.5% YoY (As on 11th Mar'22) as compared to 5.6% in Mar'21 and 8.2% in Jan'22. On a sequential basis, credit offtake was slower then the 9.1% reported in Dec'21. However, sector showing signs of revival as credit growth had been muted since the onset of the pandemic and was in the range of 6-7% over the last two years. The overall credit growth continues to be driven by retail and SME segment while Corporate segment also started witnessing revival mainly for working capital needs. With the focus on the expansion of capex and infrastructure by the government, credit offtake could increase for the industry.

The credit of the retail loans segment continued its double-digit growth at 12.3% YoY in Feb'22 driven by growth in personal loans, vehicles, unsecured loans and consumer durable segment. As per the provisional numbers reported by the banks shows a recovery in loan growth and the industry is likely to report growth at ~10-11% levels. On the liabilities front, deposits growth for the system was 8.8% (as on 11th Mar'22) with healthy accretion in CASA.

Earnings growth expected to be strong: We expect banks under our coverage to report strong earnings growth of 47% YoY/8% QoQ on the back of 18% YoY/4% QoQ growth in NII followed by 13% YoY growth in operating profit. Margins to remain stable or slight compression can be expected due to higher competition amongst lenders. Operating expenses will see sequential increase as disbursements and collection activity has gained momentum. With continuous increase in interest rates, trading gains expected to be in lower range.

Asset quality trend expected to be positive, credit cost to remain lower: We expect slippages for the quarter to decline sequentially leading to improvement in asset quality coupled with better recovery and upgrades trend. Slippages from the corporate segment expected to be minimal. Good improvement seen in collection efficiency for MFI lenders as per their provisional performance. We expect credit cost to come down and there are some expectation of utilization of contingency buffer in Q4FY22E. Performance of the restructuring pool will be key monitorable.

Outlook: Overall, we expect good quarter for the banking sector with continued outperformance by large private sector banks. Loan growth of the industry is on a systematic rise which is expected to accelerate going forward. and asset quality to witness improvement. We expect further improvement in asset quality ratios but the performance of restructured book would be a key monitorable. Commentary on the growth outlook, capex revival, and the margin outlook will be the key to watch. We maintain our positive view on the large private sector banks and HDFC Bank, ICICI Bank and Axis Bank are our top pick in the sector. SBI is our preferred pick in PSU space

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Q4FY22 Earnings Estimates:

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Source: Arihant Research

Banking & NBFC Sector Q4FY22 Preview

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Tel. : 022-42254800

NEUTRAL REDUCE

SELL

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Mumbai – 400093	Tel: (91-731) 3016100
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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%

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-5% to 5%

-5% to -12%

<-12%

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