

Earnings momentum to remain strong; Loan growth improving

Stocks under coverage

HDFC Bank Ltd	
Rating	Buy
TP	1,910
FY24E P/BV	2.8x
ICICI Bank Ltd	
Rating	Buy
TP	968
FY24E P/BV	2.3x
Axis Bank	
Rating	Buy
TP	942
FY24E P/BV	1.6x
State Bank of India	
Rating	Buy
TP	689
FY24E P/BV	1.2x
Bandhan Bank	
Rating	Hold
TP	323
FY24E P/BV	2.1x
IDFC First Bank	
Rating	Accumulate
TP	60
FY24E P/BV	1.0x
IndusInd Bank	
Rating	Accumulate
TP	1,322
FY24E P/BV	1.2x
City Union Bank	
Rating	Accumulate
TP	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	
Rating	Neutral
TP	2,373
FY24E P/BV	2.6x
Home First Finance	
Rating	Buy
TP	917
FY24E P/BV	3.3x

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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 than 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

Q4FY22 Earnings Estimates:

in Cr.	Q4FY22E	Q4FY21A	Q3FY22A	YoY	QoQ	Remarks
Axis Bank						
NII	9,196	7,555	8,678	22%	6%	We expect NII growth of 22% YoY /6% QoQ supported by healthy loan growth. Operating profit growth expected to be lower due to lower treasury income and normalization of operating expense.
PPOP	6,953	6,865	6,187	1%	12%	
PAT	4,016	2,677	3,639	50%	10%	
City Union Bank						
NII	517	429	490	21%	5%	We expect NII growth of 21% YoY (due to lower base) while other income growth expected to be muted due to lower treasury income. The performance of restructured loans and loans under ECLGS would be the key monitorable.
PPOP	349	285	370	23%	-5%	
PAT	172	111	196	54%	-13%	
Bandhan Bank						
NII	2,648	1,757	2,125	51%	25%	Bank has reported strong operational performance in its Q4FY22 business updates with strong collection efficiency. Deposits growth was also strong. PAT expected to be strong on a sequential basis due to lower credit cost.
PPOP	2,573	1,730	1,950	49%	32%	
PAT	1,168	103	859	1034%	36%	
DCB Bank						
NII	362	311	345	16%	5%	We expect 16% YoY growth in NII followed by 14% growth in operating profit. We expect PAT to grow ~13% yoy on the back of lower provisions. Commentary on asset quality need to be watch.
PPOP	233	205	199	14%	17%	
PAT	88	78	75	13%	17%	
ICICI Bank						
NII	12,510	10,431	12,236	20%	2%	We expect another quarter of strong performance by ICICI Bank. PPOP growth expected to be strong at 25% YoY. Asset quality performance to be positive. Margin expected to be stable at 4%.
PPOP	10,677	8,540	10,148	25%	5%	
PAT	6,407	4,403	6,194	46%	3%	
IDFC First Bank						
NII	2,664	1,960	2,580	36%	3%	NII expected to be strong at 36% YoY. Operating profit growth expected to be 29% YoY/9% QoQ. Profit growth would be higher. Margin, asset quality performance and business performance need to be watch.
PPOP	836	646	770	29%	9%	
PAT	300	128	281	135%	7%	
HDFC Bank						
NII	19,811	17,120	18,443	16%	7%	HDFC Bank has reported robust performance in its Q4FY22 business update. We expect NII growth at ~16% YoY led by solid loan growth of ~21% YoY. PPOP growth expected to be at 13% YoY due to lower other income growth.
PPOP	17,577	15,533	16,776	13%	5%	
PAT	9,992	8,187	10,342	22%	-3%	
SBI						
NII	31,061	27,067	30,687	15%	1%	We expect NII growth of the bank to be at 15% YoY/1% QoQ followed by 7% YoY/14% QoQ growth in operating profit. Treasury income will be lower. Asset quality to remain steady with moderation in credit cost.
PPOP	21,153	19,700	18,522	7%	14%	
PAT	10,152	6,451	8,432	57%	20%	
IndusInd Bank						
NII	3,887	3,535	3,794	10%	2%	Bank has reported 13% YoY growth in advances and 15% growth in deposits. NII growth of the bank to be at 10% with 11% growth in PPOP. Margin is likely to be stable. MFI portfolio and restructured portfolio performance will be key monitorable.
PPOP	3,412	3,062	3,205	11%	6%	
PAT	1,487	876	1,161	70%	28%	
CSB Bank						
NII	280	276	303	1%	-8%	The bank has reported sequential improvement in business performance during Q4FY22 with advances growth of 9% YoY. Gold loan portfolio increased sequentially. NII growth expected to be lower.
PPOP	153	129	148	18%	3%	
PAT	64	43	148	49%	-57%	
Manappuram Finance						
NII	814	1,098	953	-26%	-15%	NII growth of the company expected to witness decline due to decline in yield profile. Operating profit expected to report decline of 32% YoY with PAT de-growth of 35% YoY. Margins will be key monitorable.
PPOP	493	721	431	-32%	14%	
PAT	302	468	261	-35%	16%	
Sundaram Finance						
NII	581	483	541	20%	7%	Sundaram finance is expected to report healthy quarter. NII growth is expected to grow by 20% followed by 28% growth in operating profit. NIM is expected to remain stable.
PPOP	471	369	364	28%	29%	
PAT	247	209	202	18%	22%	
Home First Finance						
NII	88	73	89	21%	-1%	We expect AUM growth to remain strong led by strong disbursements. NII growth expected to be at 21% YoY followed by 19% YoY growth in operating profit. We expect credit cost to moderate QoQ as recoveries to be stronger.
PPOP	60	51	65	19%	-7%	
PAT	42	31	46	33%	-9%	

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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