

Indian Banking Sector

1QFY25 Preview: Slow at the 'core', soft at the 'margin'

We estimate the profits for our banking coverage universe to grow +6.9%YoY (ex-HDFCB) in 1QFY25 (+7.8% YoY for private banks, +5.9% YoY for PSU banks). Growth is expected to remain slightly soft given the effect of seasonality coupled with impact of elections. We expect 14.9%YoY (ex-HDFCB) growth in loans and 12.7% YoY growth in deposits (ex-HDFCB). PPOP growth for our coverage stands at 6.7% YoY (ex-HDFCB) (7.5% for Pvt banks and 5.3% for PSU banks) for 1QFY25 with NII estimated to grow at 9.5% YoY (ex-HDFCB) (9.7% for private banks and 9.3% YoY for PSU banks) . While RBI continues to hold its purse strings tight, systemic credit growth (at 16.1% YoY adj. for HDFCB merger) has remained steady. We anticipate further moderation in unsecured loans as banks continue to react to regulatory caution on these products. Deposit growth continues to lag credit growth, especially for private banks, hence, LDRs will remain the focal point of discussion, given the regulator's discomfort at current levels. Cost of deposits continue to inch up albeit at a more gradual pace than seen previously and we also believe that system is possibly reaching a peak (or should we say plateau?) in deposit rates. This is likely to weigh on NIMs in 1HFY25 and thus keep NII momentum in check for the sector as a whole. Meanwhile, margins for PSU banks in our coverage is expected to remain largely stable given their lower LDRs and will likely see a peak as and when rates come off. We forecast a slight moderation in opex intensity of our coverage as private banks manoeuvre operating costs to alleviate NIM pressures. For PSU banks, respite from wage hike related provisions should aid PPOP trajectory. While credit quality for banks have remained largely benign until now, we expect it to normalise going forward and thereby build in a uptick in credit costs emanating primarily from retail segments. However, returns trajectory is likely to remain stable for our coverage. Valuations remain close to long-term averages and banks remain one of the few pockets of value. Notwithstanding the valuation argument, we see growth (NII, PPOP) and asset quality to be more critical factors for sector re-rating and thus maintain our circumspect stance ([Jan-24 report](#)) . We continue to prefer larger banks and our key picks are ICICIB, AXSB.

- **Margins expected to come off; LDR remains a key monitorable:** We expect NII momentum to remain in check for the sector as a whole, as clamour for deposit continues given the tight liquidity conditions. In our view, cost of deposits will continue to have a bearing on NIMs in 1HFY25. Meanwhile, margins for PSU banks in our coverage is expected to remain largely stable given their lower LDRs and will likely see a peak as and when rates come off. As deposit growth is still expected to trail credit growth, LDR ([Exhibit 4](#)) continues to be a key monitorable given the regulatory diktat. With the seasonality in the quarter coupled with elections, we don't expect a meaningful change in LDR for private banks. Meanwhile, PSU banks continue to fare well on this front.
- **Personal loan growth moderates; Industry credit picks up:** Despite continuing tight liquidity conditions and the impact of elections, banking credit growth has remained steady at 19.8% YoY (16.1% adj. for HDFC merger) as of May 31st, 2024. While credit to services sector continues to remain buoyant (+20.7% YoY), credit to industry accelerated to 8.9% YoY (vs 6% in May '23) with further uptick expected going forward, as capex picks up. Growth in retail loans reduced to 17.8% YoY (vs 19.1% a year ago). Within retail, while growth in unsecured segments has come off from Oct'23 levels, there remains scope for further moderation. We expect loan growth for our coverage at 21.1% YoY (+14.9% YoY ex-HDFCB) and 2% QoQ (+2.1% QoQ ex-HDFCB).
- **Opex to moderate; Credit costs to see an uptick:** We forecast a slight moderation in opex intensity of our coverage (-3.8% QoQ) as private banks manoeuvre operating costs to mitigate NIM pressures. For PSU banks, respite from wage hike related provisions should aid PPOP trajectory. While credit quality for banks have remained largely benign until now, we expect it to normalise going forward and thereby build in a uptick in credit costs emanating primarily from retail segments. However, returns trajectory is likely to remain stable for our coverage.



Sameer Bhise

sameer.bhise@jmfml.com | Tel: (91 22) 66303489

Raghvesh

raghvesh@jmfml.com | Tel: (91 22) 66303099

Mayank Mistry

mayank.mistry@jmfml.com | Tel: (91 22) 62241877

Gayathri Shivaram

gayathri.shivaram@jmfml.com | Tel: (91 22) 66301889

Shreyas Pimple

Shreyas.Pimple@jmfml.com | Tel: (91 22) 66301881

Private Banks	CMP (INR)	TP (INR)	Upside (%)	Reco.
AXSB	1,280	1,330	4%	BUY
BANDHAN	211	260	23%	BUY
CUBK	170	155	-9%	HOLD
DCBB	138	150	9%	HOLD
FB	181	175	-4%	HOLD
HDFCB	1,769	2,010	14%	BUY
ICICIB	1,202	1,330	11%	BUY
IIB	1,456	1,900	31%	BUY
KMB	1,811	1,760	-3%	HOLD
YES	24	18	-25%	SELL
PSU Banks				
BOB	268	270	1%	BUY
CBK	117	120	3%	BUY
PNB	122	100	-18%	HOLD
SBIN	840	1,050	25%	BUY
SFBs				
AUBANK	666	675	1%	BUY
EQUITASB	95	124	31%	BUY
UJJIVANS	44	65	47%	BUY

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

- **Valuations and view:** Valuations remain close to long-term averages and banks remain one of the few pockets of value. Notwithstanding the valuation argument, we see growth (NII, PPOP) and asset quality to be more critical factors for sector re-rating and thus maintain our circumspect stance ([Jan-24 report](#)). We continue to prefer larger banks and our key picks are **ICICIB, AXSB**.

Exhibit 1. JMF 1Q25 estimates for NII, PPOP & PAT for banks under coverage

INR Mn	NII	YoY (%)	QoQ (%)	PPOP	YoY (%)	QoQ (%)	PAT	YoY (%)	QoQ (%)
HDFCB	2,96,008	25.4%	1.8%	2,46,981	31.6%	-15.6%	1,58,356	32.5%	-4.1%
ICICIBC	1,92,534	5.6%	0.8%	1,52,165	7.6%	1.2%	1,04,407	8.2%	-2.5%
AXSB	1,32,827	11.1%	1.5%	94,702	7.4%	-10.1%	63,291	9.2%	-11.2%
IIB	54,968	12.9%	0.0%	41,421	8.1%	-2.1%	21,400	0.7%	-9.2%
KMB	70,088	12.4%	3.9%	52,577	6.2%	7.4%	36,821	6.7%	10.2%
BANDHAN	28,759	15.5%	6.7%	16,634	6.5%	-9.9%	8,001	11.0%	-9.1%
CUBK	5,430	3.9%	-0.7%	3,416	-17.5%	-2.9%	2,450	7.8%	-3.9%
DCBB	5,244	11.4%	3.3%	2,211	6.0%	-5.4%	1,411	11.2%	-9.3%
FB	22,758	18.6%	3.7%	14,959	14.9%	3.9%	9,746	14.2%	-2.5%
YES	21,292	6.5%	-1.1%	9,420	15.1%	4.4%	3,623	5.8%	-19.8%
SBIN	4,23,595	8.9%	0.0%	2,62,016	3.6%	29.1%	1,60,397	-5.0%	9.7%
PNB	1,06,051	11.6%	2.3%	68,256	14.4%	6.4%	27,871	122.0%	-7.4%
BOB	1,18,379	7.6%	1.9%	80,003	2.2%	3.7%	45,289	11.3%	-10.9%
CBK	96,130	10.9%	-0.8%	81,431	7.1%	15.0%	38,966	10.2%	-3.7%
AUBANK	16,328	31.0%	22.1%	8,292	51.9%	24.9%	4,858	25.6%	8.5%
EQUITASB	8,305	11.8%	5.7%	3,491	11.8%	-6.9%	1,846	-3.4%	-11.1%
UJJIVANS	9,589	21.0%	2.7%	5,519	20.5%	6.4%	3,420	5.5%	3.7%

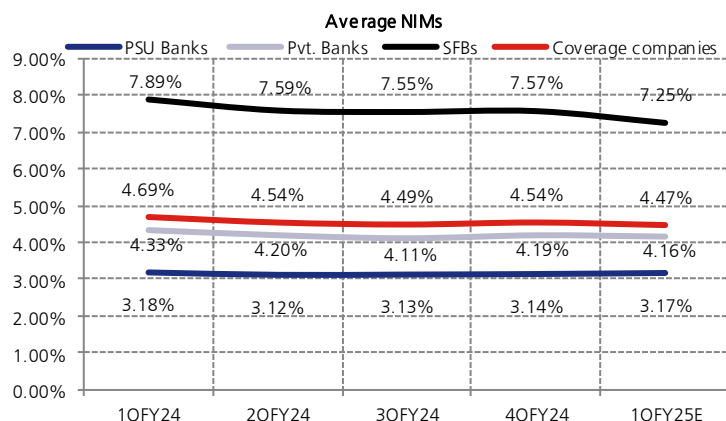
Source: Company, JM Financial

Exhibit 2. JMF 1Q25 estimates for loans & deposits for banks under coverage

INR Mn	Loans	YoY (%)	QoQ (%)	Deposits	YoY (%)	QoQ (%)
HDFCB	2,52,21,344	56.1%	1.5%	2,43,92,809	27.5%	2.5%
ICICIBC	1,21,99,386	15.4%	3.0%	1,44,81,456	16.9%	2.5%
AXSB	98,43,697	14.7%	2.0%	1,07,93,278	14.6%	1.0%
IIB	35,35,972	17.4%	3.0%	39,61,232	14.1%	3.0%
KMB	38,54,769	17.3%	2.5%	46,24,226	19.7%	3.0%
BANDHAN	11,75,027	19.7%	-3.0%	13,32,030	22.8%	-1.5%
CUBK	4,57,533	9.8%	0.5%	5,62,132	8.8%	1.0%
DCBB	4,21,523	18.8%	3.0%	5,15,739	19.9%	4.5%
FB	21,98,735	19.8%	5.0%	26,61,709	19.6%	5.4%
YES	22,99,200	14.8%	0.9%	26,49,100	20.8%	-0.5%
SBIN	3,74,10,106	15.6%	1.0%	5,01,43,983	10.7%	2.0%
PNB	95,77,914	10.9%	2.5%	1,39,71,071	7.6%	2.0%
BOB	1,09,24,263	13.4%	2.5%	1,34,02,274	11.7%	1.0%
CBK	95,49,032	11.7%	2.5%	1,33,20,521	11.7%	1.5%
AUBANK	9,07,488	44.4%	24.0%	10,25,892	48.0%	17.7%
EQUITASB	3,23,577	17.6%	4.5%	3,79,357	36.9%	5.0%
UJJIVANS	2,79,582	26.1%	4.0%	3,30,353	23.9%	5.0%

Source: Company, JM Financial

Exhibit 3. NIM for banks under coverage



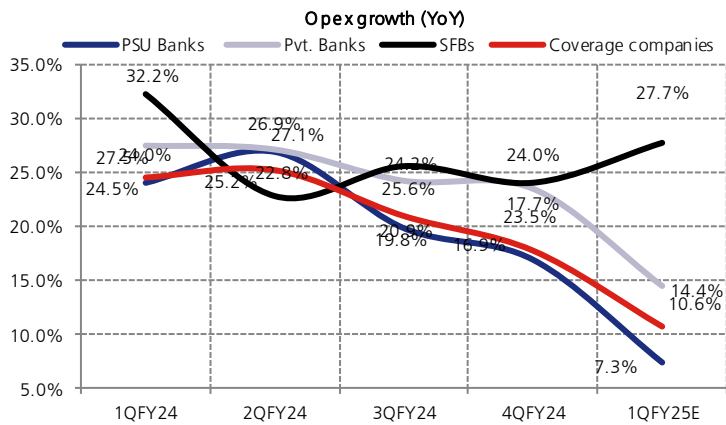
Source: Company, JM Financial

Exhibit 4. Trends in LDR for banks under coverage

LDR	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25E	YoY (Change %)	QoQ (Change %)
HDFCB	84%	107%	110%	104%	103%	19%	-1%
ICICIBC	85%	86%	87%	84%	84%	-1%	0%
AXSB	91%	94%	93%	90%	91%	0%	1%
IIB	87%	88%	89%	89%	89%	2%	0%
KMB	85%	87%	88%	84%	83%	-2%	0%
BANDHAN	91%	91%	94%	90%	88%	-2%	-1%
CUBK	81%	81%	82%	82%	81%	1%	0%
DCBB	82%	82%	83%	83%	82%	-1%	-1%
FB	82%	83%	83%	83%	83%	0%	0%
YES	91%	89%	90%	86%	87%	-4%	1%
SBIN	71%	71%	74%	75%	75%	3%	-1%
PNB	67%	68%	69%	68%	69%	2%	0%
BOB	80%	80%	82%	80%	82%	1%	1%
CBK	72%	72%	73%	71%	72%	0%	1%
AUBANK	91%	85%	83%	84%	88%	-2%	5%
EQUITASB	99%	93%	90%	86%	85%	-14%	0%
UJJIVANS	83%	83%	86%	85%	85%	1%	-1%

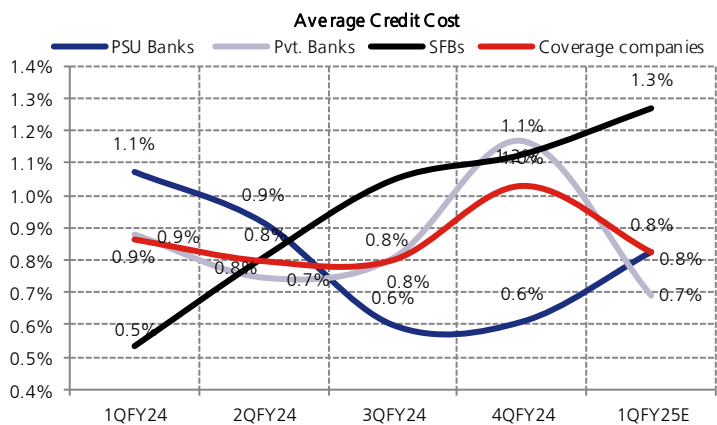
Source: Company, JM Financial

Exhibit 5. Opex growth for banks under coverage



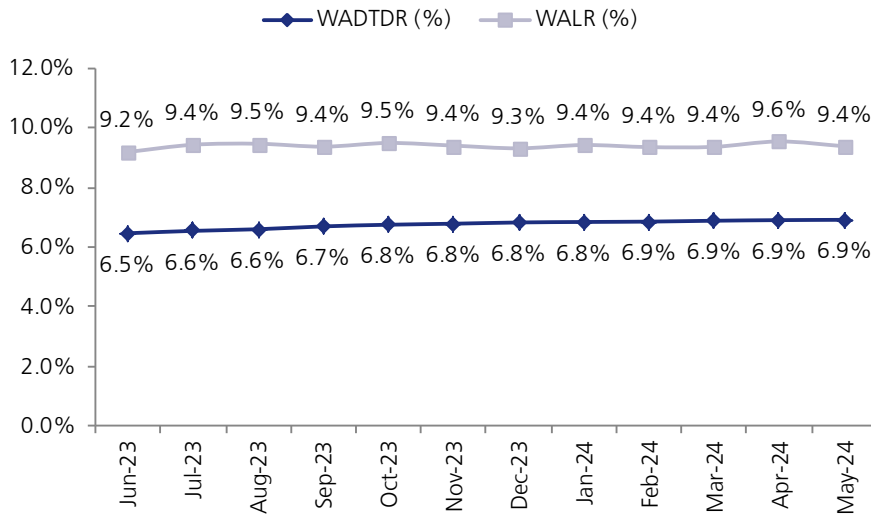
Source: Company, JM Financial

Exhibit 6. Credit cost for banks under coverage



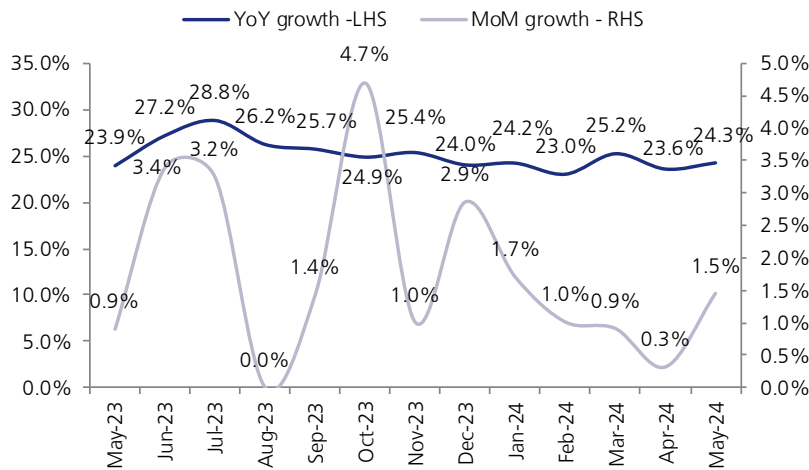
Source: Company, JM Financial

Exhibit 7. Lending and Deposit rates for SCBs



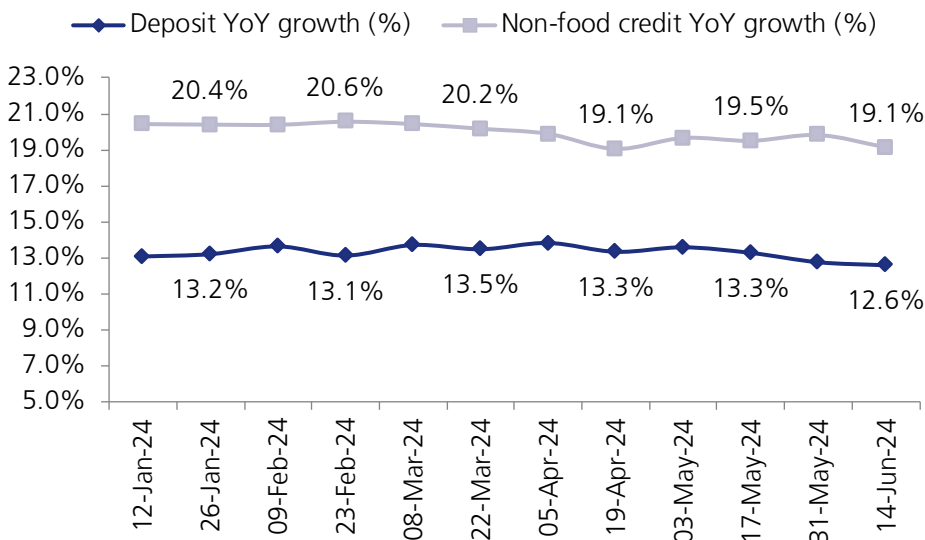
Source: RBI

Exhibit 8. Systemic unsecured loan growth trends



Source: RBI

Exhibit 9. Systemic credit and deposit growth



Source: RBI

Exhibit 10. Valuation Summary

	CMP	P/BV (x)				P/E (x)				RoA (%)				RoE (%)			
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
Private Banks																	
Axis Bank	1,280	3.0	2.5	2.1	1.8	40.1	14.9	13.3	11.5	0.7%	1.8%	1.8%	1.8%	7.7%	18.1%	17.2%	17.2%
Bandhan Bank	211	1.7	1.5	1.3	1.1	15.2	15.0	8.9	7.0	1.5%	1.3%	1.9%	2.1%	11.9%	10.8%	16.1%	17.5%
City Union Bank	170	1.7	1.5	1.3	1.2	13.4	12.4	11.9	10.6	1.5%	1.5%	1.4%	1.4%	13.4%	12.8%	12.0%	12.1%
DCB Bank	138	1.0	0.9	0.8	0.7	9.2	8.1	6.7	5.7	1.0%	0.9%	0.9%	1.0%	11.5%	11.9%	12.7%	13.5%
Federal Bank	181	1.7	1.5	1.3	1.1	14.8	15.9	18.7	22.1	1.3%	1.3%	1.3%	1.3%	14.9%	14.7%	14.1%	14.6%
HDFC bank	1,769	3.2	2.8	2.4	2.1	20.4	20.1	16.4	13.6	1.9%	2.0%	1.9%	2.0%	17.0%	16.9%	15.8%	16.7%
ICICI Bank	1,202	3.6	3.0	2.6	2.3	22.5	17.7	15.5	13.5	2.1%	2.4%	2.3%	2.3%	17.5%	18.8%	18.2%	18.0%
IndusInd Bank	1,456	2.1	1.8	1.6	1.4	15.2	12.6	10.8	9.7	1.7%	1.8%	1.9%	1.8%	14.5%	15.2%	15.5%	15.3%
Kotak Mahindra Bank	1,811	2.8	2.4	2.0	1.8	20.9	16.6	14.3	12.6	2.4%	2.5%	2.5%	2.4%	14.1%	15.3%	15.3%	15.1%
YES Bank	24	1.7	1.7	1.6	1.5	95.9	55.0	35.5	28.4	0.2%	0.3%	0.5%	0.6%	2.0%	3.1%	4.8%	5.4%
PSU Banks																	
Bank of Baroda	268	1.5	1.3	1.2	1.0	9.8	7.8	8.0	7.4	1.0%	1.2%	1.0%	1.0%	16.5%	17.8%	15.2%	14.7%
Canara Bank	117	1.5	1.3	1.1	1.0	9.6	7.0	6.2	5.7	0.8%	1.0%	1.0%	1.0%	17.1%	20.2%	19.3%	18.2%
Punjab National Bank	122	1.5	1.4	1.3	1.1	53.4	16.2	12.6	10.9	0.2%	0.5%	0.7%	0.7%	2.8%	8.7%	10.4%	11.0%
State Bank of India	840	1.8	1.5	1.3	1.1	10.8	8.9	7.7	6.6	1.0%	1.0%	1.1%	1.1%	18.1%	18.8%	18.5%	18.1%
Small Finance Banks																	
AU Small Finance Bank	666	4.1	3.6	3.0	2.6	118.4	100.4	23.9	17.5	3.9%	3.5%	1.6%	1.7%	15.5%	13.1%	14.2%	15.8%
Equitas Small Finance Bank	95	2.0	1.8	1.6	1.4	18.3	13.4	10.8	8.4	1.9%	2.0%	1.9%	2.0%	12.2%	14.4%	15.7%	17.7%
Ujjivan Small Finance Bank	44	2.2	1.5	1.2	1.0	7.9	6.7	5.9	5.0	3.9%	3.5%	3.3%	3.2%	33.7%	27.0%	23.5%	22.6%

Source: Company, JM Financial

APPENDIX I

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Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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