JM FINANCIAL

Indian Banking Sector

1Q25 Review: Moderation all across

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In 1Q25, profits for our banking coverage universe grew +10.6%YoY (ex-HDFCB) (+10.6% YoY for private banks, +11.3% YoY for PSBs). Credit growth (ex-HDFCB) was strong at 14.8%, even as deposit growth lagged at +11.1% YoY. Private banks showed strong credit growth of 16.0% YoY, delicately balanced over a 15.4% deposit growth. Meanwhile, PSBs, with a lower LDR of 75.2% compared to 86.3% for PVBs, reported credit/deposit growth of 13.8%/8.9% YoY. With this balanced approach to repricing deposits, average margins of our coverage universe declined by just 3bps. While NIMs for private and public sector banks under coverage declined 7bps and 9bps respectively, that for SFBs increased by 19bps. PPOP growth for our coverage stood at 6.9% YoY (ex-HDFCB) (11.7% for PVBs and 2.4% for PSBs) for 1QFY25, as NII grew 8.1% YoY (ex-HDFCB) (10.6% for PVBs and 6.3% YoY for PSBs) while other income grew 5.6% (16.2% YoY growth for PVBs while PSBs saw a 4.5% YoY decline, as recovery from written-off accounts declined for 3/4 banks). Opex growth moderated to 8.8% (+13.4% for PVBs and 4.9% for PSBs). We attribute this moderation in opex intensity to private banks manoeuvring operating costs to alleviate NIM pressures, while PSBs have got a respite from wage hike related provisions. Credit costs held up well (+10bps YoY), as PSBs and PVBs saw an improvement of 44bps and 18bps YoY, respectively. However, we expect credit costs to normalise going forward, as some large banks, SFBs and NBFCs have already reported elevated credit costs, emanating from retail, unsecured segments of credit cards, MFI and PLs. Credit growth continued to outpace deposit growth, at 15.1% YoY (ex-HDFCB) against 11.0% depsoits growth, per RBI release on 26th Jul'24. Sectoral deployment data shows higher growth in secured segments and moderation in NBFC credit growth. Going forward, we anticipate further moderation in unsecured loans as banks continue to react to regulatory caution and elevating credit costs on these products. Cost of deposits continues to inch up, and leading banks have further rate hikes over June-August. This is likely to weigh on NIMs in CY25, and thus keep NII momentum in check for the sector as a whole. Meanwhile, with lower LDRs, we expect margins for PSBs in our coverage to remain largely stable, and come off as we see rate cuts by the RBI. 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 the 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, SBI.

- **Despite a focus on deposit growth, NIMs held up well:** In-line with systemic concerns on sluggish growth in (retail) deposits, deposit growth for our coverage, at 11.1% YoY, was lower than credit growth (+14.8% YoY), excl. HDFCB. LDR rose (Exhibit 4) for banks under coverage, led by PSBs, which saw LDR increase by 330bps to 75.2%. While PVBs saw LDR rise by 730bps to 93.5%, excluding HDFC Bank, the rise was benign at 50bps. We observe that banks remain "stingy" in deposit pricing as the spread of deposit rate offered by leading banks in key buckets (e.g. 1yr) over the corresponding G-sec has only shrunk over the past two years. This has actually made the "return seeking household saver" to choose other avenues (e.g. MFs) (Exhibit 9). Average margins of our coverage universe declined by just 3bps. While NIMs for private and public sector banks under coverage declined 7bps and 9bps respectively, that for SFBs increased by 19bps. In our view, banks are unsure of how the margins would pan out in a declining interest rate environment given implementation of EBLR-based lending rates by RBI as retail/floating assets would reprice lower relatively faster than deposits (most banks have ~50%+ of loans linked to EBLR) (Exhibit 10). Meanwhile, the RBI came out with draft revisions in LCR computation, which, if implemented, should cause the banks to focus on raising deposit rates to push deposit growth – our estimation of additional HQLAs requirement basis only the increase in run-offs for retail deposits is highlighted in Exhibit 13. Leading banks have already revised deposit rates upwards over June-August.

Private Banks	CMP (INR)	TP (INR)	Upside (%)	Reco.
AXSB	1,168	1,375	18%	BUY
BANDHAN	197	260	32%	BUY
CUBK	170	155	-9%	HOLD
DCBB	123	150	22%	HOLD
FB	204	185	-9%	HOLD
HDFCB	1,638	1,950	19%	BUY
ICICIBC	1,179	1,400	19%	BUY
IIB	1,381	1,900	38%	BUY
KMB	1,806	1,830	1%	HOLD
YES	25	18	-27%	SELL
PSU Banks				
BOB	254	280	10%	BUY
CBK	111	120	8%	HOLD
PNB	117	100	-15%	HOLD
SBIN	820	1,050	28%	BUY
SFBs				
AUBANK	621	675	9%	BUY
EQUITASB	84	115	37%	BUY
UJJIVANS	43	65	50%	BUY

- **Retail segment led advances growth, shift towards secured loans visible:** While retail advances growth is skewed by HDFC Bank, shift towards secured products was visible beyond housing loans - growth of unsecured loans moderated to 20.5% YoY in Jun-24 while that for secured gold loans picked up (+29.8% YoY). Credit to services sector overall moderated to 17.4% (vs 26.8% YoY). This was led by moderating growth in bank credit to NBFCs (+9.2% YoY in Jun-24) (Exhibit 11) with RBI nudging NBFCs to diversify their borrowings and increased risk weights for banks on NBFC lending. Growth in outstanding credit to industry was also muted at 8.1% YoY, even as banks indicate a visible pick-up in demand. With substantially lower LDRs, we expect PSBs to take the lead in financing private capex.
- **Credit costs largely stable; opex moderation visible across the board:** Credit costs for the coverage universe held up well (+10bps YoY), as PSBs and private sector banks saw an improvement of 44bps and 18bps YoY respectively (Exhibit 6). Outliers were AXSB (+35bps to 0.84%) and KMB (+15bps to 0.60%), while all three SFBs reported elevated credit costs (up 175bps to 2.28% for SFBs as a pack). However, given the visible stress in small ticket unsecured loans (credit cards, PLs, MFIs), as reported by some large banks, SFBs and NBFCs, we expect credit costs to normalise for the system. Opex moderated across the banks under coverage for 1Q25 (+9% YoY vs +25% in 1Q24). PSBs led this trend (+5% YoY vs +24% in 1Q24) with wage revision now in the base, while private banks also saw opex growth moderate to +15% YoY (vs 28% in 1Q24), as they balanced tight NIMs, led by upward pressure on deposit pricing.
- **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 critical 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, SBI.

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

INR Mn	NII	YoY (%)	QoQ (%)	PPOP	YoY (%)	QoQ (%)	PAT	YoY (%)	QoQ (%)
HDFCB	298,371	26.4%	2.6%	238,846	27.2%	-18.4%	161,748	35.3%	-2.0%
ICICIBC	195,529	7.3%	2.4%	160,248	13.3%	6.6%	110,591	14.6%	3.3%
AXSB	134,482	12.5%	2.7%	101,062	14.7%	-4.1%	60,346	4.1%	-15.4%
IIB	54,076	11.1%	0.6%	39,518	3.1%	-3.2%	21,707	2.2%	-7.6%
KMB	68,424	9.8%	-1.0%	52,541	6.2%	-3.8%	35,200	2.0%	-14.8%
BANDHAN	30,050	20.7%	4.8%	19,409	24.2%	5.6%	10,635	47.5%	1846.8%
CUBK	5,452	4.3%	-0.3%	3,735	-9.8%	6.2%	2,645	16.4%	3.8%
DCBB	4,966	5.5%	-2.1%	2,054	-1.6%	-12.1%	1,314	3.5%	-15.6%
FB	22,920	19.5%	4.4%	15,009	15.2%	35.2%	10,095	18.2%	11.4%
YES	22,440	12.2%	4.2%	8,853	8.2%	-1.9%	5,024	46.7%	11.2%
SBIN	411,255	5.7%	-1.3%	264,486	4.6%	-8.0%	170,352	0.9%	-17.7%
PNB	104,763	10.2%	1.1%	65,812	10.3%	2.6%	32,515	159.0%	8.0%
BOB	116,001	5.5%	-1.6%	71,613	-8.5%	-11.7%	44,582	9.5%	-8.8%
CBK	91,663	5.8%	-4.3%	76,161	0.2%	3.1%	39,053	10.5%	3.9%
AUBANK*	19,206	54.1%	43.6%	9,881	81.0%	48.8%	5,026	29.9%	12.3%
EQUITASB	8,015	7.9%	2.0%	3,404	9.1%	-9.2%	258	-86.5%	-87.6%
UJJIVANS	9,415	18.8%	0.8%	5,095	11.3%	-1.7%	3,011	-7.1%	-8.7%

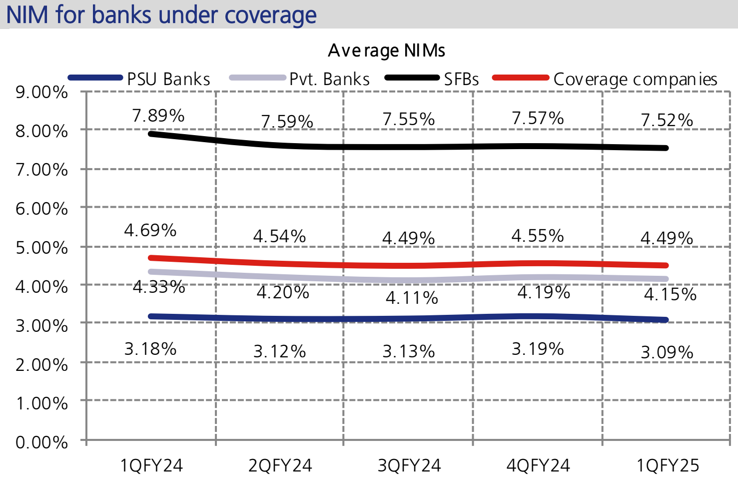
Source: Company, JM Financial, *QoQ & YoY numbers are not comparable due to Fincare merger

Exhibit 2. Loan & deposit growth for banks under JMF coverage for 1Q25

INR Mn	Loans	YoY (%)	QoQ (%)	Deposits	YoY (%)	QoQ (%)
HDFCB	24,635,208	52.5%	-0.9%	23,790,845	24.4%	0.0%
ICICIBC	12,231,543	15.7%	3.3%	14,261,495	15.1%	0.9%
AXSB	9,800,915	14.2%	1.6%	10,624,837	12.8%	-0.6%
IIB	3,478,980	15.5%	1.3%	3,985,130	14.8%	3.6%
KMB	3,899,570	18.7%	3.7%	4,474,180	15.8%	-0.3%
BANDHAN	1,215,900	23.8%	0.4%	1,332,100	22.8%	-1.5%
CUBK	465,479	11.7%	2.2%	548,569	6.2%	-1.4%
DCBB	421,810	18.9%	3.1%	516,900	20.2%	4.7%
FB	2,208,070	20.3%	5.4%	2,660,650	19.6%	5.4%
YES	2,295,654	14.7%	0.8%	2,650,722	20.8%	-0.5%
SBIN	37,491,389	15.9%	1.2%	49,017,259	8.2%	-0.3%
PNB	9,839,976	13.9%	5.3%	14,082,471	8.5%	2.8%
BOB	10,479,487	8.8%	-1.7%	13,069,941	8.9%	-1.5%
CBK	9,463,531	10.7%	1.6%	13,351,669	12.0%	1.7%
AUBANK	896,520	42.6%	22.5%	972,900	40.4%	11.6%
EQUITASB	319,260	16.0%	3.1%	375,240	35.4%	3.9%
UJJIVANS	271,140	22.3%	0.9%	325,140	22.0%	3.3%

Source: Company, JM Financial

Exhibit 3. NIM for banks under coverage



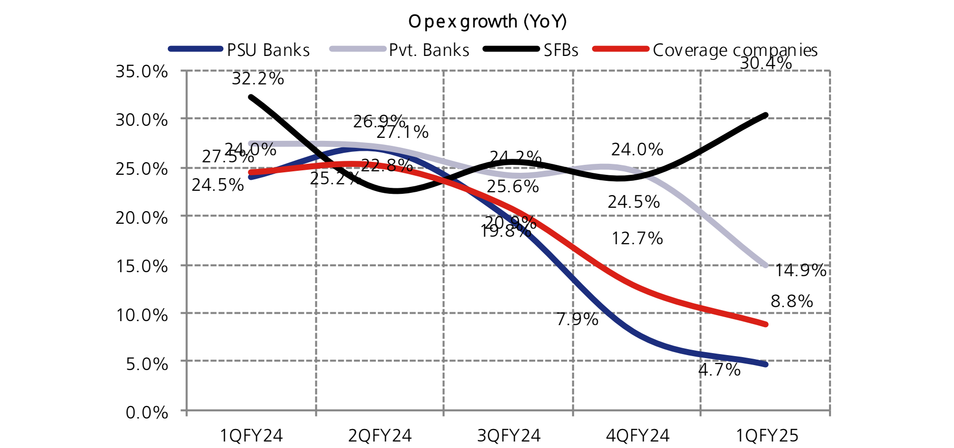
Source: Company, JM Financial

Exhibit 4. Trends in LDR for banks under coverage

LDR	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (Change %)	QoQ (Change %)
HDFCB	84.5%	107.3%	110.5%	104.4%	103.5%	19%	-1%
ICICIBC	85.4%	85.8%	86.6%	83.8%	85.8%	0%	2%
AXSB	91.2%	93.9%	92.8%	90.3%	92.2%	1%	2%
IIB	86.8%	87.7%	88.7%	89.3%	87.3%	0%	-2%
KMB	85.1%	86.9%	88.0%	83.8%	87.2%	2%	3%
BANDHAN	90.5%	91.0%	93.8%	89.6%	91.3%	1%	2%
CUBK	80.7%	80.9%	81.5%	81.8%	83.4%	3%	2%
DCBB	82.5%	81.9%	82.7%	82.9%	81.5%	-1%	-1%
FB	82.5%	82.8%	83.1%	82.9%	83.0%	1%	0%
YES	91.3%	89.2%	89.9%	85.5%	86.7%	-5%	1%
Private Banks	**86.3%**	**95.3%**	**96.7%**	**92.9%**	**93.5%**	**7%**	**1%**
SBIN	71.4%	71.3%	73.9%	75.3%	76.5%	5%	1%
PNB	66.5%	67.9%	69.2%	68.2%	69.9%	3%	2%
BOB	80.3%	79.9%	82.2%	80.3%	80.2%	0%	0%
CBK	71.7%	72.4%	72.9%	71.0%	71.5%	0%	1%
PSU banks	**72.0%**	**72.2%**	**74.2%**	**74.3%**	**75.2%**	**3%**	**1%**
AUBANK	90.7%	84.7%	83.3%	83.9%	92.1%	1%	8%
EQUITASB	99.3%	93.3%	90.2%	85.7%	85.1%	-14%	-1%
UJJIVANS	83.2%	83.5%	86.4%	85.4%	86.0%	3%	1%
SFBs	**91.0%**	**86.4%**	**85.5%**	**84.6%**	**89.4%**	**-2%**	**5%**

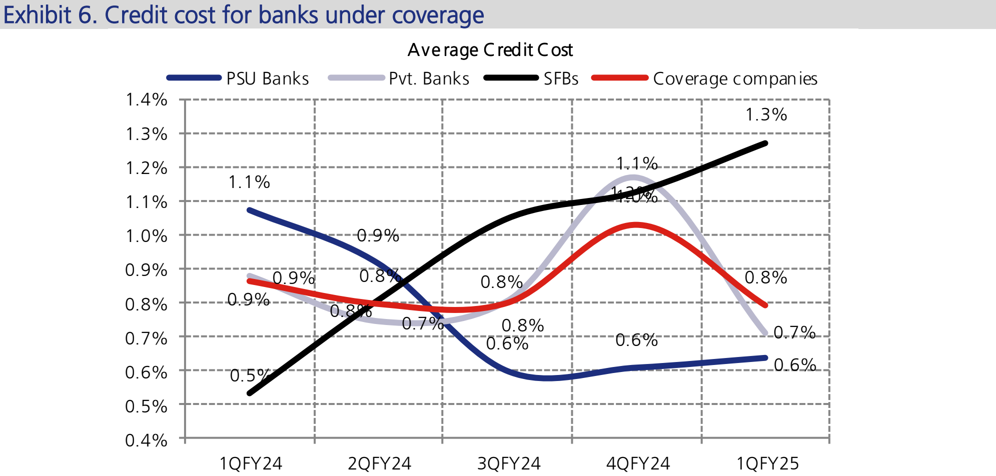
Source: Company, JM Financial

Exhibit 5. Opex growth for banks under coverage



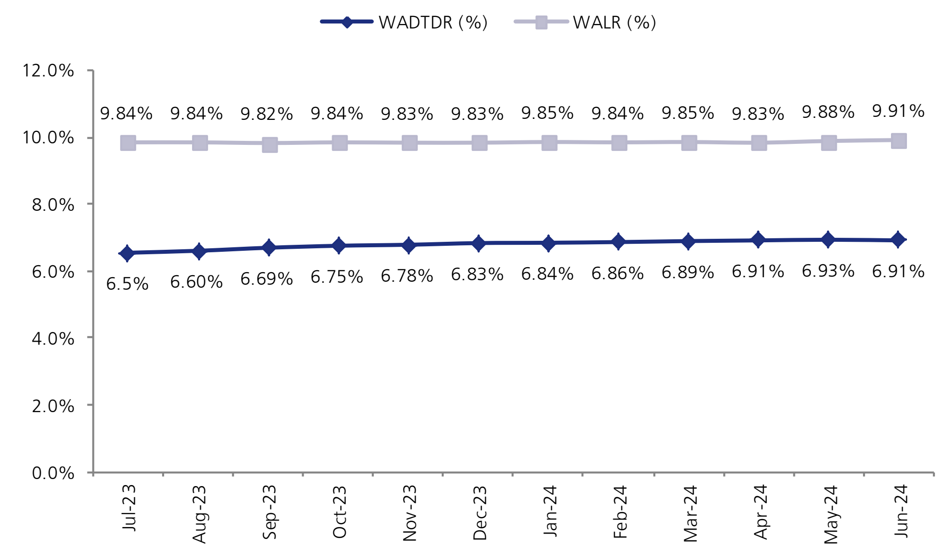
Source: Company, JM Financial

Exhibit 6. Credit cost for banks under coverage



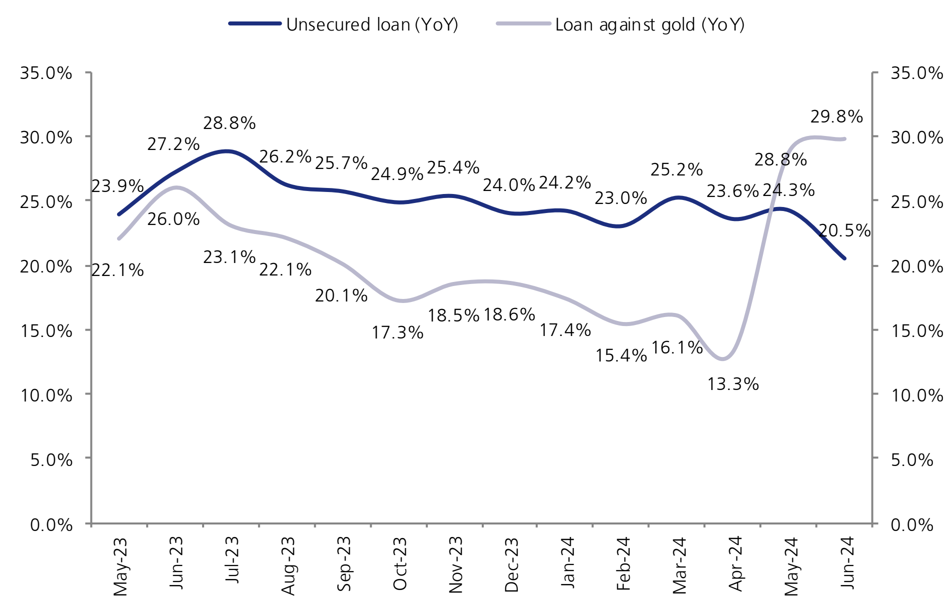
Source: Company, JM Financial

Exhibit 7. Lending and Deposit rates for SCBs on outstanding loans and deposits



Source: RBI

Exhibit 8. Secured gold loan outpaced unsecured loans in 1Q25



Source: RBI

Exhibit 9. Spread of one year deposit rates over one year G-sec for leading banks

	1 year deposit rate		Spread over 1 year G-sec	
	Jan-22	Jun-24	Jan-22	Jun-24
HDFC Bank	4.90	6.60	0.20	-0.31
ICICI Bank	5.00	6.70	0.30	-0.21
SBI	5.10	6.80	0.40	-0.11

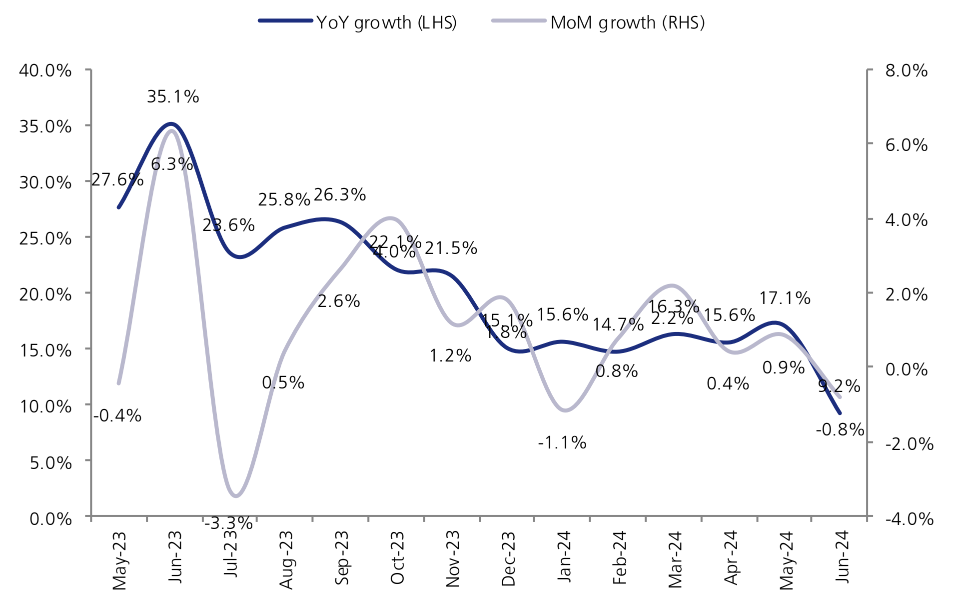
Source: Company, Bloomberg

Exhibit 10. Floating rate assets across leading banks

Bank	EBLR Linked book (Jun '24)	Remarks
HDFC	50-51%	70% is floating, most of it is EBLR
ICICI	52%	50% is repo rate, 2% other external and 17% is MCLR
Axis	56%	50% repo, 13% MCLR, 4% Other EBLR, 1% base rate linked, 2% Foreign currency floating
SBI	40%	36% MCLR, 25-27% EBLR, 20% fixed, 14% t-bill and others
BoB	50%	50% Repo linked

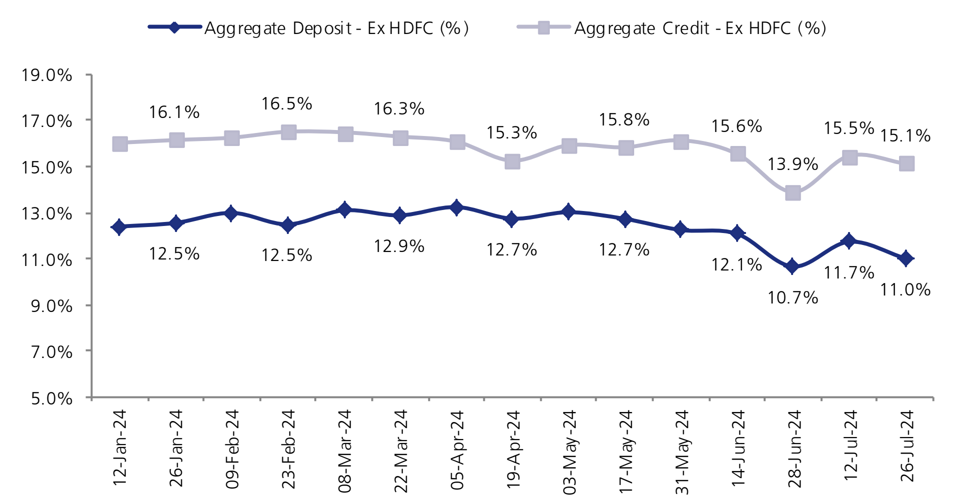
Source: Company, JMFL, Not disclosed explicitly

Exhibit 11. Bank credit to NBFCs has moderated



Source: RBI

Exhibit 12. Systemic credit and deposit growth YoY



Source: RBI

Exhibit 13. Impact of the RBI's revised draft on LCR computation for banks, as on Mar'24

	LCR	LCR, per draft	Difference	Addl. HQLAs	Loan Book	Addl. HQLAs/Loan Book
HDFC Bank	115.2%	100.8%	14.4%	694,602	24,848,615	2.8%
Axis	120.1%	106.0%	14.1%	285,607	9,650,684	3.0%
ICICI Bank	120.7%	107.6%	13.1%	401,203	11,844,064	3.4%
KMB	132.7%	116.9%	15.8%	122,921	3,760,753	3.3%
IndusInd	118.0%	107.1%	10.8%	81,180	3,432,983	2.4%
Federal Bank	127.8%	104.4%	23.4%	86,979	2,094,033	4.2%
SBI	130.6%	112.5%	18.1%	1,645,296	37,039,709	4.4%
BoB	125.4%	106.3%	19.1%	393,654	10,657,817	3.7%
Canara Bank	129.0%	112.6%	16.5%	346,063	9,316,128	3.7%
PNB	141.6%	117.5%	24.1%	452,013	9,344,306	4.8%

Source: Company, JM Financial

Exhibit 14. 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	1,168	2.7	2.2	1.9	1.6	35.9	13.4	11.7	10.1	0.7%	1.8%	1.8%	1.8%	7.7%	18.1%	17.3%	16.9%
Bandhan Bank	197	1.6	1.5	1.3	1.1	14.5	14.2	8.4	6.5	1.5%	1.3%	2.0%	2.2%	11.9%	10.8%	16.2%	17.7%
City Union Bank	170	1.7	1.5	1.4	1.2	13.5	12.5	12.2	10.6	1.5%	1.5%	1.4%	1.5%	13.4%	12.8%	11.7%	12.1%
DCB Bank	123	0.9	0.8	0.7	0.6	8.2	7.2	5.9	4.9	1.0%	0.9%	1.0%	1.0%	11.5%	11.9%	12.9%	13.8%
Federal Bank	204	2.0	1.7	1.5	1.3	14.1	15.1	18.6	21.6	1.3%	1.3%	1.4%	1.3%	14.9%	14.7%	14.7%	14.9%
HDFC bank	1,638	2.8	2.4	2.2	1.9	18.0	17.7	15.4	13.5	1.9%	2.0%	1.8%	1.8%	17.0%	16.9%	15.0%	15.1%
ICICI Bank	1,179	3.5	3.0	2.5	2.2	21.8	17.1	14.6	12.2	2.1%	2.4%	2.4%	2.5%	17.5%	19.0%	18.8%	19.1%
IndusInd Bank	1,381	2.0	1.7	1.5	1.3	14.4	12.0	10.2	9.1	1.7%	1.8%	1.9%	1.8%	14.5%	15.3%	15.7%	15.4%
Kotak Mahindra Bank	1,806	2.6	2.3	1.9	1.7	19.9	15.8	13.1	13.7	2.4%	2.5%	2.6%	2.1%	14.1%	15.3%	15.7%	12.9%
YES Bank	25	1.8	1.7	1.6	1.5	98.2	56.3	37.0	29.1	0.2%	0.3%	0.5%	0.6%	2.0%	3.1%	4.7%	5.5%
PSU Banks																	
Bank of Baroda	254	1.4	1.2	1.1	0.9	9.2	7.3	7.2	6.8	1.0%	1.2%	1.1%	1.0%	16.5%	17.8%	15.8%	14.7%
Canara Bank	111	1.4	1.1	1.0	0.8	9.0	6.6	5.9	5.3	0.8%	1.0%	1.0%	1.0%	17.1%	19.0%	17.3%	16.8%
Punjab National Bank	117	1.4	1.3	1.2	1.1	51.5	15.7	12.1	10.5	0.2%	0.5%	0.7%	0.7%	2.8%	8.7%	10.4%	11.0%
State Bank of India	820	1.7	1.5	1.2	1.1	10.1	8.3	7.2	6.3	1.0%	1.0%	1.1%	1.1%	18.1%	18.8%	18.7%	18.5%
Small Finance Banks																	
AU Small Finance Bank	621	3.8	3.3	2.8	2.4	29.0	27.1	21.8	16.2	1.8%	1.5%	1.6%	1.7%	15.5%	13.1%	14.5%	15.8%
Equitas Small Finance Bank	84	1.8	1.6	1.5	1.3	16.3	11.9	13.8	9.9	1.9%	2.0%	1.4%	1.6%	12.2%	14.4%	11.1%	14.2%
Ujjivan Small Finance Bank	43	2.1	1.5	1.2	1.0	7.7	6.5	6.0	4.9	3.9%	3.5%	3.1%	3.1%	33.7%	27.0%	22.8%	22.4%

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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