

BANKING

Q1FY24 Preview

12 July 2023

Expect steady growth but margins could contract

- Expect steady system credit growth in Q1 and recovery in deposits due to rate realignment and discontinuation of 2,000-rupee notes
- NII for our coverage likely to contract 10-15bps on a higher cost of funds; asset quality to stay stable QoQ
- PPOP and PAT forecast to inch down QoQ given a high base and slight rise in credit cost. Our top picks remain HDFCB, AXSB, IIB and SBIN

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Credit growth to hold steady in Q1: Per RBI data, system credit grew 15.4% YoY over 1 Apr to 16 Jun 2023. Accordingly, we expect healthy loan growth in Q1FY24, aided by continued traction in the retail and SME segments. Corporate lending is likely to stay muted due to a slowdown in loans to midsize and large entities, offsetting strong momentum in the retail segment, particularly in the home, vehicle and unsecured (both personal and credit card) books. For FY24, we estimate systemic loan growth of 14%.

Deposit mobilisation to Improve: System deposits have grown 12.1% YoY from 1 Apr to 16 Jun 2023 vs. 9.6% YoY over 1 Jan to 24 Mar 2023, according to RBI data. We thus expect recovery in deposit mobilisation during Q1, partly aided by withdrawal of Rs 2,000 notes from circulation and a minor realignment in deposit rates. Hence, the sector's CD ratio is likely to moderate. However, term deposits are forecast to gain share in the deposit mix, resulting in a decline in CASA ratio.

Pressure on margins from a higher cost of deposits: The rise in cost of deposits coupled with a stagnant benchmark interest rate QoQ will likely push up the cost of funds and exert pressure on NIM. We project a 10-15bps decline in margin across banks barring IIB. An increase in unsecured lending should alleviate margin pressure for a few banks under our coverage.

Slippages and credit cost to remain in check: Stressed assets are likely to remain under control, but gradual utilisation of the buffer provisioning made in previous quarters is likely to add to the provisioning this quarter, leading to a minor increase in credit cost. We expect GNPA and NNPA to be stable across the board with no major asset quality shocks. A gradual shrinking of the restructured book along with a low SMA book is likely to add to a healthy asset base.

Top picks: In our view, healthy business growth will support an increase of 45%/53% YoY in PPOP/PAT (-2%/-6% QoQ) for our coverage universe in Q1FY24. We retain HDFCB (BUY, TP Rs 1,956), AXSB (BUY, TP Rs 1,111), IIB (BUY, TP Rs 1,550) and SBIN (BUY, TP Rs 729) as our preferred picks in the sector.

Recommendation snapshot

Ticker	Price	Target	Rating
AXSB IN	953	1,111	BUY
FB IN	135	165	BUY
HDFCB IN	1,648	1,956	BUY
ICICIB IN	945	1,015	HOLD
IIB IN	1,381	1,550	BUY
KMB IN	1,867	2,122	HOLD
SBIN IN	589	729	BUY

Price & Target in Rupees | Price as of 11 Jul 2023



Fig 1 – BOBCAPS Banking Universe: Valuation snapshot

Ticker	CMP	Target Price (Rs)	Rating	Mcap (Rs bn)	P/ABV (x)		ROA (%)		ROE (%)	
					FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
HDFCB IN	1,648	1,956	BUY	9,218	2.9	2.5	1.9	1.9	16.7	16.9
ICICIBC IN	945	1,015	HOLD	6,612	2.9	2.6	2.2	2.2	17.5	17.4
AXSB IN	953	1,111	BUY	2,936	2.0	1.7	1.7	1.7	17.7	16.8
KMB IN	1,867	2,122	HOLD	3,709	3.9	3.5	2.2	2.2	13.2	13.4
IIB IN	1,381	1,550	BUY	1,072	1.7	1.5	1.9	1.9	15.8	16.3
FB IN	135	165	BUY	286	1.3	1.1	1.2	1.2	14.5	14.6
SBIN IN	589	729	BUY	5,253	1.5	1.3	1.0	1.0	16.0	15.8

Source: Company, BOBCAPS Research

Fig 2 – BOBCAPS Banking Universe: Q1FY24 estimates

Ticker	NII (Rs mn)	YoY (%)	QoQ (%)	PPOP (Rs mn)	YoY (%)	QoQ (%)	PAT (Rs mn)	YoY (%)	QoQ (%)
HDFCB IN	2,32,308	19.2	(0.5)	1,81,947	18.4	(2.3)	1,10,053	19.7	(8.7)
ICICIBC IN	1,81,516	37.4	2.7	1,37,861	33.7	(0.3)	92,082	33.4	0.9
AXSB IN	1,16,068	23.7	(1.2)	86,968	47.7	(5.1)	59,009	43.0	(12.7)
KMB IN	61,112	30.1	0.1	43,403	55.9	(6.6)	30,920	49.3	(11.5)
IIB IN	48,866	18.5	4.7	39,944	16.4	6.3	21,397	31.2	4.7
FB IN	19,432	21.1	1.8	11,909	22.4	(10.8)	7,603	26.6	(15.8)
SBIN IN	4,00,326	28.3	(0.9)	2,45,864	92.8	(0.1)	1,48,776	145.2	(10.9)

Source: Company, BOBCAPS Research

Company-wise expectations

Fig 3 – HDFCB

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comments
NII	2,32,308	1,94,814	2,33,518	19.2	(0.5)	<ul style="list-style-type: none"> Loan growth to slow to 15.8% YoY (0.9% QoQ) vs. 16.9% YoY in Q4FY23
Growth (% YoY)	19.2	14.5	23.7	471bps	(449bps)	
Other Income	84,505	63,882	87,312	32.3	(3.2)	<ul style="list-style-type: none"> Focus on higher deposit mobilisation likely to result in higher deposit growth of 19% YoY (+2% QoQ)
Net Income	3,16,813	2,58,697	3,20,830	22.5	(1.3)	<ul style="list-style-type: none"> Increased cost of deposits expected to result in 19bps QoQ decline in NIM
Growth (% YoY)	22.5	11.0	21.0	1,142bps	144bps	
Opex	1,34,866	1,05,018	1,34,621	28.4	0.2	<ul style="list-style-type: none"> NII projected to grow 19% YoY but dip 0.5% sequentially
PPOP	1,81,947	1,53,678	1,86,209	18.4	(2.3)	<ul style="list-style-type: none"> Opex to remain elevated; C/I ratio expected at 42.6%
Growth (% YoY)	18.4	1.5	13.8	1,687bps	455bps	
Provision	36,181	31,877	26,854	13.5	34.7	<ul style="list-style-type: none"> PPOP likely to decline 2% QoQ due to moderation in NII and elevated opex
PAT	1,10,053	91,960	1,20,475	19.7	(8.7)	<ul style="list-style-type: none"> Credit cost estimated to increase 21bps sequentially to 90bps
Growth (% YoY)	19.7	19.0	19.8	70bps	(14bps)	<ul style="list-style-type: none"> PAT to dip 9% sequentially on a higher base
Advances	1,61,55,000	1,39,50,677	1,60,05,859	15.8	0.9	<ul style="list-style-type: none"> Asset quality should remain stable with PCR at 76%
Growth (% YoY)	15.8	21.6	16.9	(576bps)	(113bps)	
Deposits	1,91,30,000	1,60,47,600	1,88,33,947	19.2	1.6	
Growth (% YoY)	19.2	19.2	20.8	(3bps)	(158bps)	
NIM (%)	4.0	3.9	4.2	8bps	(19bps)	
C-D Ratio (%)	84.4	86.9	85.0	(248bps)	(54bps)	
C/I ratio (%)	42.6	40.6	42.0	197bps	61bps	
Credit Cost	0.9	0.9	0.7	(2bps)	21bps	
GNPA (%)	1.1	1.3	1.1	(19bps)	(3bps)	
NNPA (%)	0.3	0.4	0.3	(9bps)	(1bps)	
PCR (%)	76.0	72.9	75.8	310bps	24bps	

Source: Company, BOBCAPS Research

Fig 4 – ICICIBC

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comments
NII	1,81,516	1,32,100	1,76,668	37.4	2.7	<ul style="list-style-type: none"> Loan growth to remain healthy at 18% YoY (+4% QoQ) driven by SME and retail segments
Growth (% YoY)	37.4	20.8	40.2	1,661bps	(275bps)	
Other Income	51,540	46,652	50,878	10.5	1.3	<ul style="list-style-type: none"> Better deposit mobilisation to aid deposit growth 16% YoY and 3% QoQ
Net Income	2,33,056	1,78,752	2,27,545	30.4	2.4	<ul style="list-style-type: none"> Higher cost of deposits likely to induce 10bps QoQ decline in NIM
Growth (% YoY)	30.4	19.7	31.2	1,067bps	(83bps)	
Opex	95,195	75,663	89,282	25.8	6.6	<ul style="list-style-type: none"> Healthy business growth expected to support NII growth of 37% YoY (+3% QoQ)
PPOP	1,37,861	1,03,089	1,38,264	33.7	(0.3)	<ul style="list-style-type: none"> Opex to remain elevated; C/I ratio expected at 41%
Growth (% YoY)	33.7	15.9	34.3	1,783bps	(60bps)	
Provision	15,574	11,438	16,198	36.2	(3.9)	<ul style="list-style-type: none"> PPOP likely to remain flat QoQ
PAT	92,082	69,049	91,219	33.4	0.9	<ul style="list-style-type: none"> Credit cost to remain under control with stable asset quality
Growth (% YoY)	33.4	49.6	30.0	(1,623bps)	339bps	<ul style="list-style-type: none"> PAT projected to stay flat sequentially
Advances	1,05,68,373	89,56,248	1,01,96,383	18.0	3.6	
Growth (% YoY)	18.0	21.3	18.7	(326bps)	(70bps)	
Deposits	1,21,73,545	1,05,03,490	1,18,08,407	15.9	3.1	
Growth (% YoY)	15.9	13.4	10.9	250bps	498bps	
NIM (%)	4.7	4.0	4.8	76bps	(10bps)	
C-D Ratio (%)	86.8	85.3	86.3	154bps	47bps	
C/I ratio (%)	40.8	42.3	39.2	(148bps)	161bps	
Credit Cost	0.6	0.5	0.7	7bps	(7bps)	
GNPA (%)	2.9	3.4	2.8	(54bps)	6bps	
NNPA (%)	0.5	0.7	0.5	(23bps)	(1bps)	
PCR (%)	84.0	79.9	83.5	407bps	53bps	

Source: Company, BOBCAPS Research

Fig 5 – AXSB

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comment
NII	1,16,068	93,840	1,17,422	23.7	(1.2)	<ul style="list-style-type: none"> Loan growth expected to remain healthy at 19% YoY (-1% QoQ)
Growth (% YoY)	23.7	20.9	33.1	276bps	(946bps)	<ul style="list-style-type: none"> Slight pickup in deposit mobilisation; likely to grow at 16% YoY
Other Income	44,947	29,990	48,953	49.9	(8.2)	
Net Income	1,61,016	1,23,830	1,66,375	30.0	(3.2)	<ul style="list-style-type: none"> Margin to remain under pressure (-22bps QoQ) on higher deposit cost
Growth (% YoY)	30.0	11.4	27.6	1,866bps	247bps	
Opex	74,047	64,960	74,699	14.0	(0.9)	<ul style="list-style-type: none"> NII projected to grow 24% YoY but stay flattish sequentially
PPOP	86,968	58,870	91,676	47.7	(5.1)	<ul style="list-style-type: none"> Opex to remain high; C/I ratio expected at 46%
Growth (% YoY)	47.7	(4.8)	41.8	5,257bps	595bps	<ul style="list-style-type: none"> PPOP likely to slip 5% QoQ due to moderation in NII and other income
Provision	8,185	3,594	3,058	127.8	167.7	
PAT	59,009	41,253	67,614	43.0	(12.7)	<ul style="list-style-type: none"> Credit cost forecast to increase 23bps sequentially
Growth (% YoY)	43.0	91.0	64.2	(4,793bps)	(2,116bps)	<ul style="list-style-type: none"> Expect 13% QoQ contraction in PAT on a high base
Advances	83,36,435	70,11,299	84,53,028	18.9	(1.4)	<ul style="list-style-type: none"> Asset quality to remain stable with PCR at 81%
Growth (% YoY)	18.9	14.0	19.4	487bps	(546bps)	
Deposits	93,37,503	80,35,717	94,69,452	16.2	(1.4)	
Growth (% YoY)	16.2	12.6	15.2	363bps	96bps	
NIM (%)	3.7	3.5	3.9	25bps	(22bps)	
C-D Ratio (%)	89.3	87.3	89.3	203bps	1bps	
C/I ratio (%)	46.0	52.5	44.9	(647bps)	109bps	
Credit Cost	0.4	0.2	0.2	19bps	23bps	
GNPA (%)	2.2	2.8	2.0	(59bps)	15bps	
NNPA (%)	0.4	0.6	0.4	(22bps)	3bps	
PCR (%)	81.0	77.3	80.9	373bps	13bps	

Source: Company, BOBCAPS Research

Fig 6 – KMB

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comment
NII	61,112	46,970	61,026	30.1	0.1	<ul style="list-style-type: none"> Loan growth forecast to remain strong at 19% YoY (+4% QoQ) driven by the retail segment
Growth (% YoY)	30.1	19.2	35.0	1,094bps	(486bps)	
Other Income	19,871	12,438	21,863	59.8	(9.1)	<ul style="list-style-type: none"> Higher deposit mobilisation likely to aid deposit growth of 17% YoY (+2% QoQ)
Net Income	80,983	59,408	82,888	36.3	(2.3)	<ul style="list-style-type: none"> Deposit price realignment to take a toll on NIM (-24bps QoQ)
Growth (% YoY)	36.3	7.5	30.6	2,878bps	574bps	
Opex	37,580	31,575	36,415	19.0	3.2	<ul style="list-style-type: none"> NII likely to grow 30% YoY (flat sequentially)
PPOP	43,403	27,833	46,474	55.9	(6.6)	<ul style="list-style-type: none"> Opex elevated; C/I ratio expected at 46% vs. 44% in Q4FY23
Growth (% YoY)	55.9	(10.8)	39.1	6,677bps	1,680bps	<ul style="list-style-type: none"> PPOP projected to decline 7% QoQ due to higher opex
Provision	2,449	236	1,476	938.0	65.9	<ul style="list-style-type: none"> Credit cost to increase 11bps sequentially to 30bps
PAT	30,920	20,712	34,956	49.3	(11.5)	<ul style="list-style-type: none"> PAT forecast to decline 12% sequentially but rise 49% YoY
Growth (% YoY)	49.3	26.1	26.3	2,315bps	2,298bps	<ul style="list-style-type: none"> Asset quality to hold steady
Advances	33,31,233	28,01,710	31,98,612	18.9	4.1	
Growth (% YoY)	18.9	28.8	17.9	(993bps)	98bps	
Deposits	37,18,675	31,64,830	36,30,961	17.5	2.4	
Growth (% YoY)	17.5	10.4	16.5	706bps	101bps	
NIM (%)	5.0	4.6	5.3	49bps	(24bps)	
C-D Ratio (%)	89.6	88.5	88.1	105bps	149bps	
C/I ratio (%)	46.4	53.2	43.9	(675bps)	247bps	
Credit Cost	0.3	0.0	0.2	27bps	11bps	
GNPA (%)	1.8	2.2	1.8	(49bps)	(3bps)	
NNPA (%)	0.4	0.6	0.4	(26bps)	(1bps)	
PCR (%)	80.0	72.6	79.3	743bps	69bps	

Source: Company, BOBCAPS Research

Fig 7 – IIB

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comment
NII	48,866	41,253	46,695	18.5	4.7	Expect strong loan growth backed by both retail and wholesale segments (+21% YoY, 4% QoQ)
Growth (% YoY)	18.5	15.8	17.2	270bps	129bps	
Other Income	22,167	19,315	21,536	14.8	2.9	Deposits likely to rise 15% YoY and 3% QoQ
Net Income	71,033	60,568	68,231	17.3	4.1	NIM to rise 4bps sequentially on an increased share of high yielding assets
Growth (% YoY)	17.3	14.6	15.8	272bps	144bps	
Opex	31,089	26,261	30,656	18.4	1.4	Strong business to drive NII growth of 18% YoY and 5% QoQ
PPOP	39,944	34,307	37,575	16.4	6.3	Minor improvement likely in opex QoQ; C/I ratio expected at 44%
Growth (% YoY)	16.4	9.9	11.1	650bps	531bps	
Provision	11,376	12,510	10,301	(9.1)	10.4	PPOP set to rise 6% QoQ due to strong business growth
PAT	21,397	16,310	20,434	31.2	4.7	Credit cost to stay flat sequentially
Growth (% YoY)	31.2	60.5	45.9	(2,933bps)	(1,471bps)	
Advances	30,10,410	24,79,600	28,99,237	21.4	3.8	PAT forecast to grow 31% YoY and 5% QoQ in spite of a higher base
Growth (% YoY)	21.4	17.7	21.3	374bps	13bps	
Deposits	34,73,560	30,27,190	33,61,202	14.7	3.3	Asset quality to remain stable with PCR at 72%
Growth (% YoY)	14.7	13.3	14.6	147bps	17bps	
NIM (%)	4.5	4.3	4.4	13bps	4bps	
C-D Ratio (%)	86.7	81.9	86.3	476bps	41bps	
C/I ratio (%)	43.8	43.4	44.9	41bps	(116bps)	
Credit Cost	1.5	2.1	1.5	(51bps)	8bps	
GNPA (%)	1.9	2.4	2.0	(41bps)	(4bps)	
NNPA (%)	0.6	0.7	0.6	(12bps)	(4bps)	
PCR (%)	72.0	71.5	70.2	51bps	180bps	

Source: Company, BOBCAPS Research

Fig 8 – FB

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comment
NII	19,432	16,045	19,093	21.1	1.8	Business growth expected to remain strong with both advances and deposits growing 21% YoY (4-5% sequentially)
Growth (% YoY)	21.1	13.1	25.2	799bps	(407bps)	
Other Income	6,001	4,526	7,339	32.6	(18.2)	NII likely to rise 21% YoY (+2% QoQ)
Net Income	25,433	20,571	26,432	23.6	(3.8)	NIM to decline 8bps QoQ as most of the deposit repricing is complete
Growth (% YoY)	23.6	4.4	32.8	1,922bps	(917bps)	
Opex	13,524	10,838	13,086	24.8	3.3	Opex to remain elevated on higher branch expansion and technology expense
PPOP	11,909	9,734	13,346	22.4	(10.8)	PPOP likely to grow 22% YoY but reduce 10% QoQ on softer other income
Growth (% YoY)	22.4	(6.1)	67.2	2,847bps	(4,484bps)	
Provision	1,745	1,667	1,167	4.7	49.6	PAT forecast to contract 16% QoQ on the back of higher provisions
PAT	7,603	6,007	9,026	26.6	(15.8)	No major asset quality shocks expected in Q1; PCR projected to come in at 71%
Growth (% YoY)	26.6	63.5	67.0	(3,696bps)	(4,041bps)	
Advances	18,35,437	15,16,890	17,44,469	21.0	5.2	
Growth (% YoY)	21.0	16.9	20.4	410bps	63bps	
Deposits	22,25,130	18,33,550	21,33,860	21.4	4.3	
Growth (% YoY)	21.4	8.2	17.4	1,311bps	392bps	
NIM (%)	3.1	3.1	3.2	4bps	(8bps)	
C-D Ratio (%)	82.5	82.7	81.8	(24bps)	73bps	
C/I ratio (%)	53.2	52.7	49.5	49bps	367bps	
Credit Cost	0.4	0.4	0.3	(6bps)	12bps	
GNPA (%)	2.3	2.7	2.4	(39bps)	(6bps)	
NNPA (%)	0.7	0.9	0.7	(26bps)	(1bps)	
PCR (%)	71.0	65.8	71.2	518bps	(20bps)	

Source: Company, BOBCAPS Research

Fig 9 – SBIN

(Rs mn)	Q1FY24E	Q1FY23	Q4FY23	YoY (%)	QoQ (%)	Comment
NII	4,00,326	3,11,959	4,03,925	28.3	(0.9)	Loan growth forecast at 15% YoY (+1% QoQ)
Growth (% YoY)	28.3	12.9	29.5	1,545bps	(115bps)	
Other Income	1,18,254	23,122	1,39,614	411.4	(15.3)	Higher deposit mobilisation to aid growth of 11% YoY (+2% QoQ) vs. ~9% YoY in both Q4FY23 and Q1FY23
Net Income	5,18,580	3,35,081	5,43,539	54.8	(4.6)	Deposit cost realignment likely to put some pressure on NIM (-11bps QoQ)
Growth (% YoY)	54.8	(15.0)	26.2	6,981bps	2,859bps	
Opex	2,72,716	2,07,556	2,97,328	31.4	(8.3)	Strong business growth to aid 28% YoY increase in NII (-1% QoQ)
PPOP	2,45,864	1,27,526	2,46,211	92.8	(0.1)	Higher business volume likely to result in some improvement in operational expenses; C/I ratio expected at 53% vs. 55% in Q4FY23
Growth (% YoY)	92.8	(32.8)	24.9	12,559bps	6,792bps	
Provision	43,448	43,924	33,157	(1.1)	31.0	PPOP likely to remain flat QoQ
PAT	1,48,776	60,681	1,66,945	145.2	(10.9)	Expect 12bps sequential increase in credit cost
Growth (% YoY)	145.2	(6.7)	83.2	15,188bps	6,199bps	PAT to decline 11% QoQ on a higher base
Advances	3,23,75,366	2,81,52,492	3,19,92,693	15.0	1.2	Asset quality set to remain stable with PCR at 76%
Growth (% YoY)	15.0	15.8	17.0	(76bps)	(202bps)	
Deposits	4,49,47,678	4,04,56,956	4,42,37,778	11.1	1.6	
Growth (% YoY)	11.1	8.7	9.2	237bps	191bps	
NIM (%)	3.1	2.7	3.2	43bps	(11bps)	
C-D Ratio (%)	72.0	69.6	72.3	244bps	(29bps)	
C/I ratio (%)	52.6	61.9	54.7	(935bps)	(211bps)	
Credit Cost	0.5	0.6	0.4	(9bps)	12bps	
GNPA (%)	2.5	3.9	2.8	(139bps)	(26bps)	
NNPA (%)	0.7	1.0	0.7	(33bps)	0bps	
PCR (%)	76.5	75.1	76.4	145bps	11bps	

Source: Company, BOBCAPS Research

Glossary

Glossary of Abbreviations

AUCA	Advance Under Collection Account	MTM	Mark to Market
CASA	Current Account and Savings Account	NII	Net Interest Income
CAR	Capital Adequacy Ratio	NIM	Net Interest Margin
CET1	Common Equity Tier 1	NNPA	Net Non-Performing Assets
CD	Credit-Deposit Ratio	PCR	Provision Coverage Ratio
C/I	Cost-Income Ratio	PPOP	Pre-Provision Operating Profit
EBLR	External Benchmark-based Lending Rate	PSU	Public Sector Unit
ECL	Expected Credit Loss	RWA	Risk-weighted Assets
GNPA	Gross Non-Performing Assets	SLR	Statutory Liquidity Ratio
LCR	Liquidity Coverage Ratio	SMA	Special Mention Account
MCLR	Marginal Cost of Funds-based Lending Rate	SME	Small and Medium-sized Enterprises

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Brand Name: **BOBCAPS**

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Note: Recommendation structure changed with effect from 21 June 2021

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