

BANKING

Q3FY24 Preview

11 January 2024

Expect healthy NII but modest margins

- **Healthy credit offtake reported in Q3, driven by retail and SME/MSME segments and supported by tick-up in wholesale loans**
- **Deposit mobilisation continues; however, rising costs of deposits, operations and credit likely to weigh on profitability**
- **HDFCB, KMB, IIB and SBIN remain our top picks**

Ajit Agrawal
 research@bobcaps.in

Strong credit growth driven by retail and SME/MSME segments: According to RBI data, system credit grew 16% YoY for the fortnight ended Dec'23. Growth was fuelled by festive-led demand from the retail and SME/MSME segments, with support from a sequential uptick in wholesale lending. Retail credit grew 20% YoY, which we believe was led by the small business segment, auto and home loans, offset by some moderation in unsecured lending, especially small-ticket personal loans, following regulatory changes in risk weights. We continue to expect system credit growth of 16% for Q3FY24 and 15% for FY24.

Deposit mobilisation continues to rise: The industry witnessed further acceleration in deposits due to attractive rates, clocking 13.3% YoY growth during Q3 (vs. 12.9% in Q2). Growth was spurred by term deposits where banks continued to increase rates. We expect the trend to continue in Q4 as well unless the interest rate cycle reverses. CASA ratio is, thus, forecast to remain subdued.

Margins under strain from rising deposit costs: The steady increase in deposit rates, more specifically for term deposits, is likely to put NIM under pressure. However, banks' core focus on high-yield retail loans could alleviate some of the stress. We expect a further decline in aggregate margin for our coverage by 4-5bps QoQ after the 5-10bps contraction seen during Q2.

Slippages to remain in check: We believe stress addition would be under control while a steady rise in upgrades and recoveries improves overall asset quality. Credit costs could rise sequentially despite lower stress addition as banks are prudently opting for buffer provisioning, which should help them adopt the expected credit loss (ECL) framework. GNPA and NNPA are forecast to improve QoQ with stable-to-higher PCR and anticipate no major shocks from the restructured and SMA books.

Top picks: In our view, NII growth would remain healthy in Q3 supported by strong business growth, but elevated opex and higher credit cost are likely to remain a drag on profitability. We retain HDFCB (BUY, TP Rs 1,929), KMB (BUY, TP Rs 2,007), IIB (BUY, TP Rs 1,755) and SBIN (BUY, TP Rs 747) as our preferred picks in the sector.

Recommendation snapshot

| Ticker | Price | Target | Rating |
|------------|-------|--------|--------|
| BANDHAN IN | 233 | 276 | BUY |
| FB IN | 150 | 180 | BUY |
| HDFCB IN | 1,649 | 1,929 | BUY |
| ICICIB IN | 991 | 1,090 | BUY |
| IIB IN | 1,658 | 1,755 | BUY |
| KMB IN | 1,823 | 2,007 | BUY |
| RBK IN | 295 | 258 | HOLD |
| SBIN IN | 620 | 747 | BUY |

Price & Target in Rupees | Price as of 11 Jan 2024



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 | 1,656 | 1,929 | BUY | 12,520 | 3.0 | 2.6 | 1.9 | 1.9 | 16.3 | 16.8 |
| ICICIB IN | 990 | 1,090 | BUY | 6,946 | 3.1 | 2.7 | 2.2 | 2.2 | 17.7 | 17.4 |
| KMB IN | 1,823 | 2,007 | BUY | 3,624 | 3.8 | 3.3 | 2.4 | 2.3 | 14.2 | 13.8 |
| IIB IN | 1,660 | 1,755 | BUY | 1,290 | 2.1 | 1.8 | 1.9 | 1.9 | 15.5 | 16.2 |
| FB IN | 150 | 180 | BUY | 366 | 1.4 | 1.2 | 1.3 | 1.2 | 15.9 | 14.8 |
| RBK IN | 295 | 258 | HOLD | 178 | 1.3 | 1.2 | 1.0 | 1.1 | 9.1 | 10.2 |
| BANDHAN IN | 233 | 276 | BUY | 376 | 0.6 | 0.5 | 2.1 | 2.2 | 17.0 | 17.4 |
| SBIN IN | 620 | 747 | BUY | 5,540 | 1.6 | 1.4 | 1.1 | 1.0 | 17.6 | 15.7 |

Source: Company, BOBCAPS Research

Fig 2 – BOBCAPS Banking Universe: Q3FY24 estimates

| Ticker | NII (Rs mn) | YoY (%) | QoQ (%) | PPOP (Rs mn) | YoY (%) | QoQ (%) | PAT (Rs mn) | YoY (%) | QoQ (%) |
|------------|-------------|---------|---------|--------------|---------|---------|-------------|---------|---------|
| HDFCB IN | 296,254 | 28.9 | 8.2 | 245,541 | 29.1 | 8.2 | 163,287 | 33.2 | 2.2 |
| ICICIB IN | 188,733 | 14.6 | 3.1 | 144,210 | 8.7 | 1.3 | 100,459 | 20.9 | (2.1) |
| KMB IN | 64,751 | 14.5 | 2.8 | 48,587 | 26.2 | 5.4 | 33,646 | 20.5 | 5.4 |
| IIB IN | 52,289 | 16.3 | 3.0 | 40,230 | 9.1 | 2.9 | 22,804 | 16.1 | 3.6 |
| FB IN | 21,514 | 10.0 | 4.6 | 14,259 | 11.9 | 7.7 | 9,337 | 16.2 | (2.1) |
| RBK IN | 15,174 | 32.2 | 2.9 | 7,799 | 37.5 | 6.7 | 3,083 | 47.5 | 4.8 |
| BANDHAN IN | 25,638 | 23.2 | 4.9 | 17,058 | (11.3) | 7.7 | 7,931 | 173.0 | 10.0 |
| SBIN IN | 401,083 | 5.4 | 1.5 | 177,554 | (29.6) | (8.6) | 110,701 | (22.1) | (22.7) |

Source: BOBCAPS Research

Company-wise expectations

Fig 3 – HDFCB

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comments |
|-------------------|----------------|----------------|----------------|-------------|------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| NII | 296,254 | 229,878 | 273,852 | 28.9 | 8.2 | <ul style="list-style-type: none"> Expect loan and deposit growth to be healthy QoQ while YoY growth could be higher due to the impact of merger with housing finance arm HDFC |
| Growth (YoY %) | 28.9 | 24.6 | 30.3 | 423bps | (140bps) | |
| Other Income | 111,959 | 84,998 | 107,078 | 31.7 | 4.6 | |
| Net Income | 408,213 | 314,877 | 380,931 | 29.6 | 7.2 | <ul style="list-style-type: none"> Focus on low-cost CASA mobilisation continues |
| Growth (YoY %) | 29.6 | 18.3 | 33.1 | 1,139bps | (347bps) | |
| Opex | 162,672 | 124,636 | 153,992 | 30.5 | 5.6 | <ul style="list-style-type: none"> Benefits from absorption of excess liquidity in the books likely to be offset by higher term deposit rates, leading to contraction in NIM |
| PPOP | 245,541 | 190,241 | 226,939 | 29.1 | 8.2 | <ul style="list-style-type: none"> Sticky operational cost to keep C/I ratio elevated |
| Growth (YoY %) | 29.1 | 13.4 | 30.5 | 1,567bps | (141bps) | |
| Provision | 29,267 | 28,064 | 29,038 | 4.3 | 0.8 | <ul style="list-style-type: none"> PPOP forecast to grow 8.2% QoQ supported by a strong topline |
| PAT | 163,287 | 122,595 | 159,761 | 33.2 | 2.2 | <ul style="list-style-type: none"> Credit cost to remain stable |
| Growth (YoY %) | 33.2 | 18.5 | 50.6 | 1,465bps | (1,744bps) | |
| Advances | 24,470,583 | 15,068,093 | 23,312,329 | 62.4 | 5.0 | <ul style="list-style-type: none"> Expect minor YoY improvement in GNPA and NNPA with controlled slippages |
| Growth (YoY %) | 62.4 | 19.5 | 57.5 | 4,289bps | 487bps | |
| Deposits | 22,141,681 | 17,332,040 | 21,728,578 | 27.8 | 1.9 | |
| Growth (YoY %) | 27.8 | 19.9 | 29.8 | 788bps | (210bps) | |
| NIM (%) | 3.6 | 4.3 | 3.9 | (77bps) | (37bps) | |
| C-D Ratio (%) | 110.5 | 86.9 | 107.3 | 2,358bps | 323bps | |
| C/I ratio (%) | 39.8 | 39.6 | 40.4 | 27bps | (58bps) | |
| Credit Cost | 0.5 | 0.8 | 0.6 | (26bps) | (10bps) | |
| GNPA (%) | 1.3 | 1.2 | 1.3 | 6bps | (5bps) | |
| NNPA (%) | 0.3 | 0.3 | 0.4 | 1bps | (1bps) | |
| PCR (%) | 74.0 | 73.2 | 74.4 | 78bps | (44bps) | |

Source: Company, BOBCAPS Research

Fig 4 – ICICIBC

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comments |
|-------------------|----------------|----------------|----------------|-------------|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| NII | 188,733 | 164,650 | 183,079 | 14.6 | 3.1 | <ul style="list-style-type: none"> Expect strong credit growth driven by the retail and SME segments |
| Growth (YoY %) | 14.6 | 34.6 | 23.8 | (1,993bps) | (919bps) | |
| Other Income | 58,412 | 50,236 | 57,767 | 16.3 | 1.1 | <ul style="list-style-type: none"> Deposit growth projected to remain healthy mainly driven by term deposits |
| Net Income | 247,145 | 214,886 | 240,846 | 15.0 | 2.6 | <ul style="list-style-type: none"> Margin forecast to remain stable as increase in cost of funds should be offset by higher yields |
| Growth (YoY %) | 15.0 | 24.8 | 21.4 | (975bps) | (637bps) | |
| Opex | 102,935 | 82,174 | 98,553 | 25.3 | 4.4 | <ul style="list-style-type: none"> Opex likely to remain elevated and C/I ratio expected at 42% |
| PPOP | 144,210 | 132,712 | 142,293 | 8.7 | 1.3 | <ul style="list-style-type: none"> Credit cost to increase sequentially |
| Growth (YoY %) | 8.7 | 30.8 | 21.8 | (2,211bps) | (1,316bps) | |
| Provision | 10,798 | 22,574 | 5,826 | (52.2) | 85.3 | <ul style="list-style-type: none"> Asset quality forecast to improve marginally with controlled slippages |
| PAT | 100,459 | 83,119 | 102,610 | 20.9 | (2.1) | |
| Growth (YoY %) | 20.9 | 34.2 | 35.8 | (1,333bps) | (1,490bps) | |
| Advances | 11,542,463 | 9,740,475 | 11,105,421 | 18.5 | 3.9 | |
| Growth (YoY %) | 18.5 | 19.7 | 18.3 | (116bps) | 18bps | |
| Deposits | 13,352,389 | 11,220,495 | 12,947,417 | 19.0 | 3.1 | |
| Growth (YoY %) | 19.0 | 10.3 | 18.8 | 872bps | 22bps | |
| NIM (%) | 4.63 | 4.65 | 4.6 | (2bps) | 5bps | |
| C-D Ratio (%) | 86.4 | 86.8 | 85.8 | (36bps) | 67bps | |
| C/I ratio (%) | 41.6 | 38.2 | 40.9 | 341bps | 73bps | |
| Credit Cost | 0.4 | 1.0 | 0.2 | (57bps) | 17bps | |
| GNPA (%) | 2.6 | 3.1 | 2.5 | (51bps) | 8bps | |
| NNPA (%) | 0.4 | 0.6 | 0.4 | (11bps) | 1bps | |
| PCR (%) | 83.0 | 82.6 | 83.1 | 37bps | (9bps) | |

Source: Company, BOBCAPS Research

Fig 5 – KMB

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comment |
|-------------------|---------------|---------------|---------------|-------------|------------|--------------------------------------------------------------------------------------------------------------|
| NII | 64,751 | 56,529 | 62,966 | 14.5 | 2.8 | ■ Loan growth to remain healthy though we expect some moderation sequentially on a higher base |
| Growth (YoY %) | 14.5 | 30.4 | 23.5 | (1,588bps) | (893bps) | |
| Other Income | 24,401 | 21,000 | 23,145 | 16.2 | 5.4 | ■ Increased focus on deposit mobilisation (low-cost hybrids) expected to result in strong deposit growth YoY |
| Net Income | 89,151 | 77,529 | 86,112 | 15.0 | 3.5 | ■ Deposit price realignment to take a toll on NIM (-12bps QoQ) |
| Growth (YoY %) | 15.0 | 36.1 | 22.1 | (2,107bps) | (709bps) | |
| Opex | 40,564 | 39,031 | 40,011 | 3.9 | 1.4 | ■ Opex could moderate, aiding 100bps sequential improvement in C/I ratio |
| PPOP | 48,587 | 38,498 | 46,101 | 26.2 | 5.4 | ■ PPOP forecast to rise 5.4% QoQ on strong topline growth |
| Growth (YoY %) | 26.2 | 42.5 | 29.2 | (1,633bps) | (302bps) | |
| Provision | 4,023 | 1,488 | 3,666 | 170.3 | 9.8 | ■ Credit cost to remain stable after normalising in the last 1-2 quarters |
| PAT | 33,646 | 27,919 | 31,910 | 20.5 | 5.4 | ■ PAT projected to increase 5.4% sequentially |
| Growth (YoY %) | 20.5 | 31.0 | 23.6 | (1,048bps) | (314bps) | |
| Advances | 3,669,769 | 3,107,340 | 3,482,841 | 18.1 | 5.4 | ■ Asset quality expected to remain stable |
| Growth (YoY %) | 18.1 | 22.9 | 18.5 | (475bps) | (35bps) | |
| Deposits | 4,187,692 | 3,446,660 | 4,009,629 | 21.5 | 4.4 | |
| Growth (YoY %) | 21.5 | 12.9 | 23.3 | 860bps | (180bps) | |
| NIM (%) | 4.8 | 5.2 | 5.0 | (33bps) | (12bps) | |
| C-D Ratio (%) | 87.6 | 90.2 | 86.9 | (252bps) | 77bps | |
| C/I ratio (%) | 45.5 | 50.3 | 46.5 | (484bps) | (96bps) | |
| Credit Cost | 0.45 | 0.2 | 0.4 | 25bps | 0bps | |
| GNPA (%) | 1.6 | 1.9 | 1.7 | (27bps) | (9bps) | |
| NNPA (%) | 0.3 | 0.4 | 0.4 | (10bps) | (4bps) | |
| PCR (%) | 80.0 | 77.6 | 79.1 | 243bps | 94bps | |

Source: Company, BOBCAPS Research

Fig 6 – IIB

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comment |
|-------------------|---------------|---------------|---------------|-------------|------------|-----------------------------------------------------------------------------------------------------------------------|
| NII | 52,289 | 44,954 | 50,767 | 16.3 | 3.0 | ■ Expect strong loan growth across segments while MFI continues to recover |
| Growth (YoY %) | 16.3 | 18.5 | 18.0 | (218bps) | (169bps) | |
| Other Income | 23,387 | 20,765 | 22,819 | 12.6 | 2.5 | ■ Deposits likely to grow at 15% YoY (4% QoQ) |
| Net Income | 75,676 | 65,718 | 73,586 | 15.2 | 2.8 | ■ NIM forecast to remain flat sequentially as increased deposit cost offsets better yields from a higher retail share |
| Growth (YoY %) | 15.2 | 15.9 | 16.6 | (74bps) | (141bps) | |
| Opex | 35,446 | 28,854 | 34,499 | 22.8 | 2.7 | ■ C/I ratio expected to remain flat QoQ at 46.8% |
| PPOP | 40,230 | 36,864 | 39,087 | 9.1 | 2.9 | ■ PPOP projected to increase by only 3% QoQ on moderation in NII growth |
| Growth (YoY %) | 9.1 | 11.3 | 10.3 | (217bps) | (115bps) | |
| Provision | 9,784 | 10,647 | 9,738 | (8.1) | 0.5 | ■ Credit cost to remain stable QoQ, on course to meet management guidance of 130bps for FY24 |
| PAT | 22,804 | 19,635 | 22,021 | 16.1 | 3.6 | ■ Moderation in NII and sticky opex could slow PAT growth to 3.6% QoQ |
| Growth (YoY %) | 16.1 | 58.2 | 22.0 | (4,203bps) | (584bps) | |
| Advances | 3,313,961 | 2,727,540 | 3,154,541 | 21.5 | 5.1 | ■ Asset quality set to remain stable with PCR of 71% |
| Growth (YoY %) | 21.5 | 19.3 | 21.3 | 218bps | 23bps | |
| Deposits | 3,740,697 | 3,252,780 | 3,595,480 | 15.0 | 4.0 | |
| Growth (YoY %) | 15.0 | 14.3 | 13.9 | 66bps | 105bps | |
| NIM (%) | 4.6 | 4.4 | 4.6 | 11bps | 0bps | |
| C-D Ratio (%) | 88.6 | 83.9 | 87.7 | 474bps | 86bps | |
| C/I ratio (%) | 46.8 | 43.9 | 46.9 | 293bps | (4bps) | |
| Credit Cost | 1.2 | 1.6 | 1.3 | (39bps) | (5bps) | |
| GNPA (%) | 1.8 | 2.1 | 1.9 | (24bps) | (11bps) | |
| NNPA (%) | 0.5 | 0.6 | 0.6 | (9bps) | (4bps) | |
| PCR (%) | 71.0 | 69.9 | 70.6 | 110bps | 42bps | |

Source: Company, BOBCAPS Research

Fig 7 – FB

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comment |
|-------------------|---------------|---------------|---------------|-------------|--------------|----------------------------------------------------------------------------------------------------|
| NII | 21,514 | 19,565 | 20,564 | 10.0 | 4.6 | Business growth expected to remain strong with both advances and deposits forecast to rise 20% YoY |
| Growth (YoY %) | 10.0 | 27.1 | 16.7 | (1,718bps) | (676bps) | |
| Other Income | 8,299 | 5,340 | 7,304 | 55.4 | 13.6 | NIM to remain stable sequentially despite an increase in costs |
| Net Income | 29,813 | 24,905 | 27,868 | 19.7 | 7.0 | Opex forecast to remain elevated and C/I ratio flat QoQ |
| Growth (YoY %) | 19.7 | 23.1 | 17.5 | (340bps) | 218bps | Stick operational cost set to hamper PPOP growth |
| Opex | 15,554 | 12,163 | 14,624 | 27.9 | 6.4 | Provisions expected to normalise (Q2 was lowest in last 4-6 quarters) |
| PPOP | 14,259 | 12,742 | 13,245 | 11.9 | 7.7 | PAT forecast to decline 2% QoQ on the back of low provisioning in the base quarter |
| Growth (YoY %) | 11.9 | 39.4 | 9.3 | (2,746bps) | 265bps | Asset quality to remain stable while PCR improves by 190bps sequentially |
| Provision | 1,777 | 1,987 | 439 | (10.6) | 304.7 | |
| PAT | 9,337 | 8,036 | 9,538 | 16.2 | (2.1) | |
| Growth (YoY %) | 16.2 | 54.0 | 35.5 | (3,784bps) | (1,936bps) | |
| Advances | 2,019,758 | 1,681,730 | 1,928,167 | 20.1 | 4.8 | |
| Growth (YoY %) | 20.1 | 19.5 | 19.6 | 61bps | 52bps | |
| Deposits | 2,416,896 | 2,014,080 | 2,328,684 | 20.0 | 3.8 | |
| Growth (YoY %) | 20.0 | 14.8 | 23.1 | 519bps | (312bps) | |
| NIM (%) | 3.1 | 3.5 | 3.1 | (31bps) | 0bps | |
| C-D Ratio (%) | 83.6 | 83.5 | 82.8 | 7bps | 77bps | |
| C/I ratio (%) | 52.2 | 48.8 | 52.5 | 333bps | (30bps) | |
| Credit Cost | 0.4 | 0.5 | 0.1 | (12bps) | 27bps | |
| GNPA (%) | 2.2 | 2.4 | 2.3 | (25bps) | (8bps) | |
| NNPA (%) | 0.6 | 0.7 | 0.6 | (12bps) | (3bps) | |
| PCR (%) | 72.3 | 70.4 | 72.3 | 192bps | 2bps | |

Source: Company, BOBCAPS Research

Fig 8 – SBIN

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comment |
|-------------------|----------------|----------------|----------------|---------------|---------------|--------------------------------------------------------------------------------|
| NII | 401,083 | 380,686 | 395,000 | 5.4 | 1.5 | Expect healthy 14% YoY loan growth driven by retail and SME segments |
| Growth (YoY %) | 5.4 | 24.1 | 12.3 | (1,869bps) | (691bps) | |
| Other Income | 113,833 | 114,677 | 107,906 | (0.7) | 5.5 | Deposit mobilisation to rise further with increase in term deposit rates |
| Net Income | 514,916 | 495,364 | 502,906 | 3.9 | 2.4 | Higher yields from retail assets to bolster NIM sequentially |
| Growth (YoY %) | 3.9 | 25.9 | 14.1 | (2,190bps) | (1,020bps) | Operational cost to remain elevated on higher provisions towards wage revision |
| Opex | 337,362 | 243,171 | 308,740 | 38.7 | 9.3 | PPOP forecast to decline 9% on sequential basis mainly due to wage provision |
| PPOP | 177,554 | 252,193 | 194,166 | (29.6) | (8.6) | Expect 32bps QoQ rise in credit cost |
| Growth (YoY %) | (29.6) | 36.2 | (8.1) | (6,576bps) | (2,153bps) | PAT to contract 23% sequentially on higher opex and provisions |
| Provision | 26,940 | 57,606 | 1,153 | (53.2) | 2236.9 | |
| PAT | 110,701 | 142,053 | 143,300 | (22.1) | (22.7) | |
| Growth (YoY %) | (22.1) | 68.5 | 8.0 | (9,054bps) | (3,010bps) | |
| Advances | 34,893,800 | 30,581,770 | 33,451,673 | 14.1 | 4.3 | |
| Growth (YoY %) | 14.1 | 18.6 | 13.3 | (451bps) | 75bps | |
| Deposits | 47,823,873 | 42,135,571 | 46,892,185 | 13.5 | 2.0 | |
| Growth (YoY %) | 13.5 | 9.5 | 11.9 | 399bps | 159bps | |
| NIM (%) | 3.1 | 3.1 | 3.0 | (4bps) | 8bps | |
| C-D Ratio (%) | 73.0 | 72.6 | 71.3 | 38bps | 163bps | |
| C/I ratio (%) | 65.5 | 49.1 | 61.4 | 1,643bps | 413bps | |
| Credit Cost | 0.3 | 0.2 | 0.0 | 12bps | 32bps | |
| GNPA (%) | 2.4 | 3.1 | 2.6 | (78bps) | (20bps) | |
| NNPA (%) | 0.7 | 0.8 | 0.6 | (10bps) | 3bps | |
| PCR (%) | 75.0 | 76.1 | 75.4 | (112bps) | (45bps) | |

Source: Company, BOBCAPS Research

Fig 9 – RBK

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comment |
|-------------------|---------------|---------------|---------------|-------------|------------|-----------------------------------------------------------------------------------|
| NII | 15,174 | 11,482 | 14,750 | 32.2 | 2.9 | ■ Loan book growth to remain strong YoY |
| Growth (YoY %) | 32.2 | 13.6 | 25.6 | 1,853bps | 655bps | ■ Expect some recovery in deposit mobilisation on sequential basis |
| Other Income | 7,298 | 6,184 | 7,044 | 18.0 | 3.6 | ■ Increased cost of funds could compress NIM by 9bps QoQ |
| Net Income | 22,472 | 17,666 | 21,794 | 27.2 | 3.1 | ■ Opex expected to stay flattish QoQ, aiding 116bps improvement in C/I ratio |
| Growth (YoY %) | 27.2 | 8.4 | 24.0 | 1,885bps | 321bps | ■ Provisions to decline sequentially on higher base, leading to lower credit cost |
| Opex | 14,674 | 11,994 | 14,484 | 22.3 | 1.3 | ■ PAT forecast to jump 47% YoY mainly supported by lower provisions |
| PPOP | 7,799 | 5,672 | 7,310 | 37.5 | 6.7 | |
| Growth (YoY %) | 37.5 | (10.1) | 42.7 | 4,757bps | (518bps) | |
| Provision | 3,715 | 2,927 | 6,404 | 26.9 | (42.0) | |
| PAT | 3,083 | 2,090 | 2,941 | 47.5 | 4.8 | |
| Growth (YoY %) | 47.5 | 33.9 | 45.9 | 1,367bps | 163bps | |
| Advances | 800,875 | 666,840 | 763,242 | 20.1 | 4.9 | |
| Growth (YoY %) | 20.1 | 14.7 | 21.3 | 541bps | (116bps) | |
| Deposits | 940,079 | 817,460 | 897,804 | 15.0 | 4.7 | |
| Growth (YoY %) | 15.0 | 11.0 | 13.1 | 399bps | 193bps | |
| NIM (%) | 5.1 | 4.6 | 5.2 | 59bps | (9bps) | |
| C-D Ratio (%) | 85.2 | 81.6 | 85.0 | 362bps | 18bps | |
| C/I ratio (%) | 65.3 | 67.9 | 66.5 | (260bps) | (116bps) | |
| Credit Cost | 1.9 | 1.8 | 3.4 | 9bps | (153bps) | |
| GNPA (%) | 3.1 | 3.6 | 3.1 | (56bps) | (7bps) | |
| NNPA (%) | 0.8 | 1.2 | 0.8 | (40bps) | 0bps | |
| PCR (%) | 75.0 | 68.0 | 75.6 | 700bps | (64bps) | |

Source: Company, BOBCAPS Research

Fig 10 – BANDHAN

| (Rs mn) | Q3FY24E | Q3FY23 | Q2FY24 | YoY (%) | QoQ (%) | Comment |
|-------------------|---------------|---------------|---------------|---------------|-------------|----------------------------------------------------------------------------------------------------------------------------|
| NII | 25,638 | 20,804 | 24,434 | 23.2 | 4.9 | ■ Advances growth expected to moderate to 17% YoY while rising 5.6% QoQ |
| Growth (YoY %) | 23.2 | (2.1) | 11.4 | 2,532bps | 1,182bps | ■ Deposit mobilisation to improve sequentially with realignment of deposit rates |
| Other Income | 6,046 | 10,333 | 5,403 | (41.5) | 11.9 | ■ Operational cost set to remain sticky due to retail-focused business model |
| Net Income | 31,684 | 31,137 | 29,836 | 1.8 | 6.2 | ■ Credit cost projected to improve sequentially on seasonal impact (H2 typically better in terms of recovery and upgrades) |
| Growth (YoY %) | 1.8 | 9.9 | 11.8 | (812bps) | (1,002bps) | ■ PAT forecast to grow 10% QoQ while surging 173% YoY on lower provisions |
| Opex | 14,626 | 11,916 | 14,002 | 22.7 | 4.5 | ■ Asset quality may witness some improvement QoQ with higher upgrades and recovery |
| PPOP | 17,058 | 19,222 | 15,834 | (11.3) | 7.7 | |
| Growth (YoY %) | (11.3) | (1.4) | 2.0 | (9,82bps) | (1,322bps) | |
| Provision | 6,608 | 15,415 | 6,362 | (57.1) | 3.9 | |
| PAT | 7,931 | 2,906 | 7,212 | 173.0 | 10.0 | |
| Growth (YoY %) | 173.0 | (66.2) | 244.6 | 23,913bps | (7,164bps) | |
| Advances | 1,077,465 | 920,910 | 1,020,277 | 17.0 | 5.6 | |
| Growth (YoY %) | 14.1 | 18.6 | 13.3 | (451bps) | 75bps | |
| Deposits | 1,186,483 | 1,022,830 | 1,120,792 | 16.0 | 5.9 | |
| Growth (YoY %) | 13.5 | 9.5 | 11.9 | 399bps | 159bps | |
| NIM (%) | 7.0 | 6.4 | 6.9 | 65bps | 13bps | |
| C-D Ratio (%) | 90.8 | 90.0 | 91.0 | 78bps | (22bps) | |
| C/I ratio (%) | 46.2 | 38.3 | 46.9 | 789bps | (77bps) | |
| Credit Cost | 2.5 | 6.8 | 2.5 | (424bps) | (2bps) | |
| GNPA (%) | 6.3 | 7.2 | 7.3 | (82bps) | (99bps) | |
| NNPA (%) | 1.9 | 1.9 | 2.3 | 6bps | (40bps) | |
| PCR (%) | 71.0 | 75.4 | 70.0 | (443bps) | 104bps | |

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 |

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA ("US") OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.