BANKING | Q4FY20 Preview | 15 April 2020

Limited lockdown impact in Q4

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We expect a modest fourth quarter for our banking coverage followed by a sharp credit slowdown in Q1FY21 as the lockdown impact unravels. Q4 systemic loan growth has been tepid at 6% YoY but is expected to be higher for large private banks, while asset quality should perk up across the board. Management comments on unsecured retail/SME delinquencies and moratorium impact are keenly awaited. As noted in our sector report, the top 3 private banks offer a higher margin of safety led by sturdy liability franchises, growth capital and fortified balance sheets.

Asset quality of unsecured loans on the radar: Banks are likely to showcase marginally better asset quality trends in Q4 as there were no lumpy slippages and this is a seasonally strong quarter in terms of recoveries and one-time settlements. Stress in the unsecured retail and MSME portfolios will be closely watched. We also await commentary on the share of loans under moratorium and measures initiated by banks to limit slippages from such accounts. A few banks may build contingent provisions to strengthen their balance sheets amid Covid-19.

Loan growth to come off across banks: Systemic credit growth has steadily moderated to ~6% YoY in Q4FY20 vs. ~15% a year ago due to weak corporate credit and a slowdown in unsecured retail loans. Loan growth is expected to slow for banks under our coverage in Q4, though large private players should fare relatively better. Proforma business updates suggest a sharp deceleration for Kotak Mahindra Bank (KMB: ~7% YoY) and IndusInd Bank (IIB: ~13%). Credit growth is likely to slump further given the lockdown, though the impact is difficult to quantify at this time.

NIMs to remain largely stable in Q4: Most banks have cut their MCLR by up to 80bps since Mar'19 even as growth in unsecured retail loans has moderated, which is likely to put pressure on yields. We expect this pressure to be offset by a reduction in term deposit rates over the last few months, lower interest reversals and one-off interest recognition on NPA recoveries, thereby keeping margins intact in Q4. Management outlook on NIMs will be keenly watched as the lockdown brings both growth and asset quality of unsecured retail loans into question.

RECOMMENDATION SNAPSHOT

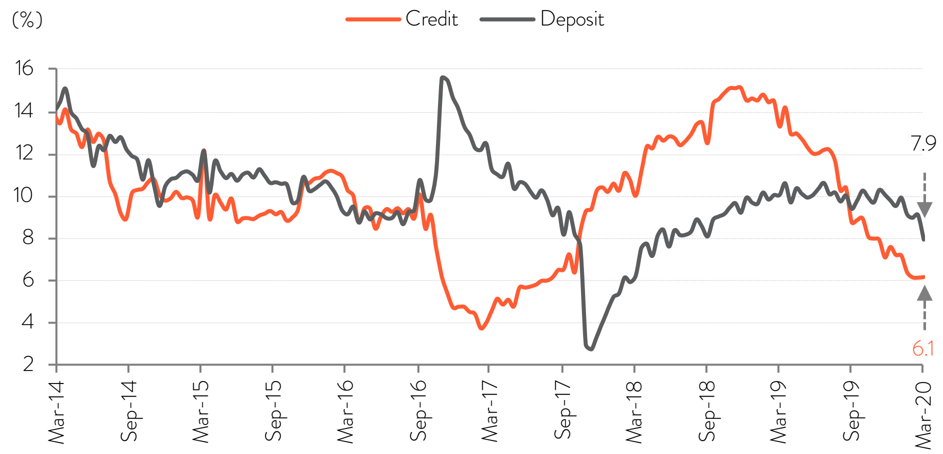
Ticker	Rating
AXSB IN	BUY
DCBB IN	ADD
FB IN	BUY
HDFCB IN	BUY
ICICIBC IN	BUY
IDFCFB IN	ADD
IIB IN	BUY
KMB IN	BUY
RBK IN	ADD
SBIN IN	BUY

FIG 1 – BOBCAPS BANKING UNIVERSE: Q4FY20 EXPECTATIONS

Particulars (Rs mn)	Q4FY20E	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	Comments
Axis Bank						We expect loan growth in the region of 14-16% YoY with higher emphasis on retail. A large part of the slippages could come from the below-investment grade book. Margins are likely to decline slightly while PCR is expected to improve.
Net interest income	66,318	57,056	64,530	16.2	2.8	
Pre-provisioning profit	56,451	50,144	57,427	12.6	(1.7)	
Profit after tax	8,791	15,051	17,570	(41.6)	(50.0)	
DCB Bank						NIM is forecast to remain stable at ~3.7% with ~10% YoY loan growth. Management outlook on asset quality in the SME, mortgage and CV portfolios awaited.
Net interest income	3,313	3,009	3,231	10.1	2.5	
Pre-provisioning profit	1,961	1,853	1,899	5.8	3.2	
Profit after tax	801	963	967	(16.9)	(17.2)	
Federal Bank						Loan growth and NIM are expected to be stable QoQ. Asset quality of the SME portfolio is a key monitorable.
Net interest income	12,210	10,965	11,549	11.4	5.7	
Pre-provisioning profit	7,990	7,548	7,438	5.9	7.4	
Profit after tax	3,920	3,815	4,406	2.7	(11.0)	
HDFC Bank						Market share gains are likely to continue with strong 24% YoY loan growth. We await management commentary on the unsecured portfolio and impact of RBI moratorium. HDFCB may create contingent provisions amid Covid-19.
Net interest income	152,820	130,895	141,729	16.8	7.8	
Pre-provisioning profit	134,031	108,436	129,454	23.6	3.5	
Profit after tax	75,851	58,851	74,165	28.9	2.3	
ICICI Bank						Loan growth is projected at 12-14% YoY with NIM largely stable. Slippages could flow primarily from the below-investment grade portfolio while reduction in headline GNPA/NNPA is expected to continue.
Net interest income	87,569	76,201	85,453	14.9	2.5	
Pre-provisioning profit	75,312	62,334	75,486	20.8	(0.2)	
Profit after tax	42,663	9,691	41,465	340.3	2.9	
IDFC First Bank						Balance sheet restructuring continues with a focus on reducing the share of wholesale loans and increasing retail loan share. Expect sustained, robust traction in retail deposits.
Net interest income	15,956	11,129	15,343	43.4	4.0	
Pre-provisioning profit	6,408	2,386	6,817	168.6	(6.0)	
Profit after tax	1,652	(2,180)	(16,389)	(175.8)	(110.1)	
IndusInd Bank						Proforma numbers released by the bank indicate that loan as well as deposit growth has come off materially to 13% and 4% respectively. Performance of the CV/MFI portfolio and management outlook on loan growth are key to watch.
Net interest income	28,604	22,324	30,742	28.1	(7.0)	
Pre-provisioning profit	22,877	20,671	27,577	10.7	(17.0)	
Profit after tax	816	3,595	13,092	(77.3)	(93.8)	
Kotak Mahindra Bank						Q4 loan growth at 6.7% YoY (as disclosed by the bank) has come off meaningfully given KMB's conservative approach. Traction in liability franchise should continue, aiding cost of funds. We don't expect material slippage in asset quality. Management commentary on unsecured and SME loans is awaited.
Net interest income	33,900	30,479	34,295	11.2	(1.2)	
Pre-provisioning profit	25,432	22,823	23,881	11.4	6.5	
Profit after tax	15,823	14,078	15,959	12.4	(0.9)	
RBL Bank						Asset quality of the MFI and credit card portfolios holds the key. Movement of deposits, especially CASA, will be keenly watched.
Net interest income	9,479	7,387	9,227	28.3	2.7	
Pre-provisioning profit	7,440	5,600	7,322	32.9	1.6	
Profit after tax	714	2,472	700	(71.1)	2.1	
State Bank of India						We expect loan growth to remain weak at 5-6% YoY, while deposits could see a sharp uptick, especially CASA. NIM looks to have peaked out with no material recovery of bad loans. One-time gain from stake sale in SBI Cards will boost non-interest income.
Net interest income	264,126	229,538	277,788	15.1	(4.9)	
Pre-provisioning profit	221,389	169,331	182,226	30.7	21.5	
Profit after tax	79,208	8,384	55,834	844.8	41.9	
Yes Bank						We expect the loan book to continue to decline considering the sharp outflow of deposits, especially CASA deposits. Operating parameters are likely to remain weak while asset quality further deteriorates.
Net interest income	8,932	25,059	10,616	(64.4)	(15.9)	
Pre-provisioning profit	(149)	13,234	(126)	NM	NM	
Profit after tax	(52,452)	(15,066)	(185,642)	NM	NM	

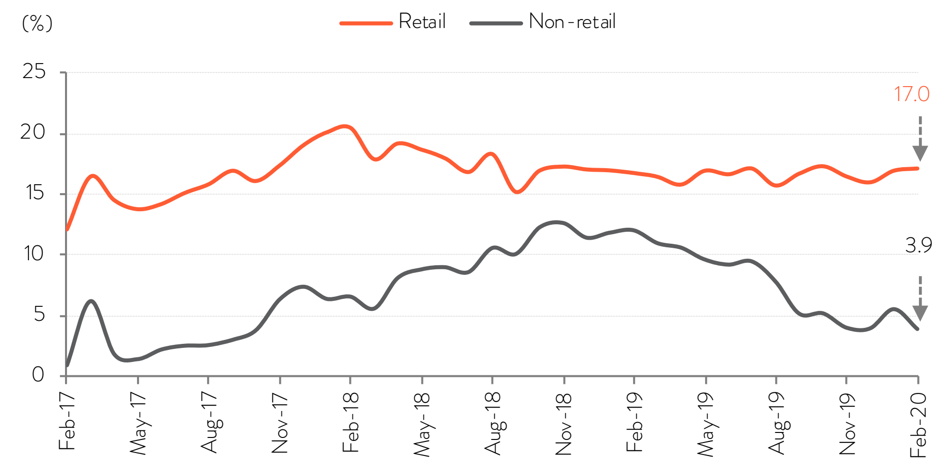
Source: Company, BOBCAPS Research

FIG 2 – SYSTEMIC CREDIT GROWTH LACKLUSTRE...



Source: RBI, BOBCAPS Research

FIG 3 – ...LARGELY DUE TO WEAK NON-RETAIL GROWTH (YOY)



Source: RBI, BOBCAPS Research

FIG 4 – MCLR OF BANKS DOWN BY UPTO 80BPS SINCE MAR'19

Banks	1-year MCLR (%)					Change (bps)
	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Mar-20 over Mar-19
Axis Bank	8.9	8.7	8.5	8.2	8.1	(80)
DCB Bank	10.8	10.8	10.7	10.3	10.2	(62)
Federal Bank	9.2	9.2	9.0	8.9	8.8	(40)
HDFC Bank	8.8	8.7	8.5	8.2	8.2	(60)
ICICI Bank	8.8	8.8	8.6	8.3	8.2	(65)
IDFC First Bank	9.3	9.5	9.3	9.3	9.4	10
IndusInd Bank	9.9	9.8	9.6	9.4	9.3	(65)
Kotak Bank	9.0	8.9	8.8	8.4	8.4	(65)
RBL Bank	10.3	10.1	10.0	9.7	9.5	(80)
State Bank of India	8.6	8.5	8.2	7.9	7.8	(80)
Yes Bank	9.7	9.7	9.7	9.7	9.7	-

Source: RBI, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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