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Sector update

INDIA

Banking

What's driving investor enthusiasm – pessimism, skepticism, optimism or exuberance?

"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria" – John Templeton

The outgoing year has been tumultuous like no other for the financial sector: in the hindsight, extreme pessimism in March with onset of Covid (when Bank Nifty contracted >45% from new highs made in early January) gave birth to a bull phase. With gradual opening-up during Q3CY21, Bank Nifty built further momentum on skeptcism and promptly bounced back (>80% from its low) on renewed optimism in Q4CY21. With Bank Nifty currently trading near historical (3/5/10 years) valuations, we ponder we are in which stage of skepticism, optimism or exuberance. Key questions through which we attempt to address this are: 1) is the imminent normalisation phase much ahead of expectations? 2) are we at the turning point to expansionary phase of the financial cycle? 3) is there enough visibility of the pandemic not having a long-drawn effect on fundamental earnings outlook? 4) what are the long-term structural valuation factors that are more than offsetting the adverse impact of intermediate disruption?

- **Deep-diving into asset profile vulnerability to assess no long drawn effect:** We have reassessed banks' asset vulnerability through our high, medium, and low (HML) risk framework, further validating variables on recent trends in sub-segments, to decipher credit cost outlook for banks. ***Our granular segment-wise detailed analysis suggests cumulative slippage run-rate of 4-7% over FY21/22E (10-30% higher than last three years average).*** Factoring-in adequate provisioning and 80% utilisation of (existing) contingency buffer, ***translates into credit cost of 3-6% over FY21E/FY22E (lower than envisaged earlier).*** Our earlier FY21E credit cost estimate seems in line, but there is downward revision for FY22E (especially for Axis, Bandhan, IIB, RBL). Post evaluation of operating leverage and cost structure, we expect banks to structurally shave off costs by 20-30bps of assets. On this basis, we increase earnings by 2-5% for FY21 and 5-30% for FY22E. *(Table 3, 6)*
- **Key aspect differentiating this phase is financiers' proactiveness and agility:** Covid disruption is not very different from the earlier disruptions. However, a differentiating aspect this time is financiers' proactiveness and agility to deal with the turbulence and ensure no long-drawn effect on earnings outlook. Financiers this time have created a war chest of liquidity, deposits, capital and credit contingency buffers – much in advance to bear the brunt of economic and credit cycle disruption.
- **Revision in target valuation multiples – long-term growth/value drivers offsetting intermediate disruption:** In our valuation framework, we have incorporated discount rate benefit, altered risk perception (in favour of some and against few), and adjusted medium and long-term growth and RoE outlook (on enhanced visibility). This leads us to revise target multiples and target prices. Weighing derived multiples against current valuations results in tweaking our preferences. *(Refer table 1, chart 20-30)*
  - Our 2020 top picks – Kotak Mahindra Bank (KMB), HDFC Bank, AU SFB – have outperformed broader indices by 15-20% in last one year.
  - We are now downgrading KMB to '**HOLD**' (TP – Rs2,013) from ***Buy*** and AU SFB to **'ADD'** (TP – Rs940) from ***Buy***.
  - Also, with HDFC Bank providing ~20% upside, we **incline our preferences more towards Axis Bank** (TP - Rs814)**, SBI** (TP - Rs361)**, Bandhan Bank** (TP – Rs537)**, and Federal Bank** (TP – Rs88) as outperformers (with more than 35% return expectations over next 12-18 months).
  - We are not yet at a juncture of complete risk-on stage and prefer going slow in building position in other names. We maintain '**ADD**' on Indusind Bank and RBL**.**

Research Analysts:

Kunal Shah
kunal.shah@icicisecurities.com
+91 22 6637 7572

Renish Bhuva
renish.bhuva@icicisecurities.com
+91 22 6637 7465

Chintan Shah
chintan.shah@icicisecurities.com
+91 22 6637 7658

- **Are we at the turning point of financial cycle expansion?** Even prior to Covid, the financial sector was already in contraction phase as indicated by corporate deleveraging, modest credit growth, corporate credit stress, liquidity crisis, etc. Covid disruption accentuated the phase. However, the economy is recovering faster and rebound in lead indicators suggests the crisis is not as severe and prolonged as anticipated. Stress recognition is due in the coming quarters, but credit cycle disruption seems within manageable levels (likely to be elevated for next 3-6 quarters but should peak out thereafter). We are at the cusp of releveraging that will drive credit growth in double digits FY22E onward. Easy monetary policy, excess liquidity is also lowering the cost of credit. All this, coupled with ample resources with financiers', sets the stage for CY21 to be a turning point to expansionary phase.

Table 1: Realigning target prices and ratings post recent performance and market developments

Company	Earlier		Revised		Rationale for change in Rating/TP
	Rating	TP	Rating	TP	
HDFC Bank	BUY	1493	BUY	1,693	Stable set of earnings and credit cost to settle at the lowest level than peers. Best-in-class franchise to aid gain in market share and leadership. Target multiple revision largely led by lower discount rate assumption
Axis Bank	BUY	636	BUY	814	Credit cost for FY22 to settle much lower than expected; contingency buffer to cushion earnings volatile; relatively asset profile and capital buffer places it relatively better than earlier cycle
SBI	BUY	272	BUY	361	With overall improvement in macro and better quality asset profile, credit cost provides a room for positive surprise. Discount rate advantage plays in its favour to the maximum
IIB Bank	ADD	686	ADD	975	Sharp downward revision in FY22 credit cost after having provided it upfront in FY21. Growth to retrace back to 15% plus levels FY22 onwards.
Bandhan Bank	BUY	455	BUY	537	Credit cost to normalise in FY22 to sub-1.5% after having provided 3.5% in FY21, thereby boosting RoE profile; asset growth momentum remains intact
Federal Bank	BUY	70	BUY	88	Favourable asset mix (negligible unsecured portfolio and limited exposure to vulnerable sectors like Hotel, Tourism, MHCV etc), best-in-class deposit profile to aid gain in credit market share.
AU SFB	BUY	935	ADD	940	Collections and disbursements already reaching pre-covid level in Q2FY21 speaks for AU's resilient business model and justify current premium valuation of 4.3x FY22 book but leaves limited scope for further re-rating.
DCB Bank	ADD	89	BUY	140	Improved outlook of SMEs, strong revival in mortgage portfolio is likely to help DCB reaching 0.9% RoA by FY22e. Improving liability profile (strong traction in Retail TD during 1HFY21) provide comfort.
Karur Vysya Bank	BUY	74	BUY	74	Credit cost and asset quality to settle much lower than expectation. Better margin profile and cost flexibility to help RoA reaching 0.9% by FY22e.
Kotak Mahindra Bank	BUY	1708	HOLD	2,013	Credit cost expected to be best-in-class; management's strategic shift towards asset-side acquisition revived hopes of growth shifting gears and stock re-rated post the management narrative. Stability with scalability deserves premium but seems to fairly priced-in at 4.3x PB multiple
City Union Bank	HOLD	150	HOLD	190	With overall improvement in SMEs and better quality asset profile, credit cost provides a room for positive surprise but RoA improvement to 1.5% would be prolonged.
RBL Bank			ADD	246	Credit cost to relatively high than peers that will drag RoE profile in the near term; however valuation at 1.0x FY22 captures fair bit of interim moderation
Yes Bank	HOLD	13	HOLD	17	No change in earnings. Target multiple revision largely led by lower discount rate assumption

Source: Company, I-Sec Research

Table 2: Valuations – long term value/growth drivers offsetting intermediate disruptions

Particulars	CMP	Rating	TP	P/E (x)		P/BV (x)		P/ABV (x)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HDFC Bank (std)	1,397	BUY	1,693	26.5	22.2	3.8	3.3	3.9	3.4
Axis Bank (std)	610	BUY	814	21.4	11.5	1.7	1.5	1.9	1.7
SBI (std)	267	BUY	361	10.0	4.4	0.6	0.5	0.8	0.6
Bandhan Bank	398	BUY	537	21.0	12.7	3.5	2.8	3.7	2.9
Federal Bank	65	BUY	88	13.0	7.1	0.9	0.8	0.9	0.9
DCB Bank	116	BUY	140	14.7	10.1	1.1	1.0	1.2	1.0
Karur Vysya Bank	45	BUY	74	8.6	5.0	0.5	0.5	0.6	0.6
IIB Bank	853	ADD	975	22.9	10.3	1.7	1.5	1.8	1.6
AU SFB	868	ADD	940	22.6	27.6	4.8	4.3	5.1	4.5
RBL Bank	220	ADD	246	29.2	10.6	1.0	1.1	1.1	1.0
Kotak Mah Bk (std)	1,961	HOLD	2,013	45.6	38.0	4.9	4.3	5.1	4.5
City Union Bank	178	HOLD	190	25.3	19.3	2.3	2.1	2.6	2.3
Yes Bank	18	HOLD	17	N/A	37.5	1.2	1.2	1.6	1.5

Particulars	EPS (Rs)		BV (Rs)		ABV (Rs)		RoAA (%)			RoAE (%)		
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC Bank (std)	50.0	60.0	351	397	344	390	1.9	1.7	1.8	16.4	15.1	16.0
Axis Bank (std)	27.0	50.0	332	374	298	345	0.2	0.9	1.4	2.1	8.8	14.1
SBI (std)	14.0	31.0	241	272	180	219	0.5	0.3	0.6	10.5	5.9	12.2
Bandhan Bank	19.0	31.0	114	143	107	136	3.6	3.0	4.1	21.4	18.2	24.5
Federal Bank	5.0	9.0	78	86	71	78	0.9	0.5	0.9	11.1	6.8	11.4
DCB Bank	8.0	12.0	109	120	103	114	0.9	0.6	0.9	11.2	7.7	10.3
Karur Vysya Bank	5.0	9.0	89	96	71	76	0.3	0.6	0.9	3.6	6.3	9.9
IIB Bank	37.0	82.0	509	578	483	548	1.5	0.9	1.7	13.7	7.7	15.2
AU SFB	38.0	31.0	179	200	167	189	1.8	2.6	1.9	17.9	23.6	16.4
RBL Bank	8.0	21.0	210	229	1982	222	0.6	0.5	1.2	5.6	3.9	9.5
Kotak Mah Bk (std)	34.0	41.0	318	358	308	346	2.0	1.8	1.9	14.7	12.1	12.1
City Union Bank	7.0	9.0	79	88	70	80	1.0	1.0	1.3	9.4	9.5	11.3
Yes Bank	0.0	0.5	15	15	11	12	-5.1	0.0	0.4	-67.5	-0.3	3.2

Source: Company, Bloomberg, I-Sec Research

Table 3: Deep diving into asset vulnerability revising credit cost and earnings

Particulars	Operating profit revision		Credit cost revision		Earnings revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
SBI	1%	3%	0%	-7%	2%	16%
HDBK	0%	0%	-10%	-12%	5%	6%
Axis	1%	2%	-7%	-30%	16%	26%
Kotak	0%	0%	-2%	-6%	2%	2%
IIB	1%	3%	1%	-27%	2%	31%
Bandhan	0%	0%	3%	-31%	-1%	8%
RBL	N/A	N/A	N/A	N/A	N/A	N/A
YES	0%	0%	0%	0%	0%	0%
FB	12%	7%	13%	10%	10%	5%
KVB	0%	0%	0%	0%	0%	0%
CUBK	10%	8%	12%	16%	5%	-2%
AU SFB	33%	2%	44%	23%	29%	-3%
DCB	5%	-1%	24%	7%	-14%	-7%

Source: Company, I-Sec Research
Earning revision for AU appears higher in FY21e as we now built in profits from Aavas stake sale.

Table 4: Credit growth post a drag in H1FY21 to see a sharp rebound

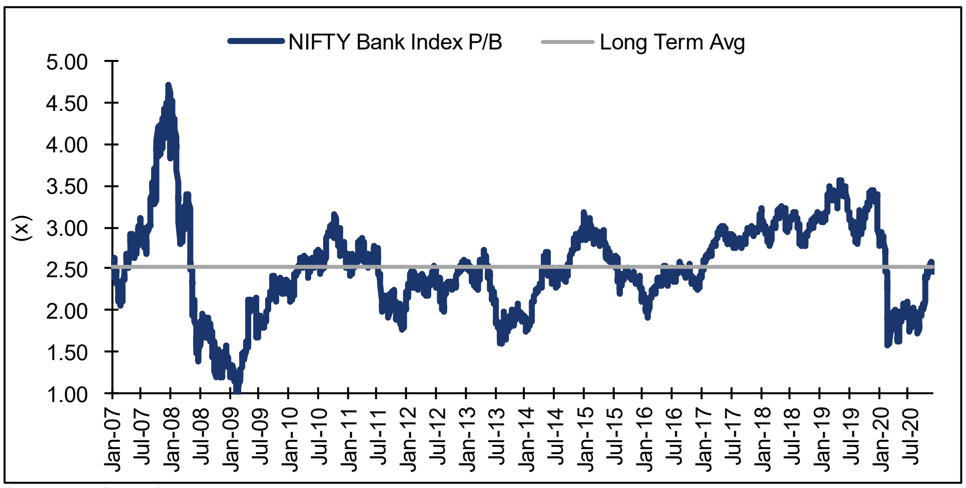
Name	Credit growth				Deposit growth			
	FY20	FY21YTD	FY21E	FY22E	FY20	FY21YTD	FY21E	FY22E
SBIN	6.4%	-1.3%	7.6%	12.2%	11.3%	14.4%	12.0%	12.0%
HDFCB	21.3%	4.5%	14.5%	17.9%	24.3%	20.3%	12.0%	17.0%
AXIS	15.5%	0.9%	11.4%	17.6%	16.7%	8.8%	10.0%	15.0%
KOTAK	6.8%	-6.8%	3.2%	16.4%	16.4%	12.2%	8.0%	17.0%
INDUSIND	6.5%	-2.7%	7.0%	14.7%	3.7%	10.0%	13.0%	17.0%
YES	-29.0%	-2.6%	3.9%	10.5%	-53.7%	-35.2%	45.0%	8.0%
BANDHAN	17.0%	10.0%	18.2%	24.5%	32.0%	34.4%	20.0%	28.0%
FB	10.9%	0.5%	7.9%	17.0%	12.8%	2.9%	10.0%	14.5%
CUBK	3.8%	2.6%	6.0%	15.0%	6.2%	1.4%	5.0%	14.0%
DCB	7.5%	-1.8%	2.0%	15.0%	6.8%	-5.3%	3.0%	15.0%
KVB	-5.1%	3.7%	8.0%	15.0%	-1.3%	3.5%	6.5%	15.0%
AU SFB	29.0%	-1.0%	8.8%	22.8%	34.7%	3.1%	15.0%	22.7%

Source: Company, I-Sec Research

What's driving investor enthusiasm – pessimism, skepticism, optimism or exuberance?

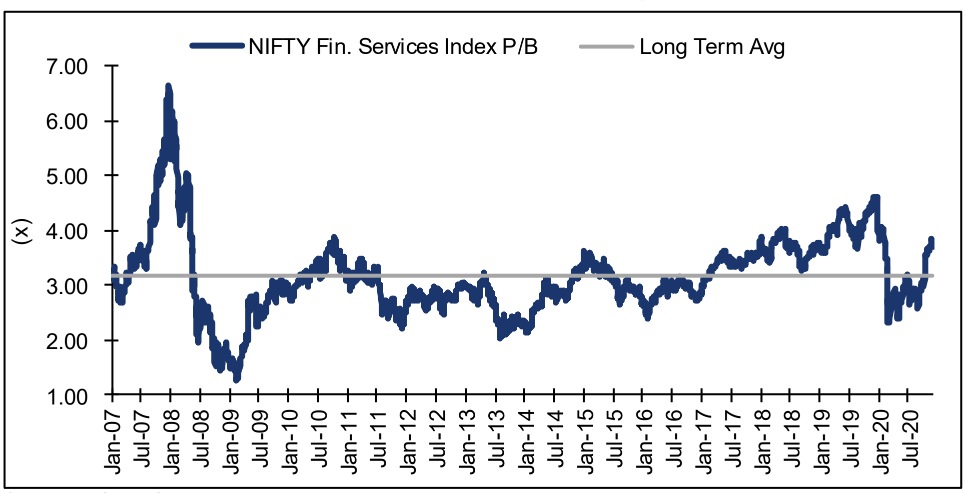
The outgoing year has been tumultuous like no other for the financial sector. The year got off to a promising start with the financial index touching its peak in early January. Covid pandemic struck throwing challenges with respect to economic dislocation and credit cycle disruption and financial index contracted more than 45% by March-end from its peak. in the hindsight, extreme pessimism in March actually gave birth to a bull phase. With gradual opening-up and government and regulators' stimulus packages / incentives during Q3CY21, Bank Nifty built further momentum on skeptcism. The bounce in high-frequency lead indictors, gave a ray of hope and confidence and index promptly bounced back on renewed optimism in Q4CY21. In fact, bank Nifty gained >80% from its bottom - now underperforming broader indices by ~15% despite being the most leveraged and in vulnerable space. With Bank Nifty currently trading near historical (3/5/10 years) valuations, we ponder we are in which stage of skepticism, optimism or exuberance.

Chart 1: NIFTY Bank – trading near its historical average valuations



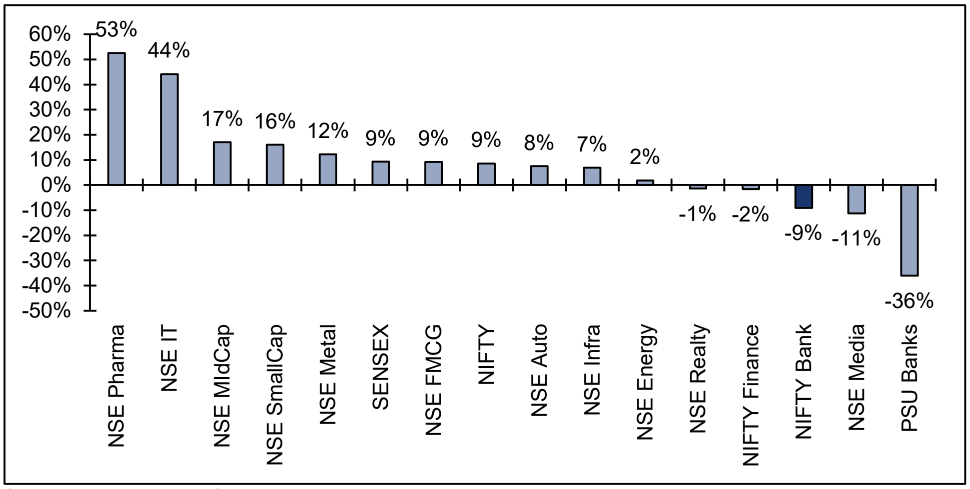
Source: NSE, I-Sec Research

Chart 2: …while Financial Services Index trading at a premium



Source: NSE, I-Sec Research

Chart 3: Bank NIFTY underperforms broader indices by 15-17%



Source: Bloomberg, I-Sec Research
Note: Data as of 21 Dec 2020 (1Y performance)

Table 5: Banking sector has outperformed in last 3 months but not over one year

BB Symbol	Index Name	1M	3M	1Y	3Y	5Y
Nifty Index	NIFTY	4%	18%	9%	28%	70%
NSEbank index	NIFTY Bank	1%	38%	-9%	15%	75%
Sensex Index	SENSEX	4%	20%	9%	35%	77%
NSEfin Index	NIFTY Finance	1%	37%	-2%	37%	106%
NSEpsbk Index	PSU Banks	12%	24%	-36%	-57%	-44%
NSEMCAP Index	NSE MIdCap	4%	18%	17%	-5%	49%
NSESMCP Index	NSE SmallCap	7%	15%	16%	-25%	19%
NSEauto INDEX	NSE Auto	1%	12%	8%	-26%	7%
NSEnrg Index	NSE Energy	3%	7%	2%	15%	96%
NSEfmcg Index	NSE FMCG	5%	12%	9%	24%	65%
NSEit Index	NSE IT	7%	16%	44%	101%	104%
NSEmed Index	NSE Media	8%	2%	-11%	-54%	-37%
NSEmet Index	NSE Metal	9%	36%	12%	-21%	69%
NSEphrm Index	NSE Pharma	7%	4%	53%	32%	6%
NSEreal Index	NSE Realty	15%	35%	-1%	-13%	70%
NSEINFR Index	NSE Infra	3%	12%	7%	-2%	30%

Source: Bloomberg, I-Sec Research

Key questions through which we attempt to address this are: 1) is the imminent normalisation phase much ahead of expectations? 2) are we at the turning point of contraction phase to expansionary phase of the financial cycle? 3) is there enough visibility of the pandemic not having a long-drawn effect on fundamental earnings outlook? 4) what are the long-term structural valuation factors that are more than offsetting the adverse impact of intermediate disruption?

Is the normalisation phase in the offing much ahead of expectations?

In terms of spread of the pandemic, business disruption and extended social pause, we are nearing the end of adverse consequences and hope/confidence is also being imbibed with the positivity around vaccine launch.

- Economy, after recording a technical recession with GDP contracting for two consecutive quarters, is recovering faster than expected. We expect the economy to post positive growth in all quarters of CY21, starting with a modest growth of ~0.8% YoY in Q4FY21 (Q1CY21) and increasing sharply to ~20% in Q1FY22 (Q2CY21). For full year FY22E, we will likely print 8.5% GDP growth.

- Rebound in high-frequency lead indicators suggests that economic crisis was not as severe and prolonged as anticipated. Some of the indicators (electricity consumption, GST collection, petrol/diesel consumption, PMI, toll collections, 2-wheeler/passenger car sales point to meaningful revival (to pre-Covid levels) from the consolidation phase in consumption and spending pattern. ***However, the impact of pent-up demand and sustenance of momentum will be key to gather more confidence.***

- Credit growth and earnings of banks were impacted by lower consumption/spending, constrained government spending and opex/capex deferment plan by India Inc. However, some of these challenges will reverse in CY21 due to aggregate demand normalising, pent-up demand, and improving resource mobilisation by the government.

- Furthermore, the market seems more confident about credit cycle disruption and about the cost of dislocation being within very manageable levels – reflected in CDS spread being at its low and more than 10% lower than the average in CY19.

- Also, earnings of banks in H1FY21 was much better than expected leading to upgrade cycle for the current fiscal (we increased our banking sector earnings estimates by >15% for FY21 since May'20). Positively, the earnings beat was primarily led by robust cost containment and NIMs holding on well (against expectations of a decline).

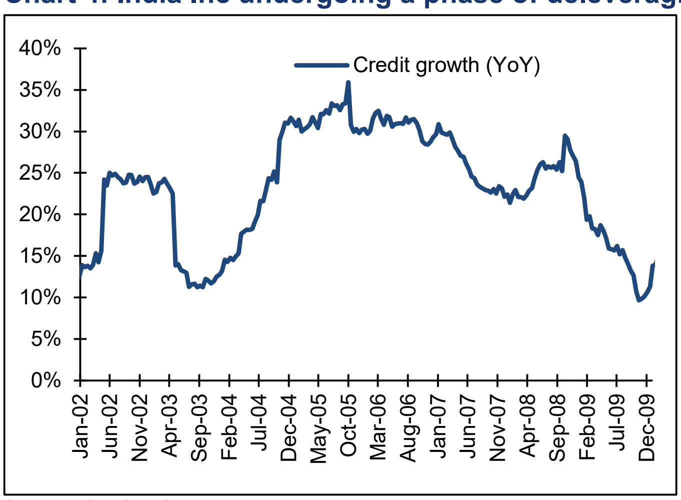
Are we at the turning point from contraction to expansionary phase of the financial cycle?

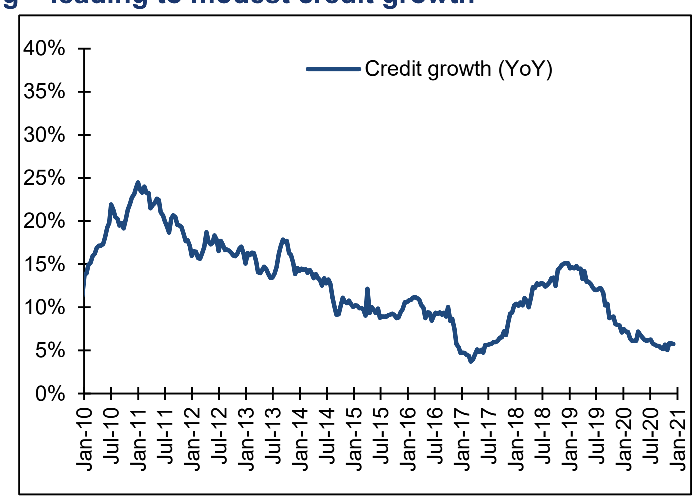
Few distinct characteristics of financial cycles are: 1) there is no single yardstick to gauge the state of overall financial cycle unlike business cycles that can be measured using real GDP or rise/fall in aggregate economic activity levels; 2) it has been observed that financial cycles are of longer duration and amplitude than the business cycles; 3) easy monetary policy, accommodative rate stance (to boost credit demand), forbearances (restructuring, dispensation, waivers, etc.) used to stabilise short-term business cycles has many times resulted in build-up of stress in the financial sector; 4) crisis like the GFC highlighted the adverse spillovers of financial sector turbulence on the real economy as well. Key components that connect these segments are wealth effect and change in expectations.

Now the moot question is: where are we currently positioned in the financial cycle and at which phase of the Covid disruption are we so as to assess its fallout on economic as well as financial stress.

First and foremost, if we use financial variables including real bank credit, credit-to-GDP ratio, cost of credit, liquidity to measure the financial cycle. We can clearly infer that we were already in the contraction phase even prior to the pandemic. India Inc. has been undergoing a phase of deleveraging over past several years: bank credit CAGR was at a mere 9% over FY15-FY20. Also, the corporate credit cycle has witnessed its own set of challenges, touching peak NPLs of >10%, thereby changing the financiers' attitude towards risk. NBFCs, which were driving high growth in retail/SME segment, have experienced severe liquidity crisis altering the risk appetite and growth perception. Covid-led disruption has only accentuated the moderation. How prolonged will this contraction phase be, and can FY22 be the turning point to the expansionary phase, is the most crucial question to evaluate.

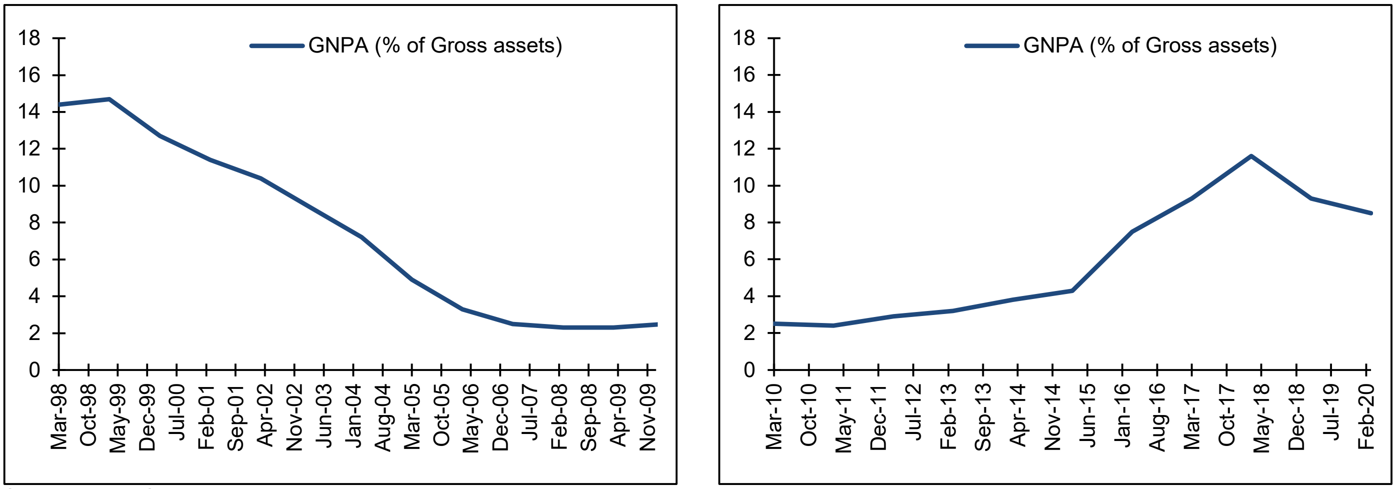
Chart 4: India Inc undergoing a phase of deleveraging – leading to modest credit growth





Source: CEIC, I-Sec Research

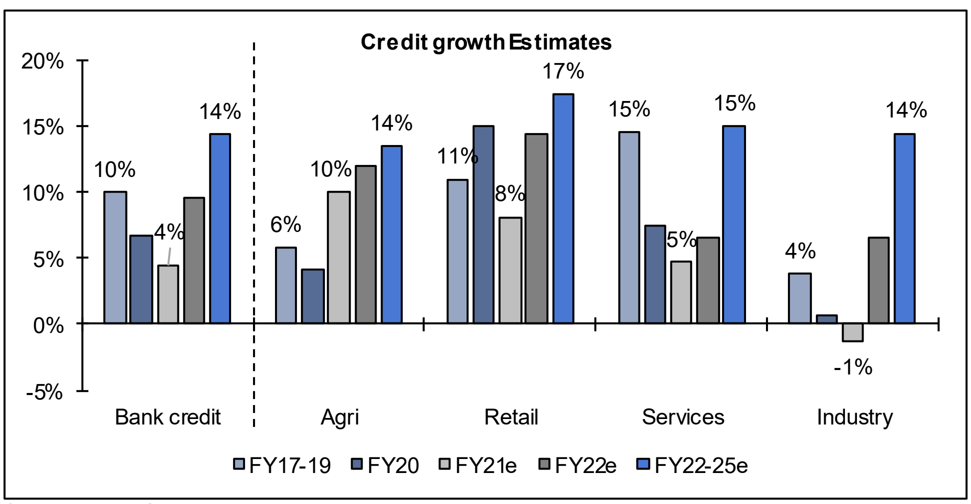
Chart 5: Corporate credit cycle had its own set of challenges since FY14



Source: RBI, I-Sec Research

With respect to credit growth, we believe India Inc. is at the cusp of releveraging (post-deleveraging phase). As highlighted in our report, ***Bank Credit Outlook 2021: On the cusp of releveraging (post deleveraging phase),*** we pen down credit growth estimate at 4.4% for FY21E, 9.5% for FY22E and significant spike to 13-15% over FY22E-FY25E.

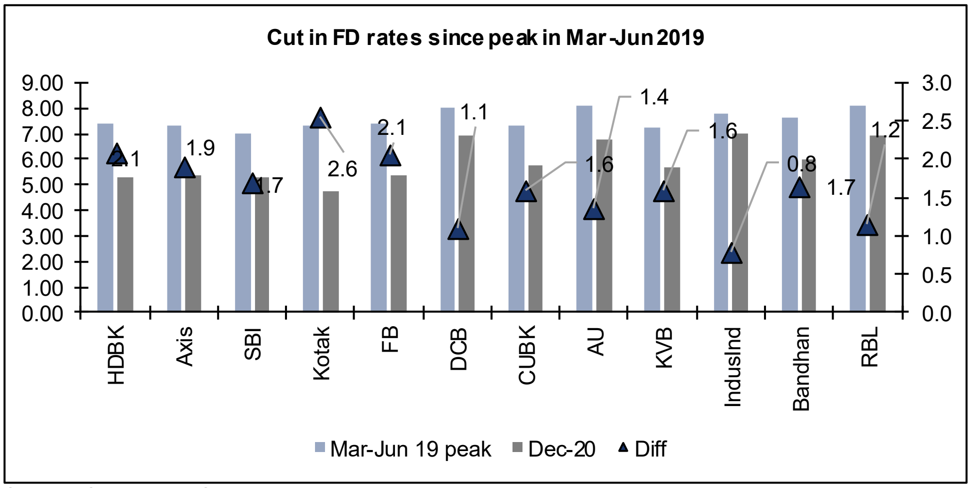
Chart 6: Bank credit – at an inflection point of releveraging: ~4% (FY21E), 9.5% (FY22E), 13-15% (FY22-25E)



Source: RBI, I-Sec research

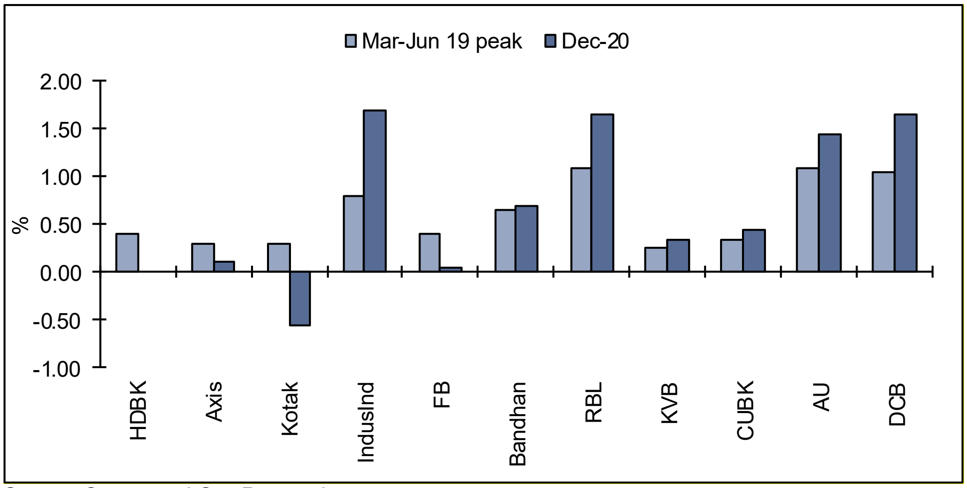
In terms of cost of credit, we are the lowest level of deposit rates: banks have cut rates by 180-210bps from their peak in March '19 and benefit of the same was passed in terms of lower lending rates. Easy monetary policy would at least assist in providing impetus to credit growth, if not contributing to exuberance.

Chart 7: Banks have cut deposit rates lowering the cost of credit



Source: Company, I-Sec Research

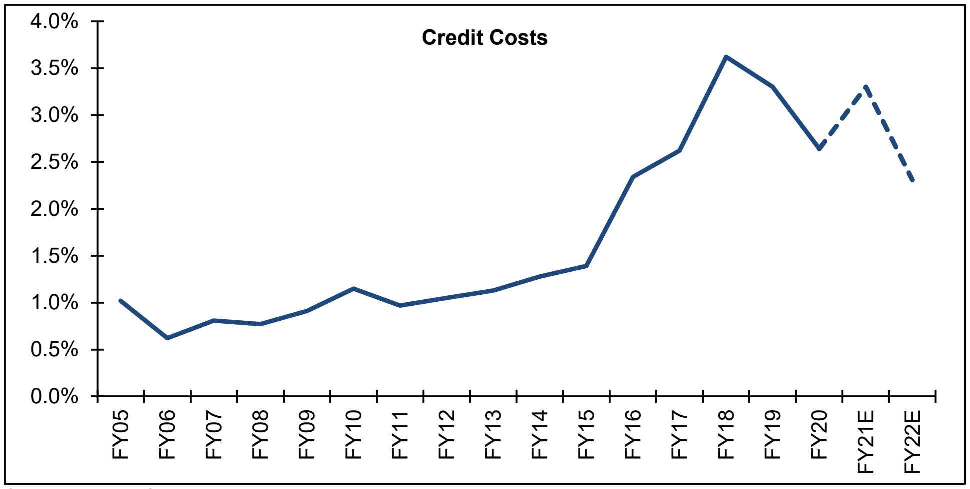
Chart 8: FD rate differential with SBI



Source: Company, I-Sec Research

Pandemic-led asset quality deterioration is not yet reflected or known – in fact, asset quality vulnerability has got deferred due to moratorium, restructuring and Supreme Court’s interim order on stress recognition. We believe stress recognition will happen over the next 12-18 months and can push GNPLs up by 20-50% across various banks. This was anticipated during onset of Covid as well and there is no evident data to suggest it would surprise negatively. In fact, positive inferences are being drawn from the high-frequency lead indicators, macro variables and financiers’ narrative. This suggests that we would ideally peak out in terms of credit cost in FY21E and, post that, will start the journey towards normalisation phase.

Chart 9: Credit cost expected to peak out in FY21



Source: RBI, I-Sec Research

Is there enough visibility of pandemic not having a long-drawn effect on fundamental earnings outlook?

Disruption or meltdown in this crisis would be no different from the earlier ones. However, one aspect that differentiates the current downturn is with respect to financiers' proactiveness to deal with it. Financiers, this time, have created a war chest of liquidity, deposits, capital and credit contingency buffers – much in advance to bear the brunt of economic and credit cycle disruption. They have been extremely agile and flexible to sail through this turbulence and ensure no long-drawn effect on fundamentals earnings outlook. Besides, if return to normalisation phase is ahead of expectations and consumer/business confidence returns, financiers might even look towards kick-starting growth in a risk-calibrated manner.

We have reassessed asset profile vulnerability of various banks through our high, medium, and low (HML) risk framework, further tweaking and validating variables on the latest trends and upcoming developments for various sub-segments to derive credit cost outlook for banks.

Table 6: Our High, Medium, Low (HML) Risk Framework – Retail/SME – Bank's funded exposure

	HDBK	Axis	Kotak	IIB	RBL	Bandhan	SBI	FB	CUBK	KVB	DCB	AU SFB
RETAIL/SME	**45%**	**63%**	**74%**	**57%**	**68%**	**91%**	**55%**	**62%**	**85%**	**76%**	**88%**	**93%**
High Risk	**6%**	**15%**	**9%**	**12%**	**14%**	**4%**	**13%**	**25%**	**50%**	**36%**	**53%**	**43%**
SME/BB	6%	11%	9%	8%	14%	4%	13%	19%	50%	33%	11%	43%
LAP	0%	5%	0%	5%	0%	0%	0%	6%	0%	3%	42%	0%
Medium Risk	**19%**	**10%**	**27%**	**27%**	**34%**	**65%**	**0%**	**1%**	**0%**	**1%**	**7%**	**2%**
Retail unsecured	16%	10%	17%	2%	20%	0%	0%	1%	0%	1%	0%	0%
Personal Loans	11%	7%	17%	0%	0%	0%	0%	1%	0%	1%	0%	0%
Credit Card	6%	3%	0%	2%	20%	0%	0%		0%	0%	0%	0%
CV Financing	3%	0%	9%	14%	0%	0%	0%	0%	0%	0%	6%	2%
MFI	0%	0%	0%	11%	14%	65%	0%		0%	0%	1%	0%
Low risk	**19%**	**39%**	**38%**	**17%**	**20%**	**22%**	**42%**	**37%**	**35%**	**39%**	**28%**	**47%**
Agri	4%	6%	14%	0%	2%	0%	10%	12%	11%	21%	20%	4%
Auto loans	9%	7%	0%	13%	0%	0%	3%	3%	0%	2%	0%	38%
Gold loans	1%	0%	0%	0%	0%	0%	0%	0%	6%	2%	4%	0%
Housing	6%	19%	22%	4%	0%	22%	20%	15%	6%	9%	0%	2%
Other Retail secured loans	0%	6%	2%	0%	18%	0%	9%	7%	11%	4%	4%	3%

Source: Company, I-Sec Research

Table 7: Our High, Medium, Low (HML) Risk Framework – Corporate – Bank's funded exposure

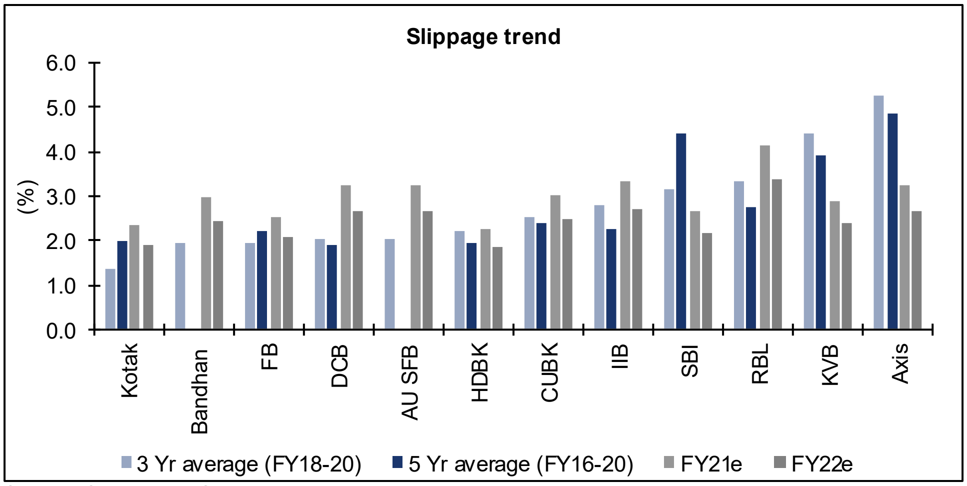
	HDBK	Axis	Kotak	IIB	RBL	Bandhan	SBI	FB	CUBK	KVB	DCB	AU SFB
Corporate book	**55%**	**36%**	**27%**	**42%**	**32%**	**9%**	**45%**	**38%**	**15%**	**24%**	**12%**	**7%**
High Risk	**12%**	**10%**	**19%**	**16%**	**11%**	**4%**	**7%**	**11%**	**9%**	**12%**	**7%**	**6%**
Commercial Real Estate	3%	3%	6%	8%	4%	0%	1%	4%	8%	1%		2%
Auto/Auto ancs	4%	1%	3%	0%	1%	0%	1%	2%	1%	1%	0%	
Gems & Jewellery	1%	0%	2%	4%	1%	0%	1%	0%	0%	1%	1%	
Textiles	2%	1%	1%	1%	2%	3%	1%	2%		7%	3%	
Construction	0%	3%	1%	2%	2%	0%	2%	2%		1%		
All Engineering	3%	2%	2%	0%	2%	1%	1%	1%		1%	2%	
Tourism, Hotels & Restaurants	0%	0%	2%	1%	0%	0%	0%	0%				4%#
Shipping / Logistics	0%	1%	2%	0%	0%	0%	0%	0%				
Leather & Leather Products	0%			0%	0%	0%	0%	0%	0%		0%	
Medium Risk	**3%**	**3%**	**3%**	**3%**	**3%**	**0%**	**3%**	**3%**	**4%**	**2%**	**2%**	**0%**
Mining	1%	0%		0%	1%		0%	0%	0%	0%	0%	
Beverage & Tobacco	0%	0%			1%	0%	0%	0%	0%	0%	0%	
Metals	2%	2%	3%	3%	1%	0%	2%	2%	3%	1%	1%	
Low risk	**40%**	**23%**	**5%**	**23%**	**18%**	**4%**	**36%**	**24%**	**3%**	**10%**	**3%**	**1%**
Overall												
HIGH RISK	**19%**	**25%**	**28%**	**28%**	**25%**	**8%**	**19%**	**36%**	**58%**	**48%**	**60%**	**49%**
MEDIUM RISK	**22%**	**12%**	**30%**	**31%**	**37%**	**65%**	**3%**	**4%**	**4%**	**3%**	**8%**	**2%**
LOW RISK	**59%**	**62%**	**42%**	**41%**	**38%**	**26%**	**78%**	**60%**	**38%**	**49%**	**32%**	**49%**

I-Sec estimate including exposure in vehicle segment

Source: Company, I-Sec Research

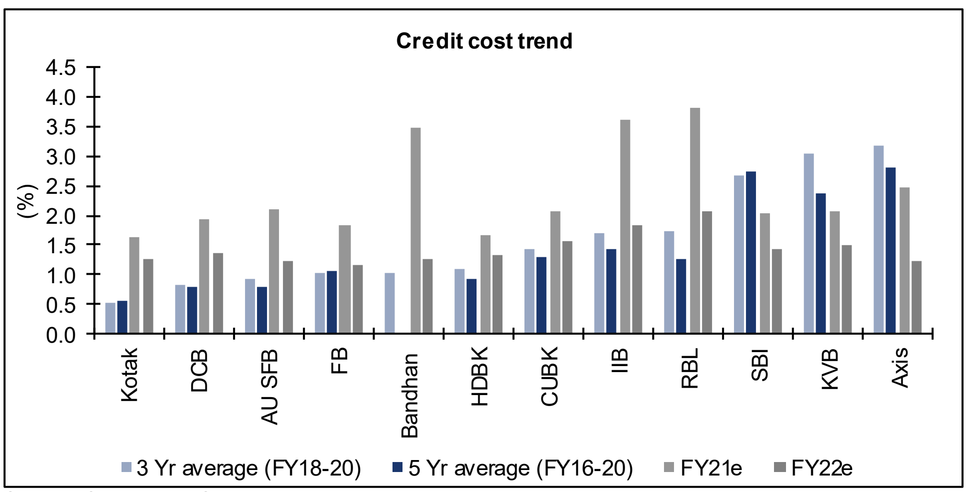
Our granular segment-wise detailed analysis suggests cumulative slippage run-rate of 4-7% over FY21/22E (10-30% higher than last three years average). Assuming banks adequately provide for it (near their existing coverage rather than follow minimum regulatory norms), this would translate into credit cost of 3-6% over FY21E/FY22E (lower than envisaged earlier). Many banks have created contingency buffer to reduce earnings volatility when actual stress recognition kicks in (H2FY21). Conservatively, we assume banks will utilise 80% of this buffer over FY21E/FY22E (more skewed towards FY22E) and retain the balance for any future contingency. This exercise now leads us to revise our credit cost for various banks. Our earlier FY21E credit cost estimate seems in line, but there is downward revision for FY22E (especially for Axis, Bandhan, IIB, RBL).

Chart 10: Cumulative slippage run-rate expected at 4-7% over FY21/22E



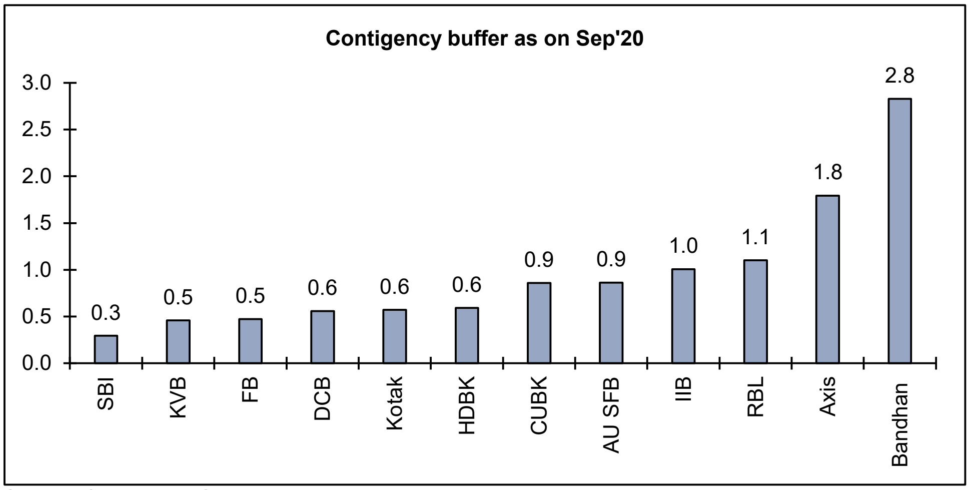
Source: Company, I-Sec Research

Chart 11: Cumulative credit cost lower than envisaged at 3-6%



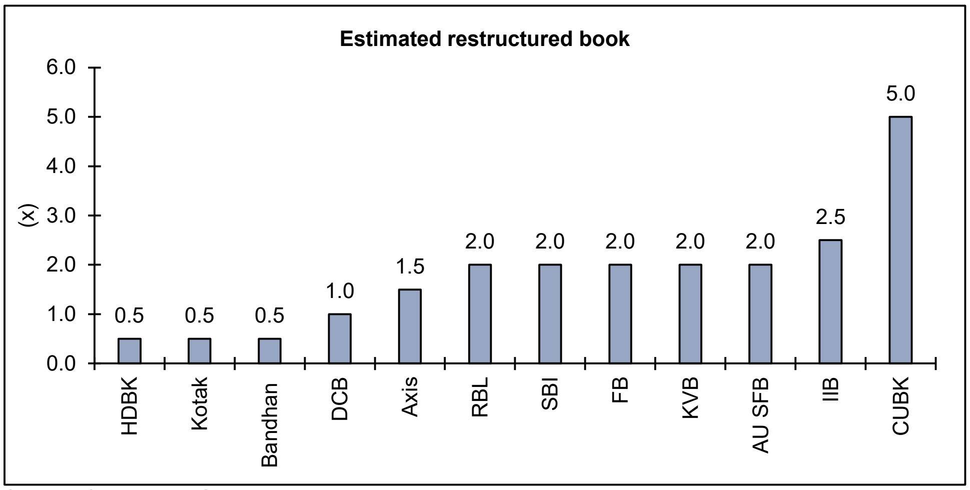
Source: Company, I-Sec Research

Chart 12: Contingency buffer to be utilised over FY21/22E to cushion earnings



Source: Company, I-Sec Research

Chart 13: Restructuring requests coming in lower than expected



Source: Company, I-Sec Research

Also, a single-headed objective for banks during such uncertainties is to focus on efficiency. Managements across the board have been highlighting strategies to contain costs and improving productivity. Evaluating the scope of operating leverage and their cost structure (variable *vs* fixed, obligatory to discretionary spend, etc.), banks can control rise in cost to the extent of 20-40bps of assets, thereby providing some cushion to profitability.

Table 8: What are we building-in for financials of banks

	Credit growth (%)			Deposit growth (%)			CD ratio (%)			NII growth (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
State Bank of India	6.4	7.6	12.2	11.3	12.0	12.0	71.7	68.9	69.0	11.0	12.4	10.0
HDFC Bank	21.3	14.5	17.9	24.3	12.0	17.0	86.6	88.5	89.2	16.5	13.6	11.6
Axis Bank	15.5	11.4	17.6	16.7	10.0	15.0	89.3	90.4	92.5	16.1	10.4	12.0
Kotak Mahindra Bank	6.8	3.2	16.4	16.4	8.0	17.0	83.6	79.9	79.5	27.3	14.4	10.3
IndusInd Bank	6.5	7.0	14.7	3.7	13.0	17.0	102.3	96.9	95.0	12.8	7.4	11.3
FB	10.9	7.9	17.0	12.8	10.0	14.5	80.3	78.8	80.5	11.3	13.2	11.5
Bandhan Bank	21.4	18.2	24.5	32.0	20.0	28.0	116.7	118.9	115.5	22.4	21.3	19.1
SIB	5.6	7.9	14.3	8.5	8.0	14.0	75.9	75.8	76.0	14.5	5.8	14.2
RBL Bank	6.8	7.8	12.0	-1.0	11.6	15.0	100.4	97.0	94.4	42.9	9.2	7.4
KVB	-5.1	8.0	15.0	-1.3	6.5	15.0	78.0	79.1	79.1	-0.6	1.2	12.8
CUBK	3.8	6.0	15.0	6.2	5.0	14.0	83.1	83.9	85.0	4.0	4.6	12.6
AU SFB	29.0	8.8	22.8	34.7	15.0	22.7	103.2	104.9	105.0	42.3	20.2	24.4
DCB	7.5	2.0	15.0	6.8	3.0	15.0	83.5	82.6	82.6	10.1	3.5	7.9
Yes Bank	-29.0	3.9	10.5	-53.7	45.0	8.0	162.7	116.6	119.3	-30.6	20.7	1.4

	NIM (%)			PPoP growth (%)			Credit cost (%)			GNPL (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
State Bank of India	2.8	2.9	2.9	34.5	0.1	12.6	1.8	2.1	1.4	6.4	6.2	5.0
HDFC Bank	4.2	4.1	4.1	22.6	12.6	10.4	1.3	1.7	1.3	1.3	1.8	1.8
Axis Bank	3.2	3.2	3.2	23.3	12.6	10.7	3.4	2.5	1.2	5.1	5.3	4.2
Kotak Mahindra Bank	4.4	4.4	4.4	30.0	17.8	11.3	0.7	1.6	1.3	2.3	3.5	3.9
IndusInd Bank	4.4	4.4	4.4	33.9	5.4	10.0	2.3	3.6	1.8	2.5	2.5	2.5
FB	3.0	3.1	3.1	16.0	15.2	12.9	1.0	1.9	1.2	2.8	3.9	3.6
Bandhan Bank	7.7	8.0	8.1	25.3	23.7	18.9	0.8	3.5	1.3	1.5	3.1	3.7
SIB	2.7	2.6	2.7	20.7	9.4	15.1	1.9	2.0	1.8	5.2	7.1	6.2
RBL Bank	4.5	4.5	4.4	41.8	7.2	4.1	3.5	3.8	2.0	3.6	3.4	1.7
KVB	3.7	3.6	3.7	2.9	-6.8	15.3	3.1	2.2	1.7	8.7	8.4	7.3
CUBK	3.8	3.8	3.9	8.2	3.9	10.9	2.3	2.1	1.6	4.1	5.1	4.5
AU SFB	5.1	5.2	5.6	65.9	81.5	-21.4	1.1	2.2	1.2	1.7	3.3	3.1
DCB	3.7	3.6	3.6	16.5	11.2	5.7	1.1	2.0	1.4	2.5	3.4	2.7
Yes Bank	2.3	3.6	3.5	46.7	-54.9	8.1	15.7	3.2	2.3	16.8	19.5	18.1

	NNPL (%)			PCR (%)			RoA (%)			RoE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
State Bank of India	2.0	2.3	1.8	69.6	64.0	66.2	0.5	0.3	0.6	10.5	5.9	12.2
HDFC Bank	0.4	0.4	0.4	72.0	75.6	78.0	1.9	1.7	1.8	16.4	15.1	16.0
Axis Bank	1.6	2.2	1.6	69.0	59.9	63.3	0.2	0.9	1.4	2.1	8.8	14.1
Kotak Mahindra Bank	0.7	1.2	1.2	69.0	65.6	70.9	2.0	1.8	1.9	14.7	12.1	12.1
IndusInd Bank	0.9	1.2	1.2	64.7	58.5	63.1	1.5	0.9	1.7	13.7	7.7	15.2
FB	1.3	1.5	1.6	54.5	62.4	56.2	0.9	0.5	0.9	11.1	6.8	11.4
Bandhan Bank	0.6	1.6	1.4	60.8	47.0	63.7	3.6	3.0	4.1	21.4	18.2	24.5
SIB	3.4	4.8	4.0	35.5	32.6	36.4	0.2	0.3	0.4	4.2	5.2	8.5
RBL Bank	1.9	1.5	0.7	47.7	55.0	57.3	0.6	0.5	1.2	5.6	4.0	9.5
KVB	3.9	3.7	3.8	54.8	55.5	48.4	0.3	0.6	0.9	3.6	6.3	9.9
CUBK	2.0	2.4	1.9	52.3	52.3	56.6	1.0	1.0	1.3	9.4	9.5	11.5
AU SFB	0.8	1.6	1.2	52.5	52.0	60.0	1.8	2.6	1.9	17.9	23.6	16.4
DCB	1.2	1.0	0.9	52.8	68.9	66.0	0.9	0.6	0.9	11.2	7.7	10.3
Yes Bank	5.0	6.9	5.7	73.8	69.2	72.4	-5.1	-0.0	0.4	-67.5	-0.3	3.2

Source: Company, I-Sec Research

What long term structural valuation drivers are more than offsetting intermediate disruption?

Considering the above highlighted impact of growth, credit cost, NIMs and operating cost, we increase earnings by 2-5% for FY21 and 5-30% for FY22E.

Table 9: Deep diving into asset vulnerability revising credit cost and earnings

Particulars	Operating profit revision		Credit cost revision		Earnings revision	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
SBI	1%	3%	0%	-7%	2%	16%
HDBK	0%	0%	-10%	-12%	5%	6%
Axis	1%	2%	-7%	-30%	16%	26%
Kotak	0%	0%	-2%	-6%	2%	2%
IIB	1%	3%	1%	-27%	2%	31%
Bandhan	0%	0%	3%	-31%	-1%	8%
RBL	N/A	N/A	N/A	N/A	N/A	N/A
YES	0%	0%	0%	0%	0%	0%
FB	12%	7%	13%	10%	10%	5%
KVB	0%	0%	0%	0%	0%	0%
CUBK	10%	8%	12%	16%	5%	-2%
AU SFB	33%	2%	44%	23%	29%	-3%
DCB	5%	-1%	24%	7%	-14%	-7%

Source: Company, I-Sec Research
Earning revision for AU appears higher in FY21e as we now built in profits from Aavas stake sale.

As was anticipated, the adverse near-term impact of current crisis will likely take a toll on earnings in H2FY21 and H1FY22 as well. However, competitive dynamics and capital/cost efficiency efforts demonstrated by banks have changed the long-term growth value and sustainable RoEs for a few. Besides reversion to the average multiple for normalisation phase, we believe the intermediate disruption is more than offset by long-term structural drivers and that the current P/B multiple expansion is driven by:

- **Long-term growth value and improvement in sustainable RoE profile:** Market dynamics in this transitioning phase is undergoing a change – strong becomes stronger and weak franchises would have got bit marginalised. Players with robust deposit franchise, strong balance sheet (true capital value, steady liquidity), and asset niche have been able to further consolidate their market standing and improve long-term growth outlook. Not only this, capital and cost efficiencies demonstrated in such unprecedented times have also bettered the sustainable RoE profile.

Table 10: RoE profile may improve in the medium term

	HDFC	AXIS	KOTAK	INDUSIND	BANDHAN	RBL	YES	SBIN	FB	CUBK	DCB	KVB	AU SFB
Last 3 yrs	16.9	3.3	13.1	15.1	20.2	9.8	(14.4)	1.8	9.7	13.3	11.4	4.4	15.2
Last 5 yrs	17.4	6.7	12.7	15.5	20.7	10.5	(1.0)	1.8	9.0	14.1	11.3	7.7	18.5
FY21-22E	15.6	11.5	12.1	11.5	21.4	6.7	1.4	9.0	9.1	11.2	10.1	8.2	18.2
FY23E-25E	18.0	17.0	15.0	16.0	20.0	12.0	8.0	12.5	12.0	15.0	11.0	11.0	20.0

Source: Company, I-Sec Research

Table 11: Banks with strong balance sheet to leverage loan growth opportunities

	HDFC	AXIS	KOTAK	INDUSIND	BANDHAN	RBL	YES	SBIN	FB	CUBK	DCB	KVB	AU SFB
Last 3 yrs	21.5	15.3	17.3	19.8	58.2	25.4	9.0	7.6	18.6	10.4	17.0	4.1	60.0
Last 5 yrs	22.1	15.2	27.1	24.6	52.1	32.1	17.8	12.3	19.0	12.7	19.4	5.0	49.5
FY21-22E	16.2	14.5	9.6	10.8	23.3	9.9	7.2	9.9	12.4	11.8	8.3	11.4	19.9
FY23E-25E	20.0	17.0	18.0	15.0	20.0	15.0	11.0	15.0	15.0	17.0	18.0	12.0	25.0

Source: Company, I-Sec Research

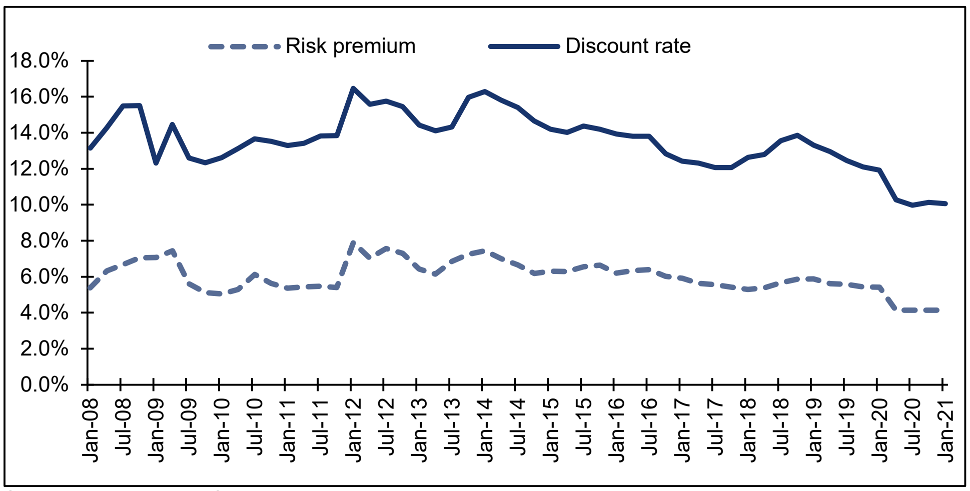
Table 12: Credit cost to peak in FY21/22E and expected to normalise post that

	HDFC	AXIS	KOTAK	INDUSIND	BANDHAN	RBL	YES	SBIN	FB	CUBK	DCB	KVB	AU SFB
Last 3 yrs	1.1	3.2	0.5	1.7	1.0	1.7	6.3	2.7	1.0	1.4	0.8	3.0	0.9
Last 5 yrs	0.9	2.8	0.6	1.4	0.8	1.3	4.1	2.7	1.1	1.3	0.8	2.4	0.8
FY21-22E	1.5	1.9	1.5	2.7	2.4	2.9	2.7	1.7	1.5	1.7	1.4	2.0	1.2
FY23E-25E	1.2	1.5	1.0	1.4	1.0	1.8	2.0	1.2	1.0	1.3	0.9	1.5	0.8

Source: Company, I-Sec Research

- **Discount rate for equities being dragged down by rising risk appetite (lower equity risk premium as evidenced by falling CDS spreads) and lower risk-free rate.** Based on residual income model, every 10% change in discount rate has ~20% sensitivity to the target valuation multiple. Compared to 12% cost of equity (with 6.5% risk-free rate, 1x beta and 5.5% equity risk premium), the near-to-intermediate term discount rate has now been driven down to 11.2% (with 6% risk-free rate, 1x beta and 5.2% equity risk premium).

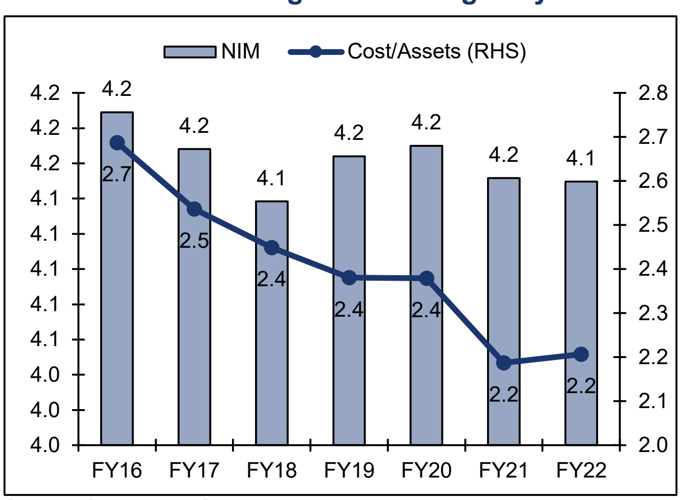
Chart 14: Discount rate dragged down by rising risk appetite & lower risk-free rate



Source: Bloomberg, I-Sec Research

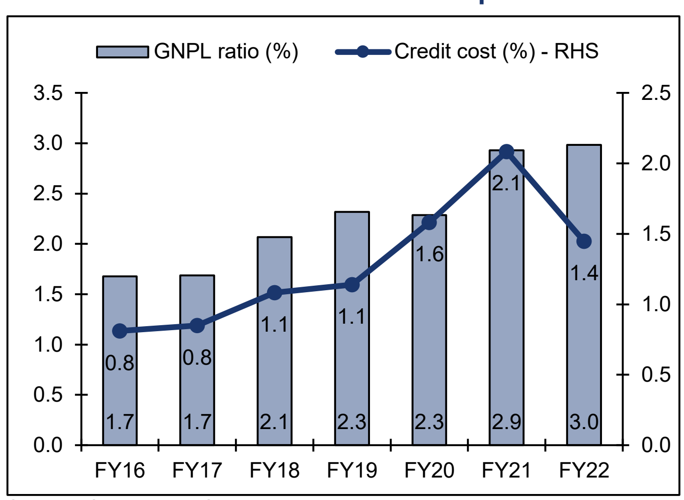
- Mean reversion of earnings will itself lead to ~15% earnings CAGR over FY20-FY22E on a depressed base of FY20 as well as FY21E.

Chart 15: NIMs to weigh down marginally



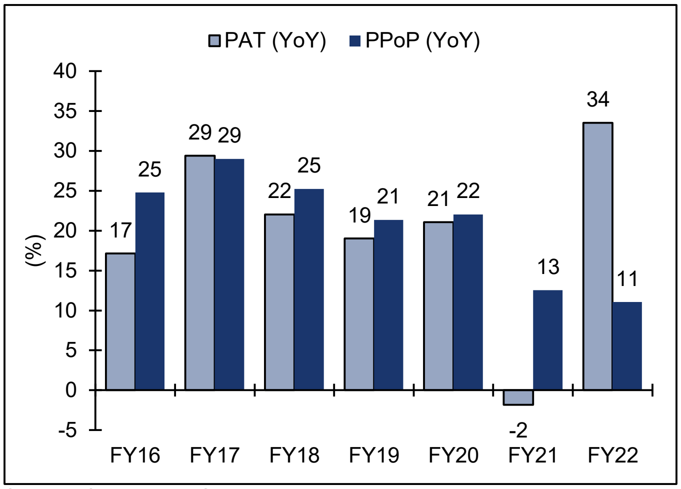
Source: Company, I-Sec Research

Chart 16: GNPLs and credit cost to peak in FY21



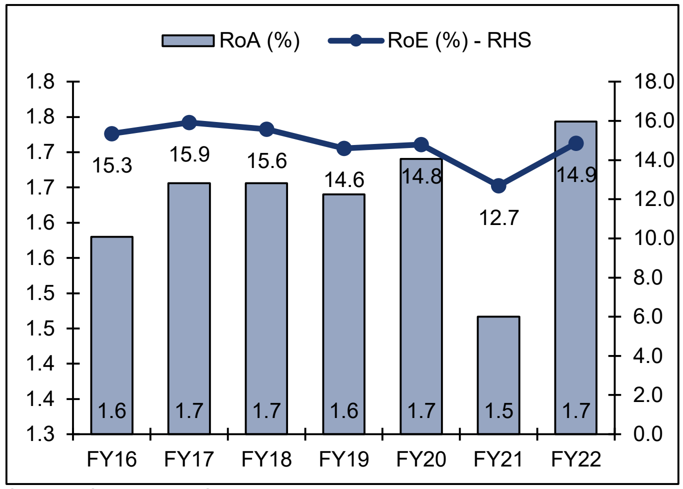
Source: Company, I-Sec Research

Chart 17: Earnings to retrace back



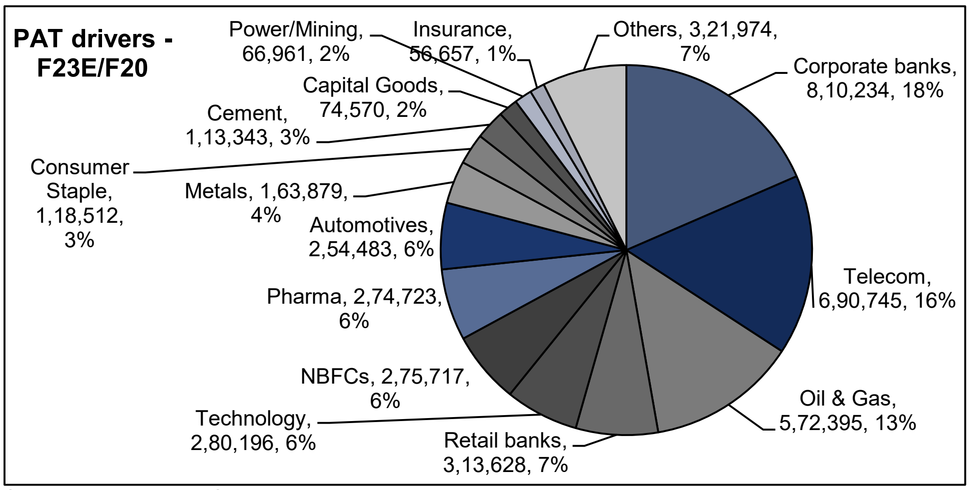
Source: Company, I-Sec Research

Chart 18: …Return ratios to normalise



Source: Company, I-Sec Research

Chart 19: Banks to contribute >25% change in NIFTY earnings over FY20-23

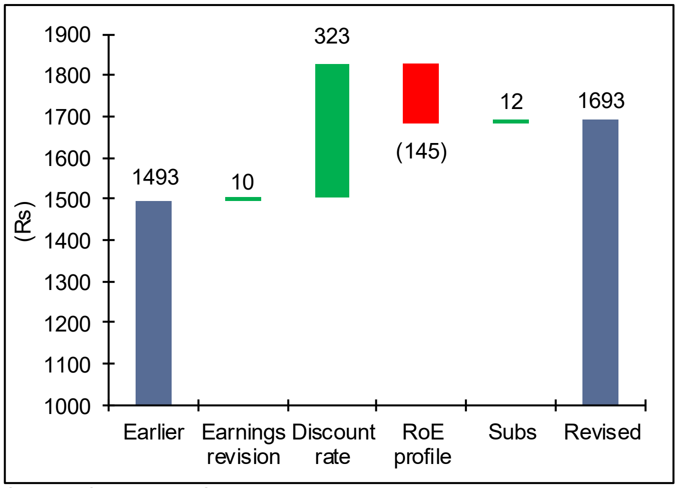


Source: Bloomberg, I-Sec Research

Drivers for revision in target multiple/price

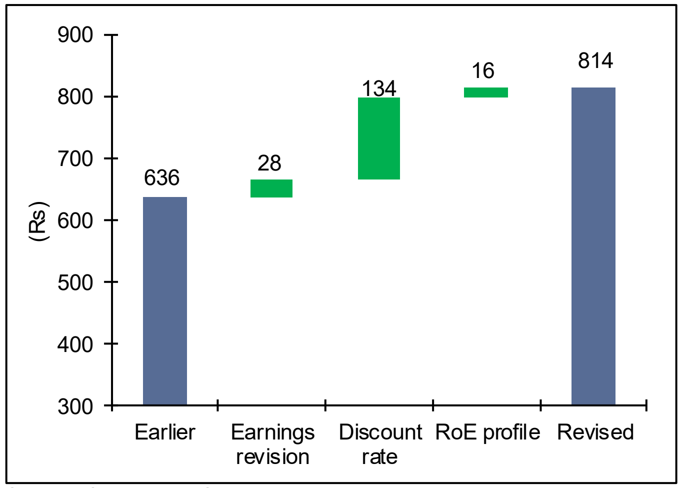
In our valuation framework, we have incorporated discount rate benefit, altered risk perception (in favour of some and against few), and adjusted medium and long-term growth and RoE outlook (on enhanced visibility). This leads us to revise target multiples and target prices.

Chart 20: HDFC Bank



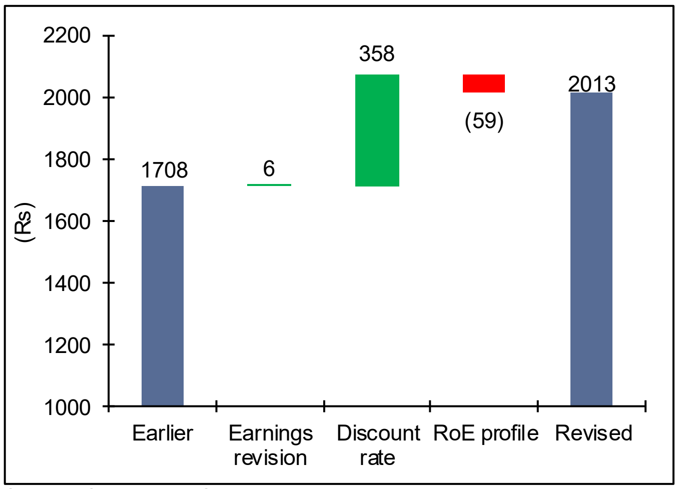
Source: Company, I-Sec Research

Chart 21: Axis Bank



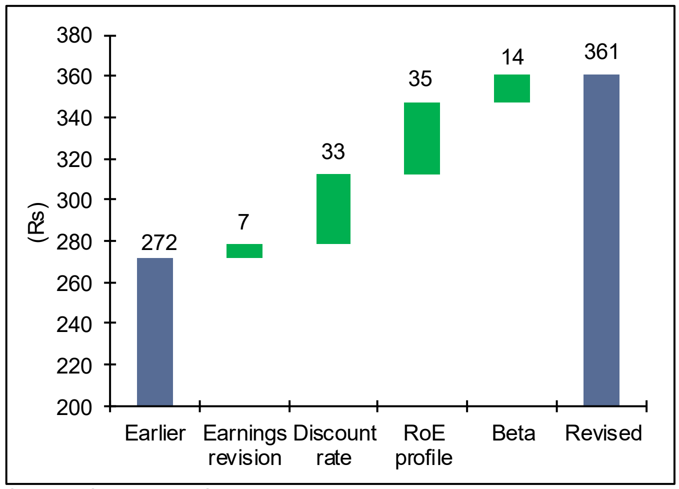
Source: Company, I-Sec Research

Chart 22: Kotak Mahindra Bank



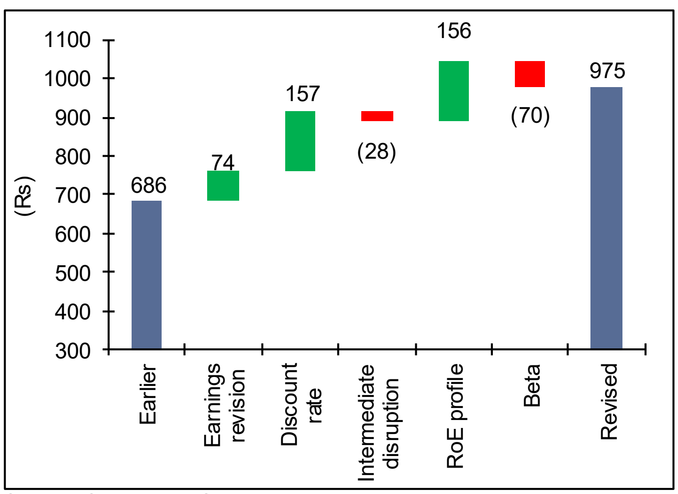
Source: Company, I-Sec Research

Chart 23: State Bank of India



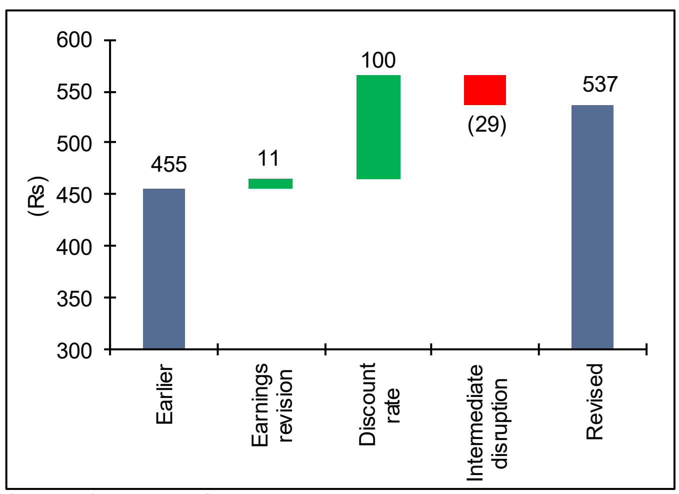
Source: Company, I-Sec Research

Chart 24: IndusInd Bank



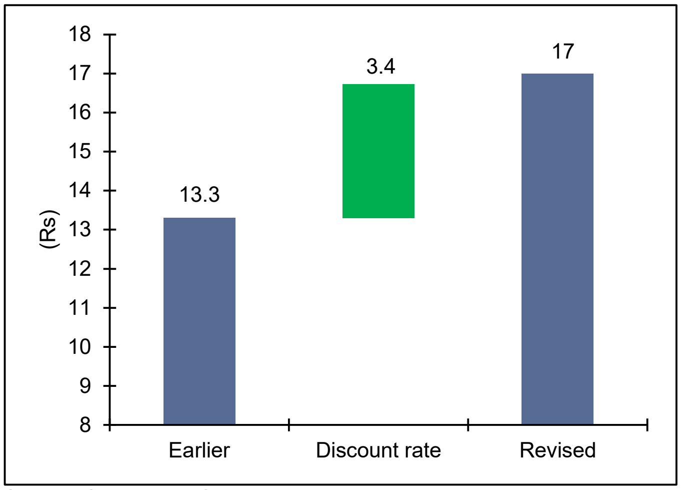
Source: Company, I-Sec Research

Chart 25: Bandhan Bank



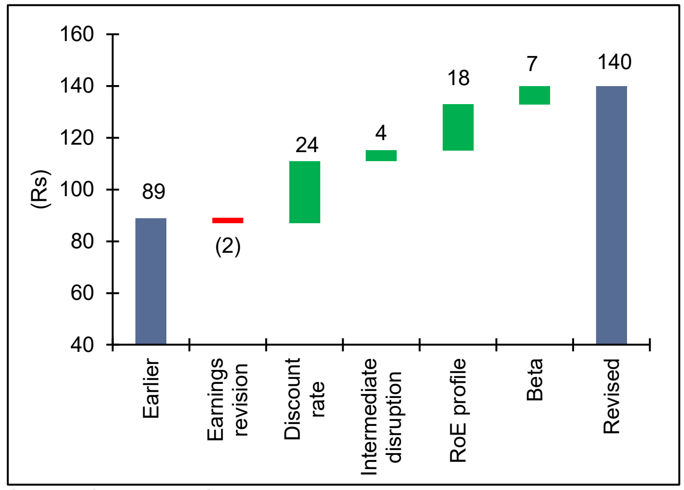
Source: Company, I-Sec Research

Chart 26: Yes Bank



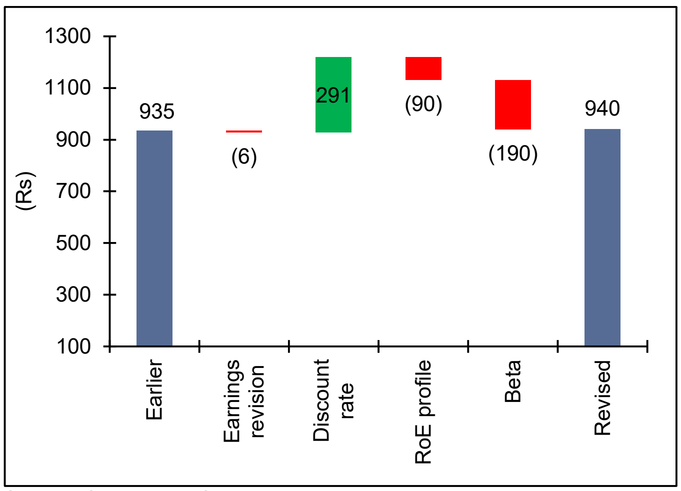
Source: Company, I-Sec Research

Chart 27: DCB Bank



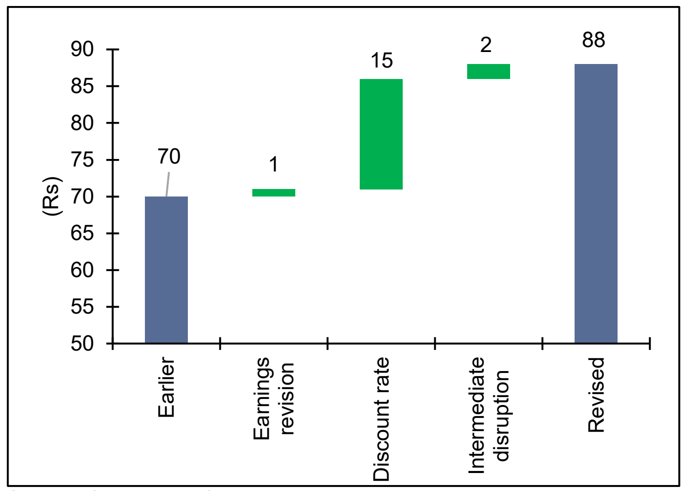
Source: Company, I-Sec Research

Chart 28: AU Small Finance Bank



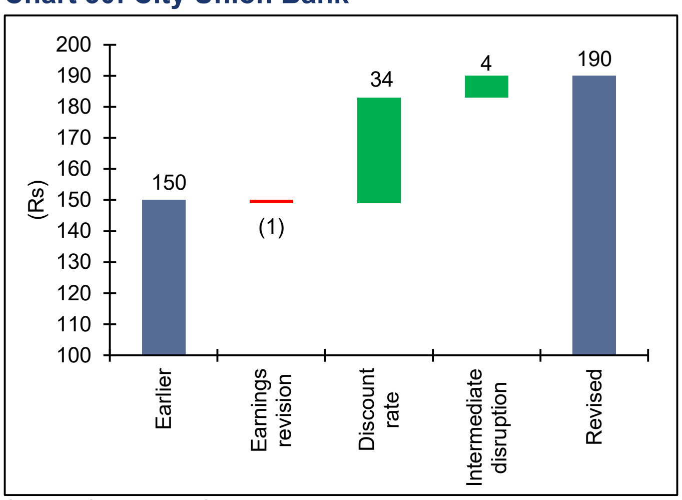
Source: Company, I-Sec Research

Chart 29: Federal Bank



Source: Company, I-Sec Research

Chart 30: City Union Bank



Source: Company, I-Sec Research

At this juncture, we definitely prefer financiers where capital/cost efficiency, contingency, liquidity buffer coupled with robust franchise prepares them well for revival than market expectations. Weighing derived multiples against current valuations results in tweaking our preferences.

- Our 2020 top picks – Kotak Mahindra Bank (KMB), HDFC Bank, AU
- SFB that we recommended as part of core portfolio holdings – have outperformed broader indices by 15-20% in last one year.
- **We are now downgrading KMB to 'HOLD' (TP – Rs2,013) from Buy and AU SFB to 'ADD' (TP – Rs940) from Buy.**
- Also, with HDFC Bank providing ~20% upside, **we incline our preferences more towards Axis Bank (TP - Rs814), SBI (TP - Rs361), Bandhan Bank (TP – Rs537), and Federal Bank (TP – Rs88) as outperformers** (with more than 35% return expectations over next 12-18 months).
- We are not yet for a complete risk-on stage and prefer going slow in building position in other names. We maintain 'ADD' on Indusind Bank and RBL.

Table 13: Valuations – long term value/growth drivers offsetting intermediate disruptions

Particulars	CMP	Rating	TP	P/E (x)		P/BV (x)		P/ABV (x)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
HDFC Bank (std)	1,397	BUY	1,693	26.5	22.2	3.8	3.3	3.9	3.4
Axis Bank (std)	610	BUY	814	21.4	11.5	1.7	1.5	1.9	1.7
SBI (std)	267	BUY	361	10.0	4.4	0.6	0.5	0.8	0.6
Bandhan Bank	398	BUY	537	21.0	12.7	3.5	2.8	3.7	2.9
Federal Bank	65	BUY	88	13.0	7.1	0.9	0.8	0.9	0.9
DCB Bank	116	BUY	140	14.7	10.1	1.1	1.0	1.2	1.0
Karur Vysya Bank	45	BUY	74	8.6	5.0	0.5	0.5	0.6	0.6
IIB Bank	853	ADD	975	22.9	10.3	1.7	1.5	1.8	1.6
AU SFB	868	ADD	940	22.6	27.6	4.8	4.3	5.1	4.5
RBL Bank	220	ADD	246	29.2	10.6	1.0	1.1	1.1	1.0
Kotak Mah Bk (std)	1,961	HOLD	2,013	45.6	38.0	4.9	4.3	5.1	4.5
City Union Bank	178	HOLD	190	25.3	19.3	2.3	2.1	2.6	2.3
Yes Bank	18	HOLD	17	N/A	37.5	1.2	1.2	1.6	1.5

Particulars	EPS (Rs)		BV (Rs)		ABV (Rs)		RoAA (%)			RoAE (%)		
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
HDFC Bank (std)	50.0	60.0	351	397	344	390	1.9	1.7	1.8	16.4	15.1	16.0
Axis Bank (std)	27.0	50.0	332	374	298	345	0.2	0.9	1.4	2.1	8.8	14.1
SBI (std)	14.0	31.0	241	272	180	219	0.5	0.3	0.6	10.5	5.9	12.2
Bandhan Bank	19.0	31.0	114	143	107	136	3.6	3.0	4.1	21.4	18.2	24.5
Federal Bank	5.0	9.0	78	86	71	78	0.9	0.5	0.9	11.1	6.8	11.4
DCB Bank	8.0	12.0	109	120	103	114	0.9	0.6	0.9	11.2	7.7	10.3
Karur Vysya Bank	5.0	9.0	89	96	71	76	0.3	0.6	0.9	3.6	6.3	9.9
IIB Bank	37.0	82.0	509	578	483	548	1.5	0.9	1.7	13.7	7.7	15.2
AU SFB	38.0	31.0	179	200	167	189	1.8	2.6	1.9	17.9	23.6	16.4
RBL Bank	8.0	21.0	210	229	1982	222	0.6	0.5	1.2	5.6	3.9	9.5
Kotak Mah Bk (std)	34.0	41.0	318	358	308	346	2.0	1.8	1.9	14.7	12.1	12.1
City Union Bank	7.0	9.0	79	88	70	80	1.0	1.0	1.3	9.4	9.5	11.3
Yes Bank	0.0	0.5	15	15	11	12	-5.1	0.0	0.4	-67.5	-0.3	3.2

Source: Company, Bloomberg, I-Sec Research

Table 14: A quick glance at current and historical valuations

Particulars	HDBK	Axis	Kotak	IIB	RBL	Bandhan	SBI	FB	DCBB	CUBK	KVB	AU SFB
Current valuations	**3.4**	**1.7**	**4.5**	**1.6**	**1.1**	**2.9**	**0.6**	**0.8**	**1.0**	**2.2**	**0.6**	**4.6**
3 Yr Avg	3.5	2.0	3.3	3.0	2.3	4.8	0.8	1.1	1.6	2.5	0.8	4.9
5 Yr Avg	3.4	2.0	3.4	3.1	2.5	N/A	0.9	1.2	1.6	2.2	0.9	N/A
10 Yr Avg	3.4	1.9	3.1	2.8	N/A	N/A	1.0	1.2	1.5	1.7	1.0	N/A
13 Yr Avg	3.3	2.0	3.1	2.5	N/A	N/A	0.9	1.1	1.5	1.4	0.9	N/A
3 Yr low	2.2	0.9	1.8	0.6	0.5	1.4	0.2	0.5	0.5	1.4	0.2	2.2
3 Yr high	3.9	2.7	4.6	4.4	3.4	8.5	1.5	1.8	2.3	3.2	1.4	7.6
5 Yr low	2.2	0.9	1.8	0.6	0.5	N/A	0.2	0.5	0.5	1.1	0.2	N/A
5 Yr high	3.9	2.7	4.6	4.4	3.7	N/A	1.5	2.0	2.5	3.2	1.6	N/A
10 Yr low	2.2	0.9	0.4	0.6	N/A	N/A	0.2	0.5	0.5	0.7	0.2	N/A
10 Yr high	4.1	2.9	4.6	4.4	N/A	N/A	1.6	2.0	2.5	3.2	1.6	N/A
13 Yr low	1.6	0.7	0.4	0.5	N/A	N/A	0.2	0.4	N/A	0.3	0.2	N/A
13 Yr high	4.8	4.1	4.6	4.4	N/A	N/A	2.2	2.0	N/A	3.2	1.6	N/A

Source: Bloomberg, Company, I-Sec Research

Table 15: Price performance over the years

Name	CMP	1M	3M	6M	12M	FYTD	2Y	3Y	5Y
Nifty 50 Index	13,749	5.3	24.4	32.4	12.6	59.9	28.9	31.0	74.9
Nifty Bank Index	30,402	2.2	44.9	40.8	(5.8)	58.8	13.8	18.5	80.8
HDFC Bank	1,397	(2.9)	33.8	32.2	8.4	62.1	34.3	48.9	160.2
Axis Bank	610	(1.5)	47.0	43.6	(17.6)	61.0	(0.8)	10.2	35.4
Kotak Mahindra Bank	1,961	1.9	56.5	46.3	14.6	51.3	58.3	94.1	179.5
IndusInd Bank	853	(0.1)	65.6	73.1	(44.0)	142.8	(45.4)	(48.4)	(9.8)
Yes Bank	18	19.4	31.5	(34.4)	(65.7)	(21.8)	(90.4)	(94.3)	(87.9)
City Union Bank	178	(2.8)	33.2	43.2	(21.9)	38.1	(5.0)	10.0	135.7
DCB Bank	116	20.4	41.9	41.3	(31.9)	21.9	(29.7)	(40.8)	39.0
Federal Bank	65	11.5	36.7	22.0	(23.9)	58.8	(30.5)	(39.4)	16.0
RBL Bank	220	(2.7)	33.6	15.6	(34.0)	62.6	(60.7)	(57.2)	
Karur Vysya Bank	45	19.0	41.4	24.2	(24.3)	125.0	(46.7)	(59.3)	(44.2)
State Bank of India	267	9.4	46.5	44.6	(19.5)	35.6	(8.9)	(16.6)	16.9
AU Small Finance Bank Ltd	868	(0.7)	32.2	51.7	10.6	71.7	43.1	27.7	
Bandhan Bank Ltd	398	11.0	50.2	17.8	(20.1)	95.4	(24.1)		

Source: Bloomberg, I-Sec Research
NoteL Close price as of December 24

Appendix

Table 16: High frequency consumption indicators

Consumption Indicator	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Personal Loan growth	15%	12%	11%	10%	11%	11%	9%	9%	NA
4W growth	-51.0%	NA	-85.2%	-49.6%	-3.9%	14.2%	26.5%	14.2%	4.6%
2W growth	-39.8%	NA	-83.8%	-38.6%	-15.2%	3.0%	11.6%	16.9%	13.4%
IIP - Primary Goods.	-4.0%	-26.6%	-19.6%	-14.5%	-10.8%	-10.8%	-1.5%	-3.3%	NA
IIP Consumer Goods Durables	-36.8%	-95.7%	-70.3%	-34.8%	-23.7%	-9.6%	3.4%	17.6%	NA
IIP Consumer Goods Non Durables	-22.3%	-48.1%	-9.7%	6.9%	1.8%	-2.3%	2.4%	7.5%	NA
Petrol Consumption	-16.4%	-60.4%	-35.3%	-13.5%	-10.4%	-7.5%	3.3%	4.5%	5.1%
Nikkei India Services PMI	49.30	5.40	12.60	33.70	34.20	41.80	49.80	54.10	53.70
CPI	5.84%	7.22%	6.27%	6.23%	6.73%	6.69%	7.27%	7.61%	6.93%
Passenger - all airports	-37.8%	-99.8%	-97.5%	-85.3%	-84.1%	-78.6%	-69.5%	-62.2%	NA
Foreign tourist arrivals	-66.4%	NA	NA	NA	NA	NA	NA	NA	NA
Consumer confidence index	85.60	NA	63.70	NA	53.80	NA	49.90	NA	52.30
	Sep-18	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**
Private final consumption exp real	8.79%	7.04%	6.19%	5.50%	6.39%	6.64%	2.72%	-26.68%	-11.32%

Source: CEIC, Bloomberg, I-Sec Research

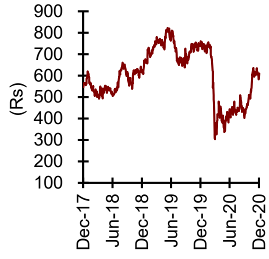
Table 17: High frequency industrial indicators

Industrial Indicator	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Overall credit growth (fortnightly)	6.1%	6.8%	6.2%	6.2%	5.8%	5.5%	5.1%	5.1%	5.8%
Industry loan growth	0.67%	1.73%	1.69%	2.25%	0.82%	0.49%	0.00%	-1.68%	NA
CV growth	-88.1%	NA	NA	NA	NA	NA	NA	NA	NA
Thermal plant Load factor	60.27	42.17	48.00	49.88	53.09	49.13	55.45	55.54	53.03
IIP growth	-18.7%	-57.3%	-33.4%	-16.6%	-10.5%	-7.4%	0.5%	3.6%	NA
Core sector growth (%)	-8.56	-37.86	-21.42	-12.44	-7.60	-7.35	-0.15	-2.54	NA
Diesel Consumption	-24.16%	-55.52%	-29.40%	-15.45%	-19.45%	-20.79%	-5.95%	7.47%	-6.98%
Power demand	-8.4%	-22.5%	-14.9%	-11.0%	-4.2%	-2.4%	3.8%	11.1%	3.7%
IIP Capital Goods	-38.8%	-92.7%	-65.9%	-37.4%	-22.8%	-14.8%	-1.3%	3.3%	NA
Nikkei India manufacturing PMI	51.8	27.4	30.8	47.2	46.0	52.0	56.8	58.9	56.3
WPI Commodity price index	0.42%	-1.57%	-3.37%	-1.81%	-0.25%	0.41%	1.32%	1.48%	1.55%
Cargo – Air	-32.02%	-82.85%	-67.68%	-40.56%	-34.59%	-29.44%	-16.23%	-13.86%	NA
Cargo - all ports	-5.1%	-21.1%	-23.3%	-14.5%	-13.2%	-10.4%	-1.9%	-1.2%	2.8%
Freight traffic – railways	-18.94%	-40.15%	-28.13%	-11.60%	-7.68%	1.35%	17.86%	11.05%	8.41%
Import Growth (%)	-27.97%	-59.70%	-51.04%	-48.04%	-29.56%	-26.04%	-19.60%	-11.53%	-13.32%
Export growth (%)	-34.33%	-60.98%	-35.70%	-12.21%	-9.54%	-12.23%	5.98%	-5.12%	-8.73%
Trade Deficit (USD bn)	-9.98	-6.92	-3.66	0.65	-4.75	-6.66	-2.74	-8.71	-9.87
Industrial Indicator	**Sep-18**	**Dec-18**	**Mar-19**	**Jun-19**	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**Sep-20**
Capacity utilisation	74.80	75.90	76.10	73.60	69.10	68.60	69.90	47.30	NA
GFCF	11.45%	11.43%	4.40%	4.57%	-3.92%	-5.16%	-6.48%	-47.08%	-7.35%

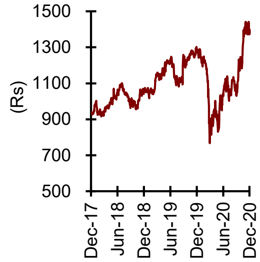
Source: CEIC, Bloomberg, I-Sec Research

Price charts

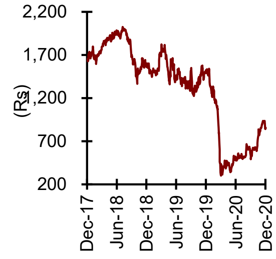
Axis Bank



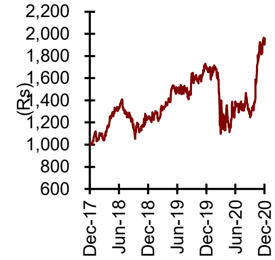
HDFC Bank



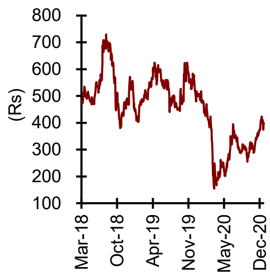
IndusInd Bank



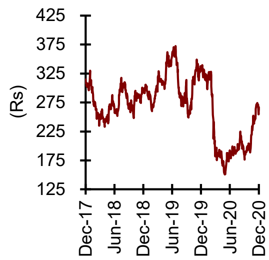
Kotak Mahindra Bank



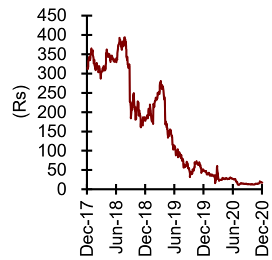
Bandhan Bank



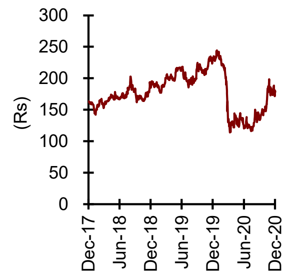
State Bank of India



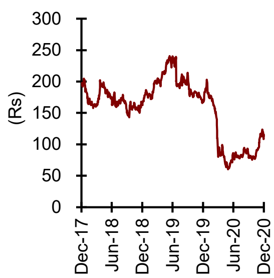
Yes Bank



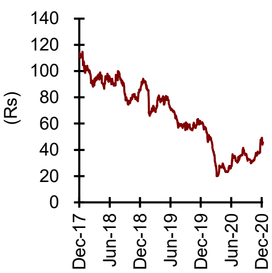
City Union Bank



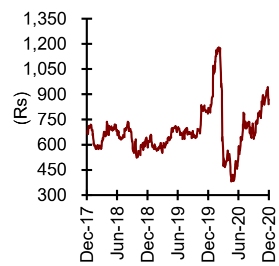
DCB Bank



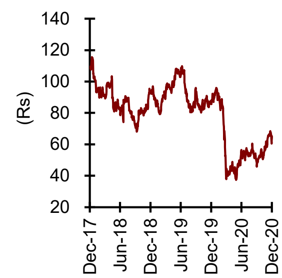
Karur Vysya Bank



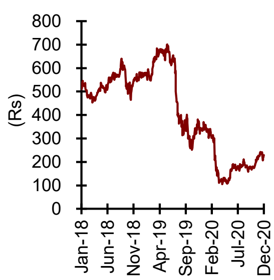
AU SFB



Federal Bank



RBL Bank



Source: Bloomberg

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