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Q3FY21 result preview

INDIA

Banking

Q3FY21 preview: True performance test; will number print echo affirmative narrative?

Q3FY21 earnings for banking sector will be a true performance test on several counts - extent of stress recognition, downward NIM trajectory, normalisation of origination and collection & cost efficiency will differentiate players. Key to watch out: 1) Financiers suggesting MoM improvement in collection efficiency and very low single digit restructuring - number print should echo this affirmative stance; 2) we expect stress recognition through actual slippages of 4-7%; 3) provisioning build-up (both on restructured and incremental stress) estimated at 2-4%; 4) interest income reversal and lower CD ratio will drag NIMs by ~15-20bps; and 5) retracement of fee income and cost flexibility will boost operating profit. Modest credit growth (7-9% up YoY, 3-4% QoQ) and NIM compression will supress revenue and operating profit growth (2-5% YoY). Credit costs (ex-YES Bank) to spike >75% YoY/30% QoQ, leading to almost 35% YoY/QoQ decline in earnings.

- **Restructuring quantum in low single digit and texture should be moderate/mild:** Managements' narrative has been constructive with respect to further MoM improvement in collection efficiency (from last reported) and restructuring requests actual (accepted till December) and potential (for MSME till March) to be in low single digit. Amongst categories, restructuring is not entertained much for MFI, credit card, 2-wheeler loans (will be written-off/provided), restructuring of home, corporate loans will be low and will be relatively higher for SMEs, CVs, wholesale real estate, cab aggregators etc.
- **Credit cost elevated – specific provisioning towards incremental stress and restructured pool:** Financiers have been vigilant in approving restructuring and how much stress (after couple of quarters of non-recognition) flows as slippages will be key (expect 4-7% slippage in Q3FY21). Irrespective of the Supreme Court's verdict on NPL tagging, banks will disclose pro forma NPLs and make upfront specific provisioning on this incremental stress. This coupled with provisioning on restructured pool will keep credit cost elevated at 2-4%. Utilisation/build-up of contingency buffer will lead to variability in credit cost amongst banks (our base case assumption - not >20% of existing buffer to be utilised this quarter nor further buffer creation needed). Managements' guidance on credit cost for FY22E will be well appreciated (as we expect positive surprise in FY22 for Axis, Bandhan, IndusInd etc).
- **NIMs to trend downwards:** Deciphering the trends in banks' MCLR, deposit rates, lending spreads, asset mix change, stress recognition and CD ratio moderation, we fear more downside risk to banks' NIM trajectory (in H2FY21).
- **Growth – encouraging trends QoQ:** With bounce in high frequency led indicators, increased spending/consumption, we expect credit growth to rise QoQ by 3-4% translating to 7-9% YoY growth. SME lending (under ECLGS), some pickup in industry and service sector credit, robust momentum in credit card and other retail loans will provide support. HDFC Bank, Bandhan, Axis, among others, will fare better. We expected retracement in fee income with normalisation in business volumes. Also, cost containment focus in Q3FY21 will support operating profit growth.

Our preferences and recommendations:

In our report 'What's driving investor enthusiasm – pessimism, skepticism, optimism or exuberance?' dated December 29th, we inclined our preferences towards Axis Bank (TP - Rs814), SBI (TP - Rs361), Bandhan Bank (TP – Rs537), and Federal Bank (TP – Rs88) as relative outperformers (with >30% return expectations over 12-18 months).

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Table 1: Valuations – long term value/growth drivers offsetting intermediate disruptions

Particulars	CMP	Rating	TP	P/E (x)		P/BV (x)		P/ABV (x)		EPS (Rs)	
				FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Axis Bank	664	BUY	814	23.4	12.6	1.9	1.7	2.1	1.8	27	50
SBI	282	BUY	361	11.1	4.9	0.6	0.6	0.8	0.7	14	31
Bandhan Bank	402	BUY	537	21.2	12.8	3.5	2.8	3.7	3.0	19	31
HDFC Bank	1,427	BUY	1,693	27.1	22.8	3.9	3.4	4.0	3.5	50	60
Federal Bank	72	BUY	88	13.5	7.4	0.9	0.8	1.0	0.9	5	9
DCB Bank	125	BUY	140	15.4	10.6	1.1	1.0	1.2	1.1	8	12
Karur Vysya Bank	48	BUY	74	9.0	5.3	0.5	0.5	0.7	0.6	5	9
IIB Bank	922	ADD	975	24.7	11.2	1.8	1.6	1.9	1.7	37	82
AU SFB	885	ADD	940	34.5	28.5	5.0	4.4	5.3	4.7	26	31
RBL Bank	251	ADD	246	38.4	13.3	1.2	1.1	1.3	1.1	7	19
Kotak Mahindra Bank	1,960	HOLD	2,013	45.6	38.0	4.9	4.3	5.1	4.5	34	41
City Union Bank	183	HOLD	190	25.4	19.4	2.3	2.1	2.6	2.3	7	9
Yes Bank	18	HOLD	17	N/A	36.0	1.2	1.2	1.6	1.5	(0)	1

Particulars	BV (Rs)		ABV (Rs)		RoAA (%)			RoAE (%)		
	FY21E	FY22E	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Axis Bank	332	374	298	345	0.2	0.9	1.4	2.1	8.8	14.1
SBI	241	272	180	219	0.5	0.3	0.6	10.5	5.9	12.2
Bandhan Bank	114	143	107	136	3.6	3.0	4.1	21.4	18.2	24.5
HDFC Bank	351	397	344	390	1.9	1.7	1.8	16.4	15.1	16.0
Federal Bank	78	86	71	78	0.9	0.5	0.9	11.1	6.8	11.4
DCB Bank	109	120	103	114	0.9	0.6	0.9	11.2	7.7	10.3
Karur Vysya Bank	89	96	71	76	0.3	0.6	0.9	3.6	6.3	9.9
IIB Bank	509	578	483	548	1.5	0.9	1.7	13.7	7.7	15.2
AU SFB	178	199	166	188	1.8	2.5	1.9	17.9	23.0	16.4
RBL Bank	209	226	197	219	0.6	0.4	1.1	5.6	3.4	8.7
Kotak Mahindra Bank	318	358	308	346	2.0	1.8	1.9	14.7	12.1	12.1
City Union Bank	79	88	70	80	1.0	1.0	1.3	9.4	9.5	11.3
Yes Bank	15	15	11	12	(5.1)	(0.0)	0.5	(67.5)	(0.0)	3.4

*SBI, Axis, Kotak & HDFC are standalone

Coverage universe – Q3FY21 preview snapshot

Table 2: Banks – modest loan growth and NIM compression to cap revenues

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY Growth (%)	QoQ Growth (%)
Loans	4,67,34,273	4,87,66,309	5,01,43,537	7	3
Deposits	5,81,02,405	6,40,65,635	6,55,24,022	13	2
NII	6,14,255	6,66,547	6,60,983	8	(1)
Other income	2,52,281	2,43,068	2,52,071	(0)	4
Total revenues	8,66,536	9,09,615	9,13,054	5	0
Opex	4,06,678	4,14,023	4,31,952	5	4
Operating Profit	4,59,858	4,95,592	4,81,102	5	(3)
Provisions	4,16,591	2,40,672	3,18,160	(24)	32
PBT	43,269	2,54,920	1,62,942	277	(36)
Tax	34,892	66,964	41,092	18	(39)
PAT	8,377	1,87,956	1,21,849	NM	(35)

Source: Company data, I-Sec research

Table 3: Bank (ex-YES) – Operating profit to stay flat; provisions to jump

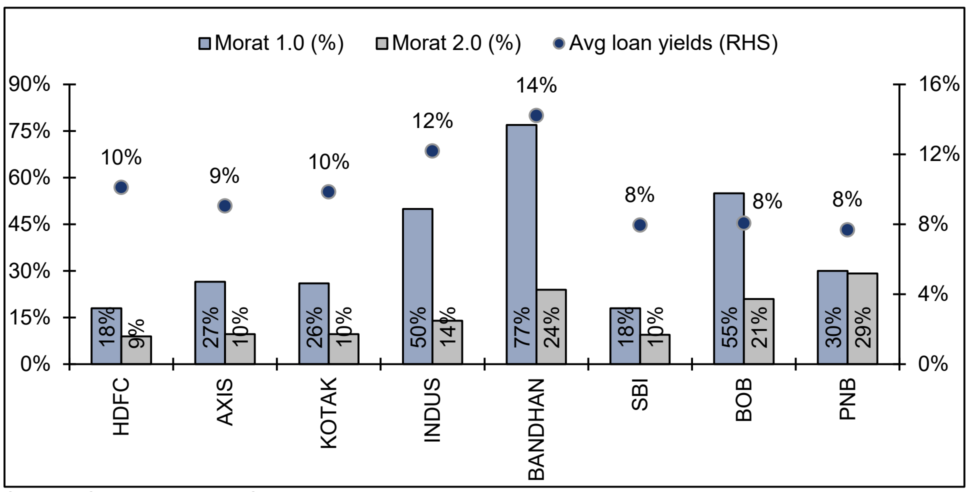
Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY Growth (%)	QoQ Growth (%)
Loans	4,48,73,283	4,70,97,076	4,84,53,022	8	3
Deposits	5,64,44,855	6,27,07,483	6,40,61,687	13	2
NII	6,03,607	6,46,813	6,40,943	6	(1)
Other income	2,46,025	2,36,001	2,45,264	(0)	4
Total revenues	8,49,632	8,82,814	8,86,207	4	0
Opex	3,89,709	4,00,822	4,18,700	7	4
Operating Profit	4,59,922	4,81,992	4,67,507	2	(3)
Provisions	1,68,934	2,28,799	3,01,957	79	32
PBT	2,90,990	2,53,194	1,65,550	(43)	(35)
Tax	97,010	66,531	41,750	(57)	(37)
PAT	1,93,980	1,86,663	1,23,800	(36)	(34)

Source: Company data, I-Sec research

Restructuring: quantum–sub-3%; texture–moderate/mild

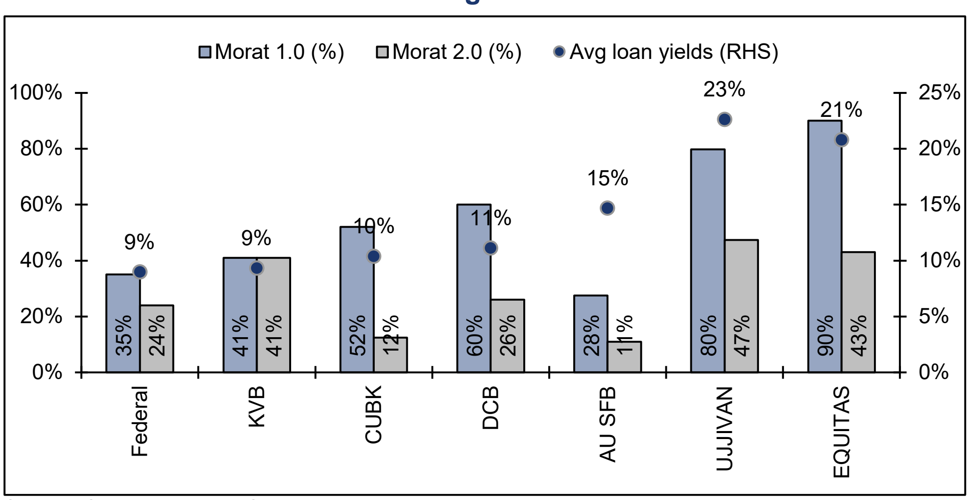
Based on industry feedback, we sense collection efficiency is improving MoM post the last reported numbers by many banks. With single-headed focus on collections, banks have been able to collect the amount partially even from customers who have not honoured even a single EMI obligation till September. Consequently, flow through from this category of customers into slippages or restructuring may be contained at better-than-anticipated level. Banks are indicating that restructuring requests actual (received) and potential (for MSME till March) will be in low single digit. Not only this, the texture of restructuring in terms of extension of repayment period or interest rates is expected to be moderate/mild. Most financiers have been vigilant in approving restructuring requests (after thorough case-to-case assessment of viability) and extended only if it seems prudent to provide interim support. Amongst categories, restructuring is not entertained much for MFI, credit card, 2-wheeler loans (will be written-off/provided), restructuring of home, corporate loans is low and is relatively higher for SMEs, CVs, wholesale real estate, cab aggregators, bus operators etc. Restructured pool will vary across banks and in fact will be compared closely to gauge their portfolio resilience or vulnerability.

Chart 1: Moratorium trend of leading banks settling near 10%



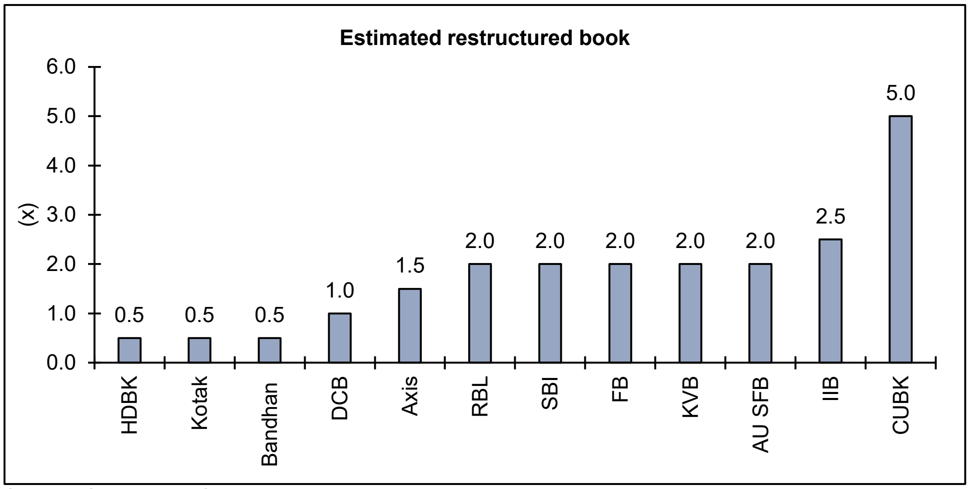
Source: Company data, I-Sec research

Chart 2: Moratorium behavior of regional banks/SFBs



Source: Company data, I-Sec research

Chart 3: Restructuring requests coming in lower than expected (%)



Source: Company, I-Sec Research

Table 4: Collection efficiency to improve further from last reported print

	SBIN	HDFCBANK	AXISBANK	INDUSINDBK	BANDHANBNK	RBLBANK
Management' definition of collection efficiency		Amount demanded during the month & collected during the month.	Demand vs Collected/Resolution	Total collected over total demand dues		This is demand for the month. So, since this was the first month September where it was demanded that month, demand for the month.
Collection Efficiency for overall book	Ex-agri 97% in Sep & 97.5 in Oct	Morat- 95% Sep, 97% Oct Non morat- 99% Sep	94% Sep 97% Oct	94.7% for Sep, 95.5-96% mid-Oct	Sep 92% (76% in June)	93% Sep

	FEDERALBNK	DCBBANK	KARURVYSYA	AUBANK	CITYUNION
Management' definition of collection efficiency	Sep'20 collections & Excluding arrears		Only on Morat book	All money received during the month from borrowers (excluding foreclosure) as % of current demand for the month	
Collection Efficiency for overall book	~95%		~95% for WC / 90% for TL on morat book	96%	90%
Non-paying customers	~1.5%	7.4% LAP			4%

Source: Company, I-Sec Research

Table 5: Segment-wise collection efficiency

	HDFCBANK	AXISBANK	KOTAKBANK	INDUSINDBK	BANDHANBNK
Retail	**Morat- 95% Sep, 97% Oct Non morat- 99% Sep**	**Retail EMI 97% - Sep 99% was pre-covid**			**June - 76% Sep – 92%**
CV/CE			*Sep collection close to pre-covid, CE better than CV*		
Vehicle finance				*94%*	
Home Loans					*July 77%, Aug 85%, Sep 98%*
MFI				*91% Sep, 93% Oct-mid*	*68% June, 89% Sep, 91% Oct*
SME/Business Banking					**July 88%, Aug 91%, Sep 96%**
Corporate Banking					
NBFC					100% July/Aug/Sep

	YESBANK	RBLBANK	FEDERALBNK	DCBBANK	KARURVYSYA	AUBANK
Retail	**Sep 89%, pre covid 97%**		**91%**		**87%**	
Auto						*89%*
CV/CE				*77%*		
Home Loans				*91%*		*112%*
LAP		*93% of pre-covid levels*		*88%*		
MFI		*91% Sep, 93.3% Oct-end*				
Credit card		*94% Sep as indexed to pre-covid at 100%*				
SME/Business Banking	**Sep 80%, pre covid 94%**		**93-95%**			**105%**
Commercial Banking			**93-95%**		**91% - 98%**	**105%**
Corporate Banking	**Still lower**		**99%**		**91%-92%**	
NBFC						105%

Source: Company, I-Sec Research

Table 6: Details on days past due (DPD)

	SBIN	AXISBANK	YESBANK	FEDERALBNK
1+ DPD				3.5%
30+ DPD		2.3%	4.0%	
DPD (others)	3% where DPD range is 1-89			

Source: Company, I-Sec Research

Credit cost driver: Specific provisioning on incremental stress and restructured pool

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 (much higher than last three years average).

How much stress from the left-over pool, outside of collection and restructuring bucket flows as spike in slippages (after couple of quarters of non-recognition) will be key to watch out. Supreme Court's order currently restrains banks from tagging standard assets as NPL. However, irrespective of the outcome in judgment, banks will disclose the stress as pro forma GNPLs (similar to what they did in Q2FY21) and make provisioning against the same.

Table 7: GNPLs to surge after couple of quarters of non-recognition

Particulars	Gross NPA						Net NPA			
	Q1FY21		Q2FY21			Q3FY21E	Q1FY21		Q2FY21	
	Rs mn	%	Rs mn	Reported %	Proforma %	%	Rs mn	%	Rs mn	%
SBI	12,96,607	5.4	12,58,630	5.3	5.9	6.3	4,27,036	1.9	3,64,507	1.6
Axis Bank	2,95,602	4.7	2,68,316	4.2	4.3	4.8	74,480	1.2	61,079	1.0
HDBK	1,37,735	1.4	1,13,046	1.1	1.4	1.7	32,800	0.3	17,561	0.2
Kotak	56,193	2.7	53,360	2.6	2.7	3.3	17,771	0.9	13,038	0.6
IIB	45,322	2.2	63,162	2.9	2.3	3.4	10,558	0.5	37,897	1.8
Bandhan	10,067	1.4	8,740	1.2	1.5	2.5	3,358	0.5	2,625	0.4
Yes	3,27,027	17.3	3,23,444	16.9	18.4	19.9	81,575	5.0	78,681	4.7
RBL	19,921	3.5	19,117	3.3		4.0	9,327	1.7	7,758	1.4
Federal	36,556	3.0	35,522	2.8		3.3	14,775	1.2	12,181	1.0
CUBK	13,461	3.9	12,206	3.4		4.1	7,164	2.1	6,314	1.8
DCB	6,218	2.4	5,737	2.3	2.4	2.9	2,485	1.0	2,058	0.8
KVB	40,557	8.3	39,984	7.9		7.96	15,852	3.4	14,282	3.0
AU SFB	4,471	1.7	4,232	1.5	1.6	2.8	1,632	0.6	1,228	0.5

Source: Company data, I-Sec research

Table 8: Fresh slippages, with lifting of dispensation benefit, will spike

Particulars	Slippages			Recovery / Upgrades		Write-offs		Slippages (%)		
	Q1FY21	Q2FY21	Q3FY21E	Q1FY21	Q2FY21	Q1FY21	Q2FY21	Q1FY21	Q2FY21	Q3FY21E
SBI	39,100	30,850	3,19,028	36,080	40,380	1,97,330	28,450	0.6	0.5	5.4
Axis Bank	22,180	9,310	78,925	6,080	18,480	22,840	18,120	1.5	0.6	5.3
HDBK	8,000	20,767	1,10,678					0.4	0.9	4.8
Kotak	10,274	2,640	21,662	8,958	5,474			1.9	0.5	4.2
IIB	15,370	3,990	27,852	15,850	9,660			2.9	0.8	5.5
Bandhan	254	110	8,526	115	345			0.2	0.1	4.7
Yes	450	1,010	55,773	1,600	3,500	600	1,090	0.1	0.2	11.7
RBL	50	1,450	12,155	430	1,060	1,060	1,190	0.0	1.0	8.4
Federal	1,840	100	13,381	660	1,050	20	90	0.6	0.0	4.3
CUBK	34	0	5,298	200	525	507	525	0.0	0.0	6.0
DCB	52	900	3,684	116	450	65	400	0.1	1.4	5.8
KVB	400	320	6,831	1,980	890			0.3	0.3	5.5
AU SFB	50	1,420	6,000	160	1,240			0.1	1.9	7.9

Source: Company data, I-Sec research

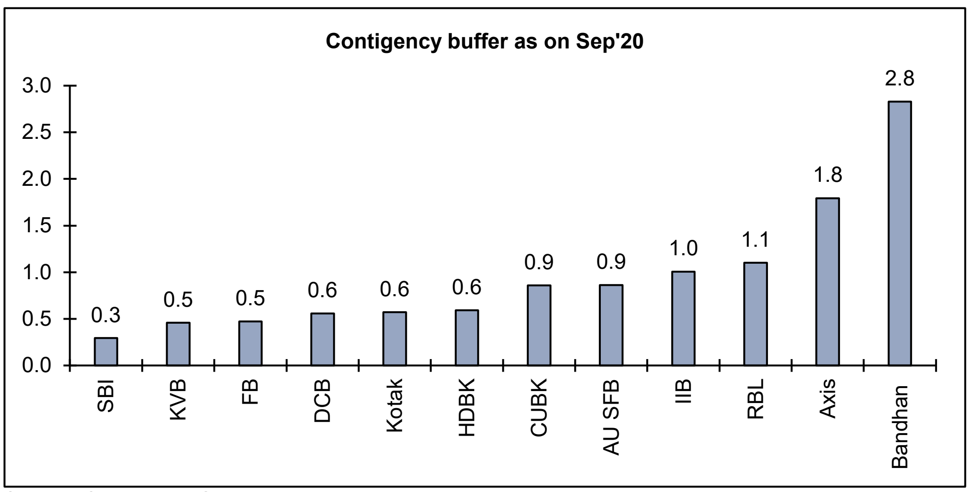
Table 9: Credit cost likely to inch up in Q3FY21

	FY18	FY19	FY20	FY21E	FY22E	Q1FY21	Q2FY21	Q3FY21E
HDFC	1.0	1.0	1.3	1.7	1.3	1.6	1.4	1.9
AXIS	3.7	2.5	3.4	2.5	1.2	2.4	3.2	2.3
KOTAK	0.6	0.5	1.0	1.7	1.3	1.8	0.7	2.3
INDUSIND	1.0	1.8	2.3	3.6	1.8	4.5	3.9	3.8
BANDHAN	1.0	1.4	2.2	3.5	1.4	4.9	2.2	3.7
SBIN	3.8	2.5	1.8	2.1	1.4	2.1	1.8	2.6
RBL	1.0	1.2	3.5	3.8	2.1	3.5	3.7	4.5
YES	0.9	2.5	15.7	3.2	2.3	2.3	2.5	3.4
KVB	3.0	3.0	3.1	2.2	1.7	2.9	2.4	2.0
AU SFB	1.0	0.7	1.0	2.0	1.2	2.4	0.8	3.6
FB	1.2	0.9	1.0	1.9	1.2	1.4	2.0	2.2
CUBK	1.2	0.9	2.3	2.1	1.6	1.8	2.0	2.3
DCB	0.8	0.6	1.1	2.0	1.4	1.3	1.8	2.3

Source: Company, I-Sec Research

This coupled with provisioning on restructured pool will keep credit cost elevated at 2-4%. The regulatory requirement is 10% provisioning on restructure pool but banks can provide higher conservatively, if need be). Utilisation/build-up of contingency buffer will lead to variability in credit cost amongst banks (our base case assumption - not >20% of existing buffer to be utilised this quarter nor further buffer creation needed). With visibility kicking in, some management guidance and additional disclosure on their assessment of credit cost for FY21/22E will be well appreciated (as we expect positive surprise in FY22 for Axis, Bandhan, IndusInd etc).

Chart 4: Contingency buffer to be utilised over FY21/22E to cushion earnings



Source: Company, I-Sec Research

NIM trajectory pointing towards a downside

Mix change (in favour of retail), negligible stress recognition and deposit cost benefit offset the liquidity drag for a few banks and NIMs were surprisingly stable in H1FY21. However, rise in stress recognition, moderation in CD ratio and peak lending spreads (over deposit rates as well as outstanding over marginal rates) will weigh on NIMs in H2FY21 – down by ~15-20bps.

- This quarter we believe spike in stress recognition (after couple of quarters of non-recognition), NPL build-up, consequent interest reversals and downward repricing of loans (under restructuring scheme) will knock down lending yields.

- Loan to deposit ratio is also moderating to 72% (with lower credit offtake while deposits are flowing regularly).

- Portfolio mix shifts in favour of better-rated SMEs/corporates, secured retail lending will entail further pressure, albeit partially offset by an uptick in high yield retail lending book (credit card, MFI, tractors, 2-wheelers) as well.

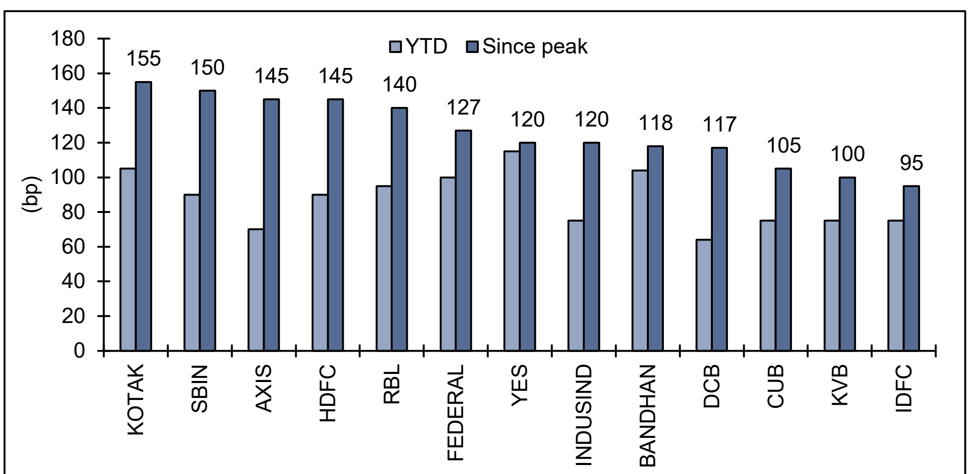
- Spread between outstanding and marginal loan yields widening to as high as >190bps for private banks and >130bps for PSU banks (compared to 60-70 average for past 5 years) – seems to suggest repricing is yet to play out and risk premium amidst uncertainty has kept yields elevated.

Table 10: Margins to shrink by 15-20bps for majority of the banks

	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21E
HDFC	4.3	4.2	4.2	4.3	4.3	4.1	4.0
AXIS	3.4	3.5	3.6	3.6	3.4	3.6	3.4
KOTAK	4.5	4.6	4.7	4.7	4.4	4.5	4.3
INDUSIND	4.1	4.1	4.2	4.3	4.3	4.2	4.0
BANDHAN		8.2	7.9	8.1	8.2	8.0	7.8
SBIN	2.8	2.9	3.1	3.0	3.0	3.1	3.0
RBL	4.3	4.4	4.6	4.9	4.9	4.3	4.2
YES	2.8	2.7	1.4	1.9	3.0	3.1	3.0
KVB	3.5	3.5	3.3	3.5	3.4	3.5	3.4
AU SFB	5.0	5.2	5.4	5.5	5.0	5.3	5.2
FB	3.2	3.0	3.0	3.0	3.1	3.1	3.0
CUBK	4.1	3.9	4.0	3.9	4.0	4.1	4.0
DCB	3.7	3.7	3.7	3.6	3.4	3.7	3.6

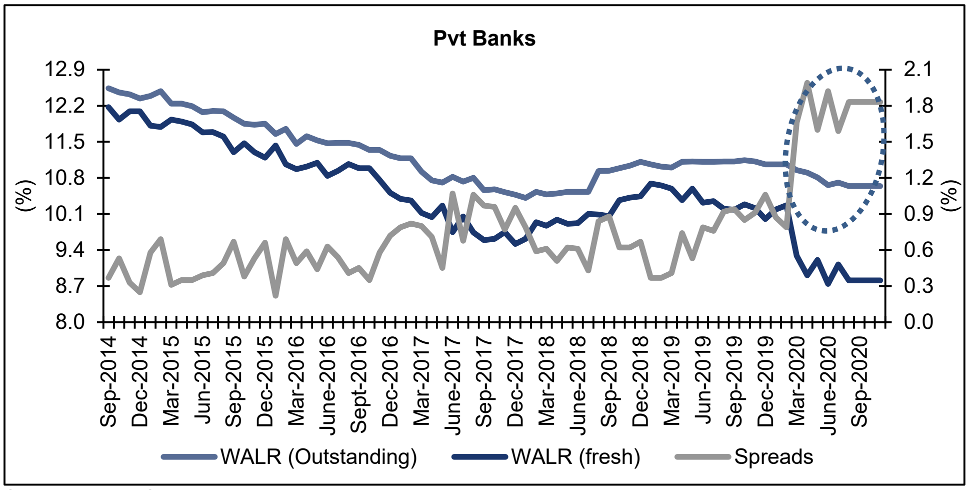
Source: Company, I-Sec Research

Chart 5: MCLR cut by 100-155bps since its peak in early 2019 and 80-100bps YTD



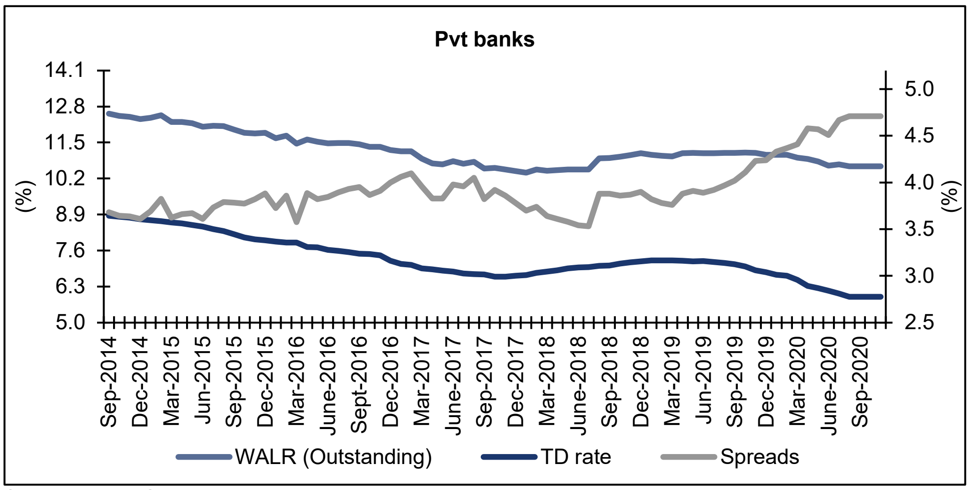
Source: Company, RBI, I-Sec Research

Chart 6: Outstanding over marginal yields stabilize; repricing playing out



Source: RBI, I-Sec Research

Chart 7: Lending spread (over deposit rate) at peak; reflects robust franchise



Source: RBI, I-Sec Research

Growth – some encouraging signal sequentially

With bounce in high frequency led indicators, increased spending/consumption, we expect credit growth to rise QoQ by 3-4% translating to 7-9% YoY growth. Steadily improving collection trends (repayments/prepayments) are more than offset by the increased momentum in disbursement. A few encouraging trends during the quarter: 1) Downward trajectory in industry credit (particularly large industries) was arrested and, after six consecutive months of decline, there seems a marginal uptick in Q3FY21; 2) with the economy opening up, transport operators, tourism / hotels / restaurants, CRE, etc. will witness an uptick in credit; 3) credit card segment will maintain quick robust momentum rebounding after contraction in the initial couple of months of FY21; 4) vehicle financing and 'other personal loans' will further push retail credit growth.

We expect trends to be divergent across players and product segments. We believe players with robust liability franchise, marginal stress baggage and strong capital position (HDFC Bank, Bandhan, Axis, SBI, Federal, etc.) will fare better.

Deposit growth is far-outpacing credit growth with >10% YoY growth in Q3FY21 (compared to 7.9% YoY in FY20). We expect banks with better liability franchise such as HDFC, Bandhan, Axis, Federal, SBI to continue seeing strong inflows despite rate cuts while players like IIB, AU SFB, DCB with relatively lower rate cut too have attracted decent deposit growth.

Table 11: Sequential momentum in deposits sustained despite low rates

	Deposits						
QoQ (%)	**Q1FY20**	**Q2FY20**	**Q3FY20**	**Q4FY20**	**Q1FY21**	**Q2FY21**	**Q3FY21E**
HDFC	3.4	7.0	4.5	7.5	3.7	3.4	3.4
AXIS	(1.4)	8.0	1.3	8.2	(1.9)	1.2	3.0
KOTAK	3.1	0.1	2.7	9.8	(0.5)	0.0	0.0
INDUSIND	2.9	3.3	4.6	(6.8)	4.6	8.1	5.0
BANDHAN	1.1	12.6	11.6	4.0	6.2	9.1	5.0
SBIN	1.3	2.9	2.6	4.2	5.5	1.5	1.5
RBL	4.1	3.3	0.1	(8.1)	6.7	4.5	1.0
YES	(0.8)	(7.3)	(20.9)	(36.4)	11.4	15.7	7.7
KVB	3.1	0.8	0.1	(5.1)	1.7	1.8	1.6
AU SFB	2.2	11.6	7.8	9.6	2.2	0.9	4.4
FB	(0.0)	0.1	0.0	0.1	0.0	0.0	0.0
CUBK	1.6	3.5	(1.6)	2.6	0.5	1.0	1.0
DCB	1.2	2.0	1.3	2.1	(3.1)	(2.2)	(0.5)

Source: Company, I-Sec Research

Table 12: Deposit growth outpacing credit growth across banks

	Deposits						
YoY (%)	**Q1FY20**	**Q2FY20**	**Q3FY20**	**Q4FY20**	**Q1FY21**	**Q2FY21**	**Q3FY21E**
HDFC	18.5	22.6	25.2	24.3	24.6	20.3	19.1
AXIS	20.9	21.7	15.1	16.7	16.2	8.8	10.6
KOTAK	22.8	13.2	12.0	16.4	12.3	12.2	9.3
INDUSIND	26.3	23.2	23.3	3.7	5.3	10.2	10.6
BANDHAN	42.3	49.3	58.5	32.0	38.7	34.4	26.5
SBIN	7.3	8.0	9.9	11.3	16.0	14.4	13.2
RBL	35.3	31.5	20.5	(1.0)	1.5	2.7	3.6
YES	5.9	(6.0)	(25.6)	(53.7)	(48.0)	(35.2)	(11.8)
KVB	7.2	6.8	6.2	(1.3)	(2.7)	(1.8)	(0.3)
AU SFB	98.4	72.1	62.6	34.7	34.7	21.8	17.9
FB	19.1	18.1	17.1	12.8	16.9	12.3	11.8
CUBK	16.3	17.1	12.1	6.2	5.0	2.4	5.1
DCB	15.0	12.2	8.1	6.8	2.2	(2.0)	(3.7)

Source: Company, I-Sec Research

Table 13: Loan growth to pick pace after muted activity in H1FY21

	Loans						
QoQ (%)	**Q1FY20**	**Q2FY20**	**Q3FY20**	**Q4FY20**	**Q1FY21**	**Q2FY21**	**Q3FY21E**
HDFC	1.3	8.1	4.4	6.2	1.0	3.5	4.2
AXIS	0.5	4.9	5.5	3.9	(1.8)	2.7	5.0
KOTAK	1.1	2.5	1.5	1.5	(7.2)	0.4	5.0
INDUSIND	(0.3)	1.9	5.2	(0.3)	(4.2)	1.6	3.2
BANDHAN	4.0	1.0	1.4	9.9	4.7	5.1	4.5
SBIN	(2.3)	0.5	2.5	5.7	(1.2)	(0.2)	1.5
RBL	4.7	2.9	2.0	(2.7)	(2.3)	3.0	3.0
YES	(2.2)	(5.0)	(17.1)	(7.9)	(4.0)	1.5	1.3
KVB	(3.3)	0.3	0.0	(2.2)	0.1	3.7	3.5
AU SFB	5.6	8.8	7.1	3.4	(2.8)	1.8	4.7
FB	1.6	3.4	2.9	2.6	(0.8)	1.3	2.3
CUBK	(1.4)	1.6	3.3	0.3	1.8	0.8	1.0
DCB	2.0	3.1	2.6	(0.4)	(1.1)	(0.7)	2.0

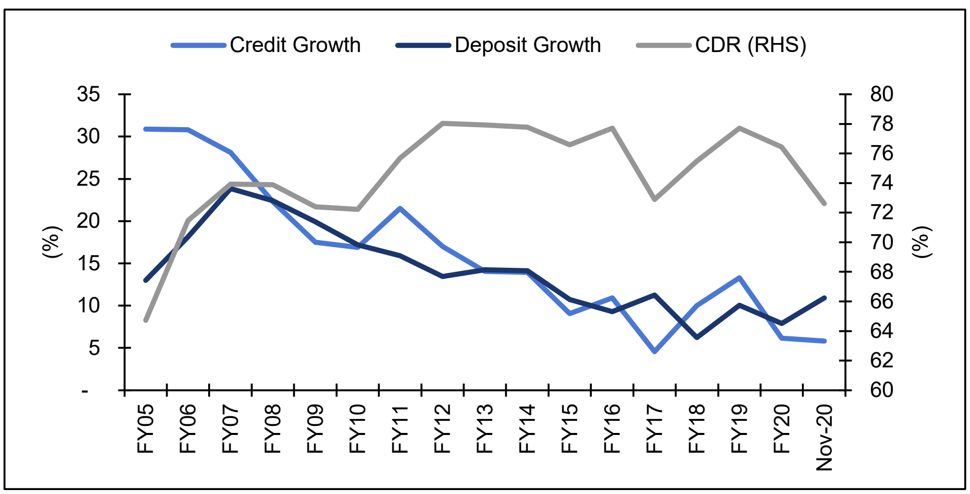
Source: Company, I-Sec Research

Table 14: Moderation in credit growth to be arrested; seems bottoming out

	Loans						
YoY (%)	**Q1FY20**	**Q2FY20**	**Q3FY20**	**Q4FY20**	**Q1FY21**	**Q2FY21**	**Q3FY21E**
HDFC	17.1	19.5	19.9	21.3	20.9	15.8	15.6
AXIS	12.7	14.4	15.8	15.5	12.9	10.5	10.0
KOTAK	17.6	15.3	10.2	6.8	(1.9)	(4.0)	(0.7)
INDUSIND	20.0	13.2	13.2	6.5	2.4	2.1	0.1
BANDHAN	27.7	23.9	19.5	17.0	17.8	22.6	26.4
SBIN	13.8	9.6	7.4	6.4	7.7	6.9	5.8
RBL	34.7	27.5	19.5	6.8	(0.3)	(0.2)	0.9
YES	10.1	(6.3)	(23.7)	(29.0)	(30.4)	(25.6)	(9.2)
KVB	1.2	1.3	2.4	(5.1)	(1.8)	1.5	5.1
AU SFB	44.3	38.6	37.5	27.4	17.3	9.7	7.3
FB	18.8	14.8	13.0	10.9	8.3	6.1	5.5
CUBK	14.2	11.3	10.4	3.8	7.2	6.3	4.0
DCB	13.2	12.4	11.1	7.5	4.2	0.3	(0.2)

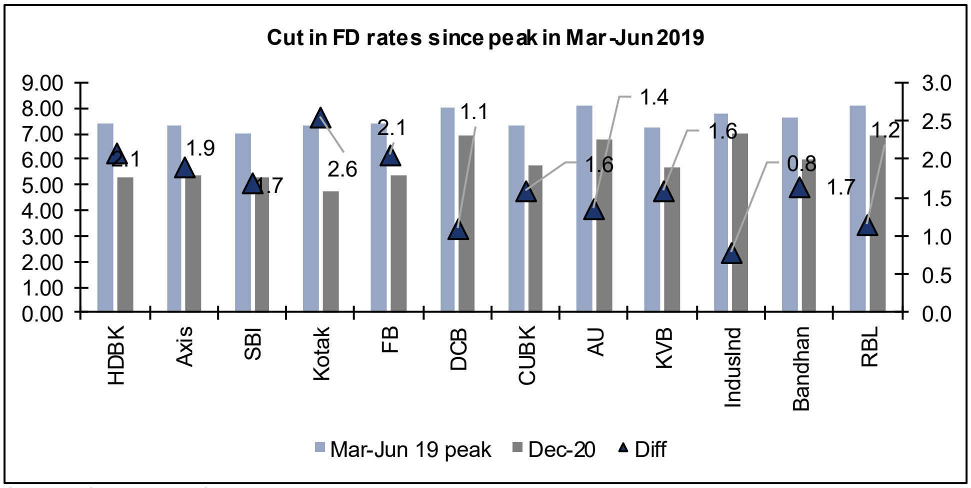
Source: Company, I-Sec Research

Chart 8: Financiers too flushed with liquidity buffer, CD ratio at 72%



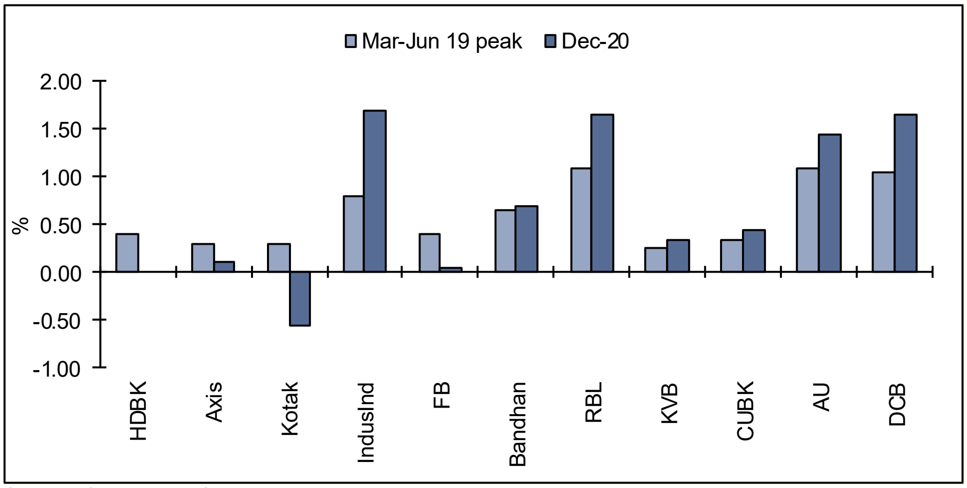
Source: RBI, I-Sec Research

Chart 9: Banks have cut deposit rates lowering the cost of credit



Source: Company, I-Sec Research

Chart 10: FD rate differential with SBI



Source: Company, I-Sec Research

Fee income to retrace; treasury support not high

Retracement is expected in fee income with normalisation in business volumes though support from treasury gains will not be so high. After outperforming expectation on cost containment front in H1FY21, how much flexibility is retained will be key to watch out.

Banks: Q3FY21 earnings estimate

Table 15: Axis Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)
Loans	55,01,377	57,63,725	60,51,911	10	5
Deposits	59,16,755	63,54,543	65,45,179	11	3
NII	64,530	73,261	71,918	11	(2)
Other income	37,866	38,072	35,129	(7)	(8)
Total revenues	1,02,396	1,11,333	1,07,048	5	(4)
Opex	44,969	42,356	43,544	(3)	3
Operating Profit	57,427	68,976	63,504	11	(8)
Provisions	34,709	45,807	35,345	2	(23)
PBT	22,718	23,170	28,158	24	22
Tax	5,148	6,343	7,087	38	12
PAT	17,570	16,827	21,071	20	25
				Change in bps	
NIM (computed)	3.5	3.6	3.4	(5)	(17)
CASA mix	41.2	44.2	45.0	380	81
Gross NPA ratio	5.0	4.2	4.8	(19)	63
Credit cost	2.5	3.2	2.3	(19)	(84)
ROA	0.9	0.7	1.0	9	21
RoE	8.3	7.3	8.5	27	121
Net NPA ratio	5.0	1.0	1.6	(341)	61
Cost to income	43.9	38.0	40.7	(324)	263
Cost to Assets	2.2	1.9	2.0	(24)	9

Comment

Axis Bank holds aggregate provisioning buffer of Rs108bn (1.9% of advances) – of this, it has already provided Rs18.6bn towards potential restructuring at 19%.

In Q2FY21, it highlighted that restructured pool will be contained well below 2% - non-BB probable corporate restructuring pool at Rs32bn (0.56% of advances) and probable restructuring for commercial banking and retail at Rs25bn.

We expect slippages to be elevated at 5.3%, though existing provisioning buffer will contain credit cost. Demand resolution for October was 97% and strengthening collection infrastructure would have helped it get back to pre-Covid level.

Transaction banking, forex and third party distribution will drive fee income growth.

In Q2FY21, it has taken the impact of some interest reversal on potential restructured pool; however, incremental slippages will drag down NIMs in Q3FY21.

Source: Company data, I-Sec research

Table 16: Bandhan Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)
Loans	6,06,010	7,33,067	7,66,055	26	4
Deposits	5,49,080	6,61,277	6,94,341	26	5
NII	15,403	19,231	19,696	28	2
Other income	3,577	3,818	5,011	40	31
Total revenues	18,980	23,049	24,707	30	7
Opex	6,341	6,773	7,609	20	12
Operating Profit	12,639	16,275	17,098	35	5
Provisions	2,949	3,945	7,064	140	79
PBT	9,690	12,330	10,034	4	(19)
Tax	2,380	3,130	2,526	6	(19)
PAT	7,310	9,200	7,508	3	(18)
				Change in bps	
NIM (computed)	7.5	7.9	7.8	23	(15)
CASA mix	34.3	38.2	38.1	382	(9)
Gross NPA ratio	1.9	1.2	2.5	57	132
Credit cost	1.9	2.2	3.7	174	154
ROA	3.5	3.7	2.9	(61)	(80)
RoE	20.0	22.5	17.6	(238)	(488)
Net NPA ratio	0.8	0.4	1.0	19	64
Cost to income	33.4	29.4	30.8	(261)	141
Cost to Assets	3.0	2.7	2.9	(10)	22

Comment

In Q2FY21, the bank highlighted its collection efficiency is at 92% in September - with MFI collection efficiency improving to 89% in value terms and 94% (based on customers). For non-micro banking advances, collection efficiency improved to 98% (from 84%).

We expect collection efficiency in MFI to improve 4-5% points in Q3FY21. Bank will continue to create provisioning in-line with its guidance of 3.5% credit cost for FY21.

We expect 4-6% QoQ growth in advances and 25% plus YoY growth. Deposits will be up 7-9% QoQ/30% YoY - CASA can inch up further from 38%; reduction in savings rates will reflect in NIMs.

Source: Company data, I-Sec research

Table 17: HDFC Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	93,60,295	1,03,83,351	1,08,20,000	16	4	Advance growth will sustain at 16% (compared to 16%/21%/21% growth in Q2FY21/Q1FY21/Q4FY20) following a 4% QoQ growth. We estimate retail advances to grow 6-8% and corporate advances at 25-30%. Sounds more confident and resilient; restructuring is expected to be marginal. Also, prudently it will prefer recognising stress upfront. We are, therefore conservatively building in credit cost of 1.7-1.9% for H2FY21. NIMs, due to higher slippages, should see some marginal downside. This coupled with lower fee income growth might lead to sub-10% operating profit.
Deposits	1,06,74,335	1,22,93,104	1,27,10,000	19	3	
NII	1,41,729	1,57,764	1,58,480	12	0	
Other income	66,693	60,925	63,974	(4)	5	
Total revenues	2,08,422	2,18,688	2,22,454	7	2	
Opex	78,968	80,551	87,903	11	9	
Operating Profit	1,29,454	1,38,138	1,34,551	4	(3)	
Provisions	30,436	37,035	52,604	73	42	
PBT	99,018	1,01,103	81,947	(17)	(19)	
Tax	24,854	25,972	20,626	(17)	(21)	
PAT	74,165	75,131	61,321	(17)	(18)	
				Change in bps		
NIM (computed)	4.3	4.1	4.0	(32)	(14)	
CASA mix	39.5	41.6	43.0	348	140	
Gross NPA ratio	1.4	1.1	1.7	29	63	
Credit cost	1.3	1.4	1.9	64	52	
ROA	2.2	1.9	1.5	(68)	(41)	
RoE	18.6	16.5	13.0	(561)	(354)	
Net NPA ratio	0.5	0.2	0.4	(10)	21	
Cost to income	37.9	36.8	39.5	163	268	
Cost to Assets	2.3	2.0	2.2	(17)	11	

Source: Company data, I-Sec research

Table 18: IndusInd Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	20,74,130	20,12,468	20,76,910	0	3	We believe elevated deposit rates, steadily declining loan to deposit ratio to 86.7% (from 100% in FY20) and stress recognition (interest reversal) will weigh on NIMs and NII growth would moderate to mid-single digit (compared to 13%/16% in Q2/Q1FY21). This coupled with decline in non-interest income will lead to low-single digit decline in pre-provisioning operating profit. Credit cost is expected to be elevated with provisioning towards recognised stress. We expect low single digit restructuring – 2.0-2.5%. Advance growth moderated further YoY (flat/2.1%/2.4%/6.5%/13.2% for Q3FY21/ Q2FY21/ Q1FY21/Q4FY20/Q3FY20) – this is on a higher base of Q3FY20, else sequentially it has improved 3.2% (compared to 1.6/(-4.2)% for Q2FY21/Q1FY21. Deposit momentum still continues to be strong – 5% QoQ growth, sustaining YoY growth to 10.6% (even on high base). Need to watch out for stabilisation in fee income with resumption in activity levels – Treasury profit support will also be not so high. Optically on higher earnings base in Q3FY20, higher credit cost YoY will lead to sharp YoY decline in earnings trajectory
Deposits	21,67,130	22,82,790	23,96,000	11	5	
NII	30,742	32,780	32,565	6	(1)	
Other income	17,900	15,543	15,233	(15)	(2)	
Total revenues	48,642	48,323	47,798	(2)	(1)	
Opex	21,065	19,803	21,230	1	7	
Operating Profit	27,577	28,520	26,568	(4)	(7)	
Provisions	10,435	19,644	19,849	90	1	
PBT	17,143	8,875	6,718	(61)	(24)	
Tax	4,050	2,245	1,691	(58)	(25)	
PAT	13,092	6,631	5,027	(62)	(24)	
				Change in bps		
NIM (computed)	4.4	4.3	4.1	(21)	(20)	
CASA mix	42.4	40.2	40.5	(189)	27	
Gross NPA ratio	2.2	2.2	2.9	75	72	
Credit cost	2.0	3.9	3.8	181	(8)	
ROA	1.7	0.8	0.6	(114)	(22)	
RoE	15.6	7.1	5.0	(1,059)	(208)	
Net NPA ratio	1.1	0.5	1.8	77	130	
Cost to income	43.3	41.0	44.4	111	344	
Cost to Assets	2.8	2.4	2.5	(28)	8	

Source: Company data, I-Sec research

Table 19: Kotak Mahindra Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	21,64,989	20,48,446	21,50,868	(1)	5	In Q2FY21, management highlighted that Covid provisioning alongwith standard provisioning, restructured asset provisioning at 1.1% of book seems not only sufficient but extremely conservative. This suggest incremental slippages and restructuring to be capped at much lower level and credit cost to be contained. Last quarter it highlighted collection efficiency close to February at mid-90s and should have only witnessed MoM improvement thereon. Beside this, MTM gain on investment portfolio, cost agility and low cost deposit based will cushion earnings impact Key to watch out for will be traction in advance growth as it has been lagging all the private peers and management indicated strategic shift towards risk calibrated growth. We expect flat advance growth YoY/4-5% QoQ. NIMs are expected to sustain around 4.3-4.5% levels.
Deposits	23,93,540	26,15,636	26,15,636	9	-	
NII	34,295	39,132	38,777	13	(1)	
Other income	13,414	14,520	16,179	21	11	
Total revenues	47,710	53,652	54,957	15	2	
Opex	23,829	20,678	21,957	(8)	6	
Operating Profit	23,881	32,975	32,999	38	0	
Provisions	4,440	3,686	12,141	173	229	
PBT	19,441	29,289	20,858	7	(29)	
Tax	3,482	7,444	5,256	51	(29)	
PAT	15,959	21,845	15,602	(2)	(29)	
				Change in bps		
NIM (computed)	4.4	4.3	4.3	(15)	(1)	
CASA mix	53.7	54.2	54.9	116	70	
Gross NPA ratio	2.5	2.6	3.3	84	75	
Credit cost	0.8	0.7	2.3	144	154	
ROA	2.0	2.3	1.7	(32)	(65)	
RoE	13.7	14.9	10.6	(304)	(425)	
Net NPA ratio	0.9	0.6	0.9	2	27	
Cost to income	49.9	38.5	40.0	(999)	141	
Cost to Assets	3.0	2.2	2.4	(63)	15	

Source: Company data, I-Sec research

Table 20: RBL Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	5,96,180	5,83,835	6,01,350	1	3	RBL's balance sheet is steady with similar momentum in accretion to deposit base (2-4% YoY) and advances expected to be flat YoY. We expect retail deposit traction to pick up. We are building in high slippage run-rate for Q3FY21 of >8% as it has been less than 1% in H1FY21. We expect similar level of credit cost in FY21 as FY20 at ~4%. In H1FY21, the credit cost was 185 bps and another 215-225bps will accrue in H2FY21. We expect 9-10% credit cost in credit card business. With upfront recognition and write-offs, we expect restructuring to settle at <3%. NIMs, after contracting >50bps in Q2FY21 is expected to contract further, thereby leading to flat NII. Core fee income should witness QoQ rise with uptick in spending though lower investment profit will drag other income. On credit card business, spends are improving and are expected to be better than pre-Covid level. Even with respect to new acquisition, it should touch 0.1mn compared to average of 70-90k in Q2FY21. On MFI business, we expect them to be back to 75-80% of pre-Covid levels in incremental disbursements. Collection efficiency is improving MoM- though collection efficiency is dragging in WB, Assam, few markets of Maharashtra & Punjab.
Deposits	6,29,070	6,45,061	6,51,512	4	1	
NII	9,227	9,321	9,268	0	(1)	
Other income	4,870	4,562	4,793	(2)	5	
Total revenues	14,096	13,883	14,062	(0)	1	
Opex	6,775	6,685	7,225	7	8	
Operating Profit	7,322	7,198	6,837	(7)	(5)	
Provisions	6,383	5,256	6,608	4	26	
PBT	939	1,942	228	(76)	(88)	
Tax	239	500	57	(76)	(89)	
PAT	700	1,442	171	(76)	(88)	
				Change in bps		
NIM (computed)	4.3	4.2	4.1	(16)	(10)	
CASA mix	26.8	31.1	31.7	490	60	
Gross NPA ratio	3.3	3.3	4.0	64	63	
Credit cost	4.3	3.7	4.5	14	81	
ROA	0.3	0.6	0.1	(24)	(55)	
RoE	3.1	5.3	0.6	(247)	(475)	
Net NPA ratio	2.1	1.4	2.0	(8)	61	
Cost to income	48.1	48.2	51.4	332	323	
Cost to Assets	3.0	2.9	3.1	3	18	

Source: Company data, I-Sec research

Table 21: State Bank of India

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	2,19,99,169	2,29,39,012	2,32,83,097	6	1	SBI has earlier highlighted collection efficiency of 97.5% for October and 1-89 dpd advances at 3% - though would have come down significantly.
Deposits	3,11,12,286	3,47,04,617	3,52,25,186	13	2	
NII	2,77,788	2,81,815	2,77,357	(0)	(2)	
Other income	91,059	85,277	87,770	(4)	3	
Total revenues	3,68,847	3,67,092	3,65,127	(1)	(1)	It has guided slippages of Rs200bn in H2FY21 and incremental restructuring of Rs135bn in Q3FY21. Key to watch out will be upgrades from earlier standstill overdues of Rs144bn. This can actually offset the incremental stress. Expecting recovery of Rs60-70bn in H2FY21, credit cost should settle lower.
Opex	1,86,622	2,02,494	2,07,213	11	2	
Operating Profit	1,82,226	1,64,598	1,57,914	(13)	(4)	
Provisions	72,531	1,01,183	1,52,935	111	51	
PBT	1,09,697	63,415	4,979	(95)	(92)	
Tax	53,863	17,673	1,388	(97)	(92)	
PAT	55,834	45,742	3,591	(94)	(92)	
				Change in bps		
NIM (computed)	3.3	3.0	2.9	(37)	(7)	
CASA mix	43.1	44.0	44.4	130	40	Growth will trend marginally better than the industry as competitive lending rates will help gain market share in corporate as well as secured retail segment.
Gross NPA ratio	6.9	5.3	6.3	(69)	97	
Credit cost	1.3	1.8	2.6	131	86	
ROA	0.6	0.4	0.0	(57)	(41)	
RoE	9.7	7.5	0.6	(916)	(692)	NIMs are expected to settle in the range of 3.0-3.2%.
Net NPA ratio	2.7	1.6	2.2	(48)	58	
Cost to income	50.6	55.2	56.8	616	159	
Cost to Assets	2.0	2.0	2.0	(2)	3	Salary bill will increase by Rs2bn per month due to wage revision – this is lower than what it has been providing over the past few quarters.

Source: Company data, I-Sec research

Table 22: Yes Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	18,60,990	16,69,233	16,90,515	(9)	1	On business growth front, it is progressing well in a positive direction - advance growth will be further up 1.3% QOQ – contraction in advance growth (down 25-30% YoY since past four quarters). Deposits after registering 29% YTD growth in H1FY21 will further gain traction - up 8% QoQ in Q3FY21 as well.
Deposits	16,57,550	13,58,152	14,62,335	(12)	8	
NII	10,648	19,734	20,040	88	2	
Other income	6,257	7,068	6,807	9	(4)	
Total revenues	16,905	26,801	26,847	59	0	
Opex	16,969	13,201	13,253	(22)	0	
Operating Profit	(64)	13,600	13,595	NM	(0)	
Provisions	2,47,657	11,873	16,203	(93)	36	
PBT	(2,47,721)	1,727	(2,609)	(99)	(251)	
Tax	(62,118)	433	(657)	(99)	(252)	Behaviour of its standstill advances of Rs23.9bn, 30-60 dpd of Rs26bn and 60-90dpd of Rs41bn will be of prime importance - how much further build up or flow into GNPLs. Bank is carrying Covid buffer of Rs19.2bn (1.15% of advances). Operating profit in H1FY21 was primarily being utilised towards provisioning and for this quarter we are yet to see, if incremental stress calls for higher provisioning or buffer will be utilised – credit cost should range between 3.0-3.5%.
PAT	(1,85,603)	1,294	(1,951)	(99)	(251)	
				Change in bps		
NIM (computed)	1.4	3.6	3.6	219	(4)	
CASA mix	32.1	24.8	25.9	(617)	111	
Gross NPA ratio	18.9	16.9	19.9	99	296	
Credit cost	44.3	2.5	3.4	(4,088)	87	
ROA	(23.0)	0.2	(0.3)	2,267	(52)	
RoE	(401.2)	1.8	(2.1)	NM	(389)	
Net NPA ratio	6.0	4.7	6.6	67	193	
Cost to income	100.4	49.3	49.4	(5,102)	11	
Cost to Assets	2.1	2.1	2.1	(6)	(1)	
						On a very low base of NII in Q3FY20, given NIMs were merely 1.42% compared to more than 3% in H1FY21, net interest income growth optically will look high (almost double YoY).
						Fee income traction has been better in Q2FY21 and we should expect marginal rise of 3-5% QoQ.

Source: Company data, I-Sec research

Table 23: Federal Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	12,08,620	12,52,020	12,81,740	6	2	NII is likely to remain muted (down 2% QoQ) due to subdued business growth (advances up 2% QoQ & deposit up 3% QoQ as per provisional update), higher interest reversals (it already provided Rs0.3bn in Q2FY21 towards potential interest reversal) and pressure on yields (we expect incremental lending towards better-rated assets). However, ~135bps cut in TD rate vs ~100bps cut in MCLR over the past 1 year will restrict further drag on revenue progression. Relatively lower contingency buffer (~15bps of loans) will keep credit cost elevated at 2.2% vs 0.6% in Q2FY21. Other income may remain flat QoQ. We model slippage at 4.2% or ~Rs13bn.
Deposits	14,45,920	15,67,474	16,16,700	12	3	
NII	11,549	13,799	13,572	18	(2)	
Other income	4,079	5,093	4,988	22	(2)	
Total revenues	15,628	18,892	18,560	19	(2)	
Opex	8,190	8,826	8,924	9	1	
Operating Profit	7,438	10,066	9,636	30	(4)	
Provisions	1,609	5,921	6,690	316	13	
PBT	5,830	4,145	2,947	(49)	(29)	
Tax	1,423	1,069	737	(48)	(31)	
PAT	4,406	3,077	2,210	(50)	(28)	
				Change in bps		
NIM (computed)	2.9	3.1	3.0	11	(13)	
CASA mix	31.5	33.7	34.5	302	80	
Gross NPA ratio	3.0	2.8	3.3	33	48	
Credit cost	0.8	0.6	2.2	136	163	
ROA	1.0	0.7	0.5	(56)	(17)	
RoE	12.5	8.1	5.8	(670)	(229)	
Net NPA ratio	1.6	1.0	1.4	(26)	38	
Cost to income	52.4	46.7	48.1	(432)	136	
Cost to Assets	2.0	2.0	2.0	(7)	(3)	

Source: Company data, I-Sec research

Table 24: City Union Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	3,38,280	3,48,248	3,51,730	4	1	We expect advance growth for CUBK to remain muted (flat QoQ) due to higher repayments and likely muted disbursements in December'20. Margins may moderate largely due to lower CD ratio and higher interest reversals. However, ~85bps cut in TD rate over the past 1 year will partially offset adverse impact on NIMs. We expect credit cost in Q3FY21E to remain elevated at 2.3%, largely driven by provisions towards incremental restructuring. The bank has guided potential restructuring of ~5% by March'21. Commentary on actual vs potential restructuring portfolio will be a key thing to watch given CUBK's higher exposure to MSME segment (~50% exposure).
Deposits	3,98,120	4,14,205	4,18,347	5	1	
NII	4,273	4,751	4,576	7	(4)	
Other income	1,424	1,693	1,700	19	0	
Total revenues	5,696	6,445	6,276	10	(3)	
Opex	2,612	2,596	2,636	1	2	
Operating Profit	3,084	3,849	3,640	18	(5)	
Provisions	810	1,770	1,987	145	12	
PBT	2,274	2,079	1,653	(27)	(20)	
Tax	350	500	364	4	(27)	
PAT	1,924	1,579	1,289	(33)	(18)	
				Change in bps		
NIM (computed)	3.6	4.0	3.8	16	(17)	
CASA mix	24.7	25.7	26.0	131	30	
Gross NPA ratio	3.5	3.4	4.1	60	66	
Credit cost	1.0	2.0	2.3	130	23	
ROA	1.6	1.2	1.0	(54)	(20)	
RoE	14.6	11.5	9.7	(484)	(176)	
Net NPA ratio	2.0	1.8	2.3	35	49	
Cost to income	45.9	40.3	42.0	(386)	172	
Cost to Assets	2.3	2.1	2.1	(24)	(2)	

Source: Company data, I-Sec research

Table 25: DCB Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	2,54,382	2,48,786	2,53,762	(0)	2	Overall improvement in mortgage segment may help DCB in reviving loan growth in Q3FY21E, its high exposure to mortgage segment is ~42% of loans; however, improved collections (higher repayments) will keep credit growth muted at 2% QoQ in Q3FY21E. Margins are likely to moderate owing to lower CD ratio, higher interest reversal and limited cushion on lowering TD rates (though it cuts ~75bps TD rate cut over past one year) while there was a cut in 1-year MCLR by ~63bps during the same period. While PCR for DCB remains strong at 64%, relatively lower Covid-related provision of only Rs1.4bn (~57bps of advances) may keep credit cost elevated in Q3FY21E at 2.4%. Trend in non-paying customers till Oct'20 will be a key thing to watch out – borrowers (in value) who have not paid any EMIs till Oct'20 are 7.4%/5.4%/10.8% in LAP/HL/CV respectively.
Deposits	2,97,349	2,87,747	2,86,309	(4)	(1)	
NII	3,231	3,339	3,232	0	(3)	
Other income	931	925	950	2	3	
Total revenues	4,162	4,264	4,182	0	(2)	
Opex	2,263	2,016	2,023	(11)	0	
Operating Profit	1,899	2,248	2,159	14	(4)	
Provisions	590	1,131	1,519	158	34	
PBT	1,309	1,117	639	(51)	(43)	
Tax	342	294	160	(53)	(46)	
PAT	967	823	479	(50)	(42)	
				Change in bps		
NIM (computed)	3.6	3.7	3.6	(0)	(11)	
CASA mix	23.0	22.0	22.5	(50)	50	
Gross NPA ratio	2.2	2.3	2.9	73	63	
Credit cost	0.9	1.82	2.40	147	58	
ROA	1.0	0.9	0.5	(52)	(35)	
RoE	12.7	9.9	5.3	(732)	(453)	
Net NPA ratio	1.0	0.8	1.1	8	28	
Cost to income	54.4	47.3	48.4	(599)	109	
Cost to Assets	2.4	2.1	2.1	(23)	(0)	

Source: Company data, I-Sec research

Table 26: Karur Vysya Bank

(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	4,71,190	4,78,218	4,95,168	5	4	Loan growth (as per provisional numbers) reported strong 4% QoQ growth in Q3FY21E, we believe the same would have been driven by gold loans (~20% of loans), other retail loans. Completion of consolidation in corporate book would have restricted further decline in credit portfolio. Deposits grew 2% QoQ. Likely improvement in CD ratio due to higher credit off-take will help off-setting adverse impact on NIMs due to higher interest reversals. ~75bps cut in MCLR vs ~95bps cut in TD rates over the past one year will further cushion NIM compression. With PCR already at 64%, incremental credit cost is likely to be lower sequentially at 2.0% vs 2.4% in Q2FY21.
Deposits	6,22,620	6,11,224	6,20,900	(0)	2	
NII	5,772	6,015	5,904	2	(2)	
Other income	2,601	2,716	2,680	3	(1)	
Total revenues	8,373	8,731	8,584	3	(2)	
Opex	4,525	4,243	4,359	(4)	3	
Operating Profit	3,847	4,488	4,225	10	(6)	
Provisions	3,643	2,847	2,454	(33)	(14)	
PBT	205	1,640	1,771	765	8	
Tax	54	491	443	720	(10)	
PAT	151	1,149	1,328	781	16	
				Change in bps		
NIM (computed)	3.3	3.5	3.4	2	(12)	
CASA mix	31.0	34.0	34.6	363	63	
Gross NPA ratio	8.9	7.9	8.0	(96)	3	
Credit cost	3.1	2.4	2.0	(111)	(40)	
ROA	0.1	0.6	0.7	65	10	
RoE	3.9	6.7	7.8	392	105	
Net NPA ratio	4.1	3.0	3.0	(115)	(1)	
Cost to income	54.0	48.6	50.8	(327)	218	
Cost to Assets	2.4	2.4	2.4	(5)	1	

Source: Company data, I-Sec research

Table 27: AU SFB

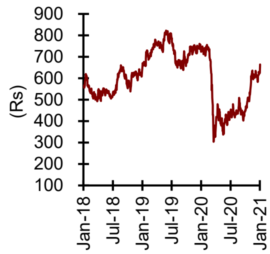
(Rs mn)

Particulars	Q3FY20	Q2FY21	Q3FY21E	YoY chg (%)	QoQ chg (%)	Comment
Loans	2,98,660	3,05,900	3,20,430	7	5	AuM growth, given improved systemic vehicle sales and collections, is likely to accelerate, we expect AU to report 5% QoQ growth (YTD 1% down) as monthly disbursements in Sep'20 was already at pre-Covid level. Sharp cut in MCLR of ~180bps over the past 1 year vs 100bps cut in deposit rate is likely to keep NIM under pressure and would result in sluggish NII growth in Q2FY21. However, stake sale in Aavas (~Rs4bn) will keep net revenue higher. Greater flexibility in cost (~40% is variable in nature) should help offset the impact of expected lower core net revenue. Given the management's conservative approach and strong tier-1 capital, the drive to further strengthen balance sheet will continue by using profits from Aavas stake sale and the same will keep credit costs elevated at ~3.5% in Q3FY21E
Deposits	2,38,650	2,69,804	2,81,576	18	4	
NII	5,068	5,606	5,597	10	(0)	
Other income	1,612	2,857	6,857	325	140	
Total revenues	6,681	8,463	12,454	86	47	
Opex	3,552	3,800	4,077	15	7	
Operating Profit	3,129	4,663	8,378	168	80	
Provisions	401	574	2,759	588	381	
PBT	2,727	4,089	5,618	106	37	
Tax	825	870	1,416	72	63	
PAT	1,902	3,219	4,203	121	31	
				Change in bps		
NIM (computed)	5.5	5.1	5.0	(48)	(10)	
CASA mix	17.0	21.0	21.0	400	-	
Gross NPA ratio	1.9	1.5	2.8	92	126	
Credit cost	0.5	0.8	3.5	299	277	
ROA	2.1	1.7	3.7	164	204	
RoE	19.6	16.1	32.8	1,319	1,669	
Net NPA ratio	1.0	0.5	1.4	39	95	
Cost to income	53.2	44.9	32.7	(2,044)	(1,217)	
Cost to Assets	3.7	3.5	3.6	(7)	17	

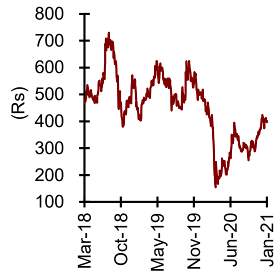
Note: We have factored in ~Rs4bn towards profits on sale of Aavas in Q3FY21 estimates.
Source: Company data, I-Sec research

Price charts

Axis Bank



Bandhan Bank



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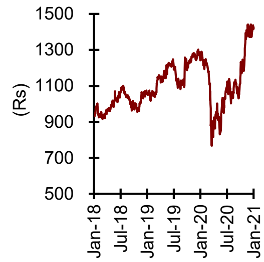

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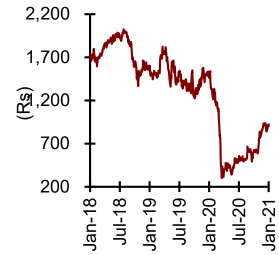

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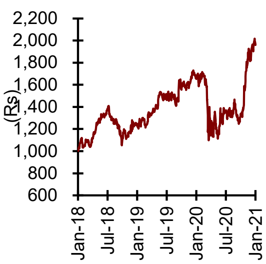

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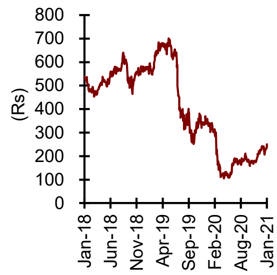
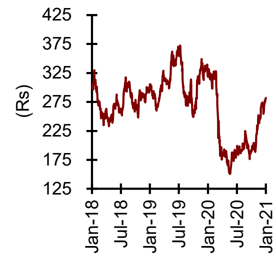
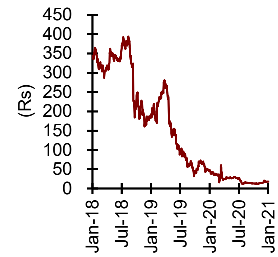


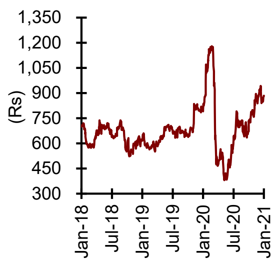
State Bank of India



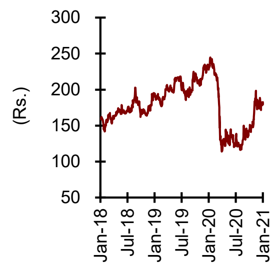
Yes Bank



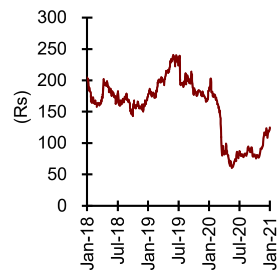
AU SFB



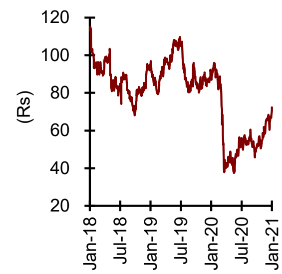
City Union Bank



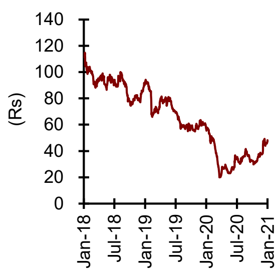
DCB Bank



Federal Bank



Karur Vysya Bank



Source: Bloomberg

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