

Q4 FY25E Banking Earnings Preview



Banking

Growth moderation amid cautious lending; Asset quality to remain under focus

COVERAGE STOCKS

Coverage	Rating	CMP	Target (INR)	Upside
Axis Bank Ltd	BUY	1,054	1,283	21.7%
Bandhan Bank Ltd	ACCUMULATE	142	164	15.5%
HDFC Bank Ltd	BUY	1,769	1,934	9.3%
ICICI Bank Ltd	BUY	1,322	1,500	13.5%
IndusInd Bank Ltd	HOLD	684	687	0.4%
Kotak Mahindra Bank Ltd	ACCUMULATE	2,036	2,164	6.3%
State Bank of India Ltd	BUY	750	915	22.0%

MARKET DATA

	Close	1M (%)	YTD (%)
Nifty	23,191	1.7	(2.3)
Sensex	76,348	1.4	(2.9)
Nifty Bank	50,063	2.2	(2.0)
USD / INR	86.321	(0.3)	0.8

Note: TP and recommendation have been retained from previous update reports; we will review it post detailed Q4FY25E results analysis and conference call of the said companies. Source: Bloomberg, NSE; Data as of 20th March 2025

SECTOR OVERVIEW

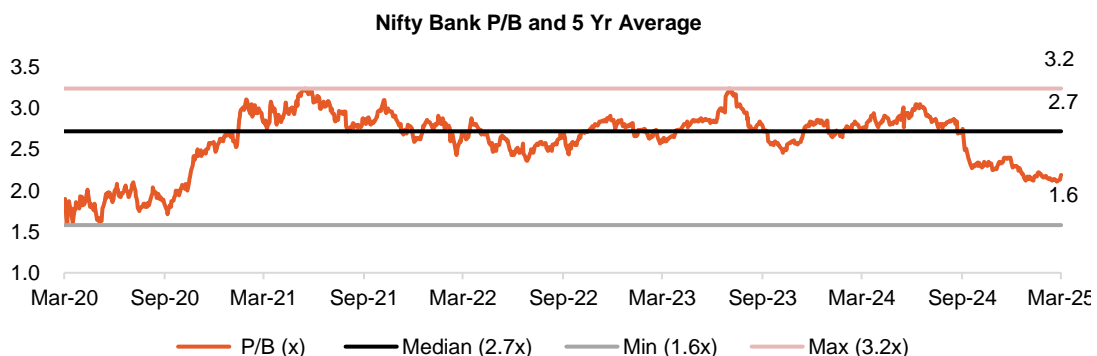
- We anticipate industry credit growth to moderate to ~11.0% by end of FY25E, marking a sharp decline from 20.2% in FY24. This slowdown is largely attributed to a deceleration in unsecured loan expansion and persistent stress in the Microfinance (MFI) segment, which has prompted a more cautious lending approach across the sector.
- The tightening risk appetite among lenders and higher delinquencies in unsecured retail and MFI loans have led to stricter underwriting norms and cautious lending strategies. As a result, the industry is likely to witness a more measured credit expansion, shifting focus toward secured lending and risk-adjusted portfolio growth.
- However, the pace of credit growth in FY26E will be influenced by economic recovery, asset quality trends, and banks' ability to strengthen deposit mobilization strategies.
- As of February 21, 2025, credit and deposit growth have continued to decelerate compared to Q3FY25, yet credit offtake remains ahead of deposit growth. The credit offtake reached INR 179.9 Tn, reflecting an 11.0% YoY increase, a deceleration from last year's 12.0% growth rate (excluding HDFCB merger impact). This slowdown can be attributed to a) a higher base effect from the previous year, b) RBI's regulatory measures aimed at curbing excess liquidity and managing systemic risks, c) market concerns over an elevated credit-to-deposit ratio, prompting banks to adopt a more cautious lending approach.
- Credit card spending in January 2025 grew 10.8% YoY to INR 1.84 Tn, though there was a marginal sequential decline, reflecting a moderation in discretionary spending. On a per-card spend basis, industry-wide spending averaged INR 16,910, marking a modest 1.1% YoY growth.
- While credit card spending and issuances continue to expand, the YoY decline in per-card spending for major issuers and slower net additions indicate a potential moderation in growth momentum. The industry's near-term trajectory will depend on discretionary spending patterns, macroeconomic conditions, and competitive pricing strategies among issuers.

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- The MSME credit segment is expected to maintain a steady growth trajectory in Q4FY25E, supported by strong credit demand from smaller businesses and policy initiatives promoting financial inclusion.
- On the liability side, as of February 21, 2025, total banking sector deposits reached INR 222.8 Tn, reflecting a 10.3% YoY growth, slightly lower than the 10.6% growth recorded last year (excluding merger impact). Sequentially, deposits declined marginally by 0.2% due to ongoing challenges in deposit mobilization despite banks' intensified efforts to strengthen their liability franchises.
- We expect the credit book to grow by 10.5% YoY (+3.8% QoQ) as of March 31, 2024, while deposits will grow by 12.4% YoY (+7.1% QoQ) for our coverage universe.
- Net Interest Margins (NIMs) in the banking sector are expected to remain largely stable or see a slight decline in Q4FY25E, influenced by shifts in loan mix, funding costs, and competitive pricing dynamics. Banks with a diversified loan book and strong liability franchises are likely to maintain stable margins, supported by repricing benefits in their corporate and retail loan portfolios. However, banks with a higher concentration in high-yielding portfolios, such as unsecured retail and MFI loans, may experience some margin compression, as growth in these segments has slowed amid rising delinquencies and cautious lending policies.
- We expect Net Interest Income (NII) to grow by 7.2% YoY and 4.3% QoQ for our coverage. NIMs will continue to see a contraction QoQ in the range of 0-15 bps QoQ on the back of a shift in the loan portfolio mix.
- The banking sector's asset quality remains largely stable on the back of healthy recoveries, proactive provisioning, and a well-diversified loan mix. However, IndusInd Bank (IIB) and Bandhan Bank will continue to face asset quality challenges, particularly in MFI portfolios.

Valuation

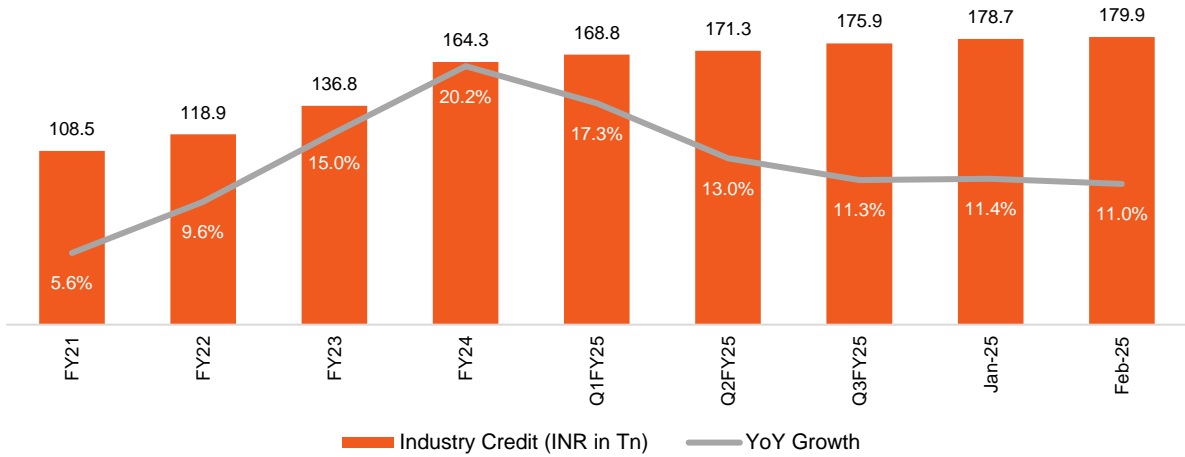
- The banking sector outlook remains cautiously optimistic, with a shift towards measured credit expansion amid tighter underwriting in riskier segments.
- Asset quality risks persist, particularly in personal loans and microfinance, warranting a cautious stance. However, the sector remains resilient, supported by strong capital buffers and a shift toward secured lending, ensuring long-term stability.
- Banks are currently trading at 1.7x P/BV for FY27E, significantly below their five-year average industry P/B multiple of 2.8x. This valuation discount reflects concerns around margin compression, elevated credit costs, and moderation in credit growth.
- **ICICI Bank and SBIN remain our preferred picks, given their strong resilience to macroeconomic challenges. Both banks demonstrate robust business momentum, stable asset quality, and superior return ratios, positioning them well for outperformance in a challenging environment.**



Source: NSE

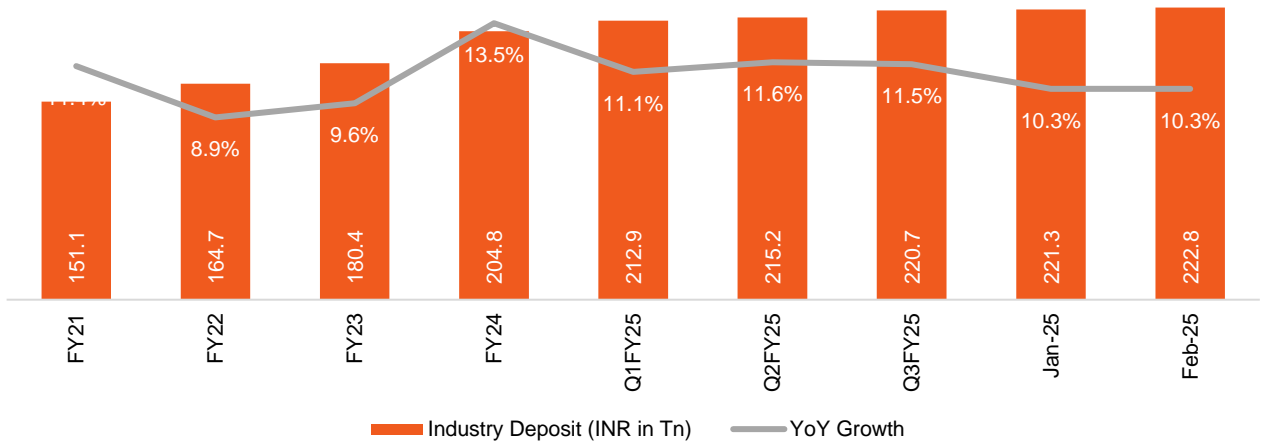
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Credit offtake for the industry remains range bound over the last 6 months with marginal decline in February 2025



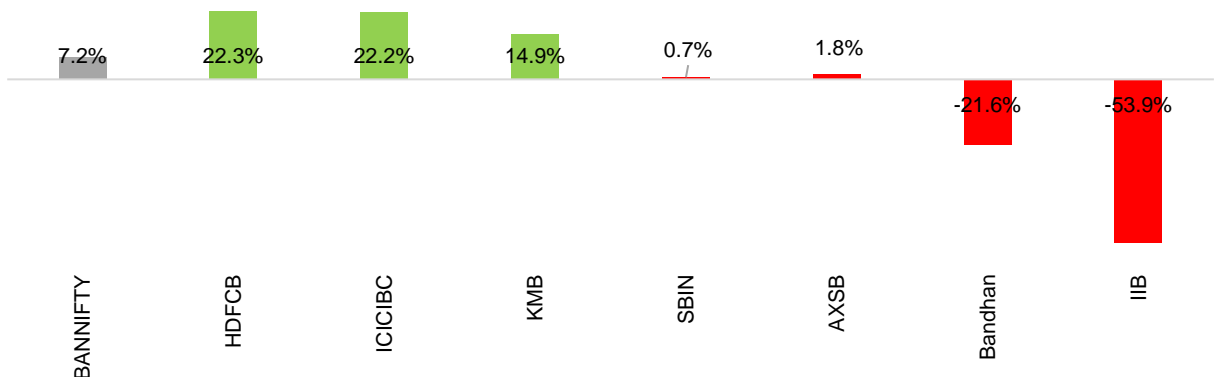
Source: RBI fortnight data

Deposit growth still witnessing slower pace despite a strong push from the banks in FY25E



Source: RBI fortnight data

Coverage stock returns 1 Yr (%)



Source: NSE

Banking

Exhibit 1: Quarterly result expectation for companies under coverage

Q4FY25E (INR in Mn)	Outperform	Base	Underperform	View
HDFCB				
NII	340,531	333,854	327,177	<ul style="list-style-type: none">We expect Net Interest Income (NII) to grow by 14.8% YoY/ 8.9% QoQ, despite muted credit growth, supported by a reduction in excess borrowings. The bank's focus on optimizing its liability mix and rationalizing high-cost borrowings is likely to provide a key boost to margins, even as overall loan growth remains moderate.HDFC Bank is expected to witness a continued moderation in loan growth, with a 4.5% YoY and 3.1% QoQ increase, as the bank prioritizes managing its credit-to-deposit (CD) ratio.In our base case scenario, we anticipate PPOP to decline by 3.8% YoY, primarily due to the high base effect from elevated non-interest income in the previous year. However, on a sequential basis, we expect PPOP to grow by 12.7% QoQ, supported by improving core operating metrics.In the base case scenario, net profit is expected to grow by 12.0% YoY/ 10.5% QoQ. However, we note a potential deviation of +/- 5.0%, driven by factors such as non-interest income volatility, and changes in provisioning levels.
PPOP	295,747	281,664	267,581	
PAT	194,122	184,878	175,634	
Advances	26,486,139	25,966,803	25,447,467	
Deposits	27,941,850	27,393,970	26,846,091	
ICICIBC				
NII	213,054	208,877	204,699	<ul style="list-style-type: none">ICICI Bank's loan book is expected to grow 13.5% YoY / 2.3% QoQ, with broad-based expansion across all segments. Deposit growth is projected at 13.6% YoY / 5.5% QoQ, primarily driven by term deposits.In our base case scenario, PPOP is expected to grow by 15.1% YoY, supported by steady operating income growth and improved cost efficiencies. The cost-to-income ratio is likely to decline to 38.6% (vs. 39.2% in Q4FY24), resulting from better operating leverage and disciplined expense management.In an outperform scenario, ICICBC is expected to see PAT growth of 14.5% YoY, driven by its operating performance.
PPOP	176,525	173,064	169,603	
PAT	122,623	120,218	117,814	
Advances	13,714,066	13,445,163	13,176,259	
Deposits	16,364,779	16,043,901	15,723,023	
AXSB				
NII	139,805	137,064	134,323	<ul style="list-style-type: none">In our base case scenario, we expect NII to grow by 4.7% YoY, supported by 8.0% YoY growth in advances. However, deposit growth is projected at 6.4% YoY / 3.8% QoQ, primarily led by healthy traction in time deposits. The credit-to-deposit ratio is expected to remain largely stable for the quarter.We expect Net Interest Margins (NIMs) to remain stable during the quarter, as funding cost pressures are unlikely to escalate further.We expect AXSB's profitability to decline by 3.5% YoY (+9.2% QoQ) in the base scenario, on account of higher provisions in the unsecured portfolio. Meanwhile, the cost-to-income ratio is projected to improve slightly to 46.4% in Q4FY25E, compared to 46.9% in Q4FY24, reflecting tighter cost management amid stable funding conditions.
PPOP	115,982	112,604	109,226	
PAT	72,259	68,818	65,377	
Advances	1,063,158	1,042,312	1,021,465	
Deposits	1,160,165	1,137,417	1,114,668	

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Q4FY25E (INR in Mn)	Outperform	Base	Underperform	View
IIB				
NII	54,326	53,260	52,195	<ul style="list-style-type: none">IIB is expected to witness moderation in credit growth, primarily due to a slowdown in its MFI portfolio, amid rising stress in the segment. Credit growth is expected at 10.4% YoY, while deposits are expected to grow by 10.1% YoY, though some outflows may occur due to negative sentiment surrounding recent news flow.We expect Net Interest Income (NII) to remain relatively flat, declining 0.9% YoY while growing 1.9% QoQ. The muted growth is attributed to moderation in credit expansion and higher borrowing costs, driven by the issuance of certificates of deposit at elevated rates.We expect net profit to decline significantly by 96.0% YoY and 93.3% QoQ, primarily due to the one-time adjustment related to the derivative accounting discrepancy.The bank recently disclosed a derivative accounting discrepancy, impacting 2.35% (~INR 15.0-16.0 Bn) of its net worth as of December 31, 2024. The financial impact will be reflected in Q4FY25E P&L, affecting interest income and swap costs, while the general reserve remains unaffected.
PPOP	22,237	21,589	20,942	
PAT	992	944	897	
Advances	3,867,048	3,791,224	3,715,399	
Deposits	4,361,204	4,234,179	4,107,153	
SBIN				
NII	438,974	430,367	421,760	<ul style="list-style-type: none">We expect NII to grow by 3.3% YoY and 3.8% QoQ, supported by 13.0% YoY growth in advances, with sustained traction in the corporate loan portfolio. The bank's loan growth remains healthy, driven by strong credit demand in the corporate segment, while retail and SME segments continue to provide steady support. On the liability side, deposit growth is projected at 10.9% YoY, with the CASA ratio expected at 39.3%.In our base case scenario, PPOP is expected to grow by 14.3% QoQ, driven by the normalization of employee expenses, which had previously weighed on operating efficiency. SBIN's ability to maintain operating efficiency amid evolving margin dynamics will be key in driving profitability in the coming quarters.In our base case scenario, we forecast net profit to decline by 12.2% YoY (+7.6% QoQ), primarily due to higher credit costs compared to Q4FY24 and the absence of provision reversals that had previously supported earnings especially in Q3FY25.
PPOP	282,703	269,241	255,779	
PAT	190,777	181,693	172,608	
Advances	42,691,968	41,854,871	41,017,773	
Deposits	55,608,346	54,517,987	53,427,627	

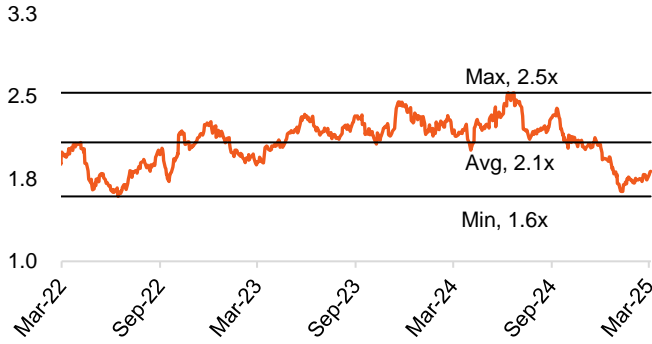
Banking

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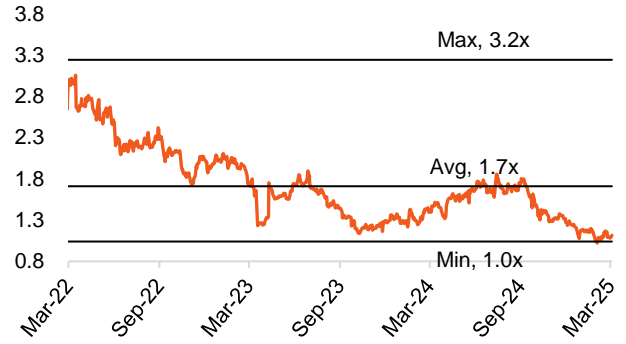
Q4FY25E (INR in Mn)	Outperform	Base	Underperform	View
BANDHAN				
NII	29,180	28,608	28,036	<ul style="list-style-type: none">In our base case scenario, we anticipate net interest income (NII) to remain flat on a YoY basis, with a modest 1.1% QoQ increase. The muted growth trajectory is primarily driven by elevated cost of funds and a deceleration in the high-yielding loan book, which is weighing on overall margin expansion.
PPOP	19,487	18,559	17,631	
PAT	8,529	8,123	7,717	<ul style="list-style-type: none">Bandhan Bank is expected to report credit growth of 13.5% YoY / 7.9% QoQ, supported by healthy expansion in non-EEB segments, reflecting diversification in its loan portfolio, while the EEB (Emerging Entrepreneurs Business) portfolio remains a drag.
Advances	1,402,401	1,374,902	1,347,404	<ul style="list-style-type: none">In our base case scenario, we expect net profit to exhibit a strong recovery trend, benefiting from a low base effect from the previous year, which was impacted by elevated provisions. While margin pressures persist due to higher funding costs, the anticipated moderation in provisioning expenses is likely to provide a significant tailwind to earnings growth.
Deposits	1,544,547	1,514,262	1,483,977	
KMB				
NII	75,175	73,701	72,227	<ul style="list-style-type: none">We expect Net Interest Income (NII) to grow by 6.7% YoY and 2.4% QoQ, supported by a 15.0% YoY increase in advances. The bank's loan growth momentum remains strong, with a potential acceleration in credit expansion in the later part of Q4FY25E.
PPOP	56,466	54,821	53,177	
PAT	36,572	35,507	34,442	<ul style="list-style-type: none">Following the RBI's upliftment of restrictions, Kotak Mahindra Bank has resumed onboarding new customers and issuing fresh credit cards, which is expected to drive a healthy pickup in retail and unsecured credit loans.
Advances	4,411,363	4,324,866	4,238,368	<ul style="list-style-type: none">Deposits are expected to grow by 14.0% YoY and 8.1% QoQ, reflecting healthy liability franchise expansion. However, the CASA ratio is likely to moderate to 42.0% (vs. 45.5% in Q4FY24).We expect the cost-to-income ratio to rise to 47.5% in Q4FY25 (vs. 44.8% in Q4FY24), driven by increased investments in infrastructure and expansion initiatives to strengthen the bank's presence.
Deposits	5,220,434	5,118,073	5,015,711	<ul style="list-style-type: none">In our base case scenario, we assume higher provisions on a YoY basis, given the low base of the previous year. As a result, PAT is expected to decline by 14.1% YoY, reflecting the impact of elevated provisioning expenses. However, on a sequential basis, PAT is expected to grow by 7.4% QoQ.

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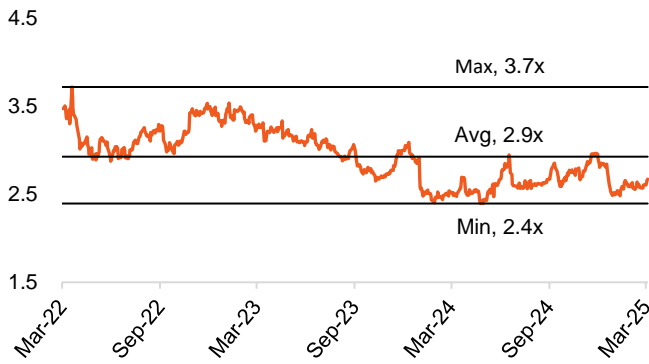
Axis Bank 3-Yr PB (x)



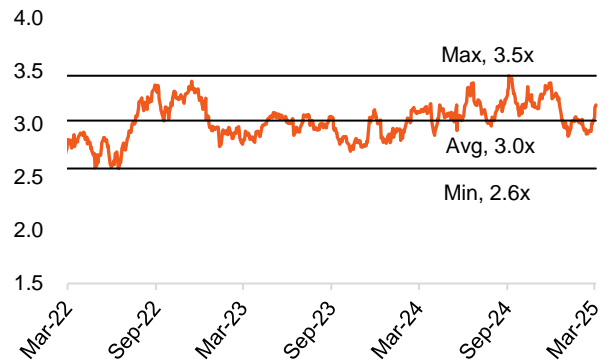
Bandhan Bank 3-Yr PB(x)



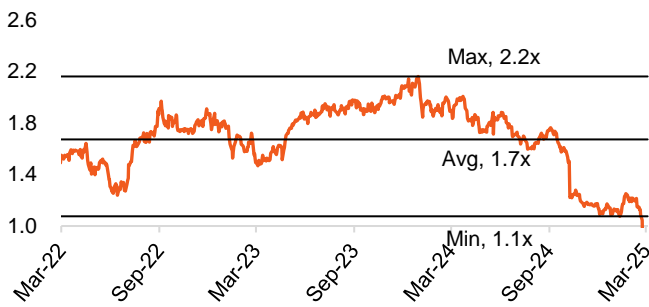
HDFC Bank 3-Yr PB (x)



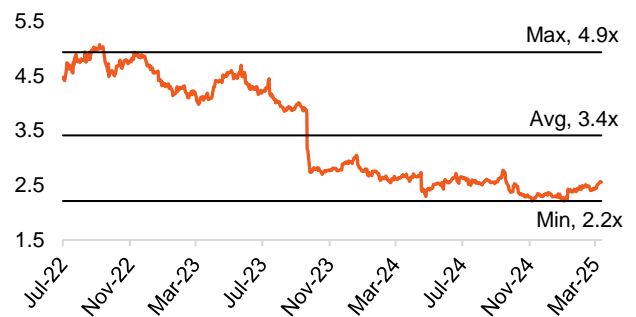
ICICI Bank 3-Yr PB (x)



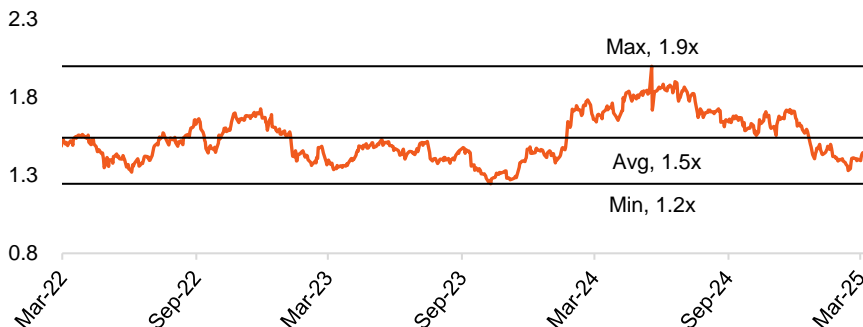
IndusInd Bank 3-Yr PB(x)



Kotak Mahindra Bank 3-Yr PB(x)



SBI 3-Yr PB(x)



Source: Bloomberg/ NSE

Banking

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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