July 10, 2020

Standstill quarter; clarity on moratorium to be watched

A slew of reforms, concession and moratorium ups and downs marked the quarter bearing the full impact of Covid-19.

For banks and NBFCs, volatility is expected in earnings with following as key highlights;

- Business growth is expected to remain weak with muted disbursement to retail segment amid standstill economy. Disbursements to MSME under credit guarantee scheme would impart marginal growth.
- Extension of moratorium would push recognition of pain points thereby leading to benign slippages and, therefore, stable headline NPA numbers. A meaningful reduction in moratorium reported by some lenders; clarity on product wise moratorium trend would remain key monitorables
- Operational performance is expected to be impacted by margin pressure and limited fee based income. Muted slippages, aggressive cut in deposit rates (30-60 bps) to be offset by decline in MCLR (30-70 bps) and moderation in CD ratio
- Continued build-up of contingent provision with divergence on quantum among lenders based on sectoral exposure and collection/ repayment experience. Earnings may remain divergent determined by provisioning but given uncertainty on asset quality ahead, profitability may not be true reflection of the current status of the business

Unrealistic NPA numbers; moratorium trend to be watched

Extension of moratorium will lead to stable NPA numbers, which remains unrealistic. Given lenders shifting strategy to opt-in model, time to access borrowers profile and resumption of activities will lead to a decline in borrower seeking moratorium. However, probability of slippages into NPA still remains uncertain. Hence, clarity on product wise trend in moratorium and repayment would be watched, which was earlier being avoided by most lenders amid uncertainty. For our coverage universe, we expect absolute GNPA at ~₹ 278362 crore in Q1FY21E (₹ 278966 crore in Q4FY20).

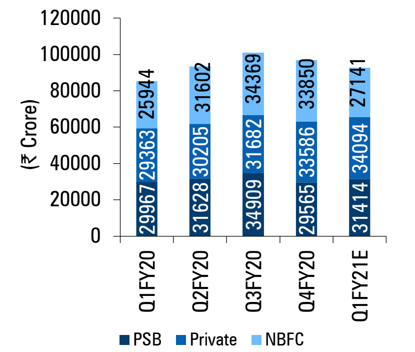
Credit growth remain sluggish; NIMs under marginal pressure

With the quarter seeing complete impact of lockdown, preservation of capital surpassed growth in the priority list for lenders. Credit growth is reported to be sluggish in single digit at ~6% YoY. Large private banks - HDFC Bank and Axis Bank may report relatively better credit growth. Increased risk aversion may lead to de-growth in unsecured retail and CV portfolio. Incremental disbursement to large corporate and MSME (under ECLGS scheme) would provide some support. Benefit of muted slippages, aggressive cuts in deposit rates seen to be offset by reduction in MCLR and incremental lending towards low yielding segment would impart marginal pressure on margins.

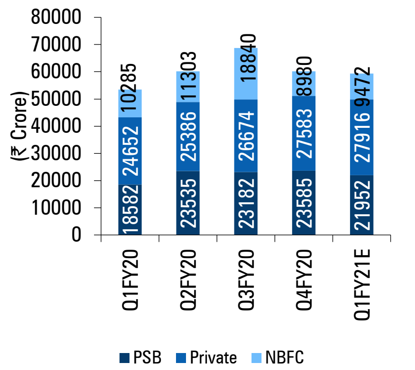
Continued contingent provision to keep earnings volatile

Given transmission of rate cuts announced earlier with aggressive cuts in MCLR/ base rate and deposit rates, margins are seen witnessing a marginal pressure (5-10 bps) in the quarter. Moderation in disbursements and lockdown will impact momentum of fee based income, though some respite is seen from treasury (mainly for PSBs). While delinquencies are expected to remain benign amid moratorium, continued build-up of contingent provisioning is expected to keep credit elevated, though breather is seen for some lenders. Earnings are expected to remain steady. However, volatility across lenders is anticipated based on level of provisioning.

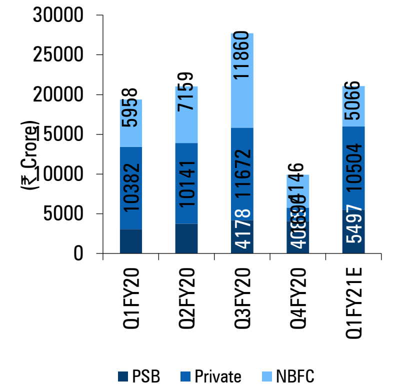
NII



PPP



PAT



Top Picks

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In our coverage, private banks are expected to witness a divergence in performance with adequate contingent provisioning, relatively low moratorium and higher proportion of secured retail book seen reporting steady operating performance. Earnings growth is seen broadly flattish YoY, led by base effect and elevated credit cost. PSU banks are seen posting optically better growth at 80% YoY, owing to base effect. SBI is seen reporting broadly earnings at ₹ 4795 crore; including proceeds from stake sale of SBI Life (2.1% stake).

NBFCs are expected to see higher impact of the shutdown in terms of business growth moderation. Relaxation on loan repayment may keep asset quality stable but credit cost is anticipated to remain higher as management braces for additional safeguarding. We expect large NBFCs to report a dip in the earnings trajectory. The management commentary on moratorium outlook and strategy to handle asset quality risk would be watched.

Banks with relatively lower moratorium, higher contingent provision and secured retail portfolio including HDFC Bank and Axis Bank are seen reporting a steady performance. Asset management performance may be impacted amid full impact of market correction and volatility in equity flows in the quarter. Life and general insurance may fare better with marginal uptick in claims.

Exhibit 1: Estimate for Q1FY21E (₹ crore)

	NII	Change (%)		PPP	Change (%)		NP	Change (%)	
	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ	Q1FY21E	YoY	QoQ
Public Sector Banks									
Bank of Baroda	6860.0	-2.4	0.9	5152.6	-3.4	0.6	702.3	-4.7	38.6
SBI	24553.8	7.0	7.8	16799.0	26.8	-9.0	4795.0	107.4	33.9
Total	**31413.9**	**4.8**	**6.3**	**21951.6**	**18.1**	**-6.9**	**5497.2**	**80.3**	**34.5**
Private Banks									
Axis Bank	6756.7	15.6	-0.7	5570.3	-5.5	-4.8	753.4	-45.0	NA
DCB	317.0	4.0	-2.1	191.6	15.0	-9.7	71.7	-11.6	4.3
Federal Bank	1200.6	4.0	-1.3	919.3	17.4	-4.2	320.2	-16.7	6.3
HDFC Bank	15769.1	18.6	3.7	13486.3	21.0	4.1	7006.6	25.8	1.1
IDFC Bank	1615.8	37.6	3.3	705.0	121.9	35.6	174.6	NA	NA
Indusind Bank	3150.4	10.8	-2.5	2822.3	8.9	-0.5	236.8	-83.5	-21.5
Kotak Bank	3498.8	10.3	-1.7	2580.4	7.6	-5.3	1287.6	-5.3	1.7
Bandhan Bank	1785.3	13.4	6.3	1641.1	21.1	7.9	653.4	-18.7	26.3
Total	**34093.7**	16.1	16.1	27916.4	13.2	1.2	10504.3	1.2	521.7
Total Banks	**65507.6**	**10.4**	**3.7**	**49868.0**	**15.3**	**-2.5**	**16001.6**	**19.1**	**177.0**
NBFCs									
HDFC	3123.1	12.5	-12.4	4785.4	-2.7	20.6	2949.2	-9.2	32.1
Bajaj Finance	4025.7	9.2	-14.0	2634.7	9.7	-18.5	851.0	-28.8	-10.2
Bajaj Finserv	12387.0	0.9	-6.8	1389.9	-38.4	75.3	637.2	-24.6	227.7
SBI Life Insurance	7052.1	6.0	-40.6	228.5	-17.7	-65.3	305.3	-19.2	-41.5
HDFC AMC	552.8	0.0	23.0	433.6	0.9	31.6	323.0	10.7	29.3
Total	**27140.8**	**4.6**	**4.6**	**9472.1**	**-7.9**	**5.5**	**5065.8**	**-15.0**	**22.2**

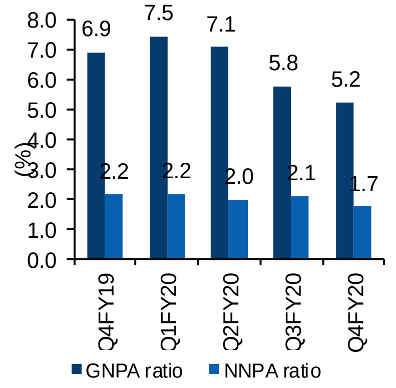
Source: Company, ICICI Direct Research

Exhibit 2: Bank Specific Views

Company	Remarks
Bank of Baroda	Covid-19 breakout would make business growth remain sluggish for Bank of Baroda. We expect loan growth to dip to ₹ 6.9 lakh crore, up 1% QoQ with major traction towards MSME loans due to the ECLGS scheme. Incremental disbursements towards corporate & MSME is seen reducing margins though providing balance sheet growth ahead. Easing of the lockdown and streamlining of the moratorium opt in process may lead to a reduction in the moratorium book by ~5-10% from current levels of 65%. NII is seen at ₹ 6860 crore with NIMs at 2.65%. On the back of standstill account classification, asset quality is expected to stay stable with GNPA at 9.67%. Nationwide lockdown and IBC suspension may delay the breather for the bank's substantial NCLT exposure. As the bank has adequately provided for Covid-19 and the merger process nearing completion, credit cost is seen at 61 bps. We estimate PAT would come in at ₹ 702 crore
State Bank of India	Moratorium of 23% expected to decline in line with peers led by retail& SME segments. Loan growth to be subdued at 7.5% YoY to ₹ 2198400 crore. With savings rate cuts, the impact on cost of deposits will be seen and loan yields are also seen moderating, leading to NIMs having flattish to negative bias. We expect 7% YoY growth in NII to ₹ 24500 crore. Sale of SBI Life's 2% stake is expected to add ~₹ 1200-1300 crore to other income. Other income may remain strong YoY growing 41% YoY to ₹11300 crore (led by SBI Life stake sale and declining G-sec yields and investment spreads due to LTRO gains). We factor in higher slippages in agri due to seasonality and loan loss provisions of ₹ 9670 crore and overall provisions at ₹ 10360 crore vs. ₹ 13495 crore in Q4FY20, which had excess provisions booked. Hence, net profit is likely to grow to ₹4795 crore rising 100% YoY and 31% QoQ
Axis Bank	For Axis Bank, advances momentum is expected to remain benign led by retail segment (53% of advances); disbursement to MSME and corporate segment to keep growth at ~15% YoY to ₹ 573966 crore. Deposit inflow is expected to remain healthy at ₹ 651942 crore. Impact of lower CD ratio and cut in MCLR, is to be curtailed by aggressive reduction in deposit rates safeguarding margins, expected to decline ~5 bps to ~3.5%. Fee income is expected to remain muted impacting operational performance with PPP at ₹ 5570 crore. Credit cost is going to be crucial in determining earnings trajectory. Given relative lower moratorium at 28% and adequate contingent provision, credit cost is to tapper down at ~0.8% of advances, leading to PAT at ₹ 753 crore. Moratorium to keep GNPA ratio steady at ~4.8-5%. Commentary on moratorium trend to remain key monitorable
DCB Bank	Easing of the lockdown may lead to reduction in the moratorium book by ~5-10% from current levels of 60%. Credit growth is expected to be subdued at 4.4% YoY to ₹ 25092 crore. With higher chunk of SME, MSME, CV book, qualified for credit guarantee scheme, the bank intends to utilise benefit of credit guarantee scheme announced by GoI. Margins are anticipated to remain steady at ~3.7%. Operationally, PPP is anticipated at ₹ 192 crore, led by steady operating efficiency with CI ratio at ~53.7%. Provisions are expected at ₹ 95 crore, which would lead PAT to decline to ₹ 72 crore, down 11.6% YoY. GNPA & NNPA is seen stable at 2.46% & 1.16%, respectively. We expect slippages to arise from corporate and CV book moving forward
HDFC Bank	With single digit moratorium indication and strong credit growth of 21% YoY, the bank remains one of the best templates. Post Yes Bank concerns and equities underperforming, deposits growth surged while the bank saw deposit growth of 25% YoY in Q1FY20. NII growth is seen at 18% YoY to ₹ 15769 crore. Asset quality may be impacted with GNPA ratio rising 10 bps QoQ to 1.36% and provisions staying elevated at ₹ 4018 crore. We expect margins to be stable at 4.2-4.3% with PAT growth of 25% YoY to ₹ 7006 crore

Source: Company, ICICI Direct Research

Asset Quality (Coverage Universe)



NPA trend (Coverage Universe)

Q1FY21E (₹ crore)	GNPA	QoQ Growth	NNPA	QoQ Growth
PSB				
Bank of Baroda	70075	1.0%	21577	1.0%
SBI	146089	0.0%	51871	0.4%
Private Banks				
Axis Bank	30838	2.0%	9360	-5.0%
Bandhan Bank	1092	10.0%	389	8.0%
DCB Bank	663	5.0%	294	4.0%
Federal Bank	3548	0.5%	1607	0.5%
HDFC Bank	13650	7.9%	3542	8.5%
Indusind Bank	5198	1.0%	1887	-1.0%
Kotak Mahindra	4926	-2.0%	1558	-5.0%
IDFC First Bank	2282	0.1%	809	0.0%

Exhibit 3: Bank Specific views continued…

Federal Bank	Federal Bank reported gross advances in Q1FY21 at 8% YoY to ₹ 123085 crore but down 0.9% sequentially. Deposits accretion was healthy at 17% YoY to ₹ 154938 crore with CASA ratio at 32.02%, up 58 bps YoY. Moderation in business growth on account of Covid-19 is expected to lead NII to dip to ₹ 1200 crore, down 1.3% QoQ. Treasury gains supported by a fall in G-sec yields would offset muted recovery and subdued fee income. The lockdown would keep asset quality at a standstill. However, expect credit cost to escalate to 40 bps in Q1FY21. Slippages from corporate remain a monitorable, going forward. Furthermore, commentary on moratorium trend may remain key monitorable
Kotak Mahindra Bank	For Kotak Bank, a cautious approach in auto and unsecured retail segment would keep advances growth moderate at ~6.5% YoY to ₹ 221551 crore. Disbursement under credit guarantee scheme may lead to traction in MSME segment. Margin is expected to remain steady at ~4.6-4.7%, amid a steep decline in saving interest rate, forming 39.8% of deposits. Fee based income is seen remaining benign impacting PPP marginally at ₹ 2580 crore. The bank has provided 30 bps of contingent provision in Q4FY20; additional provisioning further to keep credit cost higher at ₹ 886 crore; i.e. 40 bps of advances, leading to earnings at ₹ 1287 crore, up 1.7% YoY. Moratorium is expected to keep slippages benign with GNPA steady at 2.2-2.3% while provision is seen bringing down NNPA to ~0.6%. Subsidiaries including insurance, AMC and broking are expected to report a healthy performance
IndusInd Bank	IndusInd Bank reported muted advances growth at 4% YoY to ~₹ 200357 crore, broadly in line with the industry growth rate. Deposit growth remained healthy at 4.9% QoQ to ₹ 211970 crore despite outflow of government deposits in Q4FY20. MFI & CV segment are set to witness NPA pressures ahead but moratorium is seen keep asset quality stable in Q1FY21. Furthermore, lower moratorium book in Q4FY20 provides comfort for delinquency shock, going forward. GNPA & NNPA ratio are seen at 2.4% & 1.0%, respectively. NII is expected to remain subdued at ₹ 3150 crore, on the back of slower growth in advances. Replacement of borrowings by retail deposits would entail reduction in the cost of funds. However, a reduction in CoF would be offset by a decline in yields, thus keeping NIMs broadly stable at 4.2%. Muted business growth and elevated credit cost at 125 bps are expected to lead to moderation in PAT at ₹ 237 crore
Bandhan Bank	Bandhan Bank reported advances for Q1FY21 at ₹ 74325 crore, up 18% YoY and 3% QoQ. Deposit accretion was healthy at ₹ 60602 crore, up 35% YoY with CASA ratio up ~30 bps QoQ to 37.1%. Further, collection efficiency has improved to 70% for micro banking in June 2020 (~30% micro-banking moratorium book). In terms of non-micro banking, collection efficiency for June 2020 was at 84% (~16% non-micro moratorium book). Led by a reduction in moratorium, credit cost is seen at 102 bps. Asset quality is expected to remain stable due to moratorium. Lower disbursements on account of lockdown would be offset by strong growth in low cost deposits, which would NII steady at ₹ 1785 crore, up 6.3% QoQ. Drop in government yields would support other income growth to ₹ 512 crore. Expect PAT to come in at ₹ 653 crore. Pick-up in disbursement pace post easing of the lockdown would remain a key monitorable, going forward
IDFC First Bank	We expect a restructuring of the balance sheet to continue with a decline in the wholesale loan book. However, MSME loans are expected to witness increased traction under the ECLGS scheme. Overall advances are expected to dip 2.3% QoQ to ₹ 104588 crore. Traction in retail deposits is expected to remain robust, led by higher interest rate offered on depositors. We estimate deposits at ₹ 67178 crore, up 3% QoQ. Opex may remain steady on account of lockdown. Lower CoF on account of replacement of borrowing by retail deposits is expected to keep NIMs steady at ~4.24%. Asset quality is expected to remain steady on the back of standstill asset classification norms. Unutilised provisions from the previous quarters would keep credit cost lower at ~45 bps of advances. We expect the bank to report a profit of ₹ 175 crore. Capital raising by the bank is positive as it provides cushion against delinquency shock, going ahead

Source: Company, ICICI Direct Research

Exhibit 4: NBFC Specific views

Company	Remarks
HDFC Ltd	Strong other income led by HDFC Life stake sale and dividend would boost income. Led by Covid, loan growth may be slower at ~8% YoY to ₹ 445700 crore. NII is seen growing at 12.5% YoY to ₹ 3150 crore factoring spreads contained around 2.4% .Lower growth in non-individual loans may lead to NIM at ~2.25%. Standalone profit is seen at ~₹ 2949 crore led by other income. Asset quality is expected to slip further with GNPA ratio rising to 2.17% up 18 bps QoQ. Going ahead, outlook on developer loan portfolio & revival of real estate would be key
HDFC AMC	For HDFC AMC, a sharp recovery in equity market is expected to shore up AUM on a sequential basis at ₹ 3.5 lakh crore. Proportion of equity in overall AUM is expected to increase ~400 bps to ~41% of AUM. SIP flows are expected to witness a marginal decline at ~₹ 1000 -1100 crore a month. As the full impact of fall in equities from peak will be reflected in Q1FY21E, sequential traction in revenue is expected to remain gradual at ~5% to ₹ 500 crore, despite strong recovery in equities. As percentage of AUM, revenue is seen at ~56 bps of closing AUM. Absence of impairment is seen in Q4FY20 and steady opex is expected to lead to earnings at ₹ 323 crore; i e 36 bps of closing AUM
Bajaj Finance	Moratorium has come down from 27% to 15% Credit growth was reported at 7% YoY, declining 6% QoQ to ₹ 138000 crore, lowest ever in the last several years due to lockdown. New loan addition also slowed to 50 lakh from 60 lakh QoQ. Lower growth would impact NIM negatively. NII is seen declining to ₹ 4025 crore, down 15% YoY but provisions may surge to ₹ 1500 crore (₹ 1940 crore in Q4FY20) as the management is planning to raise provisions for Covid and build higher PCR. Asset quality expected to see some shocks accordingly. PAT is estimated to decline 29% YoY to ₹ 851 crore
Bajaj Finserv	Bajaj Finserv is expected to witness a slowdown in overall performance as well as profitability primarily due to moderation in lending business. Consolidated revenue is seen flat YoY at ₹ 12387 crore with earnings set to dip ~25% YoY to ₹ 637 crore. A substantial moderation in AUM growth and higher provisioning is seen impacting profitability of lending business. In life insurance, premium accretion is seen remaining flat YoY at ₹ 1928 crore, while general insurance business is expected to witness a decline in premium growth to ₹ 2560 crore. Despite substantial claims, slower premium accretion is expected to impact earnings in the insurance business. Commentary regarding traction in protection business and health insurance will remain a monitorable
SBI Life Insurance	For SBI Life, premium accretion is expected to get hit in April 2020 but strong revival in subsequent months is seen keeping growth momentum healthy. Renewal premium may remain healthy though expect some moderation owing to lockdown. Premium growth is seen at 6% YoY to ₹ 7052 crore; while premium on APE basis may decline 23% YoY, due to higher accretion in single premium. Commission expense is expected to remain lower at 3.6%, led by higher traction in single premium business. Anticipating no substantial increase in claims, expect surplus at ₹ 228 crore. Given seasonally slower quarter and impact of lockdown, PAT is seen declining 22% YoY to ₹ 290 crore. The management commentary on claims and demand for protection products is to be watched

Source: Company, ICICI Direct Research

Exhibit 5: ICICI Direct Research coverage universe (BFSI)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Bank of Baroda (BANBAR)	53	58	Hold	24,419.0	1.2	2.3	6.9	NA	NA	NA	0.6	0.5	0.5	0.0	0.1	0.3	0.8	1.5	4.0
State Bank of India (STABAN)	199	215	Hold	177,689	16.2	10.8	21.3	12.3	18.4	9.3	1.0	1.1	1.0	0.4	0.3	0.5	6.8	4.8	9.1
Indian Bank (INDIBA)	65	50	Hold	7,414	12.4	14.2	22.8	5.3	4.6	2.9	0.2	0.2	0.2	0.3	0.3	0.4	3.6	3.8	5.9
Axis Bank (UTIBAN)	454	500	Buy	128,049	5.8	17.4	27.9	78.7	26.1	16.3	1.8	1.7	1.6	0.2	0.5	0.7	2.2	5.6	8.5
City Union Bank (CITUNI)	138	171	Buy	10,189	6.5	10.1	11.4	21.3	13.7	12.1	2.2	1.9	1.7	1.0	1.4	1.4	9.4	13.0	12.9
Development Credit Bank (DCB)	86	59	Hold	2,664	13.0	13.5	15.0	6.6	6.3	5.7	0.9	0.8	0.7	1.1	1.0	1.0	13.3	12.2	12.0
Federal Bank (FEDBAN)	55	47	Hold	10,997	7.7	6.1	7.0	7.1	9.0	7.9	0.9	0.8	0.7	0.9	0.6	0.7	11.1	8.1	8.7
HDFC Bank (HDFBAN)	1,125	1,100	Buy	618,040	47.9	57.1	69.6	23.5	19.7	16.2	3.7	3.4	3.0	1.9	1.9	2.0	16.4	17.1	18.4
Indusind Bank (INDBA)	557	400	Hold	38,600	63.7	61.5	68.7	8.7	9.1	8.1	1.2	1.1	0.9	1.5	1.4	1.4	13.5	11.7	11.7
Jammu & Kashmir Bank (JAMKAS)	20	12	Sell	1,409	-12.7	-0.1	-6.1	-1.6	NA	NA	0.3	0.3	0.4	-0.7	0.0	-0.3	-10.1	-0.1	-4.9
Kotak Mahindra Bank (KOTMAH)	1,368	1,600	Buy	270,730	31.1	30.4	34.9	44.0	45.0	39.2	5.5	4.5	4.0	1.8	1.5	1.5	12.9	10.7	10.4
Bandhan Bank (BANBAN)	336	370	Buy	61,383	18.1	18.8	22.0	18.6	17.9	15.2	3.7	3.4	2.8	3.9	3.0	2.9	22.1	18.8	19.0
IDFC First (IDFBAN)	28	30	Buy	15,939	-4.6	-1.1	1.2	NA	NA	23.8	0.9	1.0	1.0	-1.3	-0.4	0.4	-13.1	-3.8	3.9
HDFC (HDFC)	1,942	1,770	Buy	336,860	103.1	43.0	53.8	18.8	45.1	36.1	3.9	3.8	3.7	3.6	1.3	1.5	21.7	8.5	10.3
Mahindra & Mahindra Financial	209	160	Hold	12,883	14.7	14.7	19.0	14.2	14.2	11.0	1.7	2.2	1.8	1.3	1.3	1.7	8.1	7.7	8.9
Bajaj Finserv (BAFINS)	6,571	4,800	Hold	104,569	211.6	254.0	307.4	31.0	25.9	21.4	3.3	3.0	2.6	1.4	1.3	1.3	12.2	12.1	13.0
Bajaj Finance (BAJFI)	3,329	2,000	Hold	200,355	87.7	84.7	103.3	37.9	39.3	32.2	6.2	5.8	5.2	3.7	2.9	3.0	20.2	14.7	15.6
SBI Life Insurance (SBILIF)	840	850	Buy	84,038	14.2	13.5	16.0	59.1	62.1	52.6	3.2	2.8	2.4	0.9	0.7	0.7	16.8	14.2	14.8
HDFC AMC	2,491	3,000	Buy	53,027	59.2	58.8	67.5	42.0	42.4	36.9	13.2	11.4	9.9	0.4	0.4	0.4	31.3	26.9	26.8
Nippon AMC	294	364	Buy	18,026	6.7	8.8	10.9	43.6	33.6	27.0	6.8	6.4	6.0	0.2	0.2	0.2	15.5	19.0	22.1

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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