

Q2FY2025 Results Preview

Sector: Banking

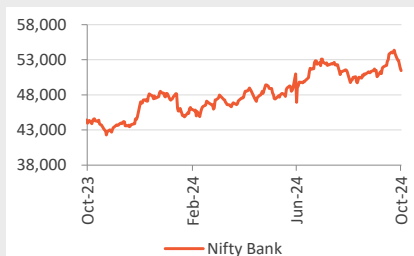
Sector View: Positive

Our coverage universe

Companies	CMP (Rs)	Reco/View	PT (Rs)
Large Private Banks			
HDFC Bank	1,620	Buy	1,900
ICICI Bank	1,233	Buy	1,450
Axis Bank	1,150	Buy	1,470
Mid-Tier Private Banks			
Kotak Mahindra Bank	1,800	Buy	2,000
IndusInd Bank	1,349	Buy	1,750
Federal Bank	184	Buy	240
Small Private Banks			
AU SFB	733	Hold	UR
CUBK	154	Hold	180
PSBs			
SBI	770	Buy	970
BOB	242	Buy	310
PNB	102	Buy	140
BOI	106	Buy	165

Source: Company; Sharekhan Research;
UR - Under review

Price chart



Source: NSE; Sharekhan Research

Summary

- ♦ Q2 is set to be another soft quarter for banks as earnings growth remains moderate led by muted operating profit growth (due to weak NII growth) and normalisation of credit costs.
- ♦ Credit growth is slowing along with lower NIMs (5-10 bps q-o-q) would result in weak NII growth.
- ♦ Overall asset quality trends are expected to hold; however, slippages in unsecured loans and MFI segment will remain elevated. Credit cost is expected to normalize gradually but it would remain low, below long-term averages.
- ♦ **Top preferred picks: Large Private Banks** – ICICI Bank, Axis Bank, HDFC Bank and Kotak Mahindra Bank; **Mid-Tier Private Banks** – IndusInd Bank and Federal Bank; **PSBs** – SBI, BOB, BOI and PNB.

Banks are expected to deliver yet another soft quarter with modest earnings growth in Q2FY25. PPOP growth will remain muted, led by weak NII growth (due to lower NIMs and slower loan growth). System loan growth has moderated and is currently at ~14% as per the latest fortnight data. Deposit growth continues to remain range bound at 11-13%. Slower deposit growth, continued moderation in unsecured retail along with slower corporate credit growth is resulting in moderation in loan growth. We expect banks in our coverage universe to report a ~10% y-o-y growth in earnings in Q2FY2025E. Net interest income (NII) growth is expected to be weak, as NIMs are expected to decline by 5-10 bps q-o-q and loan growth has started to moderate. Treasury performance would remain healthy, led by a decline in bond yields, which should partially support PPOP growth. Credit costs is expected to normalise gradually but would still remain lower however it could inch up for the some of the banks due to slightly higher slippages in unsecured loans & MFI segment along with lower recoveries & upgrades. Mobilisation of deposits, outlook on incremental loan growth, future NIM progression would be a key area of discussion.

Deposit growth still lags loan growth: System loan growth has moderated and is currently at ~14% as per the latest fortnight's data. Deposit growth remains rangebound at 11-13%. LDR & LCR would be key determinant for loan growth as deposit growth still lags loan growth. Currently, credit growth is mainly driven by retail and MSME, while growth in credit to industry is inching up very gradually, as reflected in business updates of most lenders. Due to slower deposit growth, banks are focusing on improving the LDR resulting in slower loan growth. Overall, the outlook on incremental loan growth holds key in management commentary.

NIM to moderate but at slower pace: NIM are expected to decline by 5-10 bps sequentially given pressure on cost of funds resulting from repricing of deposits. Additionally, the CASA ratio for most banks have been on declining trend. Thus, NIM compression of 5-10 bps q-o-q is expected for coverage universe during the quarter given limited opportunity to increase the yield on the asset side. However, most large banks have indicated that the pass-through of fresh term deposit rates is largely complete and any further rise in overall cost of deposits should be very marginal. HDFC Bank & Federal Bank to show flat trends in NIMs. Overall, deposit rates have likely peaked out.

Asset quality holding well, barring some segments: Asset quality to remain broadly stable and we are not expecting any meaningful weakness however gradual normalisation of credit costs is likely led by higher slippages from unsecured loans, the MFI segment along with lower recoveries & upgrades. Corporate asset quality continues to be pristine. Overall, bad loans coverage remains healthy for most banks.

Our View

Overall, growth & inflation trajectory is evolving favourably for India. GDP growth outlook continues to remain bright, driven by sustained momentum in domestic economic activity. Higher private capex, healthy consumption trends, and increased business confidence are likely to support growth. However, currently loan growth has moderated as the focus is more on deposit growth to improve LDR ratio as it could have a bearing impact on future growth and margins. While deposit growth is improving gradually across banks as seen in business updates for Q2FY25 is a key positive. Credit cost normalisation is also likely to be gradual and its impact would be manageable unless there is a sharp macroeconomic downturn. Moreover, additional contingent provision buffers, a higher PCR, higher capital buffers, and lower stressed assets augur well for the banking sector's outlook. Valuations are reasonable vs the sustainable RoE trajectory.

Top preferred picks: Large Private Banks – ICICI Bank, Axis Bank, HDFC Bank and Kotak Mahindra Bank; **Mid-Tier Private Banks** – IndusInd Bank and Federal Bank; **PSBs** – SBI, BOB, BOI and PNB.

Q2FY25 Result estimates (Standalone)

Banks	NII (Rs cr)					PPoP (Rs cr)					PAT (Rs cr)				
	Q2 FY25E	Q2 FY24	Q1 FY25	YoY %	QoQ %	Q2 FY25E	Q2 FY24	Q1 FY25	YoY %	QoQ %	Q2 FY25E	Q2 FY24	Q1 FY25	YoY %	QoQ %
Large Private Banks															
HDFC Bank	30,079	27,385	29,837	9.8	0.8	24,369	22,694	23,885	7.4	2.0	16,228	15,977	16,175	1.6	0.3
ICICI Bank	19,957	18,308	19,553	9.0	2.1	15,996	14,229	16,025	12.4	-0.2	10,978	10,261	11,059	7.0	-0.7
Axis Bank	13,503	12,315	13,448	9.7	0.4	10,157	8,632	10,106	17.7	0.5	6,414	5,864	6,035	9.4	6.3
Mid-Tier Private Banks															
Kotak Mahindra Bank	6,925	6,297	6,842	10.0	1.2	5,130	4,610	5,254	11.3	-2.4	3,366	3,191	6,250	5.5	-46.1
IndusInd Bank	5,470	5,077	5,408	7.8	1.2	3,993	3,881	3,927	2.9	1.7	2,154	2,181	2,152	-1.2	0.1
Federal Bank	2,399	2,056	2,292	16.7	4.7	1,513	1,324	1,501	14.2	0.8	1,008	954	1,010	5.7	-0.2
Small Private Banks															
AU SFB	1,976	1,249	1,921	58.2	2.9	1,038	648	988	60.3	5.1	502	402	503	24.8	-0.2
CUBK	564	538	545	4.8	3.5	391	387	373	1.0	4.6	273	281	264	-2.8	3.1
PSBs															
SBI	41,722	39,500	41,125	5.6	1.5	26,037	19,417	26,449	34.1	-1.6	16,119	14,330	17,035	12.5	-5.4
BOB	11,732	10,831	11,600	8.3	1.1	7,527	8,020	7,161	-6.1	5.1	4,487	4,253	4,458	5.5	0.6
PNB	10,895	9,923	10,476	9.8	4.0	6,800	6,216	6,581	9.4	3.3	3,534	1,756	3,252	101.3	8.7
BOI	6,370	5,740	6,276	11.0	1.5	3,800	3,756	3,677	1.2	3.3	1,872	1,458	1,703	28.4	9.9

Source: Company; Sharekhan Research

Valuations

Banks	Reco.	CMP (Rs.)	TP (Rs.)	RoA (%)		RoE (%)		P/E (x)		P/B (x)	
				FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Large Private Banks											
HDFC Bank	Buy	1,620	1,900	1.8	1.8	14.6	14.2	15.5	13.9	2.1	1.8
ICICI Bank	Buy	1,233	1,450	2.3	2.2	17.5	16.6	16.1	14.3	2.6	2.2
Axis Bank	Buy	1,150	1,470	1.7	1.7	16.1	15.9	12.5	10.9	1.9	1.6
Mid-Tier Private Banks											
Kotak Mahindra Bank	Buy	1,800	2,000	2.2	2.2	13.6	13.4	17.9	15.9	2.3	2.0
IndusInd Bank	Buy	1,349	1,750	1.8	1.7	14.6	13.7	10.6	9.9	1.4	1.3
Federal Bank	Buy	184	240	1.2	1.2	12.8	13.7	10.7	8.9	1.3	1.1
Small Private Banks											
AU SFB	Hold	733	UR	1.5	1.6	12.3	12.8	27.5	20.4	2.9	2.5
CUBK	Hold	154	180	1.5	1.4	12.3	11.1	10.4	10.0	1.3	1.1
PSBs											
SBI	Buy	770	970	1.0	1.0	16.5	15.1	7.2	6.7	1.1	0.9
BOB	Buy	242	310	1.1	1.0	14.9	13.7	6.9	6.5	1.0	0.9
PNB	Buy	102	140	0.9	1.0	12.8	13.7	7.7	6.3	1.0	0.8
BOI	Buy	106	165	0.8	1.0	11.0	12.0	6.0	4.9	0.7	0.6

Source: Company; Sharekhan Research

Company wise Key expectations

AU Small Finance Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	1,249	1,921	1,976	58.2	2.9	<ul style="list-style-type: none"> The bank reported strong business momentum in Q2 and is likely to report 1.5% RoA. Key monitorable: Outlook on NIMs, growth and cost ratios.
PPOP	648	988	1,038	60.3	5.1	
PBT	533	669	669	25.4	0.0	
PAT	402	503	502	24.8	-0.2	
Axis Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	12,315	13,448	13,503	9.7	0.4	<ul style="list-style-type: none"> NIMs expected to remain stable q-o-q. Loan growth is expected to moderate to 11% y-o-y. Key monitorable would be deposit mobilisation outlook, future progression of NIMs.
PPOP	8,632	10,106	10,157	17.7	0.5	
PBT	7,817	8,067	8,552	9.4	6.0	
PAT	5,864	6,035	6,414	9.4	6.3	
Bank of Baroda	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	10,831	11,600	11,732	8.3	1.1	<ul style="list-style-type: none"> Loan & Deposit growth have picked up from Q1. NIMs to be lower q-o-q by 4 bps. Key monitorable would be growth outlook and future progression of NIMs.
PPOP	8,020	7,161	7,527	-6.1	5.1	
PBT	5,859	6,151	6,147	4.9	-0.1	
PAT	4,253	4,458	4,487	5.5	0.6	
Bank of India	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	5,740	6,276	6,370	11.0	1.5	<ul style="list-style-type: none"> Loan growth & Deposits to grow at par with system growth. NIMs to decline marginally qoq. Credit cost is expected to decline qoq. Key monitorable would be growth outlook and future progression of NIMs.
PPOP	3,756	3,677	3,800	1.2	3.3	
PBT	2,937	2,384	2,600	-11.5	9.1	
PAT	1,458	1,703	1,872	28.4	9.9	
City Union Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	538	545	564	4.8	3.5	<ul style="list-style-type: none"> Loan growth is expected to be below system growth at 10% yoy. Key monitorable would be growth outlook along with guidance on NIMs, credit cost and path for return ratios.
PPOP	387	373	391	1.0	4.6	
PBT	331	334	350	5.8	4.6	
PAT	281	264	273	-2.8	3.1	
Federal Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	2,056	2,292	2,399	16.7	4.7	<ul style="list-style-type: none"> NIMs likely to remain stable q-o-q. The bank has reported healthy loan growth of 19% y-o-y. Key monitorable would be growth outlook due to change in management and trend in return ratio.
PPOP	1,324	1,501	1,513	14.2	0.8	
PBT	1,281	1,357	1,344	4.9	-0.9	
PAT	954	1,010	1,008	5.7	-0.2	
HDFC Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	27,385	29,837	30,079	9.8	0.8	<ul style="list-style-type: none"> Asset quality is expected to remain broadly stable. NIMs are expected to be flat q-o-q. Key monitorable would-be progress of NIMs, loan/deposit growth outlook.
PPOP	22,694	23,885	24,369	7.4	2.0	
PBT	19,791	21,283	21,580	9.0	1.4	
PAT	15,977	16,175	16,228	1.6	0.3	
ICICI Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	18,308	19,553	19,957	9.0	2.1	<ul style="list-style-type: none"> Advances are likely to grow by ~14% y-o-y, aided by broad based growth in all segments. NIMs to decline marginally q-o-q. Key monitorable would-be deposit growth and margins outlook.
PPOP	14,229	16,025	15,996	12.4	-0.2	
PBT	13,647	14,693	14,599	7.0	-0.6	
PAT	10,261	11,059	10,978	7.0	-0.7	
Indusind Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	5,077	5,408	5,470	7.8	1.2	<ul style="list-style-type: none"> NIM to decline marginally q-o-q. Asset quality expected to remain stable except some uptick in slippages likely in MFI portfolio/credit cards/personal loans. Key monitorable would-be outlook on Loan growth and asset quality outlook.
PPOP	3,881	3,927	3,993	2.9	1.7	
PBT	2,907	2,877	2,865	-1.5	-0.4	
PAT	2,181	2,152	2,154	-1.2	0.1	
Kotak Bank	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	6,297	6,842	6,925	10.0	1.2	<ul style="list-style-type: none"> Advances are likely to grow at 15% yoy. NIM to decline q-o-q by 5-10 bps. Key monitorable would-be deposit/ loan growth outlook and timelines of lifting of RBI ban from digital onboarding of new customers.
PPOP	4,610	5,254	5,130	11.3	-2.4	
PBT	4,244	4,676	4,488	5.8	-4.0	
PAT	3,191	6,250	3,366	5.5	-46.1	

Company wise Key expectations

PNB	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	9,923	10,476	10,895	9.8	4.0	<ul style="list-style-type: none"> Margin expected to be lower marginally q-o-q. Asset quality is expected to remain stable. Key monitorable would-be growth outlook, margin and credit cost outlook.
PPOP	6,216	6,581	6,800	9.4	3.3	
PBT	2,772	5,269	5,700	105.6	8.2	
PAT	1,756	3,252	3,534	101.3	8.7	
SBI	Q2FY24	Q1FY25	Q2FY25E	YoY (%)	QoQ (%)	Comment
NII	39,500	41,125	41,722	5.6	1.5	<ul style="list-style-type: none"> Advances are likely to grow at ~14% y-o-y. NIMs expected to remain marginally lower qoq. Asset quality to remain broadly stable.
PPOP	19,417	26,449	26,037	34.1	-1.6	
PBT	19,301	22,999	21,783	12.9	-5.3	
PAT	14,330	17,035	16,119	12.5	-5.4	

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