


BANKING

Q1FY25 Review

23 August 2024

Margins under pressure; credit cost normalised; ROA stabilised

- Credit growth remained modest on slowdown in retail loan, C/D contracted a bit; NIMs under pressure due to increase in cost of funds
- Deposit mobilisation remained under pressure on slowdown in CASA deposits, while opex stayed elevated
- Stable asset quality normalises credit cost; revise growth estimates on competitive intensity. Top picks remain HDFCB, KMB, IIB, SBIN & RBK

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Margins remained under pressure: Slowdown in deposit mobilisation, specifically deceleration in low-cost CASA mobilisation, led to higher cost of funds (CoF), while increased competitive intensity in lending restricted yield on asset and led to margin compression which impacted performance for Q1. Under our coverage universe, the majority of banks witnessed margin compression (5-10bps) QoQ on higher CoF and seasonality impact. Opex remained elevated for the private banks as they continued to invest in technology and infrastructure for higher market share. The C/I ratio for public sector banks (PSBs) declined on higher base of Q4.

High competitive intensity, deposit constraints led to growth moderation: The Reserve Bank of India's concerns on C/D ratio along with strong growth in unsecured retail led to some moderation in high yielding retail asset and further moderation in credit growth considering deposits mobilisation constraints. Hence, we revise our deposits estimates by 3-4% for our coverage universe, while expecting 1-2% decline in credit book over FY25-FY26. However, we expect the slowdown in unsecured retail book to be supported by a higher share in the wholesale mix.

Operational performance remains subdued: NII grew 12% YoY (0.8% QoQ) in Q1 on higher cost of funds and being a seasonally weak quarter. PPOP grew 12% YoY (-6% QoQ) on subdued topline which offset a few gains from moderation in opex. However, we expect NII's growth trajectory to follow business growth which we expect to remain moderate (low to mid teen) for Q2 and witness some improvement thereon with probable change in interest rate cycle. Given the ongoing system dynamics and liquidity situation, we expect system credit growth of 14-15% for FY25, while deposit growth would be 12-13% over same period.

Stable asset quality: Asset quality remained stable though slippages during the quarter stayed elevated being a seasonally weak quarter and higher slippages from the agri and unsecured retail book. We expect credit cost to normalise further over the next two quarters and continue to drag the bottomline. We don't see any major challenges towards restructured/special mention accounts (SMA) books, which are expected to improve.



Our view: We expect business growth to remain modest for Q2FY25 while it may show some uptick in H2FY25. In our view, topline growth will remain muted on higher CoF, while margin will remain under pressure until the interest rate cycle reverses and opex elevated as banks strive for higher market share. We believe credit cost normalisation is likely to continue and drag PAT. However, the overall outlook for banking remains neutral with stable asset quality while any major stress generation in the Unsecured portfolio would be key to watch. Our top picks in the sector are HDFCB (BUY, TP Rs 1,872), KMB (BUY, TP Rs 2,040), IIB (BUY, TP Rs 1,844), SBIN (BUY, TP Rs 1,044) and RBK (BUY, TP Rs 276).

Fig 1 – BOBCAPS Banking universe: Valuation snapshot

Ticker	CMP	Mcap (Rs bn)	P/ABV (x)		ROA (%)		ROE (%)	
			FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
HDFCB IN	1,631	12,403	2.3	2.0	1.9	1.9	15.6	15.7
ICICIBC IN	1,191	8,434	2.7	2.3	2.3	2.2	18.1	17.1
AXSB IN	1,170	3,621	1.8	1.6	1.8	1.7	17.1	16.3
KMB IN	1,822	3,618	2.7	2.4	2.3	2.2	13.8	13.3
IIB IN	1,382	1,077	1.4	1.2	1.7	1.9	14.1	16.0
FB IN	203	493	1.4	1.2	1.3	1.3	13.7	14.5
RBK IN	230	137	0.8	0.7	0.8	1.0	8.0	9.7
DCBB IN	124	39	0.7	0.6	1.1	0.6	14.4	8.1
BANDHAN IN	205	330	1.1	1.0	2.2	2.3	18.0	18.4
IDFCBK IN	75	563	1.3	1.1	1.1	1.4	10.5	14.1
SBIN IN	820	7,310	1.5	1.3	1.1	1.0	17.2	16.1
CBK IN	112	1,018	0.9	0.8	1.1	1.0	17.4	15.4

Source: Companies, BOBCAPS Research. Priced as at 22 Aug 2024

Fig 2 – BOBCAPS Banking universe: Q1FY25 estimates

Ticker	NII (Rs mn)	YoY (%)	QoQ (%)	PPOP (Rs mn)	QoQ (%)	PAT (Rs mn)	QoQ (%)
HDFCB IN	298,371	26.4	2.6	238,846	(18.4)	161,748	(2.0)
ICICIBC IN	195,529	7.3	2.4	160,248	6.6	110,591	3.3
AXSB IN	134,482	12.5	2.7	101,062	(4.1)	60,346	(15.4)
KMB IN	68,424	9.8	(1.0)	52,541	(3.8)	(7,900)	(119.1)
IIB IN	54,076	11.1	0.6	39,518	(3.2)	21,707	(7.6)
FB IN	22,920	19.5	4.4	15,009	35.2	10,095	11.4
RBK IN	17,000	19.5	6.3	8,591	(3.2)	3,715	5.4
DCBB IN	4,966	5.5	(2.1)	2,054	(12.1)	1,314	(15.6)
BANDHAN IN	30,050	20.7	4.8	19,409	5.6	10,635	1,846.8
IDFCBK IN	46,949	25.4	5.1	18,825	13.1	6,807	(6.0)
SBIN IN	411,255	5.7	(1.3)	264,486	(8.0)	170,352	(17.7)
CBK IN	91,663	5.8	(4.3)	76,161	3.1	39,053	3.9

Source: BOBCAPS Research

Fig 3 – Banks remained healthy despite deposit constraints

Advances (YoY %)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN*	16	58	62	55	52
ICICIBC IN	18	18	18	16	16
AXSB IN	22	23	22	14	14
KMB IN	17	18	16	18	19
IIB IN	22	21	20	18	15
FB IN	21	20	18	20	20
RBK IN	21	21	20	20	19
DCBB IN	19	19	18	19	19
BANDHAN IN	8	13	20	16	24
IDFCBK IN	26	30	26	28	21
SBIN IN	15	13	15	16	16
CBK IN	14	13	13	12	11

Source: Companies, BOBCAPS Research | *HDFCB incl. merger

Fig 5 – Deposits mobilisation remained challenging despite some rise in interest rate

Deposits (YoY %)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	19	30	28	26	24
ICICIBC IN	18	19	19	20	15
AXSB IN	17	18	18	13	13
KMB IN	22	23	19	24	16
IIB IN	15	14	13	14	15
FB IN	21	23	19	18	20
RBK IN	8	13	13	22	18
DCBB IN	23	23	19	20	20
BANDHAN IN	17	13	15	25	23
IDFCBK IN	36	39	37	39	36
SBIN IN	12	12	13	11	8
CBK IN	7	9	9	11	12

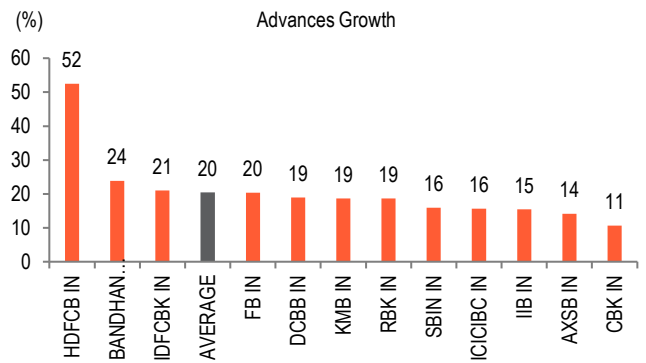
Source: Companies, BOBCAPS Research

Fig 7 – C-D ratio moderated on challenges in deposits sourcing

C-D Ratio (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	84	107	110	104	104
ICICIBC IN	85	86	87	84	86
AXSB IN	91	94	93	90	92
KMB IN	85	87	88	84	87
IIB IN	87	88	89	89	87
FB IN	82	83	83	83	83
RBK IN	85	85	86	81	86
DCBB IN	82	82	83	83	82
BANDHAN IN	91	91	94	90	91
IDFCBK IN	108	102	102	97	97
SBIN IN	71	71	74	75	76
CBK IN	72	72	73	71	71

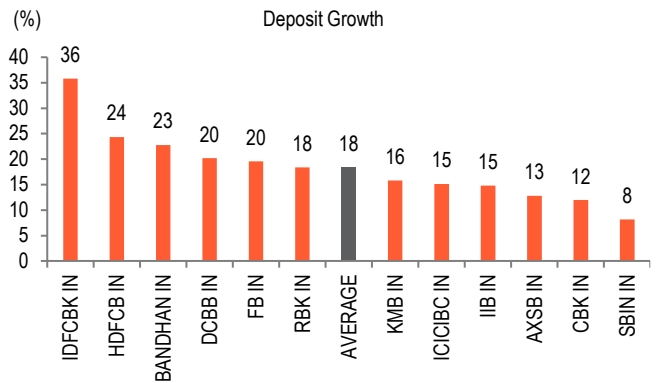
Source: Companies, BOBCAPS Research

Fig 4 – Credit growth moderated for most banks QoQ



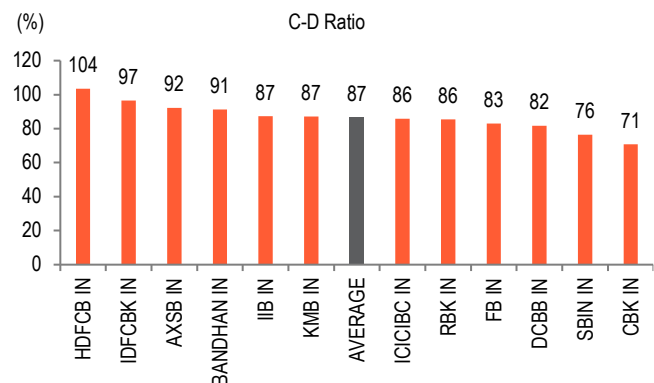
Source: Companies, BOBCAPS Research

Fig 6 – Decline in deposits hampered growth in 1QFY25



Source: Companies, BOBCAPS Research

Fig 8 – C-D ratio improved on decline in advances



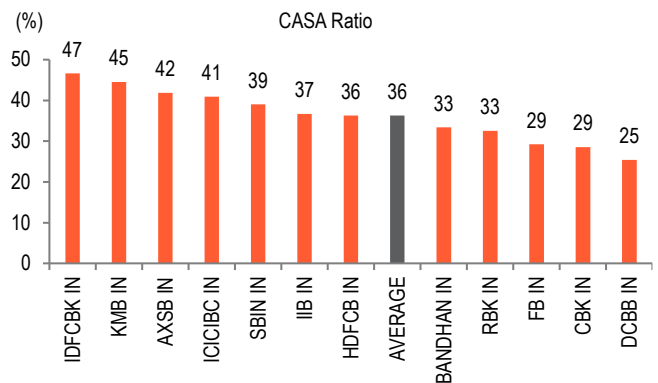
Source: Companies, BOBCAPS Research

Fig 9 – Seasonal weakness and challenges in CA mobilisation led to decline in CASA ratio

CASA Ratio (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	42	38	38	38	36
ICICIBC IN	43	41	40	42	41
AXSB IN	46	43	42	43	42
KMB IN	49	48	48	46	45
IIB IN	40	39	38	38	37
FB IN	32	31	31	29	29
RBK IN	37	36	34	35	33
DCBB IN	26	25	26	26	25
BANDHAN IN	36	39	36	37	33
IDFCBK IN	46	46	47	47	47
SBIN IN	41	40	40	40	39
CBK IN	31	30	29	30	29

Source: Companies, BOBCAPS Research

Fig 10 – IDFC & KMB maintained their positions in terms of CASA ratio



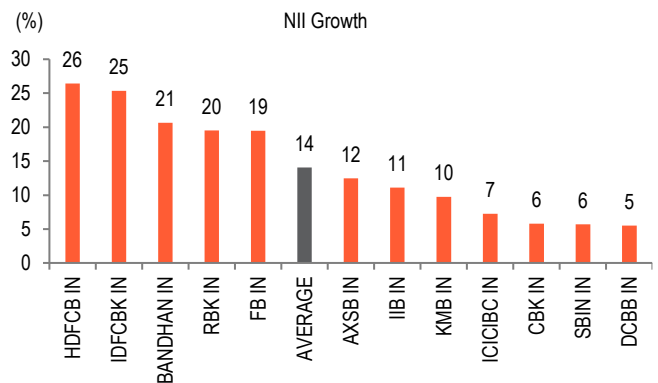
Source: Companies, BOBCAPS Research

Fig 11 – Moderate NII growth on higher cost of funds and some moderation in business growth

NII Growth (YoY %)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	21	30	24	25	26
ICICIBC IN	38	24	13	8	7
AXSB IN	27	19	9	11	12
KMB IN	33	23	16	13	10
IIB IN	18	18	18	15	11
FB IN	20	17	9	15	19
RBK IN	38	26	35	32	20
DCBB IN	26	16	6	4	5
BANDHAN IN	-1	11	21	16	21
IDFCBK IN	36	32	30	24	25
SBIN IN	25	12	5	3	6
CBK IN	28	20	10	11	6

Source: Companies, BOBCAPS Research

Fig 12 – NII growth fell in line with business growth in 1QFY25



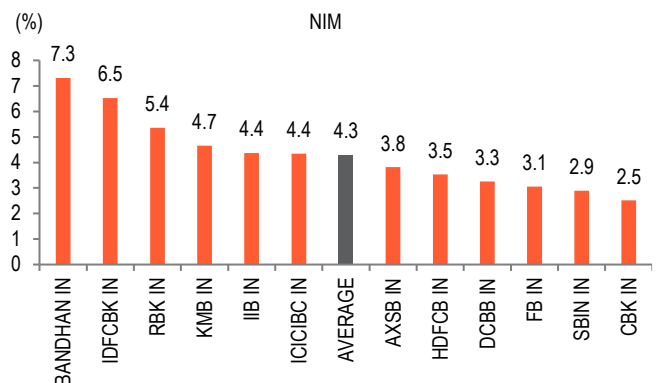
Source: Companies, BOBCAPS Research

Fig 13 – NIMs under pressure and likely to continue to be in the same range across the industry

NIM (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	4.1	3.9	3.5	3.5	3.5
ICICIBC IN	4.8	4.6	4.5	4.4	4.4
AXSB IN	3.9	4.0	3.9	3.8	3.8
KMB IN	5.1	5.0	5.0	4.9	4.7
IIB IN	4.5	4.6	4.7	4.5	4.4
FB IN	3.1	3.1	3.1	3.1	3.1
RBK IN	5.2	5.2	5.3	5.2	5.4
DCBB IN	3.7	3.6	3.4	3.5	3.3
BANDHAN IN	7.0	6.9	7.0	7.3	7.3
IDFCBK IN	6.5	6.5	6.7	6.6	6.5
SBIN IN	3.1	3.0	2.9	3.0	2.9
CBK IN	2.6	2.6	2.7	2.7	2.5

Source: Companies, BOBCAPS Research

Fig 14 – Seasonality played out and NIMs declined across the industry by 3-5bps during Q1FY25



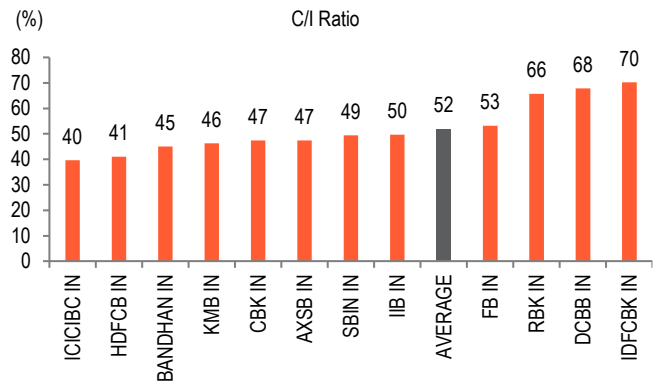
Source: Companies, BOBCAPS Research

Fig 15 – C/I ratios increased for private banks, but declined for PSBs on higher base

CIR (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	43	40	40	38	41
ICICIBC IN	40	41	41	39	40
AXSB IN	48	50	49	47	47
KMB IN	44	46	48	45	46
IIB IN	46	47	47	48	50
FB IN	51	52	52	62	53
RBK IN	69	66	67	64	66
DCBB IN	64	64	65	64	68
BANDHAN IN	46	47	46	48	45
IDFCBK IN	71	72	73	73	70
SBIN IN	50	61	60	51	49
CBK IN	44	44	50	50	47

Source: Companies, BOBCAPS Research

Fig 16 – C/I ratio remained elevated in Q1FY25



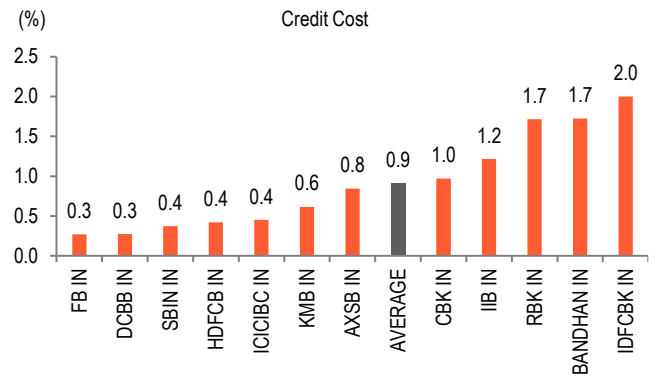
Source: Companies, BOBCAPS Research

Fig 17 – Credit cost continued to normalise

Credit cost (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	0.7	0.6	0.7	2.2	0.4
ICICIBC IN	0.5	0.2	0.4	0.2	0.4
AXSB IN	0.5	0.4	0.5	0.5	0.8
KMB IN	0.5	0.4	0.7	0.3	0.6
IIB IN	1.3	1.3	1.2	1.1	1.2
FB IN	0.3	0.1	0.2	-0.2	0.3
RBK IN	1.5	3.4	2.3	2.0	1.7
DCBB IN	0.4	0.4	0.4	0.2	0.3
BANDHAN IN	2.4	2.5	2.6	6.1	1.7
IDFCBK IN	1.2	1.2	1.5	1.5	2.0
SBIN IN	0.3	0.0	0.1	0.2	0.4
CBK IN	1.3	1.2	0.8	1.1	1.0

Source: Companies, BOBCAPS Research

Fig 18 – Credit cost normalised in Q1FY25



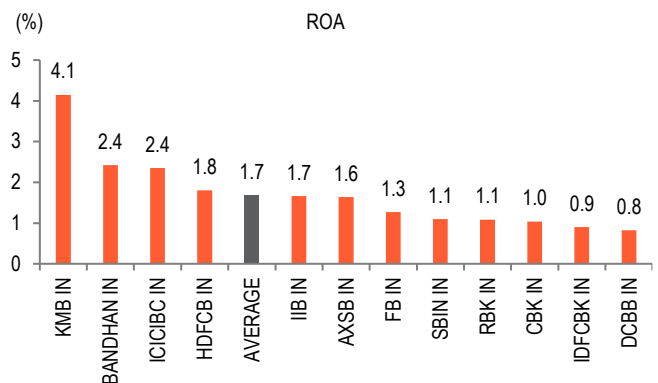
Source: Companies, BOBCAPS Research

Fig 19 – RoA remained near stable

ROA (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	1.9	2.2	1.9	1.9	1.8
ICICIBC IN	2.4	2.4	2.3	2.3	2.4
AXSB IN	1.8	1.8	1.8	2.0	1.6
KMB IN	2.8	2.4	2.2	2.9	4.1
IIB IN	1.8	1.9	1.9	1.9	1.7
FB IN	1.3	1.4	1.4	1.2	1.3
RBK IN	1.0	1.0	0.7	1.1	1.1
DCBB IN	0.9	0.9	0.9	1.0	0.8
BANDHAN IN	1.9	1.9	1.9	0.1	2.4
IDFCBK IN	1.3	1.2	1.1	1.0	0.9
SBIN IN	1.2	1.0	0.6	1.4	1.1
CBK IN	1.0	1.0	1.0	1.0	1.0

Source: Companies, BOBCAPS Research

Fig 20 – ICICI continued to top in terms of return ratio in Q1FY25



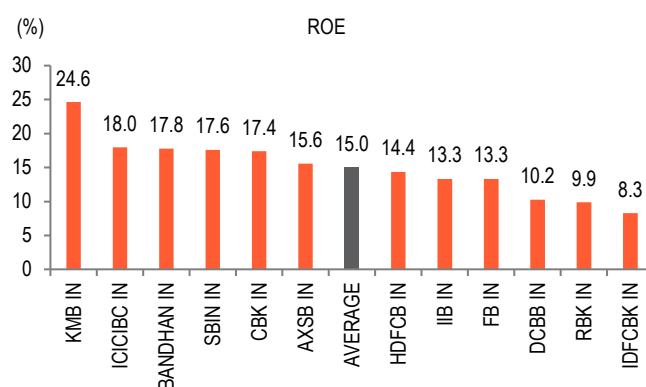
Source: Companies, BOBCAPS Research

Fig 21 – RoE remained stable with some moderation on weak quarterly performance

ROE (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
HDFCB IN	16.6	18.3	15.8	15.3	14.4
ICICIBC IN	18.7	19.2	18.6	18.4	18.0
AXSB IN	18.1	17.4	17.3	19.3	15.6
KMB IN	16.2	14.4	13.1	17.4	24.6
IIB IN	14.9	15.0	15.3	15.0	13.3
FB IN	15.3	15.4	14.6	12.4	13.3
RBK IN	8.4	8.4	6.5	9.7	9.9
DCBB IN	11.0	10.7	10.4	12.5	10.2
BANDHAN IN	13.4	13.0	12.9	0.9	17.8
IDFCBK IN	11.7	11.1	9.7	9.1	8.3
SBIN IN	20.1	16.3	10.1	22.2	17.6
CBK IN	18.8	18.3	17.7	17.5	17.4

Source: Companies, BOBCAPS Research

Fig 22 – ICICIBC and PSB topped the chart in RoE in Q1FY25



Source: Companies, BOBCAPS Research

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