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BANKING | Q3FY25 Review | 28 February 2025

Slowdown in credit; RBI's easing measures to benefit banks

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- **Advances growth remains muted; likely to be supported by RBI's reduction in RWAs on banks' lending to NBFCs**
- **Asset quality deteriorated marginally with stress mainly in unsecured segments (MFI and credit cards) and remains monitorable**
- **NIMs moderation and rise in credit costs to impact profitability marginally. Top picks remain HDFCB, ICICIBC and SBIN**

Slowdown in credit offtake; expected to improve due to RBI's RWAs regulation on banks' exposure to NBFCs: The credit offtake for our coverage banks remained muted (+8.8% YoY; +2.1% QoQ) in Q3FY25. Amid tight liquidity conditions, deposit mobilisation remains challenging for banks with growth of 12.9% YoY and 1.6% QoQ. As a result, the LDR ratio for most banks increased marginally. We expect credit growth to benefit from the RBI's regulation to restore the risk-weighted assets (RWAs) on MFI loans (consumer credit) and bank's lending to NBFCs to 100% from 125% (revised in Nov'23), based on the NBFC's external credit rating. The increase in RWAs resulted in subdued system credit growth of bank's lending to NBFCs to Rs 16.2tn (+6.7% YoY) as of Dec'24 compared to 15% YoY growth as of Dec'23. We expect our coverage banks' CET-I ratios to improve by ~13-55bps with Bandhan Bank to benefit by ~1.4%. We believe the RBI regulation will ease banks' capital requirements for NBFC lending and thereby augment credit growth by ~Rs 4tn. Also, the RBI's 25bps rate cut to 6.25% in Feb'25 is likely to ease liquidity conditions and support the system credit growth.

Asset quality issues persist mainly in unsecured segments; particularly MFI portfolio: Asset quality deteriorated marginally as evidenced by the rise of slippages and credit costs in Q3FY25. Within our coverage, the asset quality of RBK and BANDHAN was impacted the most with higher slippage and credit costs. This was due to their higher exposure to the unsecured segments mainly in MFI and credit cards which are facing heightened asset quality stress, largely due to overleveraging by customers. We expect the delinquency to remain elevated for the next couple of quarters in the MFI portfolio led by MFIN regulations such as cap on three lenders from Apr'25, and certain state-related issues. Excluding the unsecured segments, the asset quality was largely stable in the corporate and SME advances.

NIMs moderation and rising credit cost to weigh on profitability: With the onset of RBI rate cuts and decline in low-cost CASA ratio across most banks, we expect NIMs to remain moderate in the near term. Further, the expected rise in credit costs in the unsecured space is likely to weigh on the profitability in the medium term, although the impact would vary based on their exposure to these segments.

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Our view: We assume coverage on the banking sector and expect credit growth to improve marginally in the next couple of quarters, with growth expected to pick up meaningfully in H2FY26. Given the stress in the MFI sector, the MFI portfolio has already witnessed a slowdown in fresh disbursements and overall portfolio growth has consequently declined in Q3FY25. Profitability to remain contained driven by pressure on NIMs and rising credit costs. Asset quality to remain monitorable in the unsecured segments such as MFI and credit card for the next couple of quarters. RBI's relaxing stance on regulations (rate cut, RWAs reduction for NBFC and MFI lending, among others) bodes well for the growth in the banking industry. Our top picks in the sector are HDFCB (BUY, TP Rs 2,008), ICICIBC (BUY, TP Rs 1,415), and SBIN (BUY, TP Rs 972).

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	1,732	13,254	2.7	2.4	1.8	2.0	14.5	16.1
ICICIBC IN	1,204	8,490	3.1	2.7	2.3	2.2	18.1	17.6
AXSB IN	1,016	3,148	2.1	1.8	1.7	1.8	16.0	16.0
KMB IN	1,903	3,781	3.1	2.7	2.4	2.3	14.2	13.2
IIB IN	990	770	1.7	1.5	1.4	1.6	11.4	13.5
FB IN	178	439	1.6	1.4	1.2	1.3	13.3	14.1
RBK IN	158	96	0.9	0.8	0.6	1.1	6.0	10.1
DCBB IN	104	33	1.0	0.7	0.9	0.9	11.8	12.6
BANDHAN IN	141	227	1.6	1.4	1.9	2.0	15.4	16.5
IDFCBK IN	58	428	1.5	1.3	0.6	1.0	5.9	9.9
SBIN IN	689	6,141	1.7	1.5	1.1	1.1	17.9	16.5
CBK IN	81	739	1.1	1.0	1.0	1.0	17.2	16.5

Source: Company, BOBCAPS Research. Priced as at 25 Feb 2025

Fig 2 – BOBCAPS Banking universe: Q3FY25

Ticker	NII (Rs mn)	YoY (%)	QoQ (%)	PPOP (Rs mn)	QoQ (%)	PAT (Rs mn)	QoQ (%)
HDFCB IN	3,06,533	7.7	1.8	2,50,004	1.2	1,67,355	(0.5)
ICICIBC IN	2,03,706	9.1	1.6	1,68,866	1.0	1,17,924	0.4
AXSB IN	1,36,059	8.6	0.9	1,05,339	(1.7)	63,038	(8.9)
KMB IN	71,963	9.8	2.5	51,810	1.6	33,048	(1.2)
IIB IN	52,281	(1.3)	(2.2)	36,007	0.0	14,024	5.3
FB IN	24,314	14.5	2.7	15,696	0.3	9,555	(9.6)
RBK IN	15,851	2.5	(1.9)	9,966	9.5	326	(85.3)
DCBB IN	5,429	14.5	6.6	2,711	6.3	1,514	(2.6)
BANDHAN IN	28,303	12.1	(4.0)	20,214	9.0	4,265	(54.5)
IDFCBK IN	49,021	14.4	2.4	17,589	(10.3)	3,394	69.1
SBIN IN	4,14,455	4.1	(0.4)	2,35,508	(19.6)	1,68,914	(7.9)
CBK IN	91,486	(2.9)	(1.8)	34,957	(10.5)	1,67,355	(0.5)

Source: BOBCAPS Research

Fig 3 – Slowdown in credit offtake

Advances (YoY %)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	62	55	52	7	3
ICICIBC IN	18	16	16	15	14
AXSB IN	22	14	14	11	9
KMB IN	16	18	19	15	15
IIB IN	20	18	15	13	12
FB IN	18	20	20	19	16
RBK IN	20	20	19	15	13
DCBB IN	18	19	19	19	23
BANDHAN IN	20	16	24	24	16
IDFCBK IN	26	28	21	23	20
SBIN IN	15	16	16	15	14
CBK IN	13	12	11	10	11

Source: Company, BOBCAPS Research. Note: HDFCB includes merger

Fig 4 – Credit growth moderated for most banks QoQ

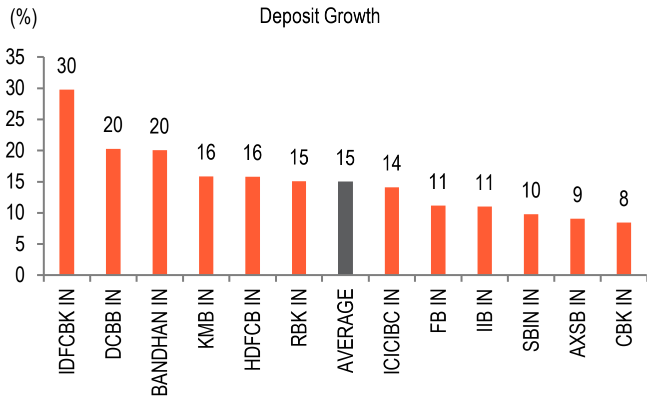
Source: Company, BOBCAPS Research

Fig 5 – Deposits mobilisation remained challenging

Deposits (YoY %)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	28	26	24	15	16
ICICIBC IN	19	20	15	16	14
AXSB IN	18	13	13	14	9
KMB IN	19	24	16	15	16
IIB IN	13	14	15	15	11
FB IN	19	18	20	16	11
RBK IN	13	22	18	20	15
DCBB IN	19	20	20	20	20
BANDHAN IN	15	25	23	27	20
IDFCBK IN	37	39	36	31	30
SBIN IN	13	11	8	9	10
CBK IN	9	11	12	9	8

Source: Company, BOBCAPS Research

Fig 6 – Decline in deposits hampered growth in Q3FY25



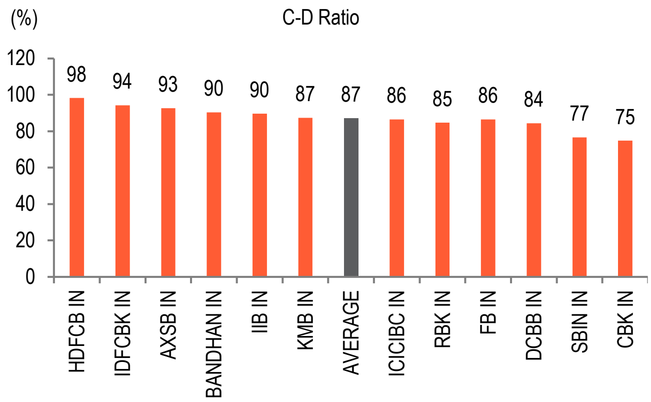
Source: Company, BOBCAPS Research

Fig 7 – C-D ratio increased marginally on a sequential basis

C-D Ratio (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	110	104	104	100	98
ICICIBC IN	87	84	86	85	86
AXSB IN	93	90	92	92	93
KMB IN	88	84	87	87	87
IIB IN	89	89	87	87	90
FB IN	83	83	83	86	86
RBK IN	86	81	86	81	85
DCBB IN	83	83	82	82	84
BANDHAN IN	94	90	91	88	90
IDFCBK IN	102	97	97	96	94
SBIN IN	74	75	76	75	77
CBK IN	72	72	73	71	71

Source: Company, BOBCAPS Research

Fig 8 – C-D ratio increased moderately due to decline in advances in Q3FY25



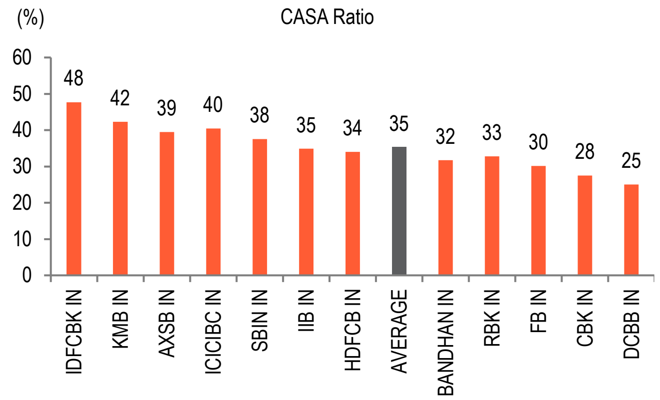
Source: Company, BOBCAPS Research

Fig 9 – CASA ratio declined due to challenges in CA mobilisation

CASA Ratio (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	38	38	36	35	34
ICICIBC IN	40	42	41	41	40
AXSB IN	42	43	42	41	39
KMB IN	48	46	43	44	42
IIB IN	38	38	37	36	35
FB IN	31	29	29	30	30
RBK IN	34	35	33	34	33
DCBB IN	26	26	25	26	25
BANDHAN IN	36	37	33	33	32
IDFCBK IN	47	47	47	49	48
SBIN IN	40	40	39	38	38
CBK IN	29	30	29	29	28

Source: Company, BOBCAPS Research

Fig 10 – IDFC & KMB maintained their CASA ration position in Q3FY25



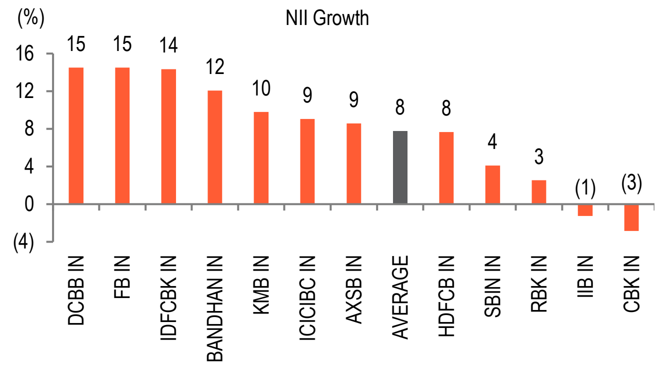
Source: Company, BOBCAPS Research

Fig 11 – NII growth moderated mainly driven by slowdown in credit growth

NII Growth (YoY %)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	24	25	26	10	8
ICICIBC IN	13	8	7	10	9
AXSB IN	9	11	12	9	9
KMB IN	16	13	10	11	10
IIB IN	18	15	11	5	(1)
FB IN	9	15	19	15	15
RBK IN	35	32	20	9	3
DCBB IN	6	4	5	7	15
BANDHAN IN	21	16	21	21	12
IDFCBK IN	30	24	25	21	14
SBIN IN	5	3	6	5	4
CBK IN	10	11	6	5	(3)

Source: Company, BOBCAPS Research

Fig 12 – NII growth fall in line with business growth in Q3FY25



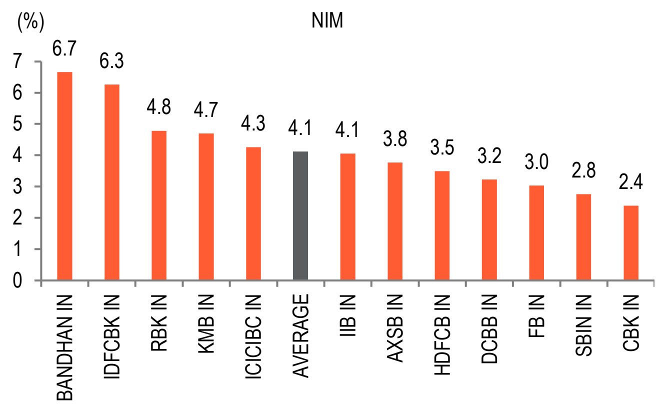
Source: Company, BOBCAPS Research

Fig 13 – NIMs moderated mainly driven by decline in CASA ratio

NIM (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	3.5	3.5	3.5	3.5	3.5
ICICIBC IN	4.5	4.4	4.4	4.3	4.3
AXSB IN	3.9	3.8	3.8	3.8	3.8
KMB IN	5.0	4.9	4.7	4.7	4.7
IIB IN	4.7	4.5	4.4	4.2	4.1
FB IN	3.1	3.1	3.1	3.0	3.0
RBK IN	5.3	5.2	5.4	5.0	4.8
DCBB IN	3.4	3.5	3.3	3.2	3.2
BANDHAN IN	7.0	7.3	7.3	7.1	6.7
IDFCBK IN	6.7	6.6	6.5	6.4	6.3
SBIN IN	2.9	3.0	2.9	2.9	2.8
CBK IN	2.7	2.7	2.5	2.5	2.4

Source: Company, BOBCAPS Research

Fig 14 – NIMs were under pressure in Q3FY25



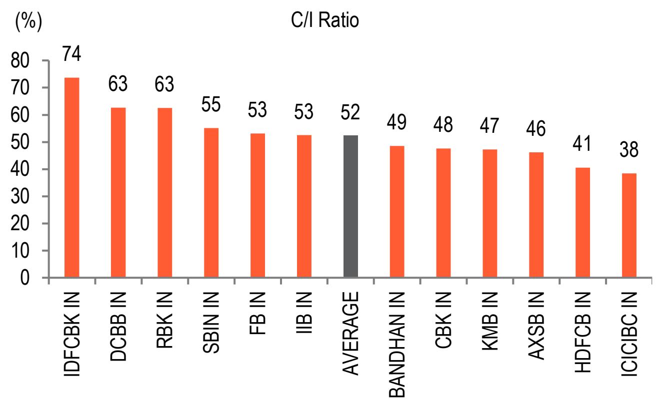
Source: Company, BOBCAPS Research

Fig 15 – C/I ratios remain contained with slowdown in business growth

CIR (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	40	38	41	41	41
ICICIBC IN	41	39	40	39	38
AXSB IN	49	47	47	47	46
KMB IN	48	45	46	47	47
IIB IN	47	48	50	52	53
FB IN	52	62	53	53	53
RBK IN	67	64	66	64	63
DCBB IN	65	64	68	64	63
BANDHAN IN	46	48	45	48	49
IDFCBK IN	73	73	70	70	74
SBIN IN	60	51	49	49	55
CBK IN	50	50	47	46	48

Source: Company, BOBCAPS Research

Fig 16 – C/I ratios continued to be rangebound in Q3FY25



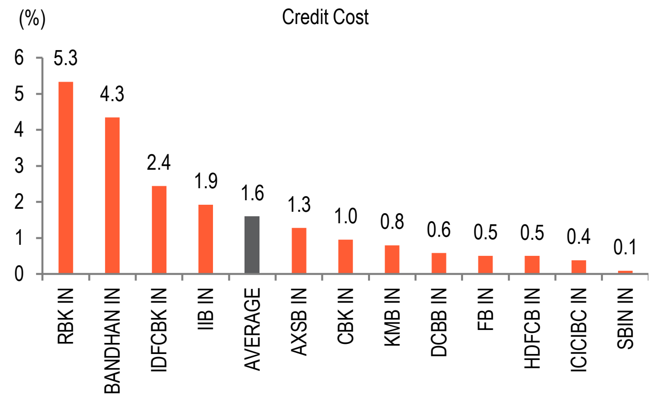
Source: Company, BOBCAPS Research

Fig 17 – Credit cost increased mainly driven by stress in unsecured portfolio

Credit Cost (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	0.7	2.2	0.4	0.4	0.5
ICICIBC IN	0.4	0.2	0.4	0.4	0.4
AXSB IN	0.5	0.5	0.8	0.9	1.3
KMB IN	0.7	0.3	0.6	0.7	0.8
IIB IN	1.2	1.1	1.2	2.1	1.9
FB IN	0.2	(0.2)	0.3	0.3	0.5
RBK IN	2.3	2.0	1.7	2.8	5.3
DCBB IN	0.4	0.2	0.3	0.4	0.6
BANDHAN IN	2.6	6.1	1.7	2.0	4.3
IDFCBK IN	1.5	1.5	2.0	3.3	2.4
SBIN IN	0.1	0.2	0.4	0.5	0.1
CBK IN	0.8	1.1	1.0	0.9	1.0

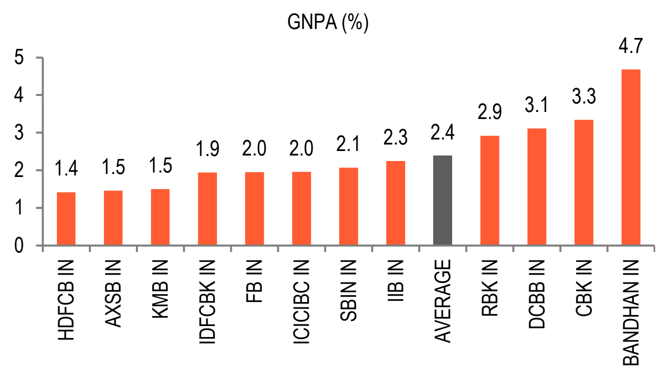
Source: Company, BOBCAPS Research

Fig 18 – Credit cost increased marginally in Q3FY25



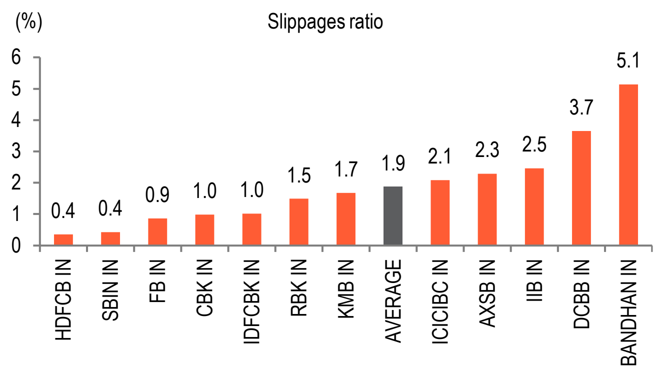
Source: Company, BOBCAPS Research

Fig 19 – Asset quality weakened marginally mainly driven by stress in MFI and credit card portfolios (Q3FY25)



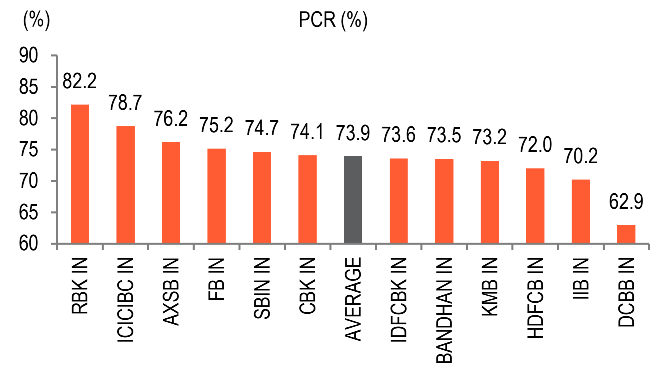
Source: Company, BOBCAPS Research

Fig 20 – Uptick in slippages ratio across banks mainly due to unsecured segment (Q3FY25)



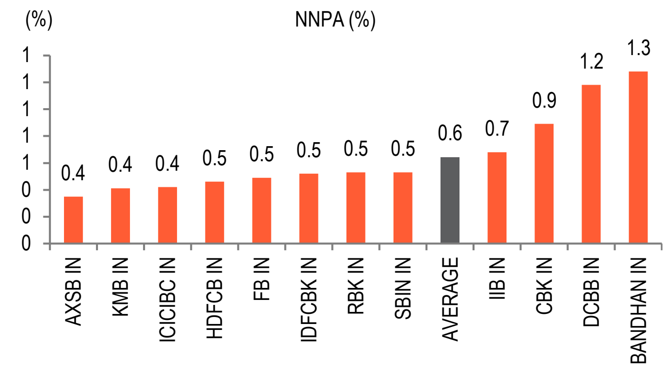
Source: Company, BOBCAPS Research

Fig 21 – PCR broadly improved for most of the banks (Q3FY25)



Source: Company, BOBCAPS Research

Fig 22 – NNPA ratios largely remain contained (Q3FY25)



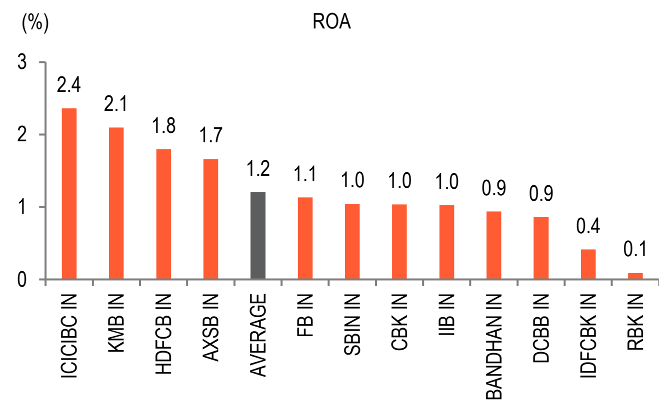
Source: Company, BOBCAPS Research

Fig 23 – RoA largely remained stable

ROA (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	1.9	1.9	1.8	1.9	1.8
ICICIBC IN	2.3	2.3	2.4	2.4	2.4
AXSB IN	1.8	2.0	1.6	1.9	1.7
KMB IN	2.2	2.9	4.1	2.2	2.1
IIB IN	1.9	1.9	1.7	1.0	1.0
FB IN	1.4	1.2	1.3	1.3	1.1
RBK IN	0.7	1.1	1.1	0.6	0.1
DCBB IN	0.9	1.0	0.8	0.9	0.9
BANDHAN IN	1.9	0.1	2.4	2.1	0.9
IDFCBK IN	1.1	1.0	0.9	0.3	0.4
SBIN IN	0.6	1.4	1.1	1.2	1.0
CBK IN	1.0	1.0	1.0	1.0	1.0

Source: Company, BOBCAPS Research

Fig 24 – ICICI continued to top in terms of return ratio in Q3FY25



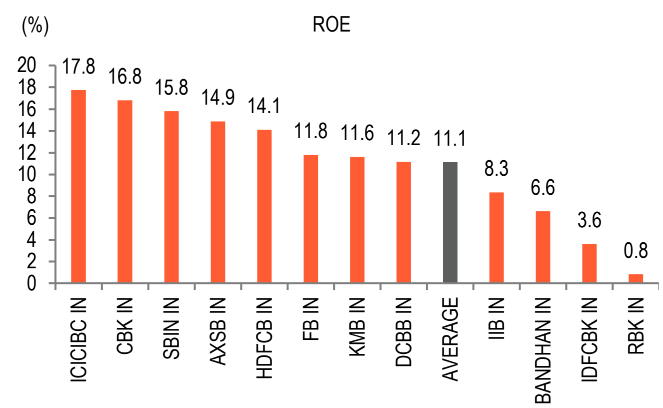
Source: Company, BOBCAPS Research

Fig 25 – RoE remained stable with some moderation on weak quarterly performance

ROE (%)	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
HDFCB IN	16	15	14	15	14
ICICIBC IN	19	18	18	18	18
AXSB IN	17	19	16	17	15
KMB IN	13	17	25	12	12
IIB IN	15	15	13	8	8
FB IN	15	12	13	13	12
RBK IN	7	10	10	6	1
DCBB IN	10	12	10	12	11
BANDHAN IN	13	1	18	15	7
IDFCBK IN	10	9	8	2	4
SBIN IN	10	22	18	18	16
CBK IN	18	18	17	17	17

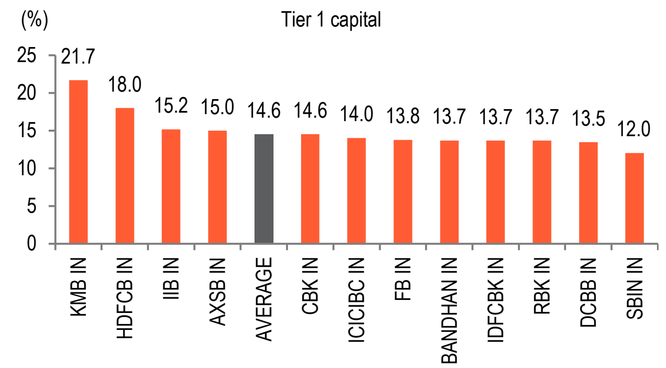
Source: Company, BOBCAPS Research

Fig 26 – ICICIBC and PSBs top the chart in terms of RoE (Q3FY25)



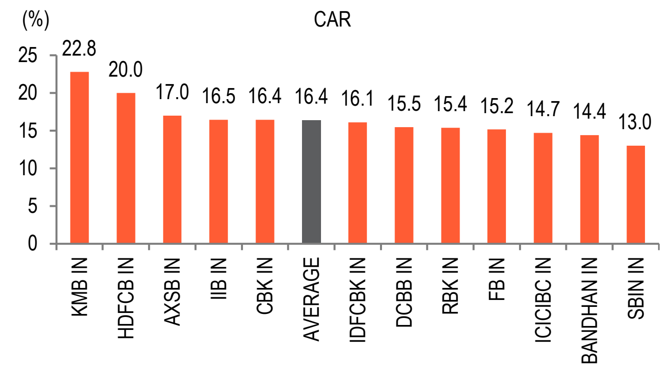
Source: Company, BOBCAPS Research

Fig 27 – Tier 1 capital remained stable or improved marginally for most banks in Q3FY25



Source: Company, BOBCAPS Research

Fig 28 – CAR remained largely rangebound (Q3FY25)



Source: Company, BOBCAPS Research

Glossary

Glossary of Abbreviations			
CASA	Current Account and Savings Account	**NIM**	Net Interest Margin
CAR	Capital Adequacy Ratio	**NNPA**	Net Non-Performing Assets
CET1	Common Equity Tier 1	**PCR**	Provision Coverage Ratio
C-D	Credit-Deposit Ratio	**PSB**	Public Sector Banks
C/I	Cost-Income Ratio	**RBI**	Reserve Bank of India
GNPA	Gross Non-Performing Assets	**RWA**	Risk-weighted Assets
LCR	Liquidity Coverage Ratio	**SLR**	Statutory Liquidity Ratio
MFI	Microfinance Institution	**SMA**	Special Mention Account
NII	Net Interest Income	**SME**	Small and Medium-sized Enterprises

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