

## NPA recognition begins; provision buffers to cushion earnings

The SC has lifted its stay on tagging of NPAs but we expect slippages to be lower in Q4FY21 as banks have recognised a bulk of the Covid-related stress in their proforma numbers. Most players have created healthy provisioning buffers – this coupled with corporate resolutions should cushion earnings. Management commentary regarding the growth and asset quality effects of the second Covid wave will be keenly watched. We maintain our preference for frontline banks (ICICIBC, HDFCB, SBIN) as they are well provisioned and adequately capitalised.

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**Pace of slippages likely to moderate:** The Supreme Court recently lifted the standstill on NPA recognition, which implies better clarity on asset quality in Q4. Despite this, we expect the pace of incremental slippages to be lower QoQ as most of our coverage has recognised a bulk of the stress in their proforma numbers till Q3. Recovery from Bhushan Power and resolution of a few small cases should aid the sector. Credit cost is projected to be lower QoQ with large banks such as Axis Bank (AXSB) and ICICI (ICICIBC) potentially seeing writebacks of excess provisions. Variation in slippages from actual stress recognition and proforma reporting will be key monitorables. Fresh restructuring is likely to be negligible.

**Loan growth yet to pick up meaningfully:** As per RBI data, loan growth for the system remained sluggish at ~6% YoY in Q4. A large part of the growth was likely driven by retail and the emergency credit line scheme (ECLGS) while corporate growth remained negative. As per Q4 business updates provided by select banks, HDFC Bank (HDFCB) is the only outlier with a 14% YoY uptick in credit, Federal Bank (FB) grew 9%, and IndusInd (IIB) and RBL Bank (RBK) were largely flat. Deposit growth in the system stood at ~11% YoY in Q4 with HDFCB, IIB, Bandhan and RBK reporting healthy 10-14% QoQ growth in CASA deposits.

**Interest reversals pose risk to NIM:** A large float of CASA deposits is likely to provide tailwinds to margins but following the SC judgement, banks have to refund the interest-on-interest charged on overdue loans. Moreover, players that have not reversed interest on proforma NPAs but treated this under provisions run the risk of a one-off impact on NIM. Non-interest income is likely to be aided by QoQ improvement in fees and recoveries from written-off accounts. However, we expect treasury income to be lower as bond yields have risen ~30bps QoQ during the quarter.

### RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
AUBANK IN	1,077	1,500	BUY
AXSB IN	669	760	BUY
BANDHAN IN	323	375	ADD
CBK IN	134	150	ADD
FB IN	76	85	ADD
HDFCB IN	1,428	1,800	BUY
ICICIBC IN	567	675	BUY
IDFCFB IN	54	23	SELL
IIB IN	865	1,100	BUY
KMB IN	1,766	2,100	BUY
RBK IN	188	195	SELL
SBIN IN	340	475	BUY

Price & Target in Rupees | Price as of 16 Apr 2021



FIG 1 – BOBCAPS BANKING UNIVERSE: Q4FY21 ESTIMATES

Particulars (Rs mn)	Q4FY21E	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	Comments
<b>AU Small Finance Bank</b>						
Net interest income	5,549	6,331	6,754	21.7	6.7	Profitability is expected to normalise in Q4 given that Q3 had one-off gains from the stake sale in Aavas.
Pre-provisioning profit	3,158	8,728	4,476	41.7	(48.7)	Provisions are likely to remain under control with lower stress formation and adequate existing buffers.
Profit after tax	1,223	4,790	2,105	72.1	(56.0)	
<b>Bandhan Bank</b>						
Net interest income	19,580	16,800	20,717	16.5	(5.5)	Strong reported loan growth of 21% YoY/8% QoQ should drive 17% YoY NII growth. Elevated provisions could constrain profitability. Commentary on Assam and West Bengal portfolios will be keenly watched.
Pre-provisioning profit	17,618	15,207	19,141	15.9	(8.0)	
Profit after tax	4,564	5,173	6,326	(11.8)	(27.9)	
<b>Axis Bank</b>						
Net interest income	77,186	68,077	73,727	13.4	4.7	Expect loan growth of 7-8% YoY; NIM is forecast to remain stable. Slippages and movement of the BB- & below rated pool are key monitorables. Expect positive commentary on credit cost normalisation in FY22.
Pre-provisioning profit	64,259	58,511	60,955	9.8	5.4	
Profit after tax	29,540	(13,878)	11,166	(312.9)	164.6	
<b>Canara Bank</b>						
Net interest income	63,241	50,860	60,809	24.3	4.0	Performance of the SME book is a key monitorable. Earnings should be aided by the resolution of a stressed account.
Pre-provisioning profit	56,219	24,110	53,815	133.2	4.5	
Profit after tax	14,081	(65,680)	6,961	(121.4)	102.3	
<b>DCB Bank</b>						
Net interest income	3,389	3,237	3,348	4.7	1.2	Loan growth is likely to remain weak and higher provisions would weigh on earnings. We await management commentary on performance of the LAP, SME and CV portfolios.
Pre-provisioning profit	2,274	2,121	2,773	7.2	(18.0)	
Profit after tax	613	688	962	(10.9)	(36.3)	
<b>Federal Bank</b>						
Net interest income	15,296	12,160	14,370	25.8	6.4	The bank has reported loan growth of 9% YoY, higher than the industry. Commentary with respect to performance of the SME, retail and restructured portfolios will be in focus.
Pre-provisioning profit	10,081	9,593	9,629	5.1	4.7	
Profit after tax	3,999	3,012	4,041	32.8	(1.0)	
<b>HDFC Bank</b>						
Net interest income	174,325	152,041	163,176	14.7	6.8	Loan growth remains strong while NIM is estimated to remain healthy. Expect stable GNPA with strong collection efficiency. Management outlook on the retail unsecured and SME portfolios is key to watch.
Pre-provisioning profit	150,834	129,588	151,860	16.4	(0.7)	
Profit after tax	81,913	69,277	87,583	18.2	(6.5)	
<b>ICICI Bank</b>						
Net interest income	102,417	89,269	99,125	14.7	3.3	Loan growth should be better than industry with retail being the key driver. Expect the bank to write back excess provisions which should boost profitability.
Pre-provisioning profit	87,398	73,901	88,198	18.3	(0.9)	
Profit after tax	50,995	12,214	49,396	317.5	3.2	
<b>IDFC First Bank</b>						
Net interest income	18,054	15,635	17,439	15.5	3.5	Strong retail momentum is likely to continue both on the assets as well as liabilities side. We remain watchful of asset quality.
Pre-provisioning profit	3,810	5,198	6,609	(26.7)	(42.4)	
Profit after tax	933	715	1,295	30.4	(28.0)	
<b>IndusInd Bank</b>						
Net interest income	35,923	32,312	34,061	11.2	5.5	Loan growth was reported to be flat YoY but deposit momentum remains healthy. Provisions could remain high as IIB continues to shore up buffers. Comments on CV, MFI, LAP and real estate portfolios awaited.
Pre-provisioning profit	30,326	28,362	29,636	6.9	2.3	
Profit after tax	9,127	3,018	8,304	202.4	9.9	
<b>Kotak Bank</b>						
Net interest income	41,838	35,597	40,068	17.5	4.4	Expect moderate loan growth but strong deposit accretion. Management outlook on the SME and unsecured businesses remains in focus.
Pre-provisioning profit	31,605	27,253	30,833	16.0	2.5	
Profit after tax	17,541	12,666	18,535	38.5	(5.4)	
<b>RBL Bank</b>						
Net interest income	9,394	10,210	9,082	(8.0)	3.4	Credit growth was reported at just ~2% YoY; elevated provisions could cap earnings QoQ. Performance of the cards, SME and MFI portfolios holds the key.
Pre-provisioning profit	8,267	7,648	8,048	8.1	2.7	
Profit after tax	1,480	1,144	1,471	29.5	0.7	
<b>State Bank of India</b>						
Net interest income	293,469	227,669	288,199	28.9	1.8	Expect manageable asset quality. Profitability is forecast to remain healthy given one-off gains and write-backs from some corporate account resolutions.
Pre-provisioning profit	204,523	184,651	173,332	10.8	18.0	
Profit after tax	64,415	35,808	51,962	79.9	24.0	

Source: BOBCAPS Research

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