

Private Sector Banks

.....Stress formation lower than expected

LKP

The 2QFY21 earnings of major private banks signals that the NPA formation is lower and the key pointers which reinforce our convictions are : 1) strong rebound in collection efficiencies, 2) improving asset quality aided by asset classification stand still, and 3) strong COVID provision buffer. Moreover, the NIMs for large private banks are positively impacted because of a) reduction in excess liquidity as loan growth improved sequentially, b) minimum interest reversal as asset classification stood still. Major large private banks highlighted that the COVID provision buffer is at adequate level and smaller banks indicated a significant boost in collection efficiencies. For overall SCBs, the credit growth improved (~5.5% YoY) compared to the previous quarter and deposit growth (~10% YoY) stood marginally lower compared to the previous quarter. We prefer banks with better shock absorption capacity and ability to capture growth. HDFC Bank, ICICI Bank, Axis Bank, Kotak Mahindra Bank and Indusind Bank remain our Top Picks.

Stress formation to be lower than expected

The overall NPA ratio declined sequentially because of Supreme Court's interim order. Nevertheless, most of the large banks reported stable pro-forma NPA numbers, while most lenders indicated healthy trend in collection efficiencies (~94% for most of the bank) in Sep/Oct-20. The large private sector banks expect ~3% of book may go for restructuring. Moreover, SMA 2 (89bps) reported in RBI's financial stability report is at a comfortable level. On the back of higher collection efficiencies, we estimate SCB's FY21E, GNPA ratio to inch up to ~11.5% (v/s 13% estimated by RBI under base case scenario). However, the Net NPA formation may remain stable because of ample contingent provision (ex. PCR) available in the balance sheet. We estimate the NNPA ratio to be at ~4% by FY21E which is lower than FY16-19 run rate.

Lenders having "higher shock absorbing capacity" are better placed

As on 2QFY21, the large private sector banks have made sturdy contingent provision buffer (standard assets, ex. PCR). The non-specific provisions is likely to be sufficient to absorb the potential stress emerging from COVID. We expect the credit cost of large private banks (HDFCB, ICICIB, AxisB, IndusindB) to normalize in 2HFY21. A bulky COVID provision would keep the NNPA under check. We estimate the NNPA ratio of 4% (v/s 6% in FY18, highest in last decade).

Growth to return in 2HFY21E

2QFY21 results indicated private bank's earnings recovery from COVID faster than anticipated. Private Banks witnessed healthy NII growth (~16% YoY) as NIMs remain stable. Non-interest income bounced back from 1QFY21 low. A contained operating expenses led to PPOp growth of ~14.5% YoY. The advance growth was driven by retail loans, which expanded 2% – 6% for most of the banks. HDFC Bank reported consumer loan disbursement at 90% of Pre-COVID level. SME loan too grew strongly by 5% - 10% sequentially led by ECGS. As the collection efficiencies improved along with lower stress formation, the banks' management believes the worst is behind us and is gearing up for growth in 3QFY21 onwards.

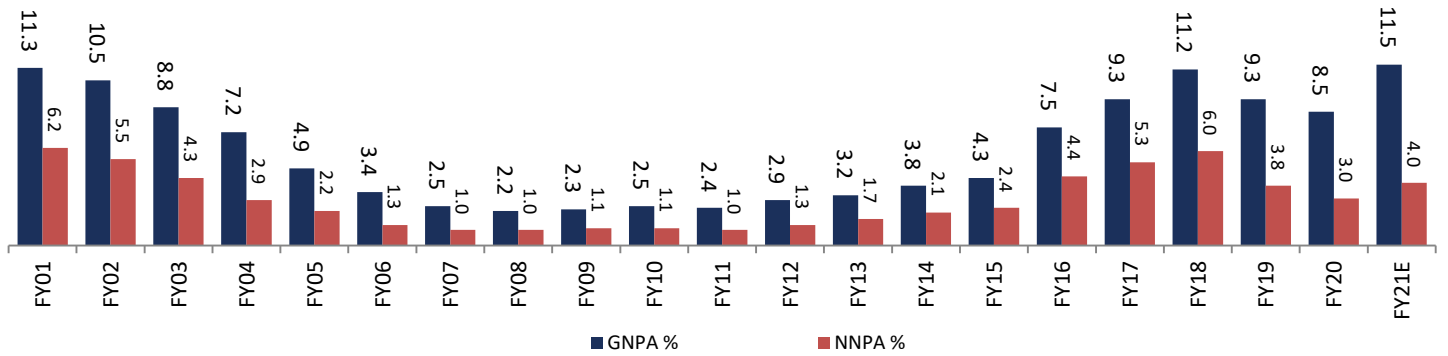
Company	HDFC Bank	ICICI Bank	Axis Bank	Kotak Bank	Indusind Bank	Federal Bank	RBL Bank	DCB Bank	SBI
Collection Efficiency (%)	94	96	94	95	94	95	93	92	90
COVID Provision (bps of loan)	120	226	218	113	170	48	120	170	31
GNPA (% reported)	1.08	5.17	4.49	2.55	2.21	2.84	3.34	2.27	5.28
NNPA (% reported)	0.17	1.00	1.06	0.64	0.52	0.99	1.38	0.83	1.29
GNPA (% Pro-forma)	1.37	5.36	4.30	2.70	2.32	NA	3.49	2.39	5.88
NNPA (% Pro-forma)	0.35	1.12	1.00	0.70	0.61	NA	1.49	0.92	2.08

Source: Company, LKP Research

Stress formation lower than expected

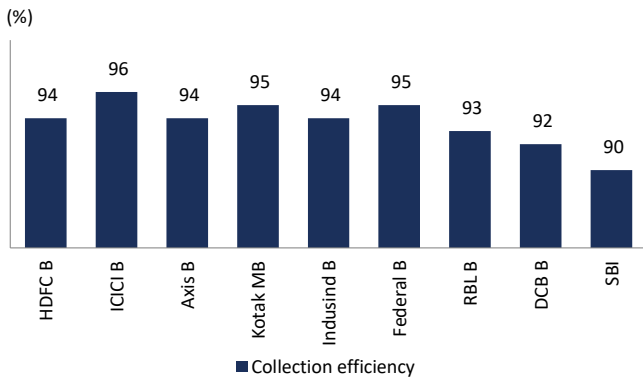
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GNPA and NNPA trend chart



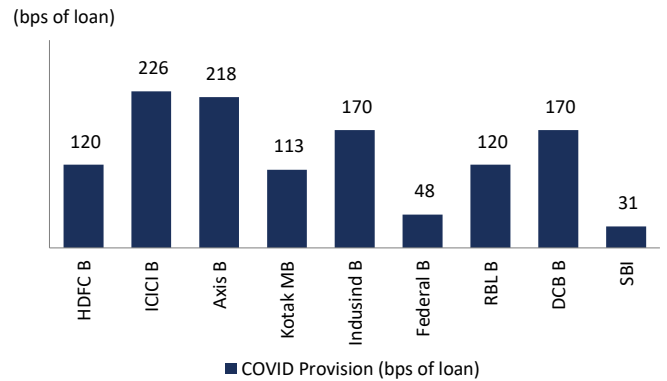
Source: Company, LKP Research

Collection Efficiencies



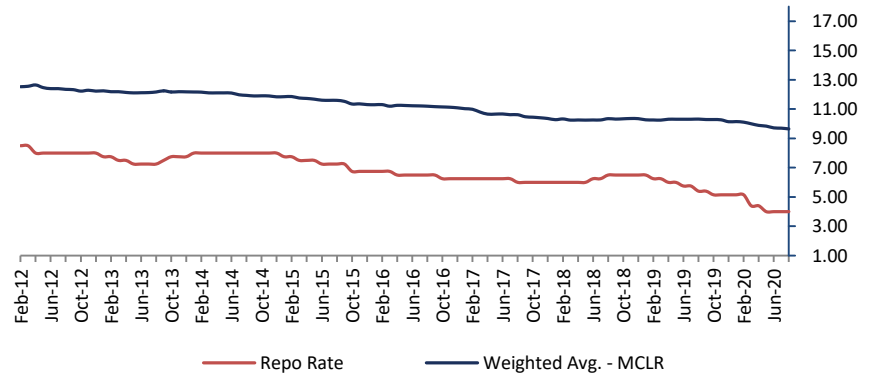
Source: Company, LKP Research

COVID Provision



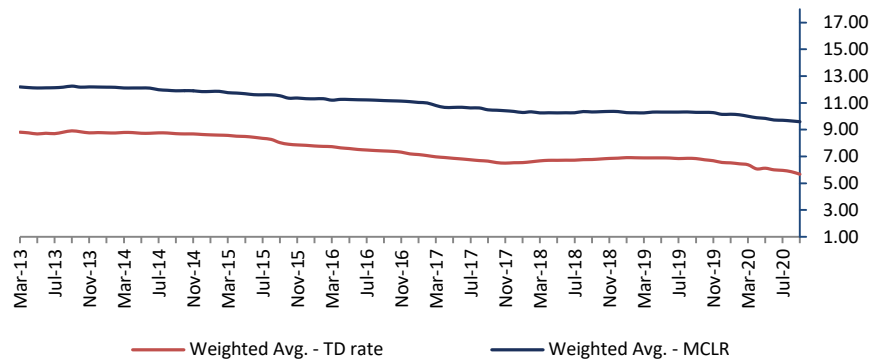
NIMs to remain stable as spread widening

Repo rate and Monthly WA-MCLR trend



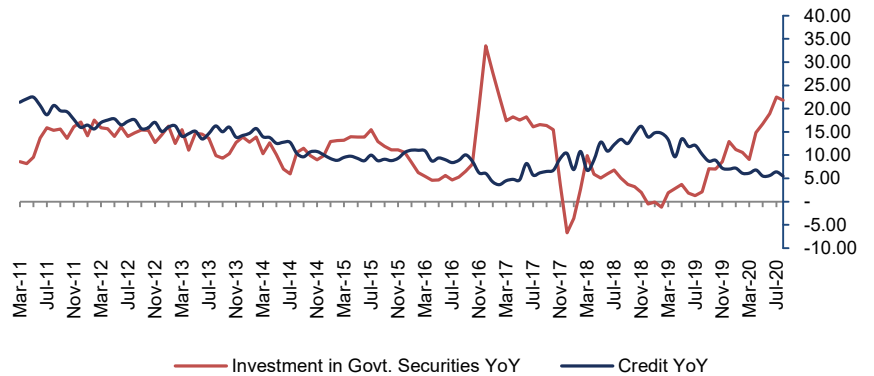
Source: Company, LKP Research

Monthly Weighted avg. MCLR and Weighted avg. TD rates Trend



Source: Company, LKP Research

Credit growth v/s Investment in Govt. sec



Source: Company, LKP Research

Exhibit: 1 Details of Bank Credit

Qtr	2QFY20	1QFY21	2QFY21	QoQ %	YoY %
Gross Bank Credit	86,802	91,360	91,835	0.5	5.8
Industry	27,749	28,752	27,749	(3.5)	(0.0)
Retail Loans	23,558	24,904	25,717	3.3	9.2
Housing (Including Priority Sector Housing)	12,532	13,359	13,598	1.8	8.5
Vehicle Loans	2,034	2,146	2,214	3.2	8.8
Credit Card Outstanding	994	976	1,056	8.3	6.3
Other Personal Loans	6,568	7,012	7,436	6.0	13.2
Services	23,619	25,285	25,763	1.9	9.1
Tourism, Hotels & Restaurants	404	463	484	4.6	19.7
Shipping	60	52	51	(1.1)	(14.5)
Commercial Real Estate	2,181	2,293	2,300	0.3	5.5
Non-Banking Financial Companies (NBFCs)	7,135	7,985	8,026	0.5	12.5
Priority Sector	27,599	28,038	28,842	2.9	4.5
Agriculture & Allied Activities	11,278	11,529	11,945	3.6	5.9
Micro & Small Enterprises	10,566	11,324	11,271	(0.5)	6.7
Micro-Credit	321	358	323	(9.7)	0.8
Education Loans	539	520	519	(0.3)	(3.8)
Weaker Sections	6,966	7,404	7,438	0.5	6.8
Export Credit	145	167	148	(11.3)	2.6

Source: Company, LKP Research

Exhibit: 2 Bank's Credit - Sector wise

Qtr	2QFY20	1QFY21	2QFY21	QoQ %	YoY %
Food Processing	1,423.9	1,579.4	1,484.5	(6.0)	4.3
Beverage & Tobacco	149.7	150.3	149.6	(0.4)	(0.1)
Textiles	1,867.7	1,892.4	1,889.2	(0.2)	1.1
Leather & Leather Products	110.4	109.4	118.6	8.4	7.4
Wood & Wood Products	120.8	125.9	130.4	3.6	7.9
Paper & Paper Products	299.7	316.8	331.2	4.6	10.5
Petroleum, Coal Products & Nuclear Fuels	535.8	733.2	605.4	(17.4)	13.0
Chemicals & Chemical Products	1,805.2	1,800.1	1,751.7	(2.7)	(3.0)
Rubber, Plastic & their Products	470.1	484.0	491.9	1.6	4.6
Glass & Glassware	93.9	81.3	89.9	10.5	(4.2)
Cement & Cement Products	608.1	571.6	583.2	2.0	(4.1)
Basic Metal & Metal Product	3,540.2	3,503.6	3,430.2	(2.1)	(3.1)
Vehicles, Vehicle Parts & Transport Equipment	830.4	853.7	901.1	5.5	8.5
Gems & Jewellery	656.4	556.9	556.2	(0.1)	(15.3)
Construction	1,000.7	1,026.1	1,046.0	1.9	4.5
Infrastructure	10,037.9	10,691.6	10,152.4	(5.0)	1.1
Other Industries	2,150.4	2,374.2	2,221.2	(6.4)	3.3

Source: Company, LKP Research

Peer-set and our estimates

Exhibit: 3 Bank's Credit - Sector wise

	CMP	M.Cap	P/B (x)				Adjusted P/B (x)				RoE (%)				RoA(%)			
	(Rs)	(Rs Bn)	MRQ	FY20	FY21E	FY22E	MRQ	FY20E	FY21E	FY22E	MRQ	FY20	FY21E	FY22E	MRQ	FY20	FY21E	FY22E
State Bank of India	234	2,090	0.9	1.0	0.9	0.9	0.9	1.1	1.0	0.9	6.9	6.4	6.2	8.8	0.4	0.4	0.4	0.5
HDFC Bank	1,390	7,652	4.3	4.5	3.8	3.2	4.3	4.5	3.8	3.2	15.0	16.4	15.6	17.6	1.8	1.9	1.7	2.0
ICICI Bank	487	3,356	2.7	2.8	2.7	2.5	2.7	2.9	2.8	2.6	8.9	7.1	7.6	8.6	1.0	0.8	0.8	0.9
Axis Bank	608	1,863	2.0	2.0	2.0	1.9	2.0	2.0	2.1	2.0	5.7	2.1	2.7	5.9	0.5	0.2	0.2	0.5
Kotak Mahindra Bank	1,807	3,578	6.3	7.1	6.6	5.8	6.3	7.2	6.6	5.8	8.7	13.1	11.8	12.4	1.4	1.8	1.6	1.8
Indusind Bank	787	596	1.6	1.6	1.5	1.3	1.6	1.7	1.5	1.3	5.9	14.6	12.5	14.4	0.6	1.5	1.5	1.8
Federal Bank	57	114	0.8	0.8	0.7	0.6	0.8	0.8	0.7	0.6	10.9	11.1	10.1	13.8	0.9	0.9	0.8	1.1
DCB Bank	90	28	0.8	0.9	0.8	0.7	0.8	0.9	0.8	0.7	9.9	10.3	9.8	10.9	0.8	0.9	0.9	1.0
RBL Bank	205	105	1.0	1.0	0.9	0.9	1.0	1.0	1.0	0.9	5.2	5.6	4.7	9.7	0.6	0.6	0.6	1.1

Source: Company, LKP Research

Exhibit: 4 Income statement estimates

	Net Interest Income (Rsmn)				NIMs (%)				Other Income (Rsmn)			
	TTM	FY21E	FY22E	FY23E	TTM	FY21E	FY22E	FY23E	TTM	FY21E	FY22E	FY23E
State Bank of India	266,416	1,137,404	1,245,136	1,377,281	3.0	3.0	3.1	3.1	79,575	343,987	364,872	388,166
HDFC Bank	156,654	667,665	817,497	996,977	4.3	4.2	4.4	4.5	40,753	246,529	282,587	324,513
ICICI Bank	92,798	367,948	406,236	461,067	3.7	3.5	3.6	3.7	61,426	180,266	159,876	176,181
Axis Bank	69,853	287,350	328,021	375,247	3.4	3.4	3.6	3.8	25,867	140,668	151,323	162,797
Kotak Mahindra Bank	37,239	144,880	156,446	172,092	4.4	4.1	4.1	4.2	7,735	57,306	64,182	71,308
Indusind Bank	33,092	134,800	148,776	167,256	4.3	4.6	4.6	4.6	15,192	74,734	84,545	95,502
Federal Bank	12,964	52,119	60,674	70,217	-	2.9	3.1	3.2	4,884	21,094	22,972	28,628
DCB Bank	3,067	13,732	15,285	17,296	3.4	3.6	3.7	3.8	776	4,135	4,494	5,509
RBL Bank	10,413	39,572	43,322	47,231	4.9	4.5	4.6	4.7	3,333	20,431	22,695	25,380

Source: Company, LKP Research

Exhibit: 5 Income statement estimates

	PPP (Rsmn)				Provisioning Expenses				PAT (Rsmn)			
	TTM	FY21E	FY22E	FY23E	TTM	FY21E	FY22E	FY23E	TTM	FY21E	FY22E	FY23E
State Bank of India	165,214	698,669	760,208	842,532	125,013	501,450	458,253	421,721	41,893	147,914	226,466	315,609
HDFC Bank	128,293	568,477	699,052	856,293	38,915	181,772	184,422	219,731	66,586	289,255	384,943	476,148
ICICI Bank	107,765	307,627	298,664	339,035	75,940	184,764	146,439	146,704	25,992	91,656	113,560	143,479
Axis Bank	58,444	247,518	282,599	322,233	44,164	218,197	215,500	214,846	11,122	22,841	52,270	83,654
Kotak Mahindra Bank	26,237	108,262	115,845	124,586	9,620	26,815	18,628	18,413	12,445	60,678	72,427	79,099
Indusind Bank	28,613	122,158	134,074	150,022	22,589	59,661	49,711	49,357	4,606	46,873	63,272	75,499
Federal Bank	9,324	36,774	42,594	52,683	3,946	16,022	10,760	12,547	4,008	15,481	23,748	29,941
DCB Bank	1,911	8,385	9,586	11,385	837	3,660	3,751	3,865	794	3,544	4,376	5,640
RBL Bank	6,897	29,535	31,807	33,660	5,002	22,630	16,705	11,260	1,412	5,144	11,251	16,688

Source: Company, LKP Research

Exhibit: 6 Asset quality estimates

	Slippages (%)				GNPA (%)				NNPA (%)			
	MRQ	FY21E	FY22E	FY23E	MRQ	FY21E	FY22E	FY23E	MRQ	FY21E	FY22E	FY23E
State Bank of India	0.2	2.4	1.5	1.2	5.4	6.9	6.2	5.2	1.9	2.4	2.0	1.7
HDFC Bank	0.4	2.0	1.6	1.2	1.4	1.4	1.3	1.2	0.3	0.4	0.3	0.3
ICICI Bank	0.2	2.4	1.8	1.5	5.5	6.9	5.6	4.4	1.2	1.5	1.2	0.9
Axis Bank	0.4	4.0	3.5	2.6	4.7	5.2	5.0	4.1	1.2	1.2	1.1	0.8
Kotak Mahindra Bank	0.4	1.5	1.0	0.8	2.7	2.9	2.2	1.8	0.9	0.8	0.7	0.7
Indusind Bank	0.7	3.0	2.2	1.8	2.5	3.1	2.5	2.3	0.9	1.1	0.9	0.9
Federal Bank	0.2	2.1	1.5	1.4	3.0	3.2	2.6	2.3	1.2	1.4	1.2	0.9
DCB Bank	0.0	3.2	2.7	1.5	2.2	2.7	2.2	1.8	1.0	1.3	1.0	0.8
RBL Bank	0.0	6.0	3.5	2.5	3.5	4.7	4.0	3.0	1.7	2.6	2.1	1.7

Source: Company, LKP Research

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