UPDATE

Banks

India

Sector View: **Attractive** NIFTY-50**: 21,659** **January 04, 2024**

Revenues slowing sharply; asset quality stable

We expect earnings growth for banks to remain healthy at ~17% yoy, but operating profit growth is weak as the NIM contraction cycle is underway. Non-banks under coverage will continue to deliver strong qoq loan growth. Earnings growth has support from lower provisions as asset quality remains in a healthy spot for all types of lenders. Key conversation would be on NIM progression and deposit mobilization trends.

Banks: Operating profit growth witnessing a sharp slowdown

3QFY24 is likely to be an extension of the theme that played in 1HFY24. Trends in operating profit growth are likely to be weak, though we expect earnings growth to have support from lower provisions. The provisional business data releases by a cross-section of banks suggests that loan growth has been ahead of deposit growth. Treasury gains is likely to be negligible. Asset quality is likely to remain in a sweet spot, leading to lower slippages, but recovery and upgrades are likely to lower as well. We expect banks to report a 15-20 bps decline in NIMs. While loan yields have limited room for expansion, we see deposit costs likely to re-price higher. A key discussion would be trends in deposit mobilization, as it has lagged loan growth. This would have a bearing on our NIM forecasts, given the sensitivity of the policy rates on NIM.

We prefer to own large banks after the rally in mid-tier banks. The improvement in asset-quality ratios leading to lower credit costs and normalization of growth has played out when we look at the valuation.

NBFCs: Strong headline performance, asset quality monitorable in pockets.

We expect most non-banks under coverage to deliver 6-39% growth in earnings, driven by healthy 19-43% loan growth (excluding 6% for LICHF, decline for LTFH). This is partially offset by 40-160 bps yoy (13-35 bps qoq) compression in NIM for most reflecting higher cost of refinance and rate transmission by banks. While we do not find red flags in most asset classes, likely stress in unsecured loans, tractors and a rise in early delinquencies down South will dominate discussion with investors. Retain positive stance; Shriram, LICHF and Aavas/Home First in affordable HFCs remain our top picks.

A strong quarter for the non-lenders

3QFY24 has been a strong quarter generally for capital market players, as reflected in market returns (Nifty-100 up ~12% in 3Q), strong retail flows and bond issuances (up 30% qoq). Among AMCs, equity AAUM growth has been much stronger for HDFC/Nippon (11-12% qoq), whereas it was much weaker for ABSL/UTI (4-5% qoq), reflecting the underlying fund performance. CAMS and Kfin are likely to benefit from operating leverage in the core MF RTA business, with a growing contribution from the non-MF businesses. Rating agencies should gain from sequentially stronger bond-raising activity, but non-rating revenues are harder to predict given the linkages with global markets.

Quick Numbers

Earnings growth expected to be modest for PSUs (14% yoy) and a bit better for private banks (20% yoy)

Deposit growth has been healthy at 9-31% yoy

Growth in unsecured loans was high at 30-270% yoy for NBFCs

Full sector coverage on KINSITE

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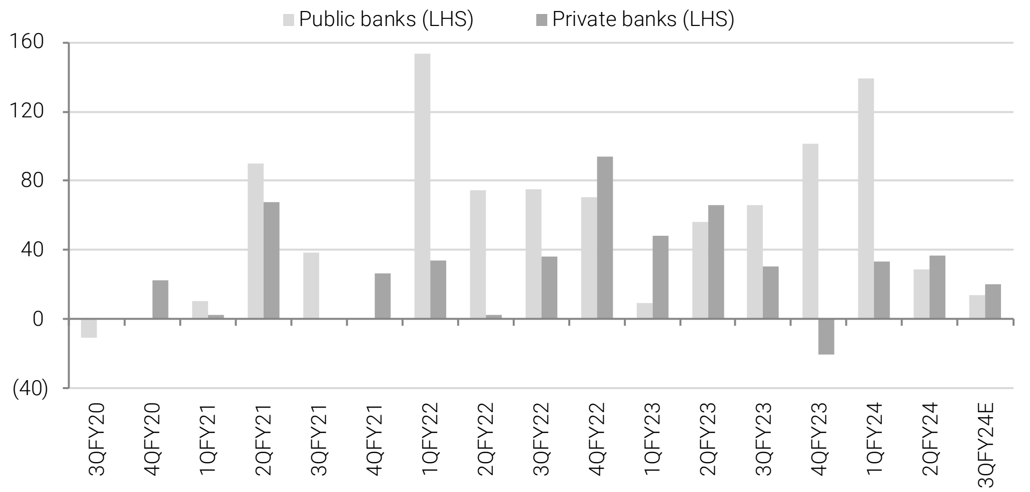
Earnings growth expected to be modest for PSUs (14% yoy) and a bit better for private banks (20% yoy)

Exhibit 1: Growth in PAT, March fiscal year-ends (%)

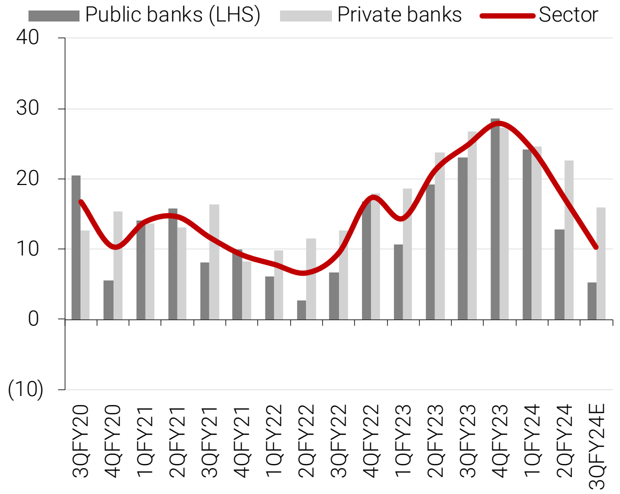


Notes:
(1) For PSU banks that merged in April 2020, we have computed yoy growth for proforma merged entities.

Source: Company, Kotak Institutional Equities

NII growth to be low with a sharp slowdown for PSU banks

Exhibit 2: Growth in NII, March fiscal year-ends (%)

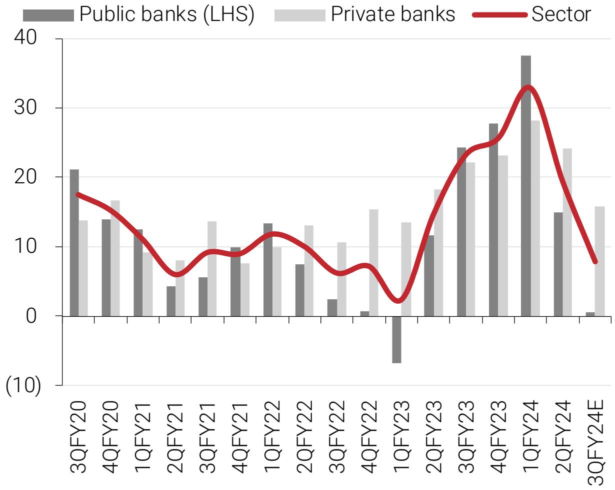


Notes:
(1) For PSU banks that merged in April 2020, we have computed yoy growth for proforma merged entities.

Source: Company, Kotak Institutional Equities

Revenue growth is also expected to be low

Exhibit 3: Revenue growth, March fiscal year-ends (%)



Notes:
(1) For PSU banks that merged in April 2020, we have computed yoy growth for proforma merged entities.

Source: Company, Kotak Institutional Equities

Low credit cost will support earnings growth as PPOP is likely to decline or grow modestly for most banks

Exhibit 4: Growth in NII, PPoP and earnings yoy and qoq, March fiscal year-ends

	Net interest income					Pre-provisioning profit					PAT				
	3QFY23	2QFY24	3QFY24E	YoY	QoQ	3QFY23	2QFY24	3QFY24E	YoY	QoQ	3QFY23	2QFY24	3QFY24E	YoY	QoQ
	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)	(Rs mn)	(Rs mn)	(Rs mn)	(%)	(%)
Banks															
Public banks															
Bank of Baroda	108,183	108,307	110,593	2	2	82,322	80,197	73,317	(11)	(9)	38,527	42,529	39,833	3	(6)
Canara Bank	86,000	89,030	87,992	2	(1)	69,521	76,156	68,037	(2)	(11)	28,815	36,061	33,335	16	(8)
PNB	91,794	99,229	100,083	9	1	57,159	62,164	62,509	9	1	6,289	17,561	21,113	236	20
State Bank of India	380,686	395,000	402,199	6	2	252,193	194,166	206,129	(18)	6	142,053	143,300	141,960	(0)	(1)
Union Bank	86,281	91,261	91,637	6	0	66,192	72,208	65,594	(1)	(9)	22,448	35,114	32,791	46	(7)
Old private banks															
City Union Bank	5,557	5,384	5,446	(2)	1	4,973	3,866	4,007	(19)	4	2,178	2,806	2,250	3	(20)
Federal Bank	19,565	20,564	20,781	6	1	12,742	13,245	13,194	4	(0)	8,036	9,538	8,805	10	(8)
Karur Vysya Bank	8,890	9,154	9,273	4	1	6,889	6,379	5,782	(16)	(9)	2,893	3,785	3,437	19	(9)
New private banks															
Axis Bank	114,593	123,146	124,553	9	1	92,775	86,319	92,822	0	8	58,531	58,636	62,120	6	6
Bandhan Bank	20,804	24,434	25,690	23	5	19,222	15,834	18,838	(2)	19	2,906	7,212	7,883	171	9
DCB Bank	4,460	4,757	5,027	13	6	1,941	2,105	2,300	18	9	1,139	1,268	1,382	21	9
HDFC Bank	229,878	273,852	292,493	27	7	190,241	226,939	235,600	24	4	122,595	159,761	158,158	29	(1)
ICICI Bank	164,650	183,079	179,799	9	(2)	132,712	142,293	146,129	10	3	83,119	102,610	96,189	16	(6)
IndusInd Bank	44,953	50,767	51,768	15	2	36,804	38,809	37,520	2	(3)	19,592	21,815	21,757	11	(0)
Yes Bank	19,706	19,251	19,067	(3)	(1)	9,136	8,013	7,503	(18)	(6)	515	2,252	2,202	327	(2)
Small finance banks															
AU	11,527	12,490	12,578	9	1	5,557	6,477	6,785	22	5	3,928	4,018	3,985	1	(1)
Equitas SFB	6,475	7,656	8,022	24	5	2,791	3,302	3,413	22	3	1,701	1,981	2,016	19	2
Ujjivan SFB	6,970	8,233	8,597	23	4	3,889	4,834	4,435	14	(8)	2,932	3,277	2,821	(4)	(14)
Total banks	**1,410,973**	**1,525,593**	**1,555,597**	**10**	**2**	**1,047,059**	**1,043,306**	**1,053,912**	**1**	**1**	**548,197**	**653,525**	**642,038**	**17**	**(2)**
Public banks	**752,943**	**782,826**	**792,505**	**5**	**1**	**527,386**	**484,892**	**475,586**	**(10)**	**(2)**	**238,133**	**274,566**	**269,032**	**13**	**(2)**
Private banks	**658,030**	**742,767**	**763,092**	**16**	**3**	**519,673**	**558,414**	**578,326**	**11**	**4**	**310,064**	**378,959**	**373,006**	**20**	**(2)**
Diversified financials															
Auto finance															
Cholamandalam	15,983	20,153	20,879	31	4	10,797	14,206	14,767	37	4	6,843	7,625	8,308	21	9
Mahindra Finance	15,528	15,870	17,100	10	8	9,983	9,428	10,412	4	10	6,290	2,352	4,933	(22)	110
Shriram Finance	40,620	45,947	48,131	18	5	33,016	34,808	36,109	9	4	17,770	17,508	18,866	6	8
Housing finance															
Aavas	2,082	2,223	2,331	12	5	1,415	1,631	1,654	17	1	1,073	1,217	1,232	15	1
Aptus	2,002	2,285	2,422	21	6	1,762	1,951	2,107	20	8	1,256	1,480	1,544	23	4
Home First	1,083	1,321	1,401	29	6	817	1,044	1,071	31	3	587	743	766	30	3
LIC Housing Finance	16,059	21,066	19,929	24	(5)	13,557	18,993	17,439	29	(8)	4,804	11,881	10,373	116	(13)
Gold loans															
Muthoot Finance	17,043	18,584	18,681	10	1	12,624	13,422	13,477	7	0	9,017	9,910	9,844	9	(1)
Multi-product NBFCs/others															
Bajaj Finance	59,222	71,970	78,150	32	9	48,529	58,347	63,552	31	9	29,729	35,508	38,688	30	9
L&T Finance Holdings	16,530	17,030	18,173	10	7	(14,910)	12,750	13,291		4	4,540	5,950	5,889	30	(1)
SBI Cards	11,446	12,969	13,742	20	6	12,174	15,509	16,013	32	3	5,095	6,030	5,569	9	(8)
Five Star	3,197	3,982	4,250	33	7	2,062	2,775	2,805	36	1	1,510	1,994	1,942	29	(3)
Total NBFCs/HFCs	**200,793**	**233,400**	**245,189**	**22**	**5**	**131,826**	**184,865**	**192,696**	**46**	**4**	**88,512**	**102,198**	**107,955**	**22**	**6**
Wealth management/ AMCs/CRAs															
360 One WAM	4,150	4,275	4,396	6	3	2,344	2,223	2,241	(4)	1	1,801	1,853	1,884	5	2
HDFC AMC	5,596	6,431	6,641	19	3	3,971	4,658	4,950	25	6	3,692	4,365	4,290	16	(2)
UTI AMC	2,836	2,916	2,862	1	(2)	1,098	1,058	1,023	(7)	(3)	600	1,828	1,142	90	(38)
Nippon AMC	3,538	3,975	4,115	16	4	2,045	2,325	2,496	22	7	2,048	2,443	2,216	8	(9)
Aditya Birla AMC	3,140	3,350	3,246	3	(3)	1,736	1,811	1,787	3	(1)	1,663	1,781	1,612	(3)	(10)
CAMS	2,436	2,751	2,784	14	1	998	1,143	1,135	14	(1)	736	845	831	13	(2)
Kfintech	1,881	2,090	2,120	13	1	652	779	780	20	0	534	614	618	16	1
CRISIL	8,223	7,359	9,483	15	29	1,900	1,652	2,277	20	38	1,580	1,520	1,854	17	22
ICRA	1,030	1,049	1,171	14	12	332	309	411	24	33	392	322	434	11	35
Total wealth/asset managers/CR/	**32,830**	**34,194**	**36,819**	**12**	**8**	**15,074**	**15,958**	**17,101**	**13**	**7**	**13,046**	**15,570**	**14,881**	**14**	**(4)**
Total diversified financials	**233,623**	**267,594**	**282,008**	**21**	**5**	**146,900**	**200,824**	**209,796**	**43**	**4**	**101,558**	**117,768**	**122,836**	**21**	**4**
Grand total	**1,644,596**	**1,793,188**	**1,837,605**	**12**	**2**	**1,193,959**	**1,244,129**	**1,263,709**	**6**	**2**	**649,755**	**771,293**	**764,874**	**18**	**(1)**

Notes:
(1) We have assumed PBT rather than PPOP for asset managers/wealth managers and revenue from operations rather than NII.

Source: Company, Kotak Institutional Equities

Private banks expected to see better yoy earnings growth

Exhibit 5: Growth in PAT yoy, March fiscal year-ends

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Public banks					
Bank of Baroda	75	168	88	28	3
Canara Bank	92	91	75	43	16
PNB	(44)	475	307	327	236
State Bank of India	68	83	178	8	2
Union Bank	107	93	108	90	46
Old private banks					
City Union Bank	11	4	1	2	3
Federal Bank	54	67	42	36	10
Karur Vysya Bank	56	57	57	51	19
New private banks					
Axis Bank	62	(239)	41	10	6
Bandhan Bank	(66)	(58)	(19)	245	171
DCB Bank	51	25	31	13	21
HDFC Bank	19	20	30	51	29
ICICI Bank	34	30	40	36	16
IndusInd Bank	69	50	32	22	11
Yes Bank	(81)	(45)	10	47	327
Small finance banks					
AU	30	23	44	17	1
Equitas SFB	57	59	97	70	19
Ujjivan SFB	NM	145	60	11	(4)
Total banks	**44**	**22**	**68**	**33**	**18**
Public sector banks	**66**	**101**	**139**	**29**	**14**
Private sector banks	**30**	**(21)**	**34**	**37**	**20**

Notes:
(1) 'NM' indicates loss in the base quarter and profit in current quarter.

Source: Company, Kotak Institutional Equities

BANKS: LOAN GROWTH STAYS HEALTHY, BUT FOCUS STAYS ON MARGIN

Overall loan growth has stayed healthy

As per the latest available data (December 15, 2023) for the banking system, loan growth has stayed strong at ~20% yoy (~16% excluding HDFC Ltd). Loan growth is still near a decadal high. Sector-wise deployment of banking credit as of November 2023 indicates that credit to large corporates is still sluggish at ~7% yoy (~6% excluding HDFC Ltd). Credit to MSMEs has been growing at a robust pace, but growth has normalized a bit to ~16% yoy from a peak of 37% yoy (May 2022). Services segment growth has also sustained at a healthy level over the past few months at ~25% yoy (~22% yoy excluding HDFC Ltd). The growth rate in bank lending to NBFCs (up ~22% yoy) has slowed down from a peak of ~35% yoy in June 2023. In retail credit, growth was high at ~30% yoy (~19% yoy excluding HDFC Ltd). Housing credit was up 37% yoy (~15% yoy excluding HDFC Ltd) – in line with the 15% yoy growth pre-Covid. Growth in auto loans has also stayed healthy at ~21% yoy. Credit card outstanding grew 34% yoy in November 2023, while growth in consumer durable loans has slowed down a bit to 11% yoy.

We have shown the reported/estimated credit growth data for banks in the exhibit below. Apart from the frontline banks, even the mid-tier and smaller banks continue to show healthy credit growth numbers. Underwriting appetite has significantly improved in the microfinance segment as delinquency issues have been addressed and borrower incomes have recovered to a large extent. However, recent concerns around growth in unsecured credit could begin to reflect in growth, especially for the larger entities who have a large proportion of unsecured loans. Based on the RBI's observations in the recently published FSR report, we believe that banks might be wary about growing at a rate which is meaningfully higher than growth rate of the overall banking system. Some of the smaller banks operating at a high CD ratio might also choose to grow slower on the asset side to get the CD ratio up.

We continue to see lenders being optimistic about credit growth. Credit growth is being driven by retail and MSME loans. Growth in MSME credit is also being supported by access to better quality data using intermediaries like Account Aggregator and fintech platforms. After several years, we are witnessing a period where all lenders – private banks, PSU banks, mid-tier banks, regional banks, small finance banks, NBFCs – are quite bullish about business growth. We expect some slowdown in select retail segments (especially unsecured) given the indications of caution from the regulator. However, unsecured credit typically is a small proportion of loan book for banks. The general optimism in the business environment is likely to result in healthy overall credit growth.

We are not concerned about the increase in credit growth yet, for a few reasons: (1) the credit growth print for the banking system (excluding HDFC Ltd) is near the long term average of ~15-16%, (2) we have not yet seen asset bubbles in the housing/real estate spaces yet. Further, banks have a limited presence in the small-ticket personal loan segment, which has seen some signs of deterioration.

Fairly healthy loan growth for most banks

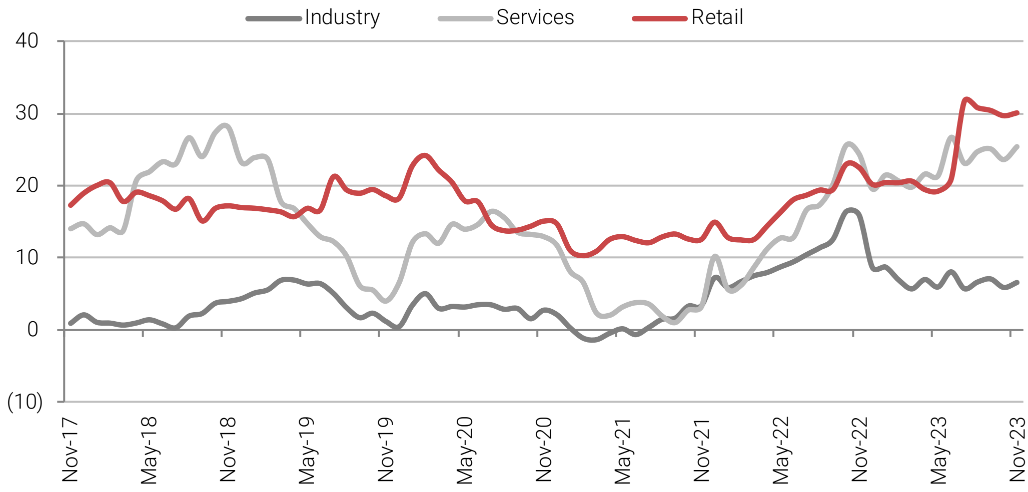
Exhibit 6: Loan growth for banks, March fiscal year-ends

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Advances (Rs tn)													
HDFCB	10.8	11.3	11.5	12.0	12.6	13.7	14.0	14.8	15.1	16.0	16.2	23.3	
ICICIBC	7.0	7.3	7.4	7.6	8.1	8.6	9.0	9.4	9.7	10.2	10.6	11.1	
AXSB	5.7	6.1	6.1	6.2	6.6	7.1	7.0	7.3	7.6	8.5	8.6	9.0	
IIB	2.1	2.1	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.9	3.0	3.2	3.3
FB	1.3	1.3	1.3	1.3	1.4	1.4	1.5	1.6	1.7	1.7	1.8	1.9	2.0
YES	1.7	1.7	1.6	1.7	1.8	1.8	1.9	1.9	1.9	2.0	2.0	2.1	2.2
KVB	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
CUBK	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
DCBB	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	
BANDHAN	0.8	0.9	0.8	0.8	0.9	1.0	1.0	1.0	1.0	1.1	1.0	1.1	1.2
SIB	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8
CSBBANK			0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
AUBANK	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.7
EQUITASB	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	
UJJIVANS	0.1	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
SBI	23.7	24.5	24.3	24.4	25.8	27.3	28.2	29.5	30.6	32.0	32.4	33.5	
BOB	7.5	7.5	7.1	7.3	7.7	8.2	8.4	8.7	9.2	9.7	9.9	10.2	
CBK	6.7	6.8	6.8	6.9	7.3	7.4	7.8	8.2	8.5	8.6	8.9	9.2	
PNB	6.6	6.7	6.6	6.7	6.9	7.3	7.4	7.7	8.0	8.3	8.6	8.9	9.2
UNBK	5.8	5.9	5.8	5.8	6.2	6.6	6.8	7.3	7.6	7.6	7.7	8.0	
BoMH	1.0	1.1	1.1	1.2	1.3	1.4	1.4	1.5	1.6	1.8	1.8	1.8	1.9
Yoy growth (%)													
HDFCB	15.6	14.0	14.4	15.5	16.5	20.8	21.6	23.4	19.5	16.9	15.8	57.5	
ICICIBC	10.0	13.7	17.0	17.2	16.4	17.1	21.3	22.7	19.7	18.7	18.1	18.3	
AXSB	3.6	7.5	12.0	10.1	16.7	15.2	14.0	17.6	14.6	19.4	22.4	22.7	
IIB	(0.1)	2.8	6.4	9.7	10.4	12.4	17.7	17.8	19.3	21.3	21.5	21.3	20.0
FB	5.3	7.9	7.0	9.4	12.1	9.9	16.9	20.0	19.5	20.4	21.0	19.6	18.1
YES	(8.8)	(2.7)	(0.5)	3.5	3.8	8.5	13.9	11.3	10.4	12.3	7.4	8.7	11.9
KVB	5.0	8.9	7.6	6.8	7.1	9.0	13.9	14.8	12.7	11.5	12.3	13.9	15.6
CUBK	7.9	7.1	5.4	9.2	5.2	11.2	12.5	12.3	12.0	6.8	3.6	2.3	
DCBB	(0.5)	2.4	1.7	7.9	9.3	12.1	16.9	16.5	19.2	18.2	19.0	19.1	
BANDHAN	22.6	21.1	8.1	6.6	9.6	14.1	20.3	17.4	11.1	9.8	6.7	12.3	18.6
SIB	(4.2)	(9.9)	(12.5)	(8.7)	(6.8)	6.5	14.4	16.6	22.1	16.6	14.5	10.3	10.8
CSBBANK							16.2	23.6	25.7	30.3	30.4	27.2	22.6
AUBANK	14.0	28.2	29.4	31.6	32.6	33.2	43.3	44.4	38.4	26.7	29.2	24.0	20.0
EQUITASB	22.7	22.6	16.2	12.0	8.9	15.0	22.5	22.4	27.1	33.2	34.4	31.7	
UJJIVANS	0.2	7.0	(2.3)	4.5	20.7	20.0	38.3	44.3	33.0	32.6	30.5	26.9	
SBI	7.6	5.3	5.8	6.5	8.9	11.6	15.8	20.8	18.6	17.0	14.9	13.3	
BOB	6.3	1.8	(3.4)	2.1	3.6	8.9	18.0	19.0	19.7	18.5	18.0	17.3	
CBK	52.3	56.2	5.2	5.8	9.3	9.8	14.5	20.0	16.7	16.4	13.3	12.1	
PNB	55.2	42.9	0.8	3.2	4.9	8.0	12.3	14.9	15.5	14.1	16.3	15.1	14.9
UNBK	89.5	87.6	0.5	0.3	5.8	11.8	15.7	25.2	22.6	15.3	13.9	10.5	
BoMH	11.8	13.4	14.5	11.4	22.9	25.7	27.2	28.7	21.6	29.5	24.9	23.6	20.3
Qoq growth (%)													
HDFCB	4.2	4.7	1.3	4.5	5.2	8.6	1.9	6.1	1.8	6.2	0.9	44.3	
ICICIBC	7.1	5.0	0.7	3.6	6.4	5.5	4.3	4.8	3.8	4.7	3.7	5.0	
AXSB	0.9	7.8	0.1	1.1	6.9	6.4	(0.9)	4.3	4.2	10.9	1.6	4.5	
IIB	2.9	2.6	(0.9)	4.8	3.5	4.6	3.7	4.9	4.9	6.3	3.9	4.7	3.8
FB	2.1	5.1	(1.6)	3.6	4.7	3.0	4.7	6.3	4.3	3.7	5.2	5.1	3.0
YES	1.7	(1.7)	(1.9)	5.6	2.0	2.7	2.9	3.2	1.2	4.5	(1.5)	4.4	4.1
KVB	3.4	1.4	(1.0)	2.9	3.6	3.1	3.6	3.7	1.7	2.0	4.3	5.2	3.2
CUBK	4.8	1.4	(1.7)	4.4	1.0	7.2	(0.5)	4.3	0.7	2.2	(3.6)	3.0	
DCBB	1.7	2.6	(1.8)	5.3	3.0	5.2	2.5	5.0	5.4	4.3	3.2	5.1	
BANDHAN	4.8	8.4	(7.7)	1.6	7.8	12.9	(2.7)	(0.8)	2.0	11.6	(5.5)	4.3	7.7
SIB	(3.5)	(5.8)	(2.6)	3.1	(1.5)	7.7	4.7	5.0	3.2	2.8	2.8	1.1	3.7
CSBBANK							2.1	8.1	5.6	11.8	2.2	5.5	1.8
AUBANK	11.2	14.2	(1.9)	5.6	12.1	14.7	5.6	6.3	7.5	5.1	7.6	2.1	4.0
EQUITASB	5.6	0.2	(0.8)	6.7	2.7	5.8	5.7	6.6	6.6	10.8	6.7	4.5	
UJJIVANS	(1.8)	11.0	(7.3)	3.4	13.4	10.3	6.9	7.9	4.6	10.0	5.2	4.9	
SBI	3.2	3.4	(0.7)	0.5	5.5	6.0	3.0	4.8	3.6	4.6	1.1	3.4	
BOB	3.7	0.8	(5.3)	3.2	5.2	6.0	2.6	4.0	5.8	4.9	2.2	3.4	
CBK	2.9	1.1	1.4	0.3	6.2	1.6	5.7	5.2	3.3	1.4	2.9	4.1	
PNB	1.2	2.1	(1.9)	1.8	2.9	5.1	2.0	4.1	3.5	3.8	4.0	3.0	3.3
UNBK	0.7	1.4	(1.1)	(0.6)	6.2	7.2	2.3	7.6	4.0	0.7	1.1	4.3	
BoMH	1.6	2.5	2.8	4.1	12.1	4.8	4.0	5.4	5.9	11.6	0.3	4.2	3.1

Source: Company, Kotak Institutional Equities

Credit growth continues to be driven by retail and services, while growth in credit to industry is still quite sluggish

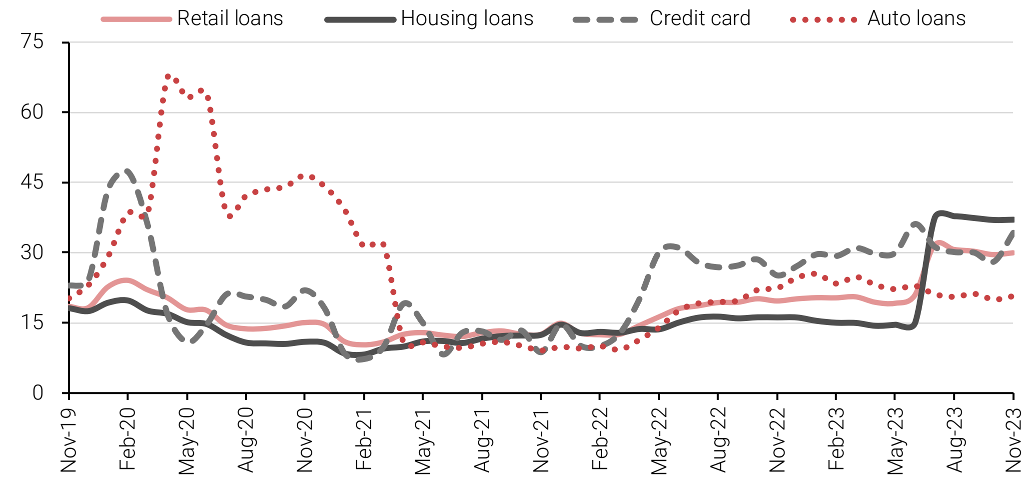
Exhibit 7: Credit growth by segment yoy (%)



Source: Company, Kotak Institutional Equities

Housing loan growth stood at 37% yoy (15% yoy excluding HDFC Ltd)

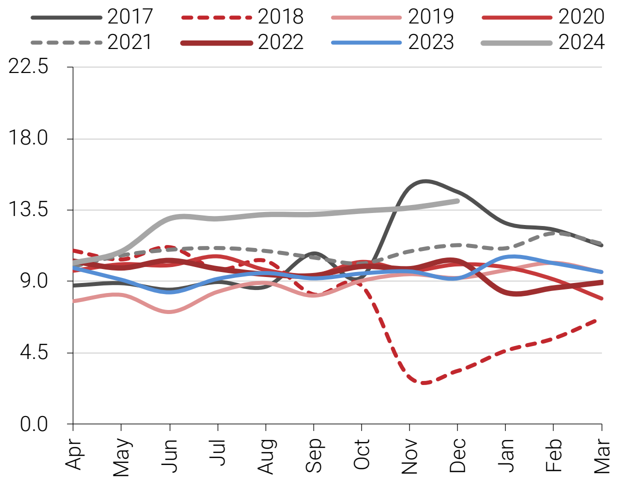
Exhibit 8: Growth in retail loan segments yoy (%)



Source: Company, Kotak Institutional Equities

Deposit growth has been better than past few years, but it has lagged credit growth

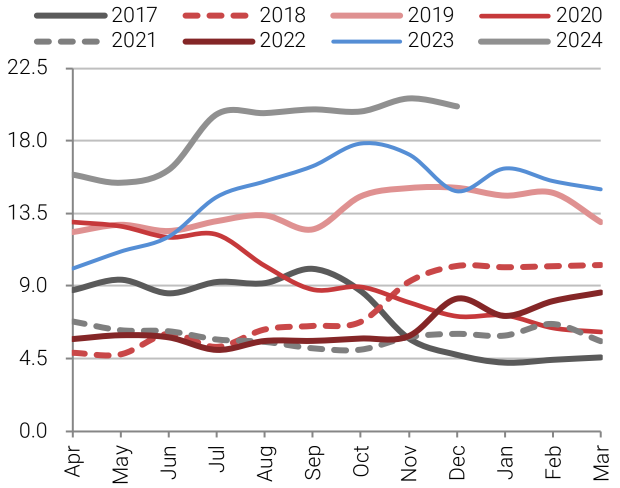
Exhibit 9: Growth in deposits yoy, March fiscal year-ends (%)



Source: RBI, Kotak Institutional Equities

Credit growth has been among the best in the past few years with further support from the HDFC Ltd merger

Exhibit 10: Growth in advances yoy, March fiscal year-ends (%)



Source: RBI, Kotak Institutional Equities

Deposit growth has recovered a bit, but still lags loan growth

As per the latest RBI release, deposit growth has improved to ~14% yoy as on December 2023 (~13% excluding HDFC Ltd). We have shown the growth in overall deposits in the following exhibit.

CASA ratio had been improving in the aftermath of the Covid pandemic for most banks, along with robust deposit growth overall. That trend has changed decisively in the past few quarters as systemic excess liquidity gradually declined. Weighted average term deposit rates on outstanding book have increased by ~180 bps from trough level in the past few months. On the other hand, weighted average term deposit rates on fresh deposits have increased by ~230 bps from trough level implying that the overall term deposit rates has further scope for increase.

Deposit growth has been healthy yoy

Exhibit 11: Deposit growth for banks, March fiscal year-ends

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Deposits (Rs tn)													
HDFCB	12.7	13.4	13.5	14.1	14.5	15.6	16.0	16.7	17.3	18.8	19.1	21.7	
ICICIBC	8.7	9.3	9.3	9.8	10.2	10.6	10.5	10.9	11.2	11.8	12.4	12.9	
AXSB	6.4	7.0	7.1	7.4	7.7	8.2	8.0	8.1	8.5	9.5	9.4	9.6	
IIB	2.4	2.6	2.7	2.8	2.8	2.9	3.0	3.2	3.3	3.4	3.5	3.6	3.7
FB	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	2.0	2.1	2.2	2.3	2.4
YES	1.5	1.6	1.6	1.8	1.8	2.0	1.9	2.0	2.1	2.2	2.2	2.3	2.4
KVB	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.9
CUBK	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
DCBB	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	
BANDHAN	0.7	0.8	0.8	0.8	0.8	1.0	0.9	1.0	1.0	1.1	1.1	1.1	1.2
SIB	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0
CSBBANK					0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3
AUBANK	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.8
EQUITASB	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	
UJJIVANS	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3
SBI	35.4	36.8	37.2	38.1	38.5	40.5	40.5	41.9	42.1	44.2	45.3	46.9	
BOB	9.5	9.7	9.3	9.6	9.8	10.5	10.3	10.9	11.5	12.0	12.0	12.5	
CBK	9.7	10.1	10.2	10.3	10.4	10.9	11.2	11.3	11.6	11.8	11.9	12.3	
PNB	10.8	11.1	11.0	11.2	11.3	11.5	11.4	11.9	12.1	12.8	13.0	13.1	13.2
UNBK	8.8	9.2	9.1	9.1	9.4	10.3	9.9	10.4	10.7	11.2	11.3	11.4	
BoMH	1.6	1.7	1.7	1.8	1.9	2.0	2.0	2.0	2.1	2.3	2.4	2.4	2.5
Yoy growth (%)													
HDFCB	19.1	16.3	13.2	14.4	13.8	16.8	19.2	19.0	19.9	20.8	19.2	29.8	
ICICIBC	22.1	21.0	15.5	17.3	16.4	14.2	13.4	11.5	10.3	10.9	17.9	18.8	
AXSB	8.4	9.0	16.0	18.1	20.3	17.7	12.6	10.1	9.9	15.2	17.2	17.8	
IIB	10.3	26.6	26.5	20.7	19.0	14.8	13.3	14.7	14.3	14.6	14.6	13.9	13.4
FB	11.8	13.4	9.3	9.7	8.5	5.2	8.2	10.0	14.8	17.4	21.3	23.1	19.0
YES	(11.8)	54.7	39.1	30.1	26.0	21.0	18.3	13.2	15.9	10.3	13.5	17.2	13.2
KVB	(0.3)	7.1	7.2	7.0	7.7	8.5	10.5	12.5	13.9	11.6	13.4	12.8	12.3
CUBK	8.7	9.1	8.7	11.8	7.9	7.1	9.3	7.7	7.0	9.9	5.9	5.7	
DCBB	(2.9)	(2.2)	4.0	10.4	11.7	16.8	14.6	16.3	22.6	18.9	22.6	23.1	
BANDHAN	29.6	36.6	27.6	23.8	18.7	23.5	20.3	21.3	21.0	12.2	16.6	12.8	14.8
SIB	(1.6)	(0.4)	2.6	5.1	5.8	7.8	4.2	1.9	2.6	2.8	8.3	9.7	9.4
CSBBANK									18.9	21.4	20.8	21.2	20.7
AUBANK	24.5	37.5	38.5	44.7	49.0	46.2	47.6	49.4	38.0	31.9	26.9	29.8	31.1
EQUITASB	51.2	51.9	45.0	40.3	12.7	15.6	19.3	20.1	30.8	33.9	35.9	41.9	
UJJIVANS	9.0	21.8	23.7	31.2	34.0	39.3	34.9	44.8	49.1	39.6	44.5	42.9	
SBI	13.6	13.6	8.8	9.8	8.8	10.1	8.7	10.0	9.5	9.2	12.0	11.9	
BOB	6.5	2.2	(0.3)	0.5	2.5	8.2	10.9	13.6	17.5	15.1	16.2	14.6	
CBK	55.6	61.6	12.3	8.8	7.2	7.5	9.4	9.8	11.5	8.5	6.6	8.7	
PNB	52.7	57.2	2.1	4.3	4.2	3.6	3.6	7.0	7.4	11.8	14.2	9.8	9.4
UNBK	98.3	105.0	1.8	3.2	6.2	11.8	9.3	14.1	13.6	8.3	13.6	9.0	
BoMH	14.1	16.0	14.0	14.5	15.2	16.3	12.3	7.9	11.7	15.7	24.7	22.2	17.9
Qoq growth (%)													
HDFCB	3.4	5.0	0.8	4.5	2.8	7.8	2.9	4.3	3.6	8.7	1.6	13.6	
ICICIBC	5.0	6.7	(0.7)	5.5	4.1	4.6	(1.3)	3.8	2.9	5.2	4.9	4.5	
AXSB	2.8	8.9	2.3	3.1	4.8	6.5	(2.2)	0.9	4.6	11.6	(0.6)	1.5	
IIB	4.8	7.0	4.4	3.1	3.3	3.2	3.1	4.4	3.0	3.4	3.2	3.7	2.5
FB	3.1	6.8	(1.9)	1.5	2.0	3.6	0.9	3.2	6.5	5.9	4.3	4.7	2.9
YES	7.7	11.4	0.2	8.2	4.3	7.0	(2.0)	3.5	6.8	1.8	0.9	6.8	3.2
KVB	1.6	1.9	1.8	1.6	2.2	2.7	3.6	3.4	3.5	0.6	5.3	2.9	3.0
CUBK	4.5	2.9	0.2	3.8	0.9	2.1	2.3	2.3	0.2	4.8	(1.4)	2.1	
DCBB	0.3	2.9	3.0	3.8	1.5	7.6	1.1	5.4	6.9	4.4	4.3	5.8	
BANDHAN	7.7	9.5	(0.8)	5.9	3.2	14.0	(3.4)	6.8	2.9	5.7	0.4	3.3	4.8
SIB	1.1	(1.0)	2.3	2.6	1.7	0.9	(1.1)	0.3	2.5	1.1	4.2	1.7	2.1
CSBBANK									8.0	8.1	(0.1)	3.9	7.5
AUBANK	10.1	21.1	2.9	5.5	13.4	18.8	3.9	6.8	4.7	13.5	(0.1)	9.3	5.8
EQUITASB	23.0	3.3	4.3	5.8	(1.2)	6.0	7.6	6.6	7.7	8.5	9.2	11.3	
UJJIVANS	8.1	13.1	4.1	3.0	10.5	17.5	0.9	10.6	13.8	10.1	4.4	9.3	
SBI	1.9	4.1	1.1	2.4	1.0	5.3	(0.1)	3.6	0.6	5.0	2.4	3.5	
BOB	0.0	1.3	(3.7)	3.0	1.9	6.9	(1.3)	5.6	5.4	4.7	(0.3)	4.1	
CBK	2.6	3.9	1.1	1.0	1.0	4.1	2.9	1.4	2.6	1.4	1.1	3.3	
PNB	1.2	2.2	(0.8)	1.6	1.1	1.7	(0.8)	5.0	1.4	5.8	1.3	0.9	1.0
UNBK	(0.4)	4.7	(1.7)	0.6	2.6	10.1	(3.8)	5.1	2.1	4.9	0.9	0.8	
BoMH	2.1	7.4	0.2	4.1	2.8	8.4	(3.2)	(0.0)	6.4	12.3	4.4	(2.1)	2.7

Notes:

(1) Actual numbers released have been marked in pink.

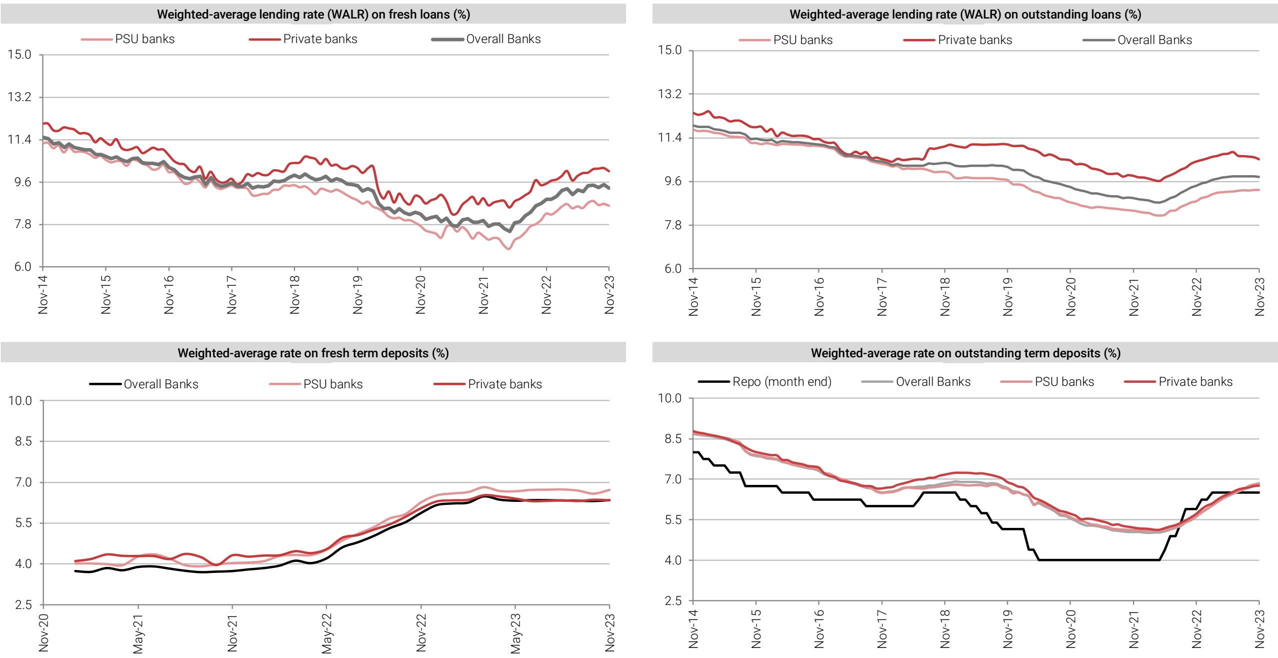
Source: Company, Kotak Institutional Equities

Margins likely to see further pressure during the quarter

The frontline banks (private and PSU) have hiked their MCLR rates by ~170-190 bps from March 2022. With the RBI hiking repo rate by ~250 bps over the past few months, the repo-linked loan book has been largely re-priced. Until November 2023, lending rate on outstanding book for banks had gone up by ~110 bps from trough level. At the same time, we would expect CASA ratio for the system to have declined further during the quarter. Given both these developments, we believe that NIM for banks would see some pressure sequentially during 3QFY24. PSU banks which have a higher share of MCLR-linked loans in their book might see better margin performance because the yield pass-through has been slower in their case. We are likely to see a lot of discussion about when cost of funds is likely to peak out for banks.

Interest rates on fresh term deposits have stayed flat in the past few months

Exhibit 12: Trajectory of interest rates in the banking system, March fiscal year-ends



Source: Company, Kotak Institutional Equities

NII growth is expected to be weaker for most banks

Exhibit 13: NIM (calc.) and yoy growth in NII, March fiscal year-ends (%)

	NIM (%, calculated)					NII yoy growth (%)				
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Public banks										
Bank of Baroda	3.5	3.5	3.3	3.2	3.1	26.5	33.8	24.4	6.4	2.2
Canara Bank	3.1	3.0	3.0	2.9	2.8	23.8	23.0	27.7	19.8	2.3
Punjab National Bank	3.1	3.1	3.0	3.1	3.0	17.6	30.0	26.0	20.0	9.0
State Bank of India	3.3	3.4	3.2	3.2	3.1	24.1	29.5	24.7	12.3	5.7
Union Bank	3.2	3.0	3.2	3.2	3.2	20.3	21.9	16.6	9.9	6.2
Old private banks										
City Union Bank	3.5	3.2	3.3	3.4	3.3	13.4	2.7	(0.5)	(5.2)	(2.0)
Federal Bank	3.5	3.2	3.1	3.1	3.0	27.1	25.2	19.6	16.7	6.2
Karur Vysya Bank	4.0	3.9	3.8	3.7	3.6	29.4	25.7	20.3	11.4	4.3
New private banks										
Axis Bank	4.1	3.9	3.9	4.0	3.9	32.4	33.1	27.4	18.9	8.7
Bandhan	6.1	6.9	6.7	6.6	6.7	(2.1)	(2.7)	(0.9)	11.4	23.5
DCB	3.9	4.0	3.7	3.6	3.4	29.3	27.7	25.9	15.7	12.7
HDFC Bank	4.3	4.2	4.1	3.9	3.5	24.6	23.7	21.1	30.3	27.2
ICICI Bank	4.7	4.8	4.8	4.6	4.3	34.6	40.2	38.0	23.8	9.2
IndusInd Bank	4.1	4.1	4.2	4.3	4.3	18.5	17.2	18.0	18.0	15.2
Yes Bank	3.1	3.1	2.9	2.8	2.6	11.7	15.7	8.1	(3.3)	(3.2)
Small finance banks										
AU	6.0	5.8	5.6	5.5	5.3	40.5	29.5	27.7	15.3	9.1
Equitas SFB	8.7	8.6	8.3	8.0	7.8	19.7	28.0	28.0	25.6	23.9
Ujjivan SFB	10.1	9.6	9.6	9.3	9.1	53.6	35.7	32.2	24.1	23.4

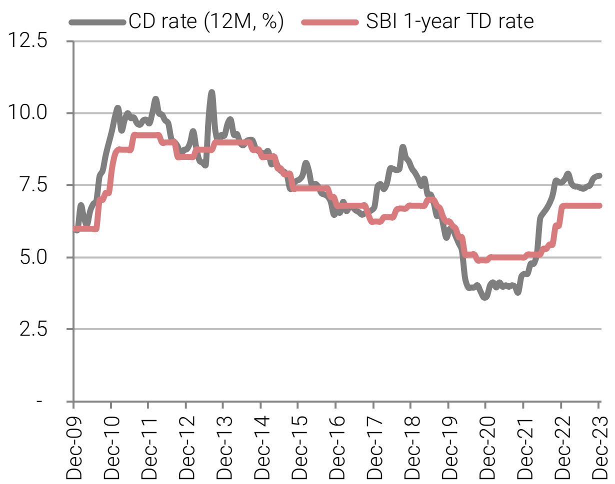
Notes:

(1) We calculate NIM as: net interest income/average earning assets for the period. HDFC Bank's NIM (calc.) for 2QFY24 is optically higher because the denominator includes the pre-merger earning assets for 1QFY24.

Source: Company, Kotak Institutional Equities

CD and term deposit rates (fresh) have been broadly flat over the past few months

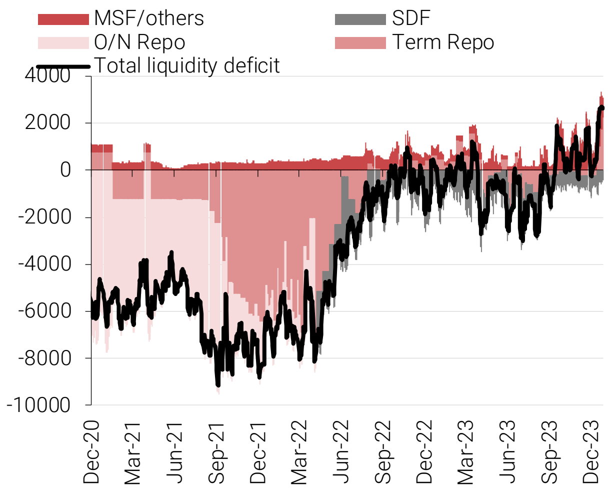
Exhibit 14: SBI term deposit rate (1-year tenor) and CD rate (12M tenor) (%)



Source: RBI, Kotak Institutional Equities

Banking system liquidity has tightened recently

Exhibit 15: Liquidity in banking system (Rs bn)



Source: RBI, Kotak Institutional Equities

One year MCLR rates have gone up by ~165 bps for SBI from March 2022 levels

Exhibit 16: SBI MCLR interest rates across tenors (%)

	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Sep-23	Oct-23	Nov-23	Dec-23
Overnight	8.20	7.45	6.65	6.65	7.95	8.00	8.00	8.00	8.00
One month	8.20	7.45	6.65	6.65	8.10	8.15	8.15	8.15	8.20
Three month	8.25	7.50	6.65	6.65	8.10	8.15	8.15	8.15	8.20
Six month	8.40	7.70	6.95	6.95	8.40	8.45	8.45	8.45	8.55
One year	8.55	7.75	7.00	7.00	8.50	8.55	8.55	8.55	8.65
Two years	8.65	7.95	7.20	7.20	8.60	8.65	8.65	8.65	8.75
Three years	8.75	8.05	7.30	7.30	8.70	8.75	8.75	8.75	8.85

Source: Company, Kotak Institutional Equities

Treasury income performance is expected to be modest

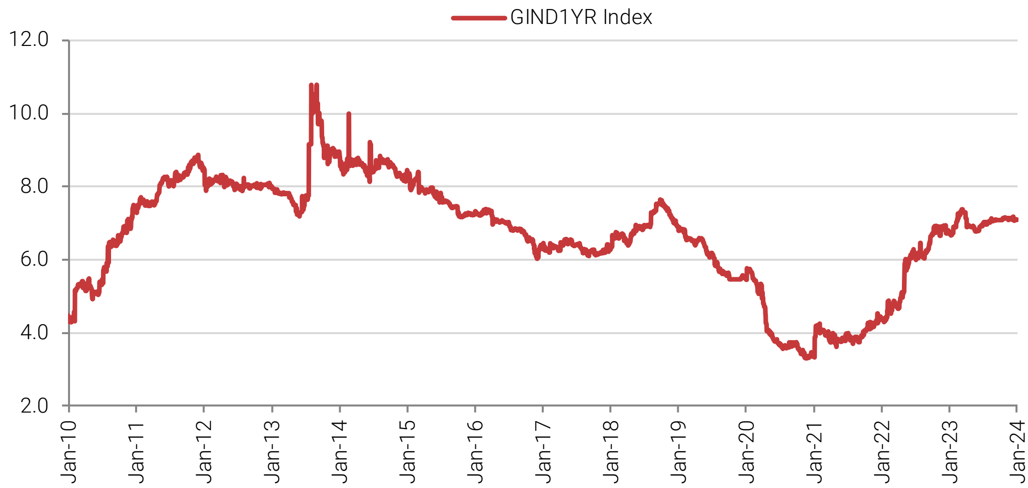
Exhibit 17: Growth in treasury income, March fiscal year-ends (%)

	Income from treasury (Rs mn)					Income from treasury (% of PBT)					PBT (Rs mn)				
	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Public banks															
Bank of Baroda	2,880	1,220	9,560	4,780	800	5	2	16	8	2	58,283	66,522	58,775	58,592	52,412
Canara Bank	3,860	1,510	2,940	3,560	1,500	10	4	6	7	3	38,309	41,573	48,851	50,076	44,565
PNB	(1,070)	(1,960)	4,150	2,050	800	(11)	(10)	21	7	3	10,026	20,359	20,027	27,723	31,511
State Bank of India	29,380	18,000	38,470	20,210	1,500	15	8	17	10	1	194,587	213,054	227,956	193,013	194,601
Union Bank	1,680	3,910	5,140	6,810	3,000	5	10	10	12	6	35,832	38,878	51,743	54,530	49,683
Old private banks															
City Union Bank	353	221	405	268	167	13	9	15	8	5	2,728	2,580	2,623	3,306	3,083
Federal Bank	70	400	330	180	300	1	3	3	1	3	10,755	12,179	11,468	12,806	11,819
New private banks															
Axis Bank	4,280	830	5,190	(1,010)	1,333	5	NM	7	(1)	2	78,398	(36,280)	77,795	78,173	83,047
DCB Bank	20	10	30	40	67	1	1	2	2	4	1,534	1,915	1,709	1,708	1,863
HDFC Bank	2,614	(377)	5,520	10,410	2,500	2	(0)	3	5	1	162,176	159,655	159,120	197,901	205,400
ICICI Bank	360	(400)	2,520	(850)	4,400	0	(0)	2	(1)	3	110,138	122,066	128,467	136,466	125,737
IndusInd Bank	1,353	635	908	1,618	163	5	2	3	6	1	26,157	27,227	28,385	29,071	28,756
Yes Bank	1,370	(730)	1,610	380	460	199	(27)	35	13	16	689	2,713	4,581	3,010	2,960
Total	**45,470**	**19,359**	**71,633**	**41,636**	**13,990**	**7**	**3**	**9**	**5**	**2**	**693,779**	**633,563**	**769,757**	**791,844**	**785,754**
Public banks	**35,050**	**18,770**	**55,120**	**30,600**	**4,600**	**12**	**5**	**16**	**9**	**1**	**301,204**	**341,507**	**355,610**	**329,404**	**323,090**
Private banks	**10,420**	**589**	**16,513**	**11,036**	**9,390**	**3**	**0**	**4**	**2**	**2**	**392,575**	**292,056**	**414,147**	**462,440**	**462,664**

Source: Company, Kotak Institutional Equities

G-sec yields have increased over the past couple of years

Exhibit 18: Yield on 1-year G-Sec (%)



Source: Company, Kotak Institutional Equities

Asset quality: Expect another good quarter

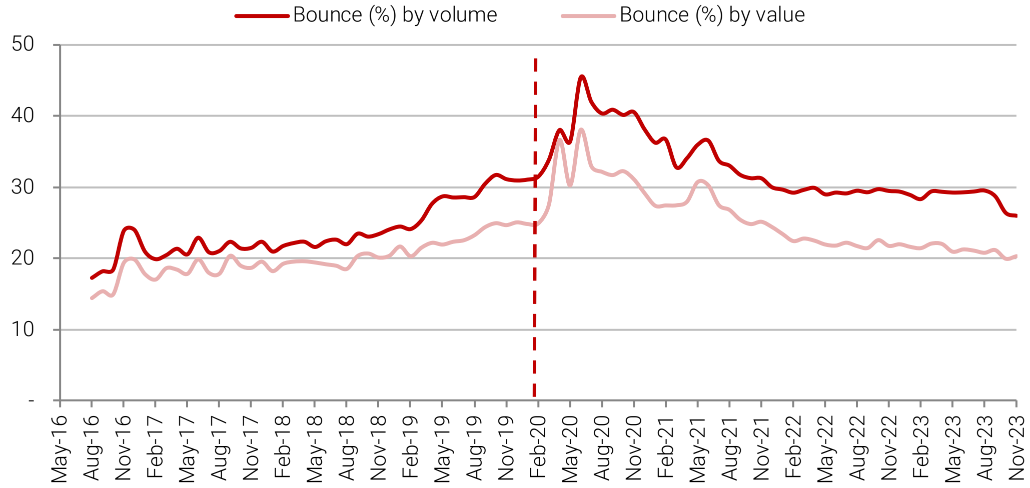
We expect banks to report healthy asset quality numbers for another quarter in 3QFY24. Corporate asset quality continues to be pristine. As the appetite for lenders to lend has improved, it also tends to translate into availability of funding for borrowers across the quality curve.

Credit quality seems to be holding up well as NACH bounce rates have stayed below pre-Covid level. Banking sector exposure to retail unsecured credit has been limited, especially lower in the small ticket personal loans segment, which has seen some signs of deterioration. Hence, we are not worried about it either.

Management is likely to maintain optimism on the recovery environment as recoveries/upgradations will continue to surpass slippages. We have seen the banking system report sequentially lower slippage ratios and credit costs and that trend should continue going forward. Some of the Tier-2 PSU banks with a relatively higher net NPL ratio are likely to see higher credit provisions than others in order to improve provision coverage. Some of the SFBs that have exhausted their provision buffers are likely to see a sequential increase in provisions.

Cheque bounce rates continue to be fairly low

Exhibit 19: Bounce rates on NACH debit transactions (%)



Source: NPCI, Kotak Institutional Equities

Most banks continue to carry healthy provision coverage

Exhibit 20: Calculated provision coverage ratio, March fiscal year-ends (%)

	Ex technical write-off					Including technical write-off				
	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Public banks										
BoB	79.1	78.8	77.2	78.5	77.6	91.7	92.3	92.4	93.2	91.7
Canara	67.1	68.1	68.9	70.6	71.4	85.4	86.3	87.3	88.0	88.7
PNB	66.3	68.5	70.8	75.8	80.0	84.0	85.2	86.9	89.9	91.9
SBI	77.9	76.1	76.4	74.8	75.4	91.5	91.5	91.9	90.1	91.9
Union	70.6	74.6	78.8	79.8	80.7	86.6	88.5	90.3	90.9	92.0
Old private banks										
City Union Bank	39.4	43.5	47.0	50.1	50.9	66.0	67.0	69.0	70.0	71.0
Federal Bank	68.7	70.4	71.2	71.3	72.3	67.4	69.2	70.0	70.0	71.0
Karur Vysya Bank	66.7	67.1	67.9	70.7	73.5	86.9	90.9	92.1	93.4	94.5
New private banks										
Axis Bank	79.9	80.8	100.0	79.6	79.5					
Bandhan	75.5	75.4	76.8	69.2	70.0					
DCB	61.3	63.0	68.2	64.1	62.8					
HDFC Bank	73.3	73.2	75.8	74.9	74.4					
ICICI Bank	81.3	82.6	83.5	83.1	83.1					
Yes	74.7	49.4	62.3	48.4	56.4					
IndusInd Bank	71.5	70.6	70.6	70.6	70.6					
Small finance banks										
AU SFB	71.1	72.1	75.0	69.0	69.1					
Equitas SFB	50.5	50.8	56.9	57.8	57.7					
Ujjivan SFB	99.2	98.7	98.6	97.9	96.3					

Source: Company, Kotak Institutional Equities

NPL ratios have been on a declining trend over the past few quarters

Exhibit 21: Gross and net NPLs, March fiscal year-ends (%)

	Gross NPL (Rs bn)					Gross NPLs (%)					Net NPLs (Rs bn)					Net NPLs (%)				
	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Public banks																				
BoB	464	419	368	348	340	5.3	4.5	3.8	3.5	3.3	97	89	84	75	76	1.2	1.0	0.9	0.8	0.8
Canara	525	501	462	457	440	6.4	5.9	5.4	5.2	4.8	173	160	143	135	126	2.2	2.0	1.7	1.6	1.4
PNB	870	836	773	709	656	10.5	9.8	8.7	7.7	7.0	293	264	226	171	131	3.8	3.3	2.7	2.0	1.5
SBI	1,068	983	909	913	870	3.5	3.1	2.8	2.8	2.6	236	235	215	230	214	0.8	0.8	0.7	0.7	0.6
Union	654	638	610	601	540	8.5	7.9	7.5	7.3	6.4	192	162	129	121	104	2.6	2.1	1.7	1.6	1.3
Old private																				
CUBK	19	20	19	21	20	4.4	4.6	4.4	4.9	4.7	11	11	10	10	10	2.7	2.7	2.4	2.5	2.3
Federal	40	41	42	44	44	2.5	2.4	2.4	2.4	2.3	13	12	12	13	12	0.8	0.7	0.7	0.7	0.6
KVB	25	17	15	13	12	4.0	2.7	2.3	2.0	1.7	8	6	5	4	3	1.4	0.9	0.7	0.6	0.5
New private																				
Axis	199	200	186	182	168	2.5	2.4	2.0	2.0	1.7	40	38	0	37	34	0.5	0.5	0.4	0.4	0.4
Bandhan	69	70	53	70	79	7.2	7.2	4.9	6.8	7.3	17	17	12	21	24	1.9	1.9	1.2	2.2	2.3
DCB	12	12	11	12	13	3.9	3.6	3.2	3.3	3.4	5	5	4	4	5	1.5	1.4	1.0	1.2	1.3
HDFC Bank	183	188	180	191	316	1.2	1.2	1.1	1.2	1.3	49	50	44	48	81	0.3	0.3	0.3	0.3	0.5
ICICI	326	325	312	318	298	3.2	3.1	2.8	2.8	2.5	61	57	52	54	50	0.6	0.6	0.5	0.5	0.5
IndusInd	56	57	58	59	62	2.1	2.1	2.0	1.9	1.9	16	17	17	17	18	0.6	0.6	0.6	0.6	0.6
Yes	274	39	44	41	43	12.9	2.0	2.2	2.0	2.0	69	20	17	21	19	3.6	1.0	0.8	1.0	0.9
Small finance banks																				
AU SFB	10	10	10	11	12	1.9	1.8	1.7	1.8	1.9	3	3	2	3	4	0.6	0.5	0.4	0.6	0.6
Equitas SFB	9	9	7	8	7	3.9	3.6	2.8	2.8	2.3	4	4	3	3	3	2.0	1.8	1.2	1.2	1.0
Ujjivan SFB	9	7	6	6	6	5.1	3.6	2.9	2.6	2.4	0	0	0	0	0	0.0	0.1	0.0	0.1	0.1
Total	4,811	4,372	4,065	4,004	3,925	4.5	4.0	3.5	3.4	3.1	1,287	1,148	975	969	914	1.3	1.1	1.0	0.9	0.8
Public banks	3,581	3,377	3,122	3,029	2,845	5.7	5.1	4.6	4.4	4.0	991	909	797	732	650	1.6	1.4	1.2	1.1	0.9
Private banks	1,230	995	943	975	1,080	2.9	2.3	2.0	2.0	1.9	296	239	177	237	263	0.7	0.6	0.5	0.5	0.6

Source: Company, Kotak Institutional Equities

Provisions are likely to be low or modest in 3QFY24E

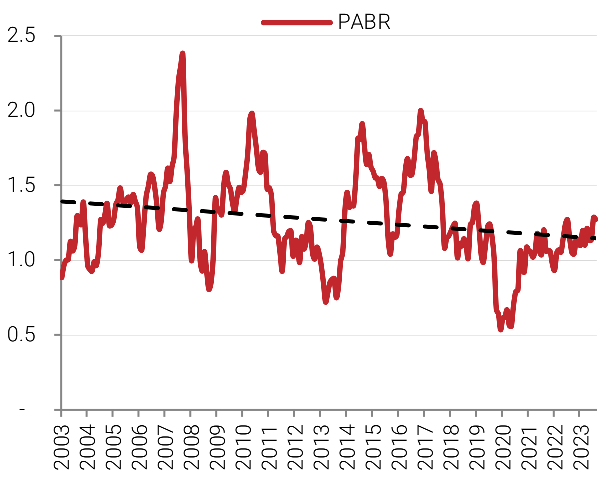
Exhibit 22: Credit cost of banks (loan loss provisions to advances ratio), March fiscal year-ends (%)

	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Public banks					
Bank of Baroda	1.0	0.6	0.8	0.8	0.8
Canara Bank	1.5	1.4	1.2	1.1	1.0
Punjab National Bank	2.4	1.8	1.8	1.5	1.3
State Bank of India	0.8	0.4	0.3	0.0	0.2
Union Bank	1.6	1.5	1.0	0.9	0.8
Old private banks					
City Union Bank	2.1	1.4	1.4	0.5	0.8
Federal Bank	0.5	0.3	0.3	0.1	0.3
Karur Vysya Bank	2.3	1.8	1.0	0.7	0.6
New private banks					
Axis Bank	0.8	0.3	0.5	0.4	0.4
Bandhan	6.7	2.8	2.5	2.5	3.0
DCB	0.5	0.6	0.4	0.4	0.4
HDFC Bank	0.7	0.7	0.7	0.5	0.5
ICICI Bank	0.9	0.6	0.5	0.2	0.7
IndusInd Bank	1.6	1.4	1.3	1.2	1.1
Yes Bank	1.7	1.2	0.7	1.0	0.8
Small finance banks					
AU	0.2	0.3	0.2	0.7	0.9
Equitas SFB	0.9	1.9	0.9	0.9	0.9
Ujjivan SFB	(0.0)	(0.0)	0.5	0.8	1.0

Source: NPCI, Kotak Institutional Equities

Public banks are trading well below their valuation peak

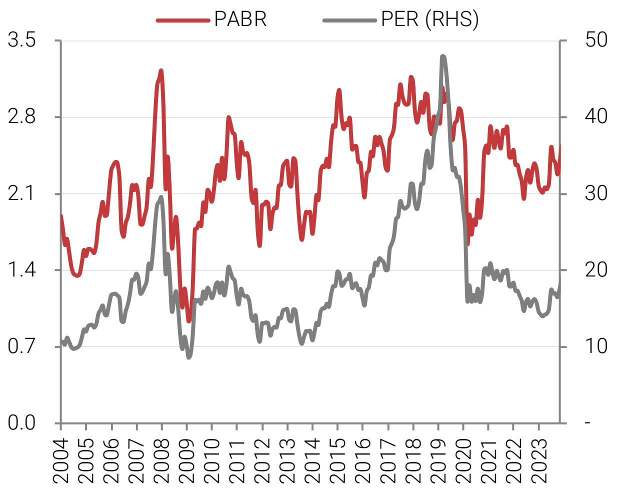
Exhibit 23: Public banks – one-year forward PBR (X)



Source: RBI, Kotak Institutional Equities

Private banks have also seen a drop in valuation multiple

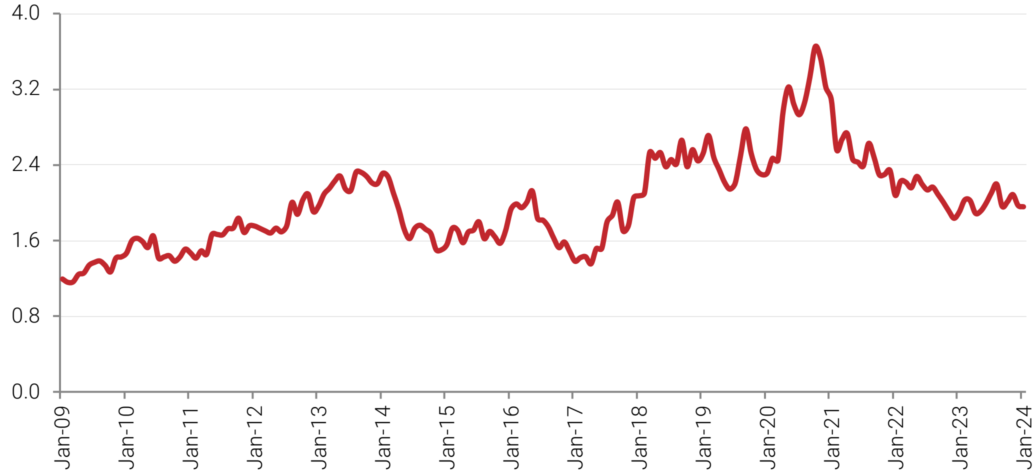
Exhibit 24: Private banks – one-year forward PBR and PER (X)



Source: RBI, Kotak Institutional Equities

Valuation premium of private banks over PSU banks has declined

Exhibit 25: PBR (adj.) of private banks relative to public banks (X)



Source: NPCI, Kotak Institutional Equities

NBFCs: Strong headline performance, asset quality in select pockets monitorable

We expect most non-banks under coverage to deliver 6-39% growth in earnings, driven by healthy 19-43% loan growth (excluding 6% for LICHF, decline for LTFH). This is partially offset by 40-160 bps yoy (13-35 bps qoq) compression in NIM for most reflecting higher cost of refinance and rate transmission by banks. While we do not find red flags in most asset classes, likely stress in unsecured loans, tractors and a rise in early delinquencies down South will dominate discussion with investors. Retain positive stance; Shriram, LICHF and Aavas/Home First in affordable HFCs remain our top picks.

Strong earnings growth for non-banks

We expect most non-banks under coverage to deliver 5-40% growth in earnings. Core PBT (PBR before non-recurring items, assignment, capital gains, other income, etc.) will likely growth at 3-48%. The decline in earnings for Mahindra Finance reflects a combination of low (single-digit) NII growth due to compression in NIM and higher credit cost on low base. LTFH reported loss in 3QFY23. High base, post-merger in 3QFY23 translates to lower earnings growth (6%) for Shriram Finance.

We expect strong PAT growth for most companies

Exhibit 26: Quarterly trends in yoy PAT growth, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	4	32	49	16	20	10	23	14	15
Aptus	47	45	62	45	24	23	20	20	23
Home First	189	92	46	21	28	6	35	37	30
Other NBFCs and HFCs									
Bajaj Finance	85	80	159	88	40	31	32	28	30
Cholamandalam	28	184	73	(7)	31	24	28	35	21
Five Star	NA	NA	40	22	28	43	32	38	29
LICHF	6	180	503	23	(37)	6	43	290	116
L&T Finance (consol)	12	28	47	81	39	46	103	47	30
Mahindra Finance	NM	301	NM	(56)	(30)	14	58	(48)	(22)
Muthoot Finance	4	(4)	(17)	(13)	(12)	(6)	22	14	9
SBFC	NA	NA	(68)	(70)	197	248	66	48	39
Shriram Finance	(3)	34	254	48	83	(6)	25	13	6

Source: Company, Kotak Institutional Equities estimates

Strong core earnings growth for most players in 3QFY24E

Exhibit 27: Quarterly trends in yoy core PBT growth, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	(7)	24	2	(2)	30	31	19	28	18
Aptus	58	53	56	39	24	21	16	20	20
Home First	66	59	45	52	56	45	34	31	18
Other NBFCs and HFCs									
Bajaj Finance	33	26	35	37	26	32	33	34	40
Cholamandalam	(3)	3	6	17	10	37	25	36	36
Five Star	NA	NA	25	32	22	37	35	33	38
LICHF	13	12	40	(1)	3	17	40	102	29
L&T Finance (lending ex-c	(17)	(25)	1	8	9	16	6	13	12
Mahindra Finance	4	(15)	28	(14)	(4)	6	6	10	3
Muthoot Finance	7	(9)	(22)	(18)	(15)	3	35	15	7
SBFC	NA	NA	(67)	(64)	91	116	53	42	48
Shriram Finance	7	19	37	27	33	23	3	19	10

Source: Company, Kotak Institutional Equities estimates

High low growth remains the key driver

We expect overall momentum of disbursements to remain strong. While festive demand was tad weak, expansion in footprint and diversification in new segments over the last few months will drive disbursements. Unsecured loans will likely see some slowdown, mostly from business originated through partnerships. High base in non- affordable housing loans led to yoy decline in disbursements for last four quarters, the base gets favorable from 3QFY24.

We expect qoq loan growth to range 2-8%, with LICHF and Muthoot Finance in lower end. LICHF's disbursements were down for last four quarters and we expect low base to deliver moderate (high-single digit yoy) growth for the company. Muthoot Finance, though buoyed by gold prices, poses risk to loan growth from higher auctions in 2HFY24 (pre-ARC GNPLs were 5% last quarter).

Bajaj Finance and Chola continue to deliver 7-8% qoq loan growth. In the smaller names, Home First, Five Star and SBFC remain in high (7-8% qoq) growth trajectory.

Vehicle financiers and diversified NBFCs grew at a faster pace in both FY2023 and 1HFY24

Exhibit 28: Loan book of NBFC/HFC across segments, March fiscal year-ends, 2019-2023, 1HFY23, 1HFY24 (Rs bn)

	2019	2020	2021	2022	2023	YoY (%)	1HFY23	1HFY24	YoY (%)	QoQ (%)
HFCs	**6,959**	**7,087**	**7,292**	**7,762**	**8,488**	**9.3**	**8,096**	**8,858**	**9.4**	**3.1**
Aadhar	100	114	133	148	172	16.5	157	184	17.0	3.2
Aavas	59	78	95	114	142	24.8	125	153	22.1	4.6
Aditya Birla Housing	114	121	119	120	138	15.0	125	154	24.0	6.4
Aptus	22	32	41	52	67	30.1	59	76	28.2	6.8
CanFin Homes	184	207	221	267	316	18.2	288	334	15.7	2.6
GIC Housing	131	132	128	112	103	(7.7)	108	100	(7.3)	(4.6)
Home First	24	36	41	54	72	33.8	63	84	33.3	7.6
LIC Housing Finance	1,930	2,080	2,281	2,453	2,750	12.1	2,623	2,780	6.0	0.6
Shriram Housing	19	23	39	54	80	50.3	65	108	65.2	13.4
Diversified	**3,879**	**3,998**	**4,051**	**4,651**	**5,653**	**21.6**	**5,027**	**6,295**	**25.2**	**5.9**
Aditya Birla Capital	517	471	487	552	806	46.0	650	935	43.9	8.9
Bajaj Finance	1,159	1,472	1,529	1,975	2,474	25.3	2,184	2,903	32.9	7.5
Edelweiss	361	191	196	168	120	(28.7)	154	120	(22.1)	4.8
IIFL	349	380	447	512	646	26.2	553	731	32.1	7.2
L&TFH	991	984	940	883	810	(8.3)	896	787	(12.2)	0.5
Tata Capital	502	502	451	562	798	42.1	590	820	39.0	1.7
Vehicle Finance	**2,804**	**2,974**	**3,123**	**3,316**	**4,095**	**23.5**	**3,628**	**4,607**	**27.0**	**6.6**
Mahindra Finance	631	681	646	650	828	27.4	738	937	27.0	8.1
Shriram Finance	1,341	1,388	1,468	1,602	1,857	15.9	1,694	2,026	19.7	4.9
Sundaram Finance	290	299	309	295	346	17.0	320	401	25.4	7.7
Gold loans	**472**	**586**	**717**	**782**	**830**	**6.1**	**764**	**898**	**17.5**	**1.8**
Manappuram Financ	130	170	191	202	197	(2.1)	192	208	8.4	1.0
Muthoot Finance	342	416	526	581	632	8.9	572	690	20.6	2.0
MFI	**684**	**731**	**800**	**966**	**1,241**	**28.5**	**1,059**	**1,429**	**35.0**	**3.4**

Source: Company, Kotak Institutional Equities

Loan growth to remain strong for most players

Exhibit 29: Quarterly trends in yoy loan growth, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	20	20	24	24	23	25	23	22	23
Aptus	27	27	30	32	31	30	29	28	28
Home First	27	30	36	36	35	34	33	33	34
Other NBFCs and HFCs									
Bajaj Finance	25	29	28	31	27	25	32	33	35
Cholamandalam	6	10	21	25	31	38	40	42	40
Five Star				24	31	36	43	44	43
LICHF	11	8	10	10	10	10	8	6	6
L&T Finance (lending)	(14)	(5)	2	6	6	(7)	(11)	(12)	(8)
Mahindra Finance	(4)	1	6	16	21	27	28	27	25
Muthoot Finance	9	10	8	4	6	9	19	21	22
SBFC					57	55	47	43	39
Shriram Finance	9	9	9	11	13	16	19	20	19

Source: Company, Kotak Institutional Equities estimates

Loan growth to remain strong for most players

Exhibit 30: Quarterly trends in qoq loan growth, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	4.6	7.0	4.8	5.5	4.3	8.2	3.4	4.6	4.8
Aptus	7.2	7.8	6.6	7.5	6.3	6.8	5.7	6.8	5.8
Home First	8.2	7.7	8.4	7.6	7.6	6.6	8.0	7.6	7.8
Other NBFCs and HFCs									
Bajaj Finance	8.6	8.9	3.3	7.0	5.7	7.2	9.2	7.5	7.1
Cholamandalam	3.9	5.8	6.5	7.0	8.9	11.6	7.8	8.2	7.2
Five Star	2.8	6.3	4.5	8.2	8.9	10.8	9.7	9.0	8.1
LICHF	2.4	3.2	1.8	2.6	2.3	2.5	0.5	0.6	2.1
L&T Finance (lending)	(1.3)	4.0	1.0	2.3	(1.8)	(8.5)	(2.8)	0.5	2.8
Mahindra Finance	0.5	1.6	4.2	9.0	4.8	7.0	4.8	8.1	3.4
Muthoot Finance	(0.8)	6.2	(2.3)	1.0	0.9	9.5	7.0	2.0	2.0
SBFC		12.3	13.7	12.2	9.9	10.5	7.8	8.9	7.0
Shriram Finance	3.1	2.2	1.7	3.9	4.8	4.6	4.1	4.9	4.5

Source: Company, Kotak Institutional Equities estimates

Growth in unsecured loans was high at 30-270% yoy for NBFCs

Exhibit 31: AUM mix of select NBFCs, March fiscal year-ends, 2QFY22-2QFY24 (Rs bn)

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Aditya Birla Finance											
Corporate/Mid-market	187	186	202	202	217	226	248	264	286	32	8
Secured business	212	225	244	249	272	292	319	332	361	33	9
Unsecured business	39	42	53	56	65	73	84	86	95	45	10
Personal and Consumer	34	40	52	71	96	128	154	177	193	102	9
Aditya Birla Housing Finance	113	116	121	120	125	130	138	145	154	24	6
Bajaj Finance											
Consumer B2B	233	255	252	264	264	285	306	371	395	50	7
Consumer B2C	337	363	388	412	441	467	501	548	582	32	6
SME	219	232	250	266	289	309	299	302	387	34	28
Commercial	173	196	274	228	257	281	309	343	365	42	7
Rural	166	183	194	213	222	231	243	258	264	19	2
Mortgages	542	583	617	657	711	735	816	879	909	28	3
Cholamandalam											
Vehicle Finance	493	507	529	554	576	613	669	711	754	31	6
Home Equity	154	162	171	181	188	200	216	229	247	31	8
Home loans	48	50	53	55	65	73	85	95	108	67	13
Business loans	6	8	16	29	48	69	95	113	133	180	18
IIFL											
Capital Market	7	7	6	6	5	5	4	5	5	3	5
Construction and Real Estate	27	28	29	25	26	27	27	27	28	9	3
Gold Loan	136	146	162	171	178	183	207	221	237	33	7
Home Loan	157	165	177	186	197	204	218	228	240	22	5
LAP	70	53	57	58	60	62	67	68	72	20	5
Digital Loan		17	19	19	20	20	25	29	35	77	22
Micro Finance	45	52	62	63	67	78	98	103	113	68	10
L&TFH											
Retail	**409**	**426**	**451**	**478**	**520**	**570**	**611**	**643**	**694**	**33**	**8**
Farm equipment	111	112	113	116	119	124	128	131	134	13	2
2W finance	69	73	75	75	81	87	90	92	95	18	4
Micro loans	113	120	133	144	158	175	187	197	217	37	10
Consumer loans	12	17	23	30	40	47	55	60	65	63	8
Home Loans	73	75	78	84	91	99	107	113	122	34	8
LAP	31	30	28	27	27	26	27	28	30	14	8
SME finance	#REF!	0	1	1	3	8	14	18	24	652	36
Acquired portfolio	#REF!	#REF!	#REF!	1	2	3	3	4	7	323	98
Wholesale	**435**	**408**	**417**	**398**	**376**	**310**	**195**	**140**	**93**	**(75)**	**(34)**
Real Estate	122	116	112	98	91	74	58	41	28	(70)	(32)
Infrastructure	313	292	305	300	285	236	137	99	65	(77)	(35)
Piramal											
Housing		151	147	147	157	165	178	186	197	26	6
Secured MSME/LAP		62	63	60	65	73	82	91	85	31	(6)
Unsecured		2	6	14	24	36	54	66	89	268	34
Used car loans		0	1	2	3	6	9	12	15	378	34
Wholesale		391	436	423	389	370	351	334	283	(27)	(15)
Poonawalla											
Auto lease							5	5	6		16
Business loans							45	64	72		14
LAP							26	29	29		(1)
Pre-owned cars							27	28	30		4
Personal & consumer							26	34	44		27
Discontinued							23	18	22		26

Source: Company, Kotak Institutional Equities

NIM compression continues

We expect NIM compression to continue yoy and qoq by 40-160 and 13-35 bps, respectively. Refinancing of retiring facilities at higher rate will pull up credit cost even as most of MCLR repricing is already reflected in the borrowings costs (Exhibit 36). After the increase in risk weights, banks have started discussions of increase in lending rates with NBFCs. While NBFCs are resisting hard, we expect moderate ~25 bps increase in cost of borrowings for most; rise may be higher for NBFCs that don't have PSL refinance. The impact of rise may be reflected from next quarter; bank loans comprise about 24-65% of overall borrowings (Exhibit 37), and hence borrowing cost may inch up marginally 10-15 bps.

On the asset side, NBFCs continue to keep lending rates unchanged and most are likely not passing even the current rise to borrowing costs; transmission is selective in segments like unsecured loans. Home loan yield may decline a bit due to repricing down by existing borrowers even as headline rates have been unchanged for large players; discounts have however increased a bit to higher-rated borrowers.

We model NIM compression in 3QFY24E for most players

Exhibit 32: Quarterly trends in NIM, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas	7.6	8.2	7.7	7.6	8.1	8.0	7.7	7.3	7.3
Aptus	13.4	13.5	13.4	13.3	13.1	13.1	12.2	12.4	12.4
Home First	7.9	8.2	8.2	8.1	8.0	7.9	7.9	7.7	7.6
Other NBFCs and HFCs									
Bajaj Finance	10.9	10.1	10.5	10.5	10.5	10.5	10.4	10.3	10.4
Cholamandalam	8.0	7.6	7.7	7.2	7.1	7.1	6.8	6.8	6.7
Five Star	19.7	20.3	20.9	21.5	21.4	21.0	20.3	20.1	19.8
LTFH	6.5	6.6	6.5	7.0	7.4	7.8	8.1	8.7	9.1
LIC Housing Finance	2.4	2.6	2.5	1.8	2.4	2.9	3.2	3.0	2.8
Mahindra Finance	9.6	9.0	9.1	8.2	8.2	8.0	7.5	7.0	7.2
Muthoot Finance	13.7	12.2	10.7	11.0	11.9	12.3	11.6	10.9	10.7
SBFC	9.8	9.5	10.1	10.6	9.7	10.4	10.7	10.7	11.0
Shriram Finance	9.7	10.2	10.7	10.5	10.7	10.5	10.2	10.7	10.7

Source: Company, Kotak Institutional Equities estimates

Lending rate hikes have been muted in most segments

Exhibit 33: Lending rate hikes, March fiscal year-ends, 1QFY23-1QFY24 (bps)

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	Cummulative
Repo rate	**90**	**100**	**35**	**25**	**—**	**250**
HFCs						
Aavas	25	50	50	35	50	210
Aptus	—	—	50	—	50	100
Home First	—	25	50	50	—	125
REPCO	—	30	30	85	—	145
Can Fin	—	80	55	—	25	160
LICHF	90	100	35	25	—	250
NBFCs						
Bajaj Finance			60-70	—	—	60-70
IIFL Finance	NA	NA	NA	25	—	150
Mahindra Finance	30-40		40	—	—	80
Piramal	NA	NA	50	20	50	120
Poonawalla		100	50-100	—	—	150-200
Shriram Finance	—	25-50	—	—	—	25-50

Notes:

(1) While Mahindra Finance has raised their lending rate by 80 bps, the new businesses have lower yield offsetting the benefit of lending rate hike.

(2) No meaningful rate hikes in 2QFY24.

Source: Company, Kotak Institutional Equities

Yields to inch up for most players in 3QFY24E

Exhibit 34: Quarterly trends in yields, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	13.6	13.9	13.5	13.4	13.9	14.0	14.1	14.0	14.2
Aptus	17.5	17.4	17.4	18.0	18.1	17.8	17.1	17.6	17.7
Home First	13.6	13.3	13.5	13.8	13.9	14.3	14.7	14.6	14.6
Other NBFCs and HFCs									
Bajaj Finance	16.7	15.6	15.8	16.1	16.5	16.5	16.7	16.8	16.9
Cholamandalam	14.2	13.6	13.6	13.6	14.0	14.1	14.1	14.3	14.4
Five Star	NA	25.5	25.9	25.9	25.6	25.7	25.6	25.4	25.5
L&T Finance Holdings	13.0	13.0	12.9	13.5	14.3	14.8	15.1	15.5	15.9
LIC Housing Finance	8.3	8.4	8.3	7.8	8.8	9.4	9.7	9.7	9.6
Mahindra Finance	15.6	14.8	14.7	14.2	14.8	14.7	14.3	14.0	14.3
Muthoot Finance	20.7	18.7	17.3	17.4	18.2	18.5	18.1	17.7	17.8
SBFC	NA	15.2	15.7	16.1	16.0	16.4	16.5	16.8	17.2
Shriram Finance	16.2	16.6	16.5	16.9	16.5	16.4	16.2	16.6	16.7

Source: Company, Kotak Institutional Equities estimates

We expect cost of funds to inch up 10-20 bps for most players

Exhibit 35: Quarterly trends in cost of funds, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	7.1	6.5	6.6	6.7	6.8	6.9	7.3	7.5	7.6
Aptus	8.6	8.1	7.7	8.0	8.3	8.3	8.5	9.1	9.3
Home First	7.2	6.6	6.7	7.2	7.2	7.8	8.2	8.1	8.3
Other NBFCs and HFCs									
Bajaj Finance	6.8	6.4	6.3	6.7	7.0	6.9	7.3	7.4	7.4
Cholamandalam	6.5	6.3	6.3	7.0	7.3	7.4	7.8	7.8	7.9
Five Star	NA	9.7	10.2	9.7	8.9	8.3	9.0	9.3	9.4
LIC Housing Finance	6.7	6.5	6.5	6.8	7.2	7.2	7.4	7.6	7.7
Mahindra Finance	6.7	6.6	6.5	6.7	7.2	7.3	7.5	7.6	7.8
Muthoot Finance	7.9	7.6	7.9	7.8	8.0	8.0	8.4	8.7	8.9
SBFC	8.5	8.0	8.3	8.0	8.9	8.8	9.3	9.4	9.6
Shriram Finance	8.8	8.6	7.9	8.3	8.0	8.3	8.7	8.9	9.0

Source: Company, Kotak Institutional Equities estimates

NII growth to remain strong for most players due to strong loan growth

Exhibit 36: Quarterly trends in yoy NII growth, march fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	12	37	20	15	32	23	26	18	12
Aptus	47	42	45	40	29	27	19	20	21
Home First	40	45	43	44	43	36	34	32	29
Other NBFCs and HFCs									
Bajaj Finance	41	25	43	29	25	30	27	30	32
Cholamandalam	6	9	17	17	17	29	24	35	31
Five Star	NA	NA	31	37	38	39	36	34	33
LICHF	14	9	26	(0)	10	22	37	81	24
L&T Finance (lending)	(10)	(9)	(0)	13	21	18	14	9	10
Mahindra Finance	13	(1)	34	0	1	10	5	10	10
Muthoot Finance	6	(6)	(9)	(13)	(10)	8	23	18	10
SBFC	NA	NA	(61)	(57)	45	65	52	40	54
Shriram Finance	6	17	31	24	27	20	12	22	18

Source: Company, Kotak Institutional Equities estimates

Impact of back book maturing is muted for most NBFCs

Exhibit 37: Impact of borrowings maturing, March fiscal year-ends, 2024-26E (Rs bn)

	2024E	2025E	2026E	Comments
LICHF				
NCDs maturing during the year	366	288	238	Assumed 7.6% incremental cost of borrowing
weighted average cost of above (%)	7.2	7.3	7.7	
Total borrowings	2,662	2,918	3,235	
Cost of borrowing (%)	7.3	6.9	6.9	
Effect of backbook maturing (bps)	(6)	(3)	1	
Mahindra Finance				
NCDs maturing	57	37	24	Assumed 8.1% incremental cost of borrowing
weighted average cost (%)	7.0	8.3	8.3	
Total borrowings	941	1,126	1,335	
Cost of borrowing (%)	7.7	7.6	7.4	
Effect of backbook maturing (bps)	(6)	1	0	
Shriram Finance				
High interest rate borrowings maturing	55	45	1	Assumed 8.7% incremental cost of borrowing
Total borrowings	1,815	2,145	2,466	
Cost of borrowing (%)	8.7	8.7	8.7	
Effect of backbook maturing (bps)	7	6	0	
Muthoot Finance				
NCDs maturing	52,364	21,938	43,762	Assumed 8.6% incremental cost of borrowing
Weighted average cost (%)	7.9	8.0	8.1	
Total borrowings	574,390	656,170	751,320	
Cost of borrowing (%)	8.5	8.4	8.4	
Effect of backbook maturing (bps)	(6)	(2)	(3)	
Manappuram Finance				
NCD maturing	21,527	6,350	3,823	Assumed 9.0% incremental cost of borrowing
Weighted average cost (%)	7.8	7.0	6.9	
Total borrowings	336,098	396,596	467,983	
Cost of borrowing (%)	9.0	8.8	8.7	
Effect of backbook maturing (bps)	(8)	(3)	(2)	

Source: Company, Kotak Institutional Equities

Share of term loans in borrowing mix varies from 24-65% for NBFCs under coverage

Exhibit 38: Borrowing mix, March fiscal year-ends, 2019-2023, 1QFY24, 2QFY24 (% of total)

	2019	2020	2021	2022	2023	1QFY24	2QFY24
Aavas	36,533	53,520	63,454	79,725	98,407	106,772	111,444
Term loans	42	43	34	38	45	47	50
Assignment	28	25	24	23	22	21	21
NHB	19	14	23	22	21	21	18
NCD	11	19	19	18	12	11	11
LICHF	1,706,290	1,912,090	2,075,770	2,238,440	2,446,960	2,413,720	2,436,060
Bank	15	22	25	30	34	31	33
NCDs	75	65	54	53	50	54	53
Tier-II	1	1	1	1	1	1	1
Deposit	4	7	9	8	5	5	5
NHB	1	1	5	4	5	5	4
CP and others	4	4	6	4	5	4	4
L&TFH	915,070	938,940	885,560	852,010	830,430	753,930	765,570
Term loan	39	44	38	41	50	53	52
NCDs and Others	47	50	55	52	38	42	42
CP	14	6	7	7	12	5	6
Chola	505,670	550,050	637,300	691,740	973,561	1,081,400	1,194,695
Bank	49	66	61	63	57	52	52
CP	11	8	10	10	8	9	9
Debenture	21	10	15	15	16	15	14
Subordinated debt	8	8	7	7	9	9	9
Securitisation	11	8	7	5	10	15	16
Mahindra Finance	531,120	594,623	586,750	559,620	753,640	795,420	853,780
Bank loans	28	30	25	28	40	42	45
NCDs	44	35	33	37	32	31	30
FDs	11	15	16	15	7	7	7
CP/ ICD	9	0	2	2	8	10	9
Securitisation	8	15	18	14	9	7	6
Offshore borrowings		5	7	5	4	3	3
Muthoot Finance	269,223	372,264	460,196	498,701	497,633	512,511	552,480
Gold bonds	2	1	1	0	0	0	0
Listed NCDs	28	26	29	25	27	25	24
Bank loans	49	39	43	55	60	60	65
Subordinated debt	2	1	0	0	0	0	0
Others	2	24	18	17	10	8	2
Bajaj Finance	863,520	1,298,060	1,316,450	1,652,320	2,154,300	2,351,620	2,544,150
Banks	34	38	32	28	31	31	32
NCDs	38	41	44	50	47	47	46
Subordinate debt	5	4	4	3	1	1	1
Deposits	15	17	20	19	21	21	21
Shriram Finance							
NCDs	29	22	20	19	19	18	18
Deposits	12	13	15	19	23	24	24
Securitization	20	23	22	17	14	15	15
Subordinated debts	7	6	4	4	3	3	3
Term loans	18	16	16	20	26	24	24
ECB	6	15	18	17	8	8	8
ECB loans	3	5	4	4	6	7	7
Others	2	2	1	0	0	2	2

Source: Company, Kotak Institutional Equities

Asset quality back in discussion

After 5-6 quarters of consistent improvement in asset quality, stressed loans (gross stage-2, gross stage-3 loans) started to inch up from 1QFY24, masked by higher growth in loan book (Exhibit 40). 2QFY24 saw rise in stress in select tractor cohorts especially for Mahindra Finance. Muthoot Finance reported 5% GNPLs/gross stage-3 loans, after adding back loans sold to ARC. Mostly importantly, the RBI's cautious stance on unsecured loans and increase in risk weights continues to make the Street anxious about unsecured loans portfolio across lenders. We expect this to dominate discussion in 3QFY24 earnings discussion as well.

Floods in Chennai and select districts in South India will likely temper collection efficiency in these regions. While we don't see any impact on gross stage-3 loans, early dpd (0 dpd or 30 dpd) may inch up a bit for players like Aptus and Five Star that have higher share of business from Tamil Nadu.

Stressed loans declined for most players in 2QFY24

Exhibit 39: Stressed loans for select NBFCs, March fiscal year-ends, 2QFY23-2QFY24 (%)

	Gross stage-2 (%)					Gross stage-3 (%)					Write-offs during the quarter (%)					Overall stressed loans (%)					YoY	QoQ
	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	(bps)	(bps)
Affordable housing																						
Aavas	2.4	2.1	1.8	1.9	1.8	1.1	1.1	0.9	1.0	0.9	0.0	0.0	0.1	0.0	0.1	3.5	3.3	2.8	2.9	2.9	(66)	(8)
Aptus	5.0	4.8	4.7	5.0	4.8	1.5	1.4	1.2	1.3	1.2	0.0	0.1	0.2	(0.1)	0.0	6.5	6.3	6.1	6.2	6.0	(48)	(15)
Home First	1.3	1.2	1.1	1.3	1.2	1.9	1.8	1.6	1.6	1.7	0.1	0.2	0.2	0.2	0.2	3.3	3.2	2.9	3.1	3.2	(15)	1
Other NBFCs and HFCs																						
Bajaj Finance	1.5	1.2	1.2	1.2	1.1	1.2	1.1	0.9	0.9	0.9	1.4	1.2	1.4	1.3	1.5	4.0	3.6	3.6	3.4	3.5	(54)	10
Cholamandalam	4.4	3.3	2.3	2.5	3.5	5.8	5.4	4.6	4.3	3.1	1.3	0.8	(1.4)	0.7	0.7	11.5	9.5	5.6	7.5	7.3	(426)	(20)
Five Star	12.5	10.6	9.1	8.3	7.2	1.2	1.5	1.4	1.4	1.4	0.4	0.2	0.0	0.1	0.0	14.0	12.3	10.5	9.8	8.6	(538)	(118)
LIC Housing	4.0	3.9	5.3	5.7	5.1	4.9	4.8	4.4	5.0	4.3	0.3	(0.0)	0.5	0.0	2.2	9.2	8.7	10.2	10.7	11.6	245	93
Mahindra Finance	9.7	6.7	4.5	5.1	6.4	6.7	7.6	5.9	5.7	4.3	3.2	2.7	3.1	1.6	1.6	19.6	17.0	13.6	12.3	12.3	(733)	-
Shriram Finance	10.1	9.3	8.9	7.8	7.2	6.3	6.3	6.2	6.0	5.8	0.3	0.2	0.35	0.21	0.33	16.7	15.7	15.5	14.1	13.3	(340)	(80)

Notes:

(1) We have only captured restructured loans which are not already clubbed in stage-2.

(2) Stressed loans: Gross stage-2+gross stage-2+restrcutured loans (excluding those clubbed under stage-2)+write-offs during the quarter.

(3) Write-offs are annualized.

Source: Company, Kotak Institutional Equities

ECL coverage has moderated for most players in 2QFY24

Exhibit 40: ECL coverage ratio for NBFC/HFCs, March fiscal year-ends, 2QFY21-2QFY24 (%)

	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Housing Finance companies													
Aavas	0.51	0.69	0.65	0.85	0.85	0.93	0.71	0.67	0.64	0.64	0.62	0.65	0.65
Bajaj Housing	0.78	1.06	1.04	0.97	0.96	0.99	1.00	0.92	0.86	0.84	0.84	0.79	0.72
LIC Housing Finance	1.30	1.34	1.71	2.03	2.25	2.33	2.33	2.40	2.49	2.71	2.63	2.75	2.34
PNB Housing Finance	2.99	3.47	4.09	4.47	4.77	4.39	4.42	3.52	3.74	3.03	2.42	2.46	1.97
Auto financiers													
Mahindra Finance	4.97	6.61	7.20	11.28	10.07	8.85	6.94	6.77	5.74	5.04	3.98	4.03	4.03
Shriram Finance	6.58	6.75	6.76	7.60	7.64	7.90	7.19	5.98	6.05	6.14	6.19	6.23	6.22
Gold loan companies													
Muthoot	1.20	1.23	1.19	1.24	1.30	1.46	1.24	1.16	1.12	1.20	1.21	1.25	1.24
Multi-product companies													
Bajaj Finance (consol)	4.43	3.51	2.82	3.21	2.87	2.50	2.25	2.03	1.91	1.88	1.77	1.70	1.60
Poonawalla Fincorp	4.79	5.34	9.46	7.05	5.40	4.94	4.23	4.58	2.16	2.04	1.80	1.79	1.83

Source: Company, Kotak Institutional Equities

Gross stage-3 loans have started to inch up

Exhibit 41: Gross stage-3 loans, March fiscal year-ends, 2QFY22-2QFY24 (%)

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Affordable housing											
Aavas Financiers	0.8	1.5	0.9	1.0	1.1	1.2	1.1	1.2	1.3	16.3	8.5
Aptus	0.4	0.7	0.6	1.0	0.9	0.9	0.8	0.9	0.9	4.2	(1.8)
Home First	0.6	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.2	23.2	14.5
Other NBFCs and HFCs											
Bajaj Finance	41.0	31.1	31.3	25.4	25.3	26.1	23.1	23.5	26.5	4.5	12.6
Five Star	0.7	0.6	0.5	0.6	0.7	0.9	0.9	1.1	1.1	69.4	4.3
LICHF	122.2	122.7	116.5	126.8	128.5	127.5	120.2	137.1	120.4	(6.4)	(12.2)
L&T Finance (lending)	48.0	48.7	32.5	35.6	35.9	37.2	38.3	31.7	25.8	(28.3)	(18.8)
Mahindra Finance	80.7	72.2	49.8	54.4	49.4	58.7	49.0	49.1	52.2	5.7	6.3
Muthoot Finance	10.2	20.9	17.4	12.1	9.6	14.9	24.0	28.8	27.6	189.2	(4.0)
SBFC	NA	NA	NA	1.0	NA	NA	1.2	1.2	1.2	NM	-
Shriram Finance	115.2	127.1	109.8	101.3	105.8	110.6	113.8	115.1	115.6	9.2	0.4

Source: Company, Kotak Institutional Equities estimates

Gross stage-2 loans were down 1-11% qoq for most players in 2QFY24

Exhibit 42: Gross stage-2 loans, March fiscal year-ends, 2QFY22-2QFY24 (%)

	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)
Affordable housing											
Aavas Financiers	5.1	3.4	2.7	2.4	2.4	2.3	2.1	2.2	2.1	(13.0)	(6.0)
Aptus			4.5	2.6	3.0	3.0	3.2	3.5	3.6	22.4	2.9
Home First	1.3	0.9	0.6	0.7	0.7	0.7	0.7	0.8	0.8	20.5	(1.2)
Other NBFCs and HFCs											
Bajaj Finance	59.6	53.0	38.6	35.7	31.6	28.6	30.3	32.9	31.0	(1.7)	(5.7)
Five Star	0.7	0.6	0.5	0.6	0.7	0.9	0.9	1.1	1.1	69.4	4.3
LICHF	105.0	91.3	77.3	101.3	104.9	105.2	144.4	158.7	140.9	34.3	(11.2)
Mahindra Finance	125.6	113.7	92.6	79.3	71.9	52.1	37.4	43.8	41.9	(41.7)	(4.4)
Mahindra Finance	NA	NA	NA	1.7	NA	NA	1.6	1.8	2.3	NM	25.0
Shriram Finance	190.7	181.6	171.8	174.1	170.0	163.0	163.4	149.6	143.3	(15.7)	(4.3)

Source: Company, Kotak Institutional Equities estimates

Credit cost to remain muted for most players in 3QFY24E

Exhibit 43: Quarterly trends in credit cost, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	0.4	(0.4)	0.0	0.1	0.1	0.2	0.2	0.2	0.2
Aptus	0.8	0.8	0.7	0.6	0.5	0.5	0.1	0.3	0.7
Home First	0.5	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Other NBFCs and HFCs									
Bajaj Finance	2.4	1.5	1.5	1.4	1.5	1.4	1.5	1.5	1.5
Cholamandalam	1.5	(0.1)	1.5	1.3	0.7	0.5	1.3	1.3	1.1
Five Star	NA	0.7	(0.0)	0.6	0.3	0.4	0.8	0.5	1.0
LICHF	0.6	0.3	0.5	0.9	1.1	0.5	0.5	0.6	0.6
L&T Finance (lending ex-defocuse	2.8	2.8	3.5	2.5	2.4	2.1	2.4	2.5	2.7
Mahindra Finance	(0.9)	0.4	3.9	1.1	0.8	0.0	2.5	2.8	1.5
Muthoot Finance	0.6	(0.5)	(0.4)	(0.1)	0.4	0.5	0.5	0.1	0.1
SBFC	4.5	2.0	0.8	0.8	1.0	0.6	0.8	0.8	0.8
Shriram Finance	3.1	2.4	2.5	2.1	2.9	2.2	2.1	2.6	1.9

Source: Company, Kotak Institutional Equities estimates

Some juice in expense ratios

We expect cost ratios to moderate by 1-26 bps sequentially for most players in 3QFY24E. Cost ratios increased in FY2023, i.e., post-Covid due to (1) high attrition, (2) higher collection efforts and (3) investment in channels and technology. Most companies curtailed expenses in 2QFY24 (down 3-69 bps yoy), and we expect the trend to sustain in 3QFY24E (down 1-98 bps yoy).

Cost ratios to decline yoy for most players in 3QFY24E

Exhibit 44: Quarterly trends in cost-to-AAUM, March fiscal year-ends, 3QFY22-3QFY24E (%)

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24E
Affordable housing									
Aavas Financiers	3.5	3.9	3.5	3.8	3.7	3.5	3.7	3.5	3.4
Aptus	2.3	2.4	2.4	3.1	2.7	2.9	2.6	2.9	2.6
Home First	2.7	2.8	2.8	2.9	2.7	2.7	3.0	2.8	2.9
Other NBFCs and HFCs									
Bajaj Finance	4.8	4.4	4.7	4.8	4.6	4.4	4.4	4.3	4.3
Cholamandalam	3.0	3.5	2.9	3.1	3.3	3.1	2.8	3.2	3.1
Five Star	6.2	7.8	6.8	7.2	8.0	7.9	7.0	7.0	7.0
LICHF	0.3	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
L&T Finance (lending ex-c	2.6	2.7	2.8	3.0	3.2	3.5	3.9	4.3	4.6
Mahindra Finance	3.3	3.9	3.7	3.8	3.4	3.9	3.2	3.2	3.2
Muthoot Finance	3.3	3.8	3.8	3.2	3.4	4.2	3.4	3.4	3.3
SBFC	12.7	7.2	5.7	6.1	5.1	5.7	5.3	5.4	5.6
Shriram Finance	2.5	2.6	2.7	2.9	2.8	3.2	2.9	3.0	3.0

Source: Company, Kotak Institutional Equities estimates

3QFY24E outlook for asset and wealth managers

3QFY24E is likely to be another strong quarter for AMCs. Industry quarterly average AUM is likely to grow by ~2-3% qoq, whereas equity AUM growth is likely to be around 8-9% qoq. For the four listed AMCs, we see stronger equity AUM growth for HDFC AMC and Nippon AMC followed by ABSL and UTI. HDFC AMC and Nippon continue to enjoy stronger fund performance leading to flow market share gains.

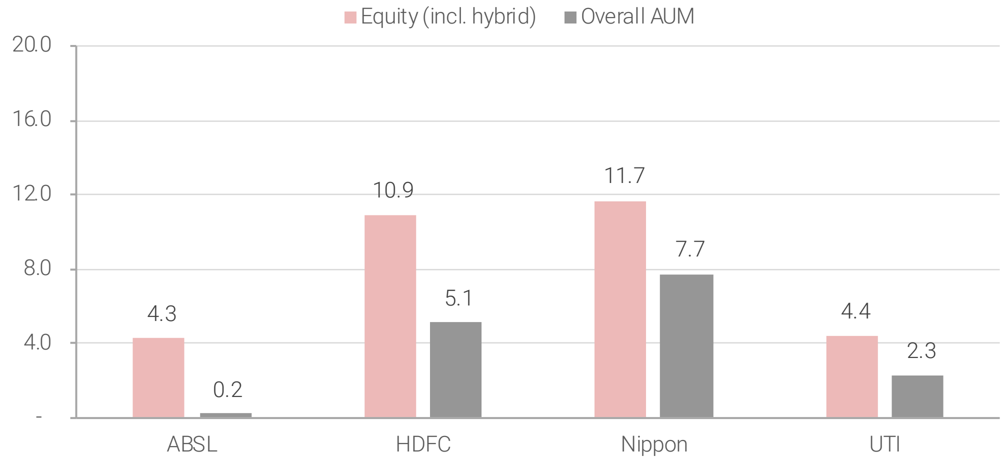
Revenue yields will face the usual pressure arising from AUM growth aided by MTM gains. AMCs (e.g., HDFC and Nippon) where funds have likely moved to higher slabs will see compression but likely partly offset by improved equity mix. Both HDFC and Nippon have likely seen continued gains in the SIP flow market share as well. For ABSL, we await any progress toward curbing market share loss. For UTI, we look forward to management outlook on cost control and any signs of flow share trends, given weaker fund performance in early buckets.

Among RTAs, CAMS should see some signs of fee pressure abating from 3Q onward, whereas Kfin should report strong revenue growth trends, helped by non-MF revenues as well. We expect stable EBITDA margins for both companies.

IIFLW's AUM growth is relatively tougher to predict, but we expect 3Q to be healthy quarter on both returns and flows. However, yields could be under pressure due to mix effect. In the current context, focus could be on visibility to achieve guidance/outlook for FY2024 flows and earnings. Earnings could see some support from transactional revenues. Expense growth of ~15% yoy will have bearing on earnings growth (<10% yoy).

Nippon Life AMC and HDFC AMC are witnessing stronger equity AUM growth

Exhibit 45: AAUM for 3QFY24 qoq (%)



Source: AMFI, Kotak Institutional Equities

AUM growth across equity categories

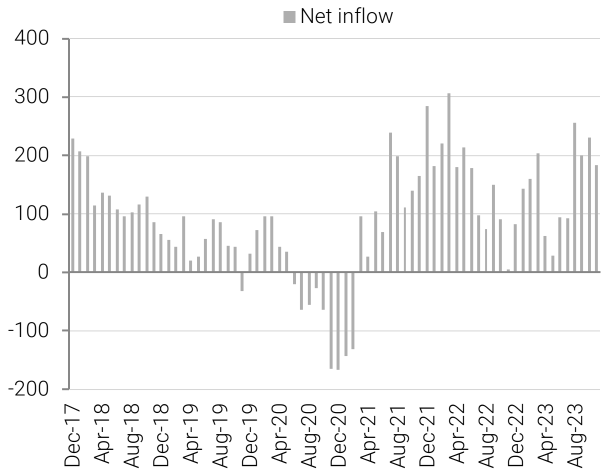
Exhibit 46: Month-end AUM, March 2022-December 2023 (Rs bn)

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	YoY (%)	QoQ (%)
Flexi cap	2,078	1,933	2,339	2,404	2,368	2,656	2,863	3,217	34	12
Large cap	2,262	2,122	2,336	2,430	2,362	2,688	2,675	2,963	22	11
Mid cap	1,587	1,497	1,780	1,824	1,944	2,144	2,432	2,811	54	16
Balanced advantage	1,489	1,489	1,833	1,930	1,905	2,027	2,166	2,348	22	8
Thematic	1,394	1,295	1,484	1,555	1,586	1,785	1,970	2,329	50	18
ELSS	1,449	1,318	1,468	1,523	1,517	1,752	1,770	1,975	30	12
Small cap	1,053	1,008	1,231	1,294	1,329	1,668	1,960	2,312	79	18
Large & mid cap	1,099	1,058	1,219	1,278	1,281	1,494	1,631	1,869	46	15
Focused	930	880	1,018	1,031	983	1,087	1,133	1,243	21	10
Value	634	598	672	723	710	787	859	964	33	12
Multi cap	277	296	346	526	631	732	841	997	89	19
Equity savings	171	174	177	175	166	182	222	261	49	17
Total	14,422	13,670	15,903	16,694	16,782	19,003	20,523	23,287	39	13

Source: AMFI, Kotak Institutional Equities

Net equity inflows have been strong in recent months

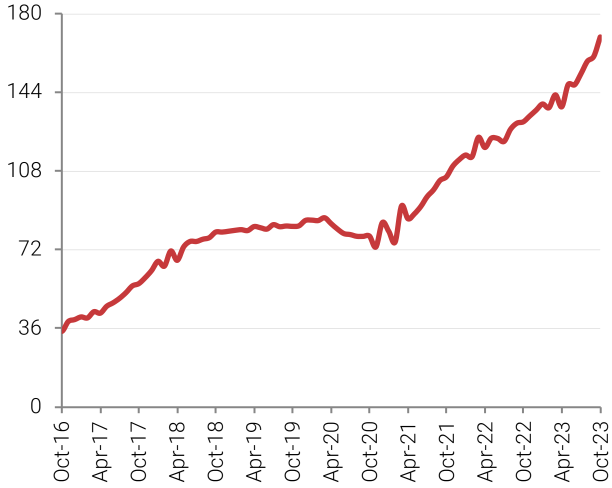
Exhibit 47: Net and gross inflows to actively-managed (equity-oriented) mutual funds, December 2017-November 2023 (Rs bn)



Source: AMFI, Kotak Institutional Equities

SIP flows have been resilient

Exhibit 48: SIP inflows for mutual funds, October 2016-November 2023 (Rs bn)



Source: AMFI, Kotak Institutional Equities

Increase in equity market share for HDFC AMC, Nippon and decline for ABSL/UTI

Exhibit 49: Actively-managed equity oriented MAAUM market share, March fiscal year-ends, 2014-2024 (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	8MFY24
Market share in equity oriented MAAUM											
Aditya Birla Sun Life	6.0	7.2	7.7	8.7	9.2	8.8	7.7	7.2	6.4	5.5	5.0
Axis AMC	1.5	2.3	3.1	3.3	3.6	4.6	6.8	8.0	8.4	7.1	6.1
Bandhan AMC	4.0	3.8	2.9	2.2	2.1	2.2	2.6	2.0	1.6	1.5	1.5
DSP Mutual Fund	4.5	4.1	3.7	4.4	4.4	3.9	3.9	4.1	3.8	3.4	3.3
Franklin Templeton	7.1	6.8	7.5	7.5	5.6	5.2	4.3	3.7	2.8	2.6	2.5
HDFC AMC	19.9	18.5	15.1	15.8	16.2	15.6	14.4	13.0	11.4	12.2	12.7
ICICI Prudential AMC	11.2	13.5	14.2	15.2	15.0	14.3	13.5	12.5	12.4	13.0	13.0
Kotak AMC	1.8	2.5	3.2	3.7	4.7	5.1	6.4	6.7	7.0	7.0	7.2
Mirae AMC	0.3	0.5	0.7	1.2	1.5	2.2	3.5	4.7	4.9	4.9	4.6
Nippon Life India AMC	12.3	12.2	11.2	9.7	9.2	8.9	7.4	6.9	6.3	6.4	6.7
SBI AMC	7.3	6.1	7.0	8.0	7.9	8.9	9.7	10.2	12.0	12.6	12.8
Tata AMC	2.2	2.0	2.5	2.1	1.7	2.3	2.3	2.5	2.9	2.8	2.9
UTI AMC	10.6	8.7	7.4	6.3	4.8	4.7	4.4	4.8	4.8	4.5	4.2
Total of above players	**88.8**	**88.1**	**86.4**	**88.2**	**86.1**	**86.5**	**86.9**	**86.3**	**84.7**	**83.5**	**82.5**
Top 10	**85.2**	**83.3**	**80.2**	**82.7**	**80.7**	**79.9**	**78.5**	**78.0**	**77.4**	**76.6**	**75.6**
Others	11.2	11.9	13.6	11.8	13.9	13.5	13.1	13.7	15.3	16.5	17.5

Source: AMFI, Kotak Institutional Equities

Exhibit 50: Key valuation metrics for banks and non-banks, March fiscal year-ends

		Fair Value	Price	Market cap.	EPS (Rs)			PER (X)			ABVPS (Rs)			APBR (X)			RoE (%)		
	Reco.	(Rs)	1/4/2024	US $bn	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
Public banks																			
Bank of Baroda	ADD	215	238	14.8	30	29	32	7.8	8.3	7.3	192	217	244	1.2	1.1	1.0	15.0	12.7	13.0
Canara Bank	BUY	425	465	10.1	79	91	100	5.9	5.1	4.7	389	472	554	1.2	1.0	0.8	18.0	18.1	17.2
PNB	BUY	82	97	12.9	8	13	14	12.6	7.6	6.9	84	95	107	1.2	1.0	0.9	8.3	12.7	12.8
SBI	BUY	725	643	68.9	61	63	71	7.6	7.4	6.5	379	433	494	1.3	1.1	1.0	15.6	14.3	14.3
Union Bank	BUY	115	124	11.0	18	22	23	6.8	5.7	5.5	111	129	147	1.1	1.0	0.8	15.7	16.3	15.0
Old private banks																			
City Union Bank	ADD	140	154	1.4	12	14	17	12.3	10.9	9.3	99	114	129	1.5	1.4	1.2	11.8	12.2	12.8
Federal Bank	BUY	170	155	4.5	13	16	18	11.5	9.9	8.5	113	125	138	1.4	1.2	1.1	13.1	12.8	13.5
Karur Vysya Bank	BUY	155	167	1.6	17	20	23	9.7	8.4	7.3	116	131	146	1.4	1.3	1.1	15.2	15.6	16.1
New private banks																			
Axis Bank	BUY	1,100	1,123	41.6	79	84	94	14.3	13.3	11.9	468	538	616	2.4	2.1	1.8	17.9	16.5	16.1
Bandhan Bank	BUY	270	261	5.0	23	26	30	11.4	10.1	8.8	134	158	185	1.9	1.7	1.4	17.4	17.0	16.8
DCB Bank	BUY	150	155	0.6	19	21	26	8.2	7.5	5.9	142	161	180	1.1	1.0	0.9	12.1	12.0	13.6
IndusInd Bank	BUY	1,600	1,649	15.4	110	123	141	15.0	13.4	11.7	779	879	996	2.1	1.9	1.7	14.7	14.5	14.6
HDFC Bank	BUY	1,800	1,691	154.2	87	99	113	19.5	17.0	14.9	557	633	715	3.0	2.7	2.4	18.6	16.4	16.5
ICICI Bank	BUY	1,150	987	83.2	53	56	61	16.0	15.5	14.1	320	363	409	2.6	2.3	2.0	17.3	15.8	15.3
Yes Bank	REDUCE	17	23	8.0	0	1	1	82.5	27.3	16.8	14	14	16	1.7	1.6	1.5	2.0	5.7	8.6
Small finance banks																			
AU SFB	SELL	615	797	6.4	24	33	44	33	24	18	185	226	267	4.3	3.5	3.0	13.6	16.5	17.6
Equitas SFB	ADD	110	112	1.5	7.3	9.6	11.9	15	12	9	50	58	68	2.2	1.9	1.6	14.9	17.2	18.5
Ujjivan SFB	ADD	58	59	1.4	5.8	6.2	6.7	10	9	9	28	34	40	2.1	1.7	1.5	23.8	19.9	17.8
NBFCs																			
Aavas Financiers	BUY	2,025	1,571	1.5	63.5	77.6	94.8	25	20	17	477	555	650	3.3	2.8	2.4	14.3	15.0	15.7
Aptus Value Housing	ADD	330	330	2.0	11.8	13.8	16.6	28	24	20	75	89	105	4.4	3.7	3.1	16.7	16.9	17.1
Bajaj Finance	REDUCE	7,400	7,706	57.2	237	301	371	32.5	25.6	20.7	1,229	1,492	1,817	6.3	5.2	4.2	22.5	22.1	22.5
Bajaj Finserv	ADD	1,725	1,702	32.6	67	84	102	25.2	20.3	16.8	340	400	471	5.0	4.3	3.6	21.4	22.7	23.3
Cholamandalam	ADD	1,250	1,297	13.1	40	50	61	32.5	25.8	21.2	232	279	354	5.6	4.7	3.7	19.8	19.7	19.5
Five Star	ADD	840	723	2.5	26	32	39	27.5	22.9	18.7	175	207	245	4.1	3.5	2.9	16.2	16.5	17.1
Home First	BUY	1,175	942	1.0	33	40	49	28.7	23.6	19.1	237	272	317	4.0	3.5	3.0	14.8	15.7	16.8
LIC Hsg Fin	BUY	650	572	3.8	85	79	82	6.7	7.2	7.0	563	630	698	1.0	0.9	0.8	16.1	13.3	12.3
L&T Finance Holdings	SELL	100	172	5.1	8	10	12	21.5	17.5	14.4	92	99	107	1.9	1.7	1.6	8.9	10.2	11.5
Mahindra Finance	ADD	310	278	4.1	14	20	26	19.6	13.7	10.7	149	165	185	1.9	1.7	1.5	9.9	12.9	14.8
Muthoot Finance	ADD	1,500	1,518	7.3	100	122	144	15.2	12.5	10.5	605	702	817	2.5	2.2	1.9	17.7	18.6	18.9
SBFC	REDUCE	75	90	1.2	2.0	2.7	3.4	44.9	33.7	27.0	23	25	29	4.0	3.6	3.2	9.9	10.2	11.4
SBI Cards	BUY	925	770	8.8	25	32	47	30.6	23.9	16.2	126	155	198	6.1	5.0	3.9	21.9	23.0	26.9
Shriram Finance	BUY	2,300	2,148	9.7	187	224	263	11.5	9.6	8.2	1,234	1,426	1,631	1.7	1.5	1.3	15.2	16.0	16.5
Capital market entities																			
HDFC AMC	ADD	3,000	3,326	8.5	82	95	105	40.7	35.1	31.8	311	335	361	10.7	9.9	9.2	27.4	29.3	30.1
UTI AMC	ADD	840	875	1.3	45	42	46	19.3	21.1	19.0	314	322	331	2.8	2.7	2.6	14.7	13.1	14.1
Nippon AMC	ADD	400	472	3.6	14	15	17	33.8	30.5	27.5	58	59	58	8.2	7.9	8.1	24.5	26.4	29.3
Aditya Birla AMC	ADD	450	472	1.6	22	24	27	21.2	19.3	17.7	96	106	117	4.9	4.4	4.0	24.2	24.2	24.0
IIFL Wealth	BUY	750	654	2.8	20	24	29	32.0	27.6	22.6	96	102	109	6.8	6.4	6.0	22.7	24.0	27.5
CAMS	ADD	2,500	2,708	1.6	68	79	92	39.8	34.3	29.5	185	215	249	14.6	12.6	10.9	39.5	39.6	39.7
CRISIL	SELL	3,300	4,150	3.6	92	104	117	45.0	39.9	35.4	307	343	385	13.5	12.1	10.8	31.7	32.0	32.2
ICRA	REDUCE	5,100	5,644	0.7	162	180	201	34.9	31.4	28.1	1,041	1,104	1,175	5.4	5.1	4.8	15.9	16.8	17.6

Source: Company, Kotak Institutional Equities

Exhibit 51: Stock price performance—absolute and relative (%)

	Change in price (%)					Relative performance to BSE-30 Index (%)					52 week high	52 week low
	1 month	3 month	6 month	12 month	YTD	1 month	3 month	6 month	12 month	YTD	(Rs)	(Rs)
Public banks												
Bank of Baroda	15.4	6.9	17.0	24.2	0.8	9.1	(1.9)	6.9	6.7	2.0	237	147
Canara Bank	11.7	19.2	43.9	36.1	4.7	5.6	9.4	31.5	16.9	6.0	463	269
PNB	19.5	15.9	79.1	66.9	0.7	13.0	6.4	63.7	43.3	2.0	99	44
SBI	12.5	6.7	9.9	5.1	0.2	6.4	(2.0)	0.4	(9.7)	1.5	660	499
Union Bank	13.1	9.8	64.3	49.6	3.3	7.0	0.8	50.1	28.5	4.6	129	60
Old private banks												
City Union Bank	2.8	21.2	19.8	(14.5)	2.7	(2.8)	11.3	9.4	(26.6)	3.9	181	120
Federal Bank	2.0	0.7	19.0	10.2	(2.8)	(3.5)	(7.6)	8.7	(5.4)	(1.6)	159	121
Karur Vysya Bank	7.6	24.6	30.8	49.4	(0.9)	1.8	14.4	19.5	28.3	0.3	172	93
New private banks												
Axis Bank	(0.5)	5.5	11.9	14.2	(0.3)	(5.9)	(3.1)	2.2	(1.9)	0.9	1,152	814
Bandhan Bank	12.2	0.0	7.8	5.5	5.2	6.1	(8.2)	(1.5)	(9.3)	6.5	272	182
DCB	31.4	19.4	21.0	13.4	11.7	24.3	9.7	10.6	(2.6)	13.1	151	97
IndusInd Bank	9.6	11.5	16.0	29.0	0.1	3.6	2.4	6.0	10.8	1.4	1,619	990
HDFC Bank	7.6	10.9	(2.7)	2.0	(2.1)	1.7	1.8	(11.1)	(12.3)	(0.9)	1,758	1,460
ICICI Bank	3.9	4.7	4.4	9.2	(1.3)	(1.7)	(3.9)	(4.6)	(6.2)	(0.0)	1,044	796
Yes Bank	18.7	33.1	40.1	3.9	6.8	12.2	22.2	28.0	(10.8)	8.1	24	14
Small finance banks												
AU SFB	3.8	9.3	1.3	18.3	(2.2)	(1.9)	0.3	(7.4)	1.6	(1.0)	799	548
Equitas SFB	16.3	18.5	21.6	86.5	4.9	10.0	8.8	11.2	60.2	6.2	114	52
Ujjivan SFB	0.7	(3.6)	46.5	84.3	(0.1)	(4.8)	(11.5)	33.9	58.3	1.1	63	23
Non-banks												
Aavas Financiers	10.0	(12.9)	2.1	(12.8)	2.3	4.0	(20.0)	(6.7)	(25.1)	3.6	2,046	1,335
Aptus Value Housing	9.5	8.9	30.5	6.0	1.3	3.5	0.0	19.2	(8.9)	2.6	343	234
Bajaj Finance	1.7	(7.3)	0.7	11.8	0.8	(3.8)	(14.9)	(8.0)	(4.0)	2.0	8,192	5,486
Bajaj Finserv	(0.5)	7.5	8.9	7.3	(0.5)	(5.9)	(1.3)	(0.5)	(7.8)	0.7	1,742	1,215
Five Star	(1.3)	1.5	8.2	NA	(1.5)	(6.7)	(6.9)	(1.1)	NA	(0.3)	877	494
Home First	3.9	14.8	20.8	29.1	2.7	(1.8)	5.4	10.4	10.9	4.0	1,058	655
LIC Housing Finance	13.2	16.8	40.6	32.3	4.0	7.0	7.3	28.5	13.6	5.3	569	315
L&T Finance Holdings	10.0	23.1	21.0	83.8	0.7	4.1	13.0	10.5	57.9	1.9	171	79
MMFS	0.7	(8.4)	(19.8)	17.7	(0.4)	(4.7)	(15.9)	(26.7)	1.1	0.9	347	216
Muthoot Finance	1.7	19.5	18.2	35.7	(0.0)	(3.8)	9.7	8.0	16.6	1.2	1,508	911
SBI Cards	4.0	(3.3)	(8.6)	(2.8)	1.3	(1.6)	(11.3)	(16.5)	(16.5)	2.6	933	691
Shriram Finance	4.3	8.7	18.9	54.9	1.8	(1.3)	(0.2)	8.6	33.0	3.1	2,130	1,190
Capital market entities												
HDFC AMC	10.6	21.7	41.6	47.8	1.0	4.6	11.7	29.4	27.0	2.3	3,290	1,590
UTI AMC	5.1	10.1	11.0	2.6	0.2	(0.6)	1.1	1.4	(11.9)	1.5	918	608
Nippon AMC	7.2	37.3	61.3	81.7	2.7	1.4	26.0	47.4	56.1	4.0	489	197
Aditya Birla AMC	4.7	7.1	24.3	2.5	(0.0)	(1.0)	(1.7)	13.6	(12.0)	1.2	495	307
IIFL Wealth	11.9	30.7	37.7	47.7	(7.7)	5.8	20.0	25.9	26.8	(6.5)	735	395
CAMS	(5.1)	5.3	15.7	19.8	0.0	(10.2)	(3.3)	5.7	2.9	1.3	2,989	2,002
CRISIL	(1.7)	6.2	7.4	40.6	(4.3)	(7.0)	(2.5)	(1.8)	20.8	(3.1)	4,455	2,888
ICRA	2.3	2.2	3.5	15.5	(2.1)	(3.3)	(6.2)	(5.4)	(0.8)	(0.9)	6,249	4,182

Source: Company, Kotak Institutional Equities

Exhibit 52: Quarterly result expectations for banks under coverage

	Dec-22	Sep-23	Dec-23E	Change (%) yoy	Change (%) qoq	Comments
Banks						
AU Small Finance Bank						
Net interest income	11,527	12,490	12,578	9.1	0.7	We expect NIM to be lower by ~15 bps qoq at ~5.5%. PPOP growth is expected to be healthy at ~22% yoy driven by ~20% yoy revenue growth. Some normalization in provisions will result in flat earnings yoy.
Treasury income	70	110	140	100.0	27.3	
Pre-provision profit	5,557	6,477	6,785	22.1	4.8	
Loan-loss provisions	326	1,143	1,429	337.8	25.0	
PBT	5,231	5,334	5,356	2.4	0.4	
Tax	1,302	1,315	1,371	5.3	4.2	
PAT	3,928	4,018	3,985	1.4	(0.8)	We expect slippages to be under control and credit cost to normalize upward as the provision buffer is now largely exhausted. We expect discussion around growth visibility across vehicle/ SBL segments, margin trends and progress on the merger.
EPS (Rs/share)	5.9	6.0	6.0	1.2	(0.8)	
NIM - calc. (%)	6.0	5.5	5.3	-67 bps	-16 bps	
Slippages (%)	1.8	2.2	1.9	14 bps	-29 bps	
Net advances (Rs bn)	556.0	641.7	667.3	20.0	4.0	
Axis Bank						
Net interest income	114,593	123,146	124,553	8.7	1.1	We are building loan growth of ~22% yoy (~4% qoq as yoy is still not comparable because of Citi's acqusition). We are building NIM to decline by ~10bps qoq led by higher cost of deposits. We expect loan mix to be a bit more favorable towards higher yielding loans as seen in recent quarters.
Treasury income	4,280	(1,010)	1,333	(68.8)	NM	
Pre-provision profit	92,775	86,319	92,822	0.1	7.5	
Loan-loss provisions	13,410	10,100	10,201	(23.9)	1.0	
PBT	78,398	78,173	83,047	5.9	6.2	
Tax	19,867	19,537	20,928	5.3	7.1	
PAT	58,531	58,636	62,120	6.1	5.9	We expect slippages of ~Rs42 bn (~2% of loans) mostly led by retail segment. Trends on slippages and overall asset quality should not be too worrisome and broadly stable. We expect the bank to make higher provisions for expenses pertaining to the merger. Citi integration, near term growth trends and progress of NIM would be the key discussion areas for the quarter.
EPS (Rs/share)	19.0	19.0	20.2	5.9	5.9	
NIM - calc. (%)	4.1	4.0	3.9	-24 bps	-8 bps	
Slippages (%)	2.0	1.5	1.9	-12 bps	43 bps	
Net advances (Rs bn)	7,620.8	8,973.5	9,332.4	22.5	4.0	
Bandhan Bank						
Net interest income	20,804	24,434	25,690	23.5	5.1	The bank has reported a loan growth of ~19% yoy (2H disbursments are higher) but business traction is gaining strength. However, deposit growth is weaker at ~15% yoy. We could see NIM at 7.2% as the portflio is still re-pricing upwards but offset by higher cost of funds as well.
Pre-provision profit	19,222	15,834	18,838	(2.0)	19.0	
Loan-loss provisions	15,415	6,362	8,270	(46.4)	30.0	
PBT	3,807	9,472	10,568	177.6	11.6	
Tax	901	2,261	2,685	197.9	18.7	
PAT	2,906	7,212	7,883	171.3	9.3	We expect slippages (Rs12 bn, 4.4%) to decline qoq on absolute basis but still would be high and mostly from the restructured loan portfolio. These slippages are still relatively high. However, we should expect positive commentary on growth, recovery in business and return ratios for the bank.
EPS (Rs/share)	1.8	4.5	4.9	171.3	9.3	
NIM - calc. (%)	6.1	6.6	6.7	58 bps	5 bps	
Slippages (%)	NA	NA	NA	NA	NA	
Net advances (Rs bn)	920.9	1,020.3	1,091.7	18.5	7.0	
Bank of Baroda						
Net interest income	108,183	108,307	110,593	2.2	2.1	We expect operating profit to decline ~10% yoy as there would be pressure on revenue growth. We are buiding NIM to decline 10bps qoq. We expect loan growth at 14% yoy but rising cost of deposits would offset the benfit of loan growth.
Treasury income	2,880	4,780	800	(72.2)	(83.3)	
Pre-provision profit	82,322	80,197	73,317	(10.9)	(8.6)	
Loan-loss provisions	8,170	22,850	18,280	123.7	(20.0)	
PBT	58,283	58,592	52,412	(10.1)	(10.5)	
Tax	19,755	16,063	12,579	(36.3)	(21.7)	
PAT	38,527	42,529	39,833	3.4	(6.3)	We expect slippages at ~1.5% (Rs40 bn) mostly driven from retail and SME. Key discussion would be the sustainability of loan growth, deposit related challenges and NIM outlook in the near term.
EPS (Rs/share)	7.4	8.2	7.7	3.4	(6.3)	
NIM - calc. (%)	3.5	3.2	3.1	-34 bps	-3 bps	
Slippages (%)	1.3	1.9	1.6	25 bps	-35 bps	
Net advances (Rs bn)	8,906.8	9,979.9	10,279.3	15.4	3.0	
Canara Bank						
Net interest income	86,000	89,030	87,992	2.3	(1.2)	We expect bank to report ~16% yoy earnings growth in spite of a modest decline in PPOP as provisions are expected to decline yoy. NIM is expected to see a modest sequential decline driven by a steady increase in cost of deposits.
Pre-provision profit	69,521	76,156	68,037	(2.1)	(10.7)	
Treasury income	3,860	3,560	1,500	(61.1)	(57.9)	
Loan-loss provisions	19,200	22,008	19,807	3.2	(10.0)	
PBT	38,309	50,076	44,565	16.3	(11.0)	
Tax	9,493	14,015	11,230	18.3	(19.9)	
PAT	28,815	36,061	33,335	15.7	(7.6)	We expect slippages at 1.4% and the trend of NPL decline will continue. We expect discussion to focus on operating profit growth and its drivers given that asset quality has improved significantly for the bank. Provisions are likely to be lower qoq at ~1.0%, mainly towards improving PCR.
EPS (Rs/share)	15.9	19.9	18.4	15.7	(7.6)	
NIM - calc. (%)	3.1	2.9	2.8	-28 bps	-12 bps	
Slippages (%)	1.6	1.3	1.2	-33 bps	-12 bps	
Net advances (Rs bn)	8,509.7	9,239.7	9,470.7	11.3	2.5	
City Union Bank						
Net interest income	5,557	5,384	5,446	(2.0)	1.1	We expect loan growth to be lower than industry average at ~5% yoy. We expect NII to decline ~2% yoy led by higher cost of deposits. NIM likely to decline 10bps qoq to 3.6%. Non-interest growth would be muted due to lower income from written-off loans.
Treasury income	353	268	167	(52.8)	(37.8)	
Pre-provision profit	4,973	3,866	4,007	(19.4)	3.6	
Loan-loss provisions	2,450	560	616	(74.9)	10.0	
PBT	2,728	3,306	3,083	13.0	(6.8)	
Tax	550	500	832	51.3	66.5	
PAT	2,178	2,806	2,250	3.3	(19.8)	We expect a slippages to be low (~2% of loans or Rs2 bn) but we should see higher recovery and upgradation as well. Key discussion would be on loan growth/demand, provisions and recovery in RoA/RoE.
EPS (Rs/share)	2.9	3.8	3.0	3.2	(19.8)	
NIM - calc. (%)	3.5	3.4	3.3	-24 bps	-8 bps	
Slippages (%)	4.1	2.1	1.9	-227 bps	-27 bps	
Net advances (Rs bn)	430.1	436.9	450.0	4.6	3.0	

Source: Company, Kotak Institutional Equities

Exhibit 53: Quarterly result expectations for banks under coverage

	Dec-22	Sep-23	Dec-23E	Change (%) yoy	Change (%) qoq	Comments
DCB Bank						
Net interest income	4,460	4,757	5,027	12.7	5.7	
Treasury income	20	40	67	233.3	66.7	
Pre-provision profit	1,941	2,105	2,300	18.5	9.2	We expect healthy operating profit growth of ~20% yoy led by NII growth of ~13% yoy. We see NIM flat qoq. Loan growth should be strong at ~20% yoy.
Loan-loss provisions	407	397	436	7.3	10.0	
PBT	1,534	1,708	1,863	21.4	9.1	
Tax	396	441	481	21.5	9.2	
PAT	1,139	1,268	1,382	21.4	9.0	
EPS (Rs/share)	3.7	4.1	4.4	21.1	8.9	We expect solid growth (20% yoy) led by healthy operating growth. Asset quality should see slippages at ~3.5% (Rs3.5 bn) and mostly from retail loans. Key discussion: loan demand and normalisation of return ratios in FY2024-25.
NIM - calc. (%)	3.9	3.6	3.4	-49 bps	-15 bps	
Slippages (%)	5.2	4.5	3.6	-155 bps	-86 bps	
Net advances (Rs bn)	329.7	372.8	395.1	19.9	6.0	
Equitas Small Finance Bank						
Net interest income	6,475	7,656	8,022	23.9	4.8	
Pre-provision profit	2,791	3,302	3,413	22.3	3.4	We expect NII growth of ~5% qoq (~24% yoy) marginally lower than ~5% qoq loan growth. NIM is likely to decline modestly qoq as cost of funds is expected to see a sharper increase than yield on assets. PPOP growth will be healthy, but provisions expected to increase yoy (low base) resulting in earnings growth of ~19% yoy.
Loan-loss provisions	499	632	695	39.3	10.0	
PBT	2,292	2,670	2,718	18.6	1.8	
Tax	591	689	701	18.7	1.8	
PAT	1,701	1,981	2,016	18.5	1.8	
EPS (Rs/share)	1.4	1.8	1.8	32.5	1.8	
NIM - calc. (%)	8.7	8.0	7.8	-92 bps	-23 bps	Asset quality will continue to be strong with broadly stable slippage ratio. Recoveries and upgradations are expected to stay healthy. We estimate credit cost of ~90 bps for the quarter.
Slippages (%)	5.0	3.5	3.5	-158 bps	-2 bps	
Net advances (Rs bn)	232.8	287.7	307.8	32.2	7.0	
Federal Bank						
Net interest income	19,565	20,564	20,781	6.2	1.1	
Treasury income	70	180	300	328.6	66.7	
Pre-provision profit	12,742	13,245	13,194	3.5	(0.4)	The bank has reported a healthy loan growth of ~18% yoy while deposits grew ~20% yoy. We expect NII growth at ~6% yoy with NIM flat qoq. We expect operating profit growth of ~5% yoy. There would be negligible provisions for the final wage settlement.
Loan-loss provisions	1,927	500	1,250	(35.1)	150.0	
PBT	10,755	12,806	11,819	9.9	(7.7)	
Tax	2,719	3,267	3,014	10.8	(7.8)	
PAT	8,036	9,538	8,805	9.6	(7.7)	
EPS (Rs/share)	3.8	4.1	3.7	(1.5)	(7.7)	We expect slippages at ~1.3% of loans (Rs6 bn) driven by retail and MSME. Gross NPL ratio is expected to be flat qoq. The key discussion points would be (a) liability side challenges, (b) near term outlook on growth and (c) path to normalisation of RoA and RoEs.
NIM - calc. (%)	3.5	3.1	3.0	-42 bps	-11 bps	
Slippages (%)	1.0	0.8	1.2	13 bps	34 bps	
Net advances (Rs bn)	1,681.7	1,928.2	1,986.0	18.1	3.0	
HDFC Bank						
Net interest income	229,878	273,852	292,493	27.2	6.8	
Treasury income	2,614	10,410	2,500	(4.4)	(76.0)	We should have a better comfort on some of the moving variables this quarter. Key variables to watch: (a) Steady state of cost of funds (reversal of ICRR to normalcy this quarter) and (b) yield on loans. The liability back book of HDFC Bank still needs to be re-priced upwards putting pressure on any NIM expansion argument.
Pre-provision profit	190,241	226,939	235,600	23.8	3.8	
Loan-loss provisions	28,064	29,038	27,700	(1.3)	(4.6)	
PBT	162,176	197,901	205,400	26.7	3.8	
Tax	39,581	38,139	47,242	19.4	23.9	
PAT	122,595	159,761	158,158	29.0	(1.0)	
EPS (Rs/share)	22.0	21.1	20.9	(5.2)	(1.0)	
NIM - calc. (%)	4.3	3.9	3.5	-78 bps	-38 bps	We expect gross NPL ratio to be stable. Near term focus would be the progress of NIM and the impact of PSL (FY2025).
Slippages (%)	1.8	1.9	-	-179 bps	-194 bps	
Net advances (Rs bn)	15,068.1	23,312.3	24,244.8	60.9	4.0	
ICICI Bank						
Net interest income	164,650	183,079	179,799	9.2	(1.8)	
Treasury income	360	(850)	4,400	1,122.2	NM	
Pre-provision profit	132,712	142,293	146,129	10.1	2.7	We expect a PPoP to grow at ~10% yoy as we see further reduction in NIM. Loan growth to be healthy at ~18% yoy led by contribution from all segments. We are building NIM to decline ~25bps qoq to 4.1% (KS Calc) -reported NIM would be higher than our estimates).
Loan-loss provisions	22,574	5,826	20,392	(9.7)	250.0	
PBT	110,138	136,466	125,737	14.2	(7.9)	
Tax	27,019	33,856	29,548	9.4	(12.7)	
PAT	83,119	102,610	96,189	15.7	(6.3)	
EPS (Rs/share)	11.9	14.6	13.7	15.3	(6.3)	We expect provisions to remain low as we see lower slippages given the current economic environment. We are building slippages of ~2% (~Rs50 bn). Key concern would be the reversal of NIM as cost of funds which is still yet to peak, especially with slower CASA growth. Discussion on deposit mobilisation is likely to be another key area of discussion.
NIM - calc. (%)	4.7	4.6	4.3	-32 bps	-25 bps	
Slippages (%)	2.4	1.8	1.8	-69 bps	-2 bps	
Net advances (Rs bn)	9,740.5	11,105.4	11,549.6	18.6	4.0	
IndusInd Bank						
Net interest income	44,953	50,767	51,768	15.2	2.0	
Treasury income	1,353	1,618	163	(87.9)	(89.9)	We expect a ~2% yoy rise in PPOP led by lower contribution from non-interest income, slower NII growth and higher operating costs growth led by recovery in business momentum. Loan growth is solid at ~20% yoy while NIM (reported) likely to stable qoq at 4.3%. Non-interest income would be subdued due to lower treasury income and other fee income. Deposit growth at ~13% yoy. We see RoE at ~15% this quarter.
Pre-provision profit	36,804	38,809	37,520	1.9	(3.3)	
Loan-loss provisions	10,647	9,738	8,764	(17.7)	(10.0)	
PBT	26,157	29,071	28,756	9.9	(1.1)	
Tax	6,565	7,256	6,998	6.6	(3.6)	
PAT	19,592	21,815	21,757	11.1	(0.3)	
EPS (Rs/share)	25.3	28.1	28.0	10.8	(0.3)	We expect provisions to keep declining led by lower slippages and better asset quality trends. Both the MFI and vehicle finance portfolio is showing negligible risk. We are building slippages of ~1.7% (Rs14 bn). Key focus area would be the cost of funds and ability to sustain current levels of loan growth.
NIM - calc. (%)	4.1	4.3	4.3	15 bps	-2 bps	
Slippages (%)	2.3	1.9	1.7	-56 bps	-25 bps	
Net advances (Rs bn)	2,727.5	3,154.5	3,273.0	20.0	3.8	

Source: Company, Kotak Institutional Equities

Exhibit 54: Quarterly result expectations for banks under coverage

	Dec-22	Sep-23	Dec-23E	Change (%) yoy	Change (%) qoq	Comments
Karur Vysya Bank						
Net interest income	8,890	9,154	9,273	4.3	1.3	We see strong earnings on the back of lower provisions but operating profit growth would be weak (decline of 15% yoy). NIM contraction (10bps qoq led by increase in cost of funds) and lower income from written-off loans is leading to weak operating profit growth. Loan growth is at industry average at ~15% yoy while deposits grew ~14% yoy.
Pre-provision profit	6,889	6,379	5,782	(16.1)	(9.4)	
Loan-loss provisions	2,750	1,090	981	(64.3)	(10.0)	
PBT	3,249	5,115	4,644	43.0	(9.2)	
Tax	356	1,331	1,207	239.5	(9.2)	
PAT	2,893	3,785	3,437	18.8	(9.2)	We expect an unchanged headline gross and net NPL ratio but slippages likely to be at ~1.5% (Rs2.5 bn). Near term concern is likely to be on NIM contraction cycle.
EPS (Rs/share)	3.6	4.7	4.3	18.4	(9.2)	
NIM - calc. (%)	4.0	3.7	3.6	-36 bps	-10 bps	
Slippages (%)	1.0	0.9	1.4	36 bps	48 bps	
Net advances (Rs bn)	628.9	704.5	726.9	15.6	3.2	
Punjab National Bank						
Net interest income	91,794	99,229	100,083	9.0	0.9	We expect the bank to report healthy operating profit growth of ~9% yoy (high base of AS-15 provision in retirement cost) and this along with a decline in provisions will result in healthy earnings growth. Loan growth trends expected to be modest (~3% qoq) with NIM down qoq driven by sharper increase in cost of funds.
Treasury income	(1,070)	2,050	800	NM	(61.0)	
Pre-provision profit	57,159	62,164	62,509	9.4	0.6	
Loan-loss provisions	43,770	30,186	30,998	(29.2)	2.7	
PBT	10,026	27,723	31,511	214.3	13.7	
Tax	3,737	10,161	10,399	178.3	2.3	
PAT	6,289	17,561	21,113	235.7	20.2	We expect slippages to be at 1.1%. Overall NPL reduction will continue as recoveries are expected to be healthy. We expect commentary on asset quality to stay positive.
EPS (Rs/share)	0.6	1.6	1.9	235.7	20.2	
NIM - calc. (%)	3.1	3.1	3.0	-10 bps	-6 bps	
Slippages (%)	2.1	0.8	1.1	-99 bps	27 bps	
Net advances (Rs bn)	8,004.1	8,899.2	9,195.4	14.9	3.3	
State Bank of India						
Net interest income	380,686	395,000	402,199	5.7	1.8	We expect operating profit growth to be decline ~18% yoy (higher operating expenses) and NIM normalisation. We are building ~5% yoy NII growth on the back of 14% yoy loan growth. We are building NIM to decline ~10bps qoq but do see a possibility of stable performance given the structure of loan book and neglibile need for deposits to fund this growth. Operating expenses would be higher due to wage revision related costs (final settlement impact).
Treasury income	29,380	20,210	1,500	(94.9)	(92.6)	
Pre-provision profit	252,193	194,166	206,129	(18.3)	6.2	
Loan-loss provisions	15,865	18,149	9,074	(42.8)	(50.0)	
PBT	194,587	193,013	194,601	0.0	0.8	
Tax	52,534	49,713	52,641	0.2	5.9	
PAT	142,053	143,300	141,960	(0.1)	(0.9)	We expect slippages at ~1% of loans (lower impact from PSL in 2Q) as the overall loans is holding up well. We are likely to see lower recovery and upgrades as well. Key discussion would NIM, RoE, unsecured loans and CAR for the quarter.
EPS (Rs/share)	15.9	16.1	15.9	(0.1)	(0.9)	
NIM - calc. (%)	3.3	3.2	3.1	-19 bps	-7 bps	
Slippages (%)	0.4	0.5	1.0	54 bps	47 bps	
Net advances (Rs bn)	30,581.8	33,451.7	34,789.7	13.8	4.0	
Ujjivan Small Finance Bank						
Net interest income	6,970	8,233	8,597	23.4	4.4	We expect healthy NII growth of ~5% qoq (~23% yoy) driven by AUM growth of ~4% qoq. NIM is expected to stay flat with an increase in cost of funds being offset by drawdown of liquidity and re-pricing of the microfinance loan book. A normalization of provisions (low base) is likely to result in a modest earnings decline yoy in spite of 14% PPOP growth yoy.
Pre-provision profit	3,889	4,834	4,435	14.0	(8.2)	
Loan-loss provisions	(2)	469	633	NM	35.0	
PBT	3,891	4,364	3,801	(2.3)	(12.9)	
Tax	960	1,087	980	2.1	(9.8)	
PAT	2,932	3,277	2,821	(3.8)	(13.9)	We expect credit cost to increase closer to ~1.0% (annualized) as slippages and recoveries begin to normalize. Slippages expected to be at ~190 bps, but recoveries/ upgradations likely to be good.
EPS (Rs/share)	1.4	1.5	1.3	(3.8)	(13.9)	
NIM - calc. (%)	10.1	9.3	9.1	-99 bps	-15 bps	
Slippages (%)	2.1	1.8	1.9	-24 bps	8 bps	
Net advances (Rs bn)	195.3	243.3	254.4	30.3	4.6	
Union Bank						
Net interest income	86,281	91,261	91,637	6.2	0.4	We expect earnings to grow ~43% yoy despite a decline in PPOP because provisions are expected to be lower yoy. NIM will see a sequential decline as any increase in yield (delayed re-pricing and loan book shift towards RAM) is expected to be more than offset by sharper increase in cost of funds. Staff cost expected to increase modestly on account of the wage settlement.
Pre-provision profit	66,192	72,208	65,594	(0.9)	(9.2)	
Loan-loss provisions	24,431	16,914	15,911	(34.9)	(5.9)	
PBT	35,832	54,530	49,683	38.7	(8.9)	
Tax	13,384	19,416	16,892	26.2	(13.0)	
PAT	22,448	35,114	32,791	46.1	(6.6)	We expect slippages to be ~1.4% and credit cost to be at ~0.8%, largely towards reducing net NPLs. Discussion will stay around the recovery pipeline and drivers of NIM and deposit growth.
EPS (Rs/share)	3.3	4.7	4.4	34.7	(6.6)	
NIM - calc. (%)	3.2	3.2	3.2	-4 bps	-7 bps	
Slippages (%)	1.3	1.3	1.2	-9 bps	-5 bps	
Net advances (Rs bn)	7,564.4	8,036.2	8,237.1	8.9	2.5	
YES Bank						
Net interest income	19,706	19,251	19,067	(3.2)	(1.0)	We expect near flat/decline in NII growth by slower loan growth (11% yoy, ~4% qoq) and rising cost of funds. Business momentum is gaining traction primarily in retail and MSME segments but overall loan growth to be lower than industry average. Deposit growth at ~13% yoy is comfortably meeting the business requirements. We expect NIM at ~2.7% (decline of 10bps qoq) but there is likely to be a lot of volatility given the nature of income booked when security receipts mature.
Treasury income	1,370	380	460	(66.4)	21.1	
Pre-provision profit	9,136	8,013	7,503	(17.9)	(6.4)	
Loan-loss provisions	(20,580)	7,280	4,368	NM	(40)	
PBT	689	3,010	2,960	329.7	(2)	
Tax	174	757	758	336.5	0	
PAT	515	2,252	2,202	327.4	(2)	We should see healthy traction on recovery and upgrades this quarter (mostly reflected in changes to the value of security receipts). Earnings impact is difficult to forecast given the nature of provisioning policy. Focus is shifting towards rebuilding the business for the bank. Conversations would be on growth and return to normalised levels of business operations.
EPS (Rs/share)	0.0	0.1	0.1	327	(2)	
NIM - calc. (%)	3.1	2.8	2.6	-46 bps	-16 bps	
Slippages (%)	3.3	2.4	2.3	-105 bps	-11 bps	
Net advances (Rs bn)	1,945.7	2,091.1	2,176.6	11.9	4.1	

Source: Company, Kotak Institutional Equities

Exhibit 55: Key highlights of 3QFY24E, March fiscal year-ends, 3QFY24E (Rs bn)

	3QFY23	2QFY24	3QFY24E	Change (%) YoY	Change (%) QoQ	Comments
Aavas Financiers						
Key P&L items						
Net interest income	2,082	2,223	2,331	12	5	We expect Aavas to deliver 5% qoq AUM growth in 3QFY24E, translating to 23% yoy growth (22% yoy in 2QFY24) on the back of 15% disbursements growth during the quarter (10% in 2QFY24). Core NIM will likely compress 5 bps qoq, reflecting increase in borrowings costs.
Operating expenses	1,201	1,308	1,345	12	3	
PPOP	1,415	1,631	1,654	17	1	
Provisions	35	65	78	123	20	
PBT	1,380	1,566	1,580	15	1	
PAT	1,073	1,217	1,232	15	1	
Core PBT	1,029	1,117	1,218	18	9	
Key balance sheet items						
AUM (Rs bn)	131	153	160	23	5	We expect cost-to-average AUM to remain moderate at 3.4% (3.5% in 2QFY24) as the investments taper down. We pen down credit cost of 20 bps for 3QFY24E (16-17 bps for last two quarters).
Key ratios (%)						
NIM	8.1	7.3	7.3	-73 bps	3 bps	
Cost-to-income	45.9	44.5	44.8	-107 bps	34 bps	
Cost-to-average AUM	3.7	3.5	3.4	-32 bps	-6 bps	
Credit cost	0.1	0.2	0.2	9 bps	3 bps	
Aptus Value Housing						
Key P&L items						
Net interest income	2,002	2,285	2,422	21	6	We expect AUM growth to remain strong at 5.8% qoq (5.7-7.5% in the previous four quarters). NIM will likely remain flat qoq at 12.4% as hike in lending rate offsets rise in cost of borrowings.
Operating expenses	414	532	515	24	(3)	
PPOP	1,762	1,951	2,107	20	8	
Provisions	78	56	127	63	129	
PBT	1,684	1,896	1,980	18	4	
PAT	1,256	1,480	1,544	23	4	
Core PBT	1,656	1,833	1,987	20	8	
Key balance sheet items						
AUM (Rs bn)	63	76	80	28	6	We expect cost-to-average AUM to remain moderate at 2.6% (2.6-2.9% in previous four quarters). We pen down credit cost of 0.7% in 3QFY24E.
Key ratios (%)						
NIM	13.1	12.4	12.4	-70 bps	-3 bps	
Cost-to-income	19.0	21.4	19.6	61 bps	-178 bps	
Cost-to-average AUM	2.7	2.9	2.6	-7 bps	-26 bps	
Credit cost	0.5	0.3	0.7	14 bps	35 bps	
Bajaj Finance						
Key P&L items						
Net interest income	59,222	71,970	78,150	32	9	Bajaj Finance reported 7% qoq loan growth (6-9% qoq in the last four quarters) driving 35% yoy growth in AUM. NIM will likely expand 13 bps qoq, reflecting benefit of recent capital issuance; NIM would have been flat qoq otherwise.
Operating expenses	25,818	30,100	32,100	24	7	
PPOP	48,529	58,347	63,552	31	9	
Provisions	8,413	10,771	11,274	34	5	
PBT	40,116	47,578	52,280	30	10	
PAT	29,729	35,508	38,688	30	9	
Core PBT	44,493	55,025	62,452	40	13	
Key balance sheet items						
AUM (Rs bn)	2,308	2,903	3,110	35	7	We expect cost-to-average AUM ratio to remain moderate at 4.3% (4.3% in 2QFY24 and 4.6% in 3QFY23) . We pen down credit costs of 1.5% for 3QFY24E similar to last three quarters.
Key ratios (%)						
NIM	10.5	10.3	10.4	-15 bps	12 bps	
Cost-to-income	34.7	34.0	33.6	-117 bps	-47 bps	
Cost-to-average AUM	4.6	4.3	4.3	-33 bps	-3 bps	
Credit cost	1.5	1.5	1.5	0 bps	-4 bps	
Cholamandalam						
Key P&L items						
Net interest income	15,983	20,153	20,879	31	4	Chola will likely report strong 7% qoq AUM growth in 3QFY24E (39% yoy), 7-12% qoq in the previous four quarters, reflecting high growth across businesses lines. NIM will likley compress marginally (13 bps qoq) reflecting increase in cost of funds partially offset by hike in incremental lending rates.
Operating expenses	7,520	9,461	9,901	32	5	
PPOP	10,797	14,206	14,767	37	4	
Provisions	1,589	3,998	3,540	123	(11)	
PBT	9,208	10,208	11,227	22	10	
PAT	6,843	7,625	8,308	21	9	
Core PBT	10,616	13,871	14,467	36	4	
Key balance sheet items						
AUM (Rs bn)	955	1,242	1,332	40	7	Cost-to-AAUM ratio to moderate slightly at 3.1% (3.2% in 2QFY24 and 3.3% in 3QFY23) as investments in new businesses taper. We pen down credit cost of 1.1% in 3QFY24E (1.3% in 2QFY24 and 0.7% in 3QFY23) as stress in new business will likely be lower. FLDG payouts from fintech partners will boost other income.
Key ratios (%)						
NIM	7.1	6.8	6.7	-40 bps	-13 bps	
Cost-to-income	41.1	40.0	40.1	-92 bps	16 bps	
Cost-to-average AUM	3.3	3.2	3.1	-21 bps	-9 bps	
Credit cost	0.7	1.3	1.1	41 bps	-24 bps	

Source: Company, Kotak Institutional Equities estimates

Exhibit 56: Key highlights of 3QFY24E, March fiscal year-ends, 3QFY24E (Rs bn)

	3QFY23	2QFY24	3QFY24E	Change (%) YoY	Change (%) QoQ	Comments
Five Star						
Key P&L items						
Net interest income	3,197	3,982	4,250	33	7	We expect Five Star to report strong 8.2% qoq AUM growth 2QFY24E (8.2-10.8% qoq in previous four quarters). We expect NIM compression of 21 bps qoq in 2QFY24E primarily driven by increase in cost of borrowings.
Operating expenses	1,194	1,389	1,505	26	8	
PPOP	2,062	2,775	2,805	36	1	
Provisions	47	106	215	361	103	
PBT	2,015	2,670	2,590	29	(3)	
PAT	1,510	1,994	1,942	29	(3)	
Core PBT	2,022	2,634	2,785	38	6	
Key balance sheet items						
AUM (Rs bn)	62,424	82,644	89,359	43	8	Cost-to-AAUM ratio will likely remain flat qoq at 7.0% (8.0% in 3QFY23). We pen down credit cost of 100 bps for the quarter (30-80 bps in the previous four quarters); floods in south India may temper early bucket collections.
Key ratios (%)						
NIM	21	20	20	-159 bps	-34 bps	
Cost-to-income	36.7	33.4	34.9	-175 bps	156 bps	
Cost-to-average AUM	8.0	7.0	7.0	-98 bps	-1 bps	
Credit cost	0.3	0.5	1.0	69 bps	47 bps	
Home First Finance						
Key P&L items						
Net interest income	1,083	1,321	1,401	29	6	We expect AUM growth of 7.8% qoq (6.6-8.0% qoq growth during the last 4 quarters) and 34% yoy growth. NIM will likely compress 13 bps qoq, as average borrowings cost catches up with incremental cost of funds.
Operating expenses	443	565	625	41	11	
PPOP	817	1,044	1,071	31	3	
Provisions	60	80	88	47	10	
PBT	757	964	982	30	2	
PAT	587	743	766	30	3	
Core PBT	740	846	871	18	3	
Key balance sheet items						
AUM (Rs bn)	68	84	90	34	8	We expect cost-to-average AUM to remain elevated at 2.9% in 3QFY24E (2.8% in 2QFY24 and 2.7% in 3QFY23). We pen down credit cost of 40 bps for the quarter (37-41 bps over the previous four quarters).
Key ratios (%)						
NIM	8.0	7.7	7.6	-40 bps	-13 bps	
Cost-to-income	35.1	35.1	36.9	173 bps	174 bps	
Cost-to-average AUM	2.7	2.8	2.9	16 bps	8 bps	
Credit cost	0.4	0.4	0.4	4 bps	1 bps	
L&T Finance Holdings						
Key P&L items						
Net interest income	16,530	17,030	18,155	10	7	LTFH reported 7.7% qoq retail loan growth in 3QFY24E (5.3-9.5% qoq in previous four quarters), driven by strong disbursements across product lines. Overall loan book growth will remain muted at 2.8% qoq due to rundown in the wholesale segment. We expect NIM to expand 43 bps qoq to 9.1% primarily driven by the shifting business mix in favour of high-yield retail loans, partially offset by increase in cost of funds.
Operating expenses	7,140	8,530	9,226	29	8	
PPOP	(14,910)	12,750	13,278	NM	4	
Provisions	5,430	4,840	5,328	(2)	10	
PBT	(20,340)	7,910	7,950	NM	1	
PAT	4,540	5,950	5,883	30	(1)	
Core PBT	(14,910)	12,750	13,278	NM	4	
Key balance sheet items						
AUM (Rs bn)	880	787	808	(8)	3	Continued investments in new business lines will lead to elevated cost-to-income ratio of 41% (40% in 2QFY24 and 37% in 3QFY23). We build in credit cost of 2.7%, higher than 2.2-2.5% over the last four quarters, reflecting higher write-off in wholesale. Credit cost in retail business will likely remain stable at 2.9% (2.8-3.2% in previous four quarters).
Key ratios (%)						
NIM	7.4	8.7	9.1	166 bps	43 bps	
Cost-to-income	37.4	40.1	41.0	361 bps	91 bps	
Cost-to-average AUM	3.3	4.3	4.6	138 bps	35 bps	
Credit cost	2.5	2.4	2.7	20 bps	25 bps	

Source: Company, Kotak Institutional Equities estimates

Exhibit 57: Key highlights of 3QFY23E, March fiscal year-ends, 3QFY24E (Rs bn)

	3QFY23	2QFY24	3QFY24E	Change (%) YoY	QoQ	Comments
LIC Housing Finance						
Key P&L items						
Net interest income	16,059	21,066	19,929	24	(5)	We expect retail disbursements to pickup post weak 1HFY24; we model 6% yoy loan growth on the back of 7% yoy growth in retail loans. NIM will likely compress by 20 bps to 2.8%, reflecting sequential inch up in cost of funds.
Operating expenses	2,876	2,595	2,990	4	15	
PPOP	13,557	18,993	17,439	29	(8)	
Provisions	7,626	4,192	4,473	(41)	7	
PBT	5,931	14,801	12,966	119	(12)	
PAT	4,804	11,881	10,373	116	(13)	
Core PBT	13,547	18,931	17,414	29	(8)	
Key balance sheet items						
AUM (Rs bn)	2,684	2,780	2,838	6	2	Cost-to-AAUM ratio to inch up to 43 bps in 3QFY24E (37 bps in 2QFY24). Credit costs will likley be stable at 64 bps (45-118 bps in the previous four quarters).
Key ratios (%)						
NIM	2.4	3.0	2.8	42 bps	-20 bps	
Cost-to-income	17.5	12.0	14.6	-286 bps	262 bps	
Cost-to-average AUM	0.4	0.4	0.4	-1 bps	5 bps	
Credit cost	1.1	0.6	0.6	-51 bps	3 bps	
Mahindra Finance						
Key P&L items						
Net interest income	15,528	15,870	17,100	10	8	Mahindra Finance reported 3% qoq and 25% yoy growth in loan book (5-8% qoq in the last four quarters). We expect NIM to expand sequentially to 7.2% (7.0% in 2QFY24 and 8.2% in 3QFY23) as the share of dealer financing tapers off.
Operating expenses	6,513	7,312	7,695	18	5	
PPOP	9,983	9,428	10,412	4	10	
Provisions	1,551	6,266	3,598	132	(43)	
PBT	8,431	3,163	6,814	(19)	115	
PAT	6,290	2,352	4,933	(22)	110	
Core PBT	10,100	9,415	10,395	3	10	
Key balance sheet items						
AUM (Rs bn)	773	937	969	25	3	Cost-to-AAUM ratio will likely remain flat qoq at 3.2% in 3QFY24E (3.2% in 2QFY24 and 3.5% in 3QFY23). We expect credit cost to moderate to 1.4%; 2.5-2.8% in the first two quarters of the year. The company reported 40 bps qoq reduction in gross stage-3 loans, collection effeciency was up 100 bps qoq to 98%.
Key ratios (%)						
NIM	8.2	7.0	7.2	-104 bps	14 bps	
Cost-to-income	39.5	43.7	42.5	301 bps	-118 bps	
Cost-to-average AUM	3.4	3.2	3.2	-22 bps	-1 bps	
Credit cost	0.8	2.8	1.5	69 bps	-127 bps	
Muthoot						
Key P&L items						
Net interest income	17,043	18,584	18,681	10	1	We expect loan book growth to remain muted at 2% qoq due to auctions (2% in 2QFY24 and 1% in 3QFY24), despite 3% qoq rise in gold prices. NIM will likely moderate 16 bps qoq reflecting rise in cost of borrowings.
Operating expenses	4,905	5,751	5,778	18	0	
PPOP	12,624	13,422	13,477	7	0	
Provisions	557	120	174	(69)	45	
PBT	12,068	13,302	13,302	10	0	
PAT	9,017	9,910	9,844	9	(1)	
Core PBT	12,384	13,180	13,243	7	0	
Key balance sheet items						
AUM (Rs bn)	577	690	704	22	2	Cost/AUM will likely remain moderate at 3.3% in 3QFY24E (3.4% in 2QFY24 and 3.4% in 3QFY23).
Key ratios (%)						
NIM	11.9	10.9	10.7	-114 bps	-16 bps	
Cost-to-income	28.0	30.0	30.0	203 bps	2 bps	
Cost-to-average AUM	3.4	3.4	3.3	-10 bps	-5 bps	
Credit cost	0.4	0.1	0.1	-29 bps	3 bps	
SBFC						
Key P&L items						
Net interest income	938	1,308	1,444	54	10	We expect SBFC to deliver strong AUM growth of 7% qoq (8-11% in the previous four quarters) in 3QFY24E. NIM will likely inch up 20 bps qoq as the drag of interest reversals tapers off.
Operating expenses	550	757	848	54	12	
PPOP	580	814	866	49	6	
Provisions	103	110	134	30	22	
PBT	527	706	737	40	4	
PAT	393	526	545	39	4	
Core PBT	552	766	816	48	7	
Key balance sheet items						
AUM (Rs bn)	45	58	62	39	7	Operating expenes will likely remain elevated due to high volumes and investment in distribution leading to 5.6% cost-to-AAUM (5.1-5.7% in the previous four quarters). We pen down credit cost of 80 bps in 3QFY24E similar to previous quarters.
Key ratios (%)						
NIM	9.7	10.7	11.0	137 bps	33 bps	
Cost-to-income	46.6	48.1	49.3	270 bps	120 bps	
Cost-to-average AUM	5.1	5.4	5.6	50 bps	20 bps	
Credit cost	1.0	0.8	0.8	-16 bps	1 bps	
Shriram Finance						
Key P&L items						
Net interest income	40,620	45,947	48,131	18	5	We expect Shriram Finance to report moderate loan growth of 4% qoq and 19% yoy in 3QFY24E. NIM will likley remain flat qoq as change in product mix offsets increase in cost of funds.
Operating expenses	11,987	14,618	15,624	30	7	
PPOP	33,016	34,808	36,109	9	4	
Provisions	9,173	11,286	10,613	16	(6)	
PBT	23,844	23,523	25,495	7	8	
PAT	17,770	17,508	18,866	6	8	
Core PBT	31,601	33,653	34,909	10	4	
Key balance sheet items						
AUM (Rs bn)	1,774,982	2,026,410	2,117,553	19	4	Cost-to-AAUM ratio to remain elevated at 3.0% (2.8% in 3QFY23). We pen down credit cost of 2.0% in 3QFY24E.
Key ratios (%)						
NIM	10.7	10.7	10.7	1 bps	-1 bps	
Cost-to-income	26.6	29.6	30.2	356 bps	63 bps	
Cost-to-average AUM	2.8	3.0	3.0	25 bps	6 bps	
Credit cost	2.1	2.3	2.0	-7 bps	-23 bps	

Source: Company, Kotak Institutional Equities estimates

Exhibit 58: Key highlights of 3QFY24E, March fiscal year-ends, 3QFY24E (Rs bn)

	3QFY23	2QFY24	3QFY24E	Change (%) YoY	Change (%) QoQ	
SBI Cards						
Key P&L items						
Net interest income	11,446	12,969	13,742	20	6	We expect revenues to grow at ~25% yoy, while NII growth is expected to grow ~20% yoy on the back of ~35% yoy growth in receivables (share of revolvers likely to remain unchanged qoq). Non-interest income growth of ~28% yoy is primarily driven by recovery in spends (~35% yoy). Provisions are expected to increase by ~60% yoy as incremental provisions is mainly on account of higher spends and other credit costs.
Non-interest income	18,983	21,856	24,265	28	11	
Operating expenses	19,745	20,656	23,388	18	13	
PPOP	12,174	15,509	16,013	32	3	
Provisions	5,330	7,416	8,528	60	15	
PBT	6,843	8,094	7,485	9	(8)	
PAT	5,095	6,030	5,569	9	(8)	
Key balance sheet items						
Net loans (Rs bn)	373,540	435,565	487,832	31	12	We expect provisions to remain high as the company is seeing higher growth in business and stress continues in their portfolio. We expect a similar commentary as of the previous quarter (a) healthy traction on spend growth, and (b) less concerning trends on card issuances and (c) possible bottoming out of NIM. Key monitorable would be the outlook on credit costs as it continues to remain uncomfortably high.
Key ratios (%)						
Yield on advances (%)	17.4	17.8	17.7	29 bps	-10 bps	
NIM	11.3	11.0	10.8	-53 bps	-25 bps	
Cost-to-income	61.9	57.1	59.4	-250 bps	224 bps	
Cost-to-average assets	18.7	16.8	17.6	-108 bps	78 bps	
Credit cost	5.6	6.7	6.9	134 bps	21 bps	
Aditya Birla AMC						
Key P&L items						
Revenue from operations	3,140	3,350	3,246	3	(3)	We are building nearly flat qoq growth in overall and ~5% qoq growth equity AUM in 3QFY24E for the domestic MF business. We expect marginal decline in revenue yields driven by AUM growth.
Total income	3,632	3,907	3,688	2	(6)	
Operating expenses	1,309	1,431	1,437	10	0	
Employee expenses	719	798	800	11	0	
PBT	2,227	2,368	2,149	(3)	(9)	
PAT	1,663	1,781	1,612	(3)	(10)	
Core PBT	1,736	1,811	1,787	3	(1)	
Key balance sheet items						
Closing MF AUM	2,817	3,109	3,115	11	0	We expect decline (~3% yoy) in headline earnings growth, led by other income (lower MTM gains vs last year). Excluding for other income core earnings growth to be muted at ~3% yoy. Focus to remain on efforts to improve equity market share.
Key ratios and yields (%)						
Yields (bps)-average of closing MF and PMS AUM	42.9	41.4	40.0	-287 bps	-142 bps	
Cost-to-income (%)	38.7	39.4	41.7	305 bps	234 bps	
HDFC AMC						
Key P&L items						
Revenue from operations	5,596	6,431	6,641	19	3	We are building in ~5% qoq increase in QAAUM in 3QFY24E for the domestic MF business reflecting growth in equity indices and higher equity market share. Average Nifty-100 was up ~3% qoq. We expect positive impact of mix shift to offset yield impact from funds moving into lower yielding slabs.
Total income	6,630	7,654	7,541	14	(1)	
Operating expenses	1,625	1,773	1,822	12	3	
Employee expenses	790	930	977	24	5	
PBT	5,005	5,881	5,720	14	(3)	
PAT	3,692	4,365	4,290	16	(2)	
Core PBT	3,971	4,658	4,950	25	6	
Key balance sheet items						
Closing MF AUM	4,481	5,229	5,334	19	2	We expect ~15% yoy earnings growth driven by 19% yoy revenue growth, 12% yoy expense growth and lower other income. Focus to remain on stability of retail flows and outlook on flow market share.
Key ratios and yields (%)						
Yields (bps)-MF QAAUM and average of PMF AUM	50.3	49.0	48.0	-232 bps	-102 bps	
Cost-to-income (%)	24.5	23.2	24.2	-35 bps	100 bps	
Nippon AMC						
Key P&L items						
Revenue from operations	3,538	3,975	4,115	16	4	We are building in ~7-8% qoq increase in QAAUM in 3QFY24E for the domestic MF business reflecting growth in equity indices and higher equity market share. Average Nifty-100 was up ~3% qoq.
Total income	4,157	4,754	4,615	11	(3)	
Operating expenses	1,494	1,650	1,699	14	3	
Employee expenses	747	799	815	9	2	
PBT	2,664	3,104	2,916	9	(6)	
PAT	2,048	2,443	2,216	8	(9)	
Core PBT	2,045	2,325	2,496	22	7	
Key balance sheet items						
MF AUM	2,928	3,506	3,777	29	8	Headline earnings to grow by 8% due to MTM gains in base quarter. Core PBT growth likely to be ~22% yoy. We expect lower yields qoq due to mix shift and impact of AUM growth on TERs.
Key ratios and yields (%)						
Yields (bps)-average of closing MF and PMS AUM	48.3	45.5	44.0	-431 bps	-155 bps	
Cost-to-income (%)	35.9	34.7	36.8	89 bps	211 bps	
UTI AMC						
Key P&L items						
Revenue from operations	2,836	2,916	2,862	1	(2)	We are building in ~2% qoq increase in QAAUM in 3QFY24E for the domestic MF business reflecting growth in equity AUM (MTM gains offset by market share loss).
Total income	2,762	4,056	3,362	22	(17)	
Operating expenses	1,738	1,858	1,838	6	(1)	
Employee expenses	1,041	1,112	1,080	4	(3)	
PBT	1,024	2,198	1,523	49	(31)	
PAT	600	1,828	1,142	90	(38)	
Core PBT	1,098	1,058	1,023	(7)	(3)	
Key balance sheet items						
Closing MF AUM	984	1,013	1,064	8	5	Headline PAT growth of ~90% yoy is a result of lower other income last year. Core PBT expected to remain weak (-7% yoy) due to operating deleverage due to lower (vs peers) equity AUM growth. We expect compression in yields driven by AUM growth and mix
Key ratios and yields (%)						
MF yields (%)	35.9	33.6	32.1	-379 bps	-150 bps	
Cost-to-income (%)	62.9	45.8	54.7	-824 bps	887 bps	
IIFL Wealth						
Key P&L items						
Recurring revenues	2,757	2,960	3,126	13	6	We expect recurring AUM growth to grow ~5% qoq in 3QFY24E owing to rise in equity indices and likely stable flow momentum. Expect wealth business to drive flows as AMC will likely witness drag from redemptions.
Non-recurring revenues	1,393	1,315	1,270	(9)	(3)	
Overall revenues	4,096	4,412	4,586	12	4	
Operating expenses	1,863	2,144	2,154	16	0	
Employee expenses	1,318	1,594	1,594	21	-	
PBT	2,232	2,268	2,431	9	7	
PAT	1,801	1,853	1,884	5	2	
Key balance sheet items						
Net AUM (excluding custody)	2,471	2,941	2,873	16	(2)	We expect ~10% yoy PBT yoy as growth in recurring revenues (~13% yoy) is offset by lower transactional income (-5% yoy) and higher expenses (16% yoy). Yields in the recurring business will likely be stable qoq. We expect cost-income slightly lower qoq
Key ratios and yields (%)						
Recurring revenue to overall revenues	67.3	67.1	68.2	84 bps	107 bps	
Cost-to-income	45.5	48.6	47.0	149 bps	-162 bps	

Source: Company, Kotak Institutional Equities estimates

Exhibit 59: Key highlights of 3QFY24E, March fiscal year-ends, 3QFY24E (Rs bn)

	3QFY23	2QFY24	3QFY24E	Change (%) YoY	Change (%) QoQ	
CAMS						
Key P&L items						
Revenue from operations	2,436	2,751	2,784	14	1	We expect ~20% yoy (~2% qoq) growth in AUM with ~300-400 bps higher share of equity (~51%) on a sequential basis. Earnings to grow 13% yoy, reflecting operating leverage in the business offset by lower fees.
Other income	71	96	80	13	(17)	
Total income	2,507	2,847	2,864	14	1	
Operating expenses	1,529	1,724	1,749	14	1	
Employee expenses	871	977	985	13	1	
PBT	978	1,124	1,115	14	(1)	
PAT	736	845	831	13	(2)	
Key balance sheet items						
Managed AAUM (Rs tn)	28	33	33	19	2	We build lower yields at ~2.5 bps qoq (for asset linked MF revenues) reflecting impact of asset growth offset by mix effect. We expect stable core cost-to-income ratio at ~64%. We build revenue traction on non-MF businesses (off low base) which will likely be an area of focus apart from core yields.
Key ratios						
Asset-based MF fees (bps)	2.70	2.49	2.46	-0.24 bps	-0.025 bps	
Cost-to-income (%)	61.0	60.5	61.1	9 bps	53 bps	
EBITDA margin (%)	44.4	44.4	44.1	-27 bps	-24 bps	
Share of equity-oriented AAUM (%)	46.4	47.7	51.4	503 bps	374 bps	
Kfin Technologies						
Key P&L items						
Revenue from operations	1,881	2,090	2,120	13	1	We expect ~20% yoy (~2% qoq) growth in AUM with ~300-400 bps higher share of equity (~60%) on a sequential basis. Earnings to grow 16% yoy, reflecting operating leverage in the business offset by lower fees.
Other income	63	63	60	(4)	(5)	
Total income	1,944	2,153	2,180	12	1	
Operating expenses	1,229	1,311	1,340	9	2	
Employee expenses	726	760	780	7	3	
PBT	715	837	840	18	0	
PAT	534	614	618	16	1	
Key balance sheet items						
Managed AAUM (Rs tn)	13	15	15	19	2	We build lower EBITDA margin qoq on higher base of 2Q. Expect focus on potential client wins and revenue growth in alternatives and international business.
Key ratios						
Asset-based MF fees (bps)	3.96	3.80	3.77	-0.19 bps	-0.031 bps	
Cost-to-income (%)	63.2	60.9	61.5	-176 bps	56 bps	
EBITDA margin (%)	42.9	44.8	44.4	145 bps	-47 bps	
Share of equity-oriented AAUM (%)	55.9	55.4	59.8	393 bps	441 bps	
CRISIL						
Key P&L items						
Revenue from operations	8,223	7,359	9,483	15	29	Expect earnings growth of 17% yoy driven by ~25% yoy growth in ratings and lower 13% yoy growth in non-ratings business.
Other income	184	360	178	(3)	(51)	
Total income	8,406	7,718	9,661	15	25	
Operating expenses	6,336	5,715	7,214	14	26	
Employee expenses	4,421	4,343	5,077	15	17	
PBT	2,070	2,003	2,447	18	22	
PAT	1,580	1,520	1,854	17	22	
Other items						
Rating revenues	1,772	1,856	2,217	25	19	We expect strong bond raising to support ratings revenue growth (qoq). Non-ratings revenues are harder to project but 4Q is seasonally stronger. Focus on growth outlook in international businesses.
Non-rating revenues	6,451	5,503	7,266	13	32	
Key ratios						
Cost-to-income (%)	75.4	74.0	74.7	-70 bps	63 bps	
ICRA						
Key P&L items						
Revenue from operations	1,030	1,049	1,171	14	12	Expect earnings growth of 11% yoy driven by ~15% yoy growth in ratings and ~10% yoy growth in non-ratings business.
Other income	147	164	160	9	(2)	
Total income	1,178	1,212	1,331	13	10	
Operating expenses	699	739	760	9	3	
Employee expenses	523	579	590	13	2	
PBT	479	473	571	19	21	
PAT	392	322	434	11	35	
Other items						
Rating revenues	596	600	689	16	15	We expect strong bond raising to support ratings revenue growth (qoq). Focus on growth in non-ratings business linked to Moody's (linked to global volumes outsourced).
Non-rating revenues	434	449	482	11	7	
Key ratios						
Cost-to-income (%)	59.3	61.0	57.1	-225 bps	-392 bps	

Source: Company, Kotak Institutional Equities estimates

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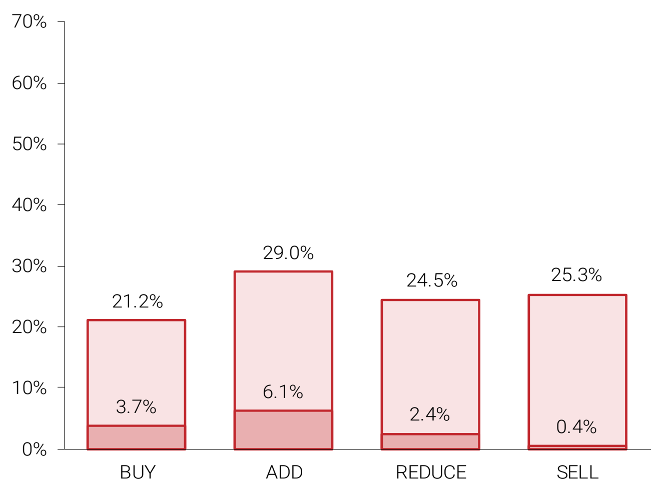

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Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Compliance Officer Details: Mr. Hiren Thakkar. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com.

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In absence of response/complaint not addressed to your satisfaction, you may lodge a complaint with SEBI at SEBI, NSE, BSE, Investor Service Center | NCDEX, MCX. Please quote your Service Ticket/Complaint Ref No. while raising your complaint at SEBI SCORES/Exchange portal. Kindly refer https://www.kotaksecurities.com/contact-us/