

Financials - Banks



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Change in our estimates under a 75bp rate cut as our current estimates factor in 30-40bp rate cut

	% chg over base case	
NII	FY26E	FY27E
ICICI Bank	-4.2%	-2.9%
HDFC Bank	-3.3%	-1.8%
Axis Bank	-4.8%	-3.2%
Kotak Bank	-4.4%	-3.2%
SBI	-3.3%	-2.2%
BoB	-3.8%	-2.9%

	% chg over base case	
PPoP	FY26E	FY27E
ICICI Bank	-5.1%	-3.5%
HDFC Bank	-3.9%	-2.1%
Axis Bank	-6.1%	-4.0%
Kotak Bank	-5.9%	-4.3%
SBI	-4.9%	-3.3%
BoB	-5.5%	-4.1%

	% chg over base case	
PAT	FY26E	FY27E
ICICI Bank	-5.7%	-4.0%
HDFC Bank	-4.4%	-2.4%
Axis Bank	-7.4%	-5.0%
Kotak Bank	-6.8%	-4.9%
SBI	-6.0%	-4.0%
BoB	-7.1%	-5.4%

	bp chg over base case	
NIMs	FY26E	FY27E
ICICI Bank	-18	-13
HDFC Bank	-12	-6
Axis Bank	-18	-12
Kotak Bank	-21	-16
SBI	-10	-7
BoB	-11	-9

Scenario Analysis: Assessing earnings trajectory as rate cycle turns

FY26E NIM may compress 10-21bp over our base-case; PAT impact at 4.4%-7.1%

- As attention focuses on the forthcoming Reserve Bank of India (RBI) policy/ies, in anticipation of a potential turn in the rate cycle, we delve into how a potential cut in repo rates could influence the earnings of banks.
- With the expectation of the first rate cut now being pushed to the Feb'25 policy meeting (due to weak GDP print and higher inflation that thwarts the central bank's decision-making), we anticipate that the full impact on margins will materialize in FY26 as the loan yields reprice downward.
- We note that while public sector banks (PSBs) have MCLR-heavy books (Indian Bank at 58% and Canara Bank at 48%), they are less vulnerable to rate cuts. In contrast, private banks with high repo-linked books (Kotak at 60% and Axis Bank at 57%) are likely to witness a greater impact on their lending yields.
- We further believe that ALM positioning will play an important role in assessing the NIM impact, as banks with shorter deposit maturities and longer-duration fixed-rate assets are better positioned in a declining interest rate environment.
- We attempt a sensitivity analysis for banks to gain a better understanding of the impacts on NII, PPoP, and PAT under various scenarios of rate cuts (50bp, 75bp, and 100bp). We estimate that NIM will further moderate by 10-21bp for FY26 over our base case. Under a scenario of a 75bp rate cut, we expect a 4.4%-7.1% dip in PAT, as we are currently factoring in a 30-40bp rate cut in our numbers. Top picks: ICICI, HDFCB, SBI, FB, and AUBANK.

Mix of repo-linked loans significantly higher for private banks

- Banks with a higher share of loans linked to the repo rate are more sensitive to the potential decline in the repo rate, as these loans will be repriced promptly following a rate cut. In contrast, lenders with a larger proportion of fixed-rate loans stand to benefit.
- Among banks, AU Bank has ~62% of its loan book linked to fixed rate, followed by SBI at 37%. In contrast, private banks exhibit the highest proportions of loans linked to the repo rate or EBLR with Kotak at 60%, Axis Bank at 57%, ICICI Bank at 52%, Federal Bank at 50%, and HDFC Bank at 43%.
- PSBs are increasingly exposed to MCLR-linked loans, with Indian Bank holding the highest share at 58%, followed by Canara Bank at 48%, and SBI and PNB at 36% and 34%, respectively. Banks with a larger proportion of MCLR-linked loans are likely to demonstrate more resilient performance, as their loan portfolios reprice more gradually, providing them with additional time to adapt to fluctuations in interest rates.

ALM positioning key: Banks with shorter tenure deposits and longer-term assets are better placed

Effective Asset Liability Management (ALM) is a key factor in evaluating how different banks are positioned to navigate through the varying interest rate environment. By strategically maneuvering the duration of loans and deposits, banks can optimize their balance sheets to protect their margins. We observe that

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banks with shorter-duration deposits stand to benefit in a declining rate environment, as they can reprice their liabilities more quickly. Conversely, banks with longer-duration advances will benefit, as they will continue to earn higher interest rates for an extended period. We have thus assessed the ALM profiles of key banks under our coverage and found that banks such as PNB, IIB, and CBK are better positioned in this regard (refer to Exhibit 4 for details).

Inflation surge to delay monetary easing to Feb'25

- Headline CPI inflation accelerated to a 14-month high of 6.2% in Oct'24, fueled by higher food inflation at 10.8% vs. 9.3% in Sep'24.
- Overall, inflation remains significantly higher than MOFSL estimates. During Apr-Oct'24, inflation stood at 4.8% vs. 5.4% in Apr-Oct'23. We will monitor inflation in 3QFY25 and believe that there are clear upside risks to the RBI's current projections.
- With rising inflation concerns, we comprehend that an imminent rate cut is unlikely. We thus expect the first rate cut to occur in Feb'25, even as GDP growth has considerably weakened.

GDP growth moderates sharply, making rate decision difficult

Real GDP grew at its slowest pace in seven quarters, recording an increase of 5.4% in 2QFY25 (vs. +6.7% in 1QFY25 and +8.1% in 2QFY24). This figure was significantly lower than the revised RBI projection of +6.7%. The deceleration in real GDP growth was primarily led by the lowest growth in gross fixed capital formation (GFCF) in six quarters, along with a sequential slowdown in private consumption. Further, the recent earnings data indicated a decline in corporate growth across multiple sectors, suggesting persistent weakness in the economic environment. This trend may prompt a recalibration of monetary policy. The RBI is likely to adopt a cautious stance due to the ongoing inflation pressures, deferring any rate cuts until Feb'25 to allow for a more comprehensive assessment of macroeconomic conditions while monitoring trends in GDP growth.

Systemic credit growth est. at 10.5% YoY; repo rate cut to offer modest boost

Systemic credit growth has significantly slowed to 11.1% as of 15th Nov '24, following two years of robust expansion. Banks are moderating credit growth to manage high CD ratios, with the slowdown exacerbated by asset quality issues in unsecured lending segments. As a result, we have revised our FY25 credit growth projection downward to 10.5% YoY from 12.5% YoY earlier. While rate cuts may stimulate some demand, external factors such as high CD ratios and stress in unsecured loans are likely to keep credit growth subdued over FY25E.

Correlation between repo rate and NIM high at 79%

NIM has demonstrated a strong 79% correlation with repo rate hikes from 1QFY22. Banks have benefited from these hikes, achieving peak NIMs around 4QFY23. However, subsequent increases in funding costs have led to moderation in spreads. For a few banks, NIMs have already returned to the pre-repo rate hike levels, including those of FB and DCB. The impending rate cuts, along with ongoing deposit repricing, will continue to exert pressure on margins over 1HFY26.

Sensitivity analysis: Evaluating NII, PPOP, and PAT trajectories under varying rate cut scenarios

The quantum and the pace of rate cuts by the RBI will depend on macroeconomic factors such as inflation and GDP data. We have conducted a sensitivity analysis for banks to better understand the impact on NII, PPOP, and PAT under various rate cut scenarios (50bp, 75bp, and 100bp). We estimate that NIM will further moderate by 10-21bp for FY26 over our base case, with a projected PAT decline of 4.4% to 7.1% under a 75bp rate cut scenario. This projection already incorporates a 30-40bp rate cut in our base case estimates. **For the detailed earnings sensitivity under various repo rate cut scenarios please refer to Exhibit 1.** We further note that while PSBs are better positioned than private banks due to their higher proportion of MCLR-linked loans – making them less sensitive to rate cuts in terms of margins – the PAT impact for both of them is broadly similar, as PSBs have a much higher dependency on margins for their earnings compared to private banks.

Valuation and View

- We closely monitor the potential turn in the interest rate cycle and the overall pace of monetary easing, as these factors will significantly impact the underlying margin trajectory. Additionally, progress in deposit mobilization will be critical, as an elevated CD ratio and rising inflation rates will make it challenging for lenders to reduce deposit rates and, consequently, lower their funding costs.
- Banks with a higher proportion of fixed-rate loans and a lower duration of liabilities are expected to report more resilient NIM performance over FY26. However, we remain cautious about the ongoing delinquency cycle in unsecured loans and the associated interest reversals, as high credit costs and an adverse asset mix will exert pressure on banks' profitability.
- During 2QFY25, we have cut aggregate earnings for Private Banks by 1.1%/0.9% for FY25/26E respectively led by sharper cuts for mid-size banks (IIB, IDFCB, and RBK). We expect Private Bank earnings to grow at 16%/18% YoY over FY26/27E respectively, however we see downside risk to this growth in case of rate cuts.
- PSU Banks: Earnings momentum of PSU Banks remain strong leading us to raise our FY25 projections by 1.5%. However, with RoA profile nearly maturing, we estimate earnings growth to broadly track loan growth at 10-11% cagr over FY25-27E. Headwinds on margins and potential rise in credit cost remains a key risk. **Top picks: ICICI, HDFCB, SBI, FB, and AUBANK.**

Sensitivity analysis: Assessing earnings impact under different rate-cut scenarios

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- We estimate that NIM will further moderate by 10-21bp for FY26 over our base case, with a projected PAT decline of 4.4% to 7.1% under a 75bp rate cut scenario. This projection already incorporates a 30-40bp rate cut in our base case estimates.
- We further note that while PSBs are better positioned than private banks due to their higher proportion of MCLR-linked loans – making them less sensitive to rate cuts in terms of margins – the PAT impact for both of them is broadly similar, as PSBs have a much higher dependency on margins for their earnings compared to private banks.

Exhibit 1: Sensitivity analysis – Assessing the earnings impact under various rate-cut scenarios

INR b Banks	Repo Cuts (bp)	NII		PPOP		PAT		NII (% change)		PPOP (% change)		PAT (% change)		NIMs (bp change)	
		FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
ICICI Bank	Base case*	918	1,082	758	901	514	600								
	50	892	1,059	732	878	495	583	-2.8	-2.1	-3.4	-2.5	-3.7	-2.9	-12	-9
	75	879	1,051	719	870	485	576	-4.2	-2.9	-5.1	-3.5	-5.7	-4.0	-18	-13
	100	862	1,036	702	855	473	565	-6.0	-4.2	-7.3	-5.1	-8.1	-5.7	-26	-18
HDFC Bank	Base case*	1,367	1,552	1,138	1,314	761	878								
	50	1,339	1,536	1,111	1,299	739	866	-2.0	-1.0	-2.5	-1.2	-2.8	-1.3	-7	-4
	75	1,322	1,524	1,094	1,286	727	857	-3.3	-1.8	-3.9	-2.1	-4.4	-2.4	-12	-6
	100	1,302	1,502	1,074	1,265	712	840	-4.7	-3.2	-5.6	-3.8	-6.4	-4.3%	-17	-12
Axis Bank	Base case*	625	742	494	589	303	356								
	50	606	725	474	572	288	344	-3.1	-2.3	-4.0	-2.9	-4.9	-3.6	-12	-9
	75	595	719	464	565	281	339	-4.8	-3.2	-6.1	-4.0	-7.4	-5.0	-18	-12
	100	584	708	452	554	272	331	-6.6	-4.6	-8.4	-5.8	-10.3	-7.2	-25	-18
Kotak Bank	Base case*	328	391	246	294	161	193								
	50	318	382	237	284	154	186	-3.0	-2.4	-4.0	-3.2	-4.6	-3.6	-15	-12
	75	313	378	232	281	150	184	-4.4	-3.2	-5.9	-4.3	-6.8	-4.9	-21	-16
	100	307	374	225	277	145	181	-6.4	-4.3	-8.5	-5.8	-9.8	-6.6	-31	-22
SBI	Base case*	1,868	2,089	1,246	1,407	764	865								
	50	1,834	2,062	1,212	1,380	738	845	-1.9	-1.3	-2.8	-1.9	-3.4	-2.3	-6	-4
	75	1,807	2,042	1,185	1,361	718	830	-3.3	-2.2	-4.9	-3.3	-6.0	-4.0	-10	-7
	100	1,783	2,025	1,161	1,344	700	817	-4.6	-3.0	-6.9	-4.5	-8.4	-5.5	-14	-9
BoB	Base case*	526	584	370	416	204	225								
	50	513	573	356	405	194	217	-2.6	-1.9	-3.8	-2.7	-4.9	-3.6	-8	-6
	75	506	567	350	399	189	213	-3.8	-2.9	-5.5	-4.1	-7.1	-5.4	-11	-9
	100	500	561	344	394	185	209	-5.0	-3.9	-7.2	-5.4	-9.4	-7.2	-15	-11

*estimate

Source: MOFSL, Company

Exhibit 2: MOFSL vs. consensus estimates – We are slightly below consensus on FY26E NII, while we remain broadly in line on FY26E PAT

INR b	Consensus estimate						MOFSL vs. consensus (% change)					
	NII		PPoP		PAT		NII		PPoP		PAT	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Banks												
ICICI Bank	950	1,077	758	877	517	588	-3%	0%	0%	3%	0%	2%
HDFC Bank	1,439	1,607	1,184	1,392	777	937	-5%	-3%	-4%	-6%	-2%	-6%
Axis Bank	626	699	482	561	297	343	0%	6%	2%	5%	2%	4%
Kotak Bank	472	378	300	349	160	181	-31%	3%	-18%	-16%	0%	7%
SBI	1,929	2,150	1,249	1,421	748	837	-3%	-3%	0%	-1%	2%	3%
BoB	531	588	360	408	194	214	-1%	-1%	3%	2%	5%	5%

Source: Company, MOFSL

Exhibit 3: We estimate FY26/FY27 earnings for private banks to grow at 16%/18% and PSU banks earnings at 9%/12.4%, but see downside risk due to potential rate cut, quantum of which can be higher than what we factored in a quarter back due to growth weakness

Earnings (INR b)	FY23	FY24	FY25E	FY26E	FY27E
Private Banks					
AXSB	215.8	248.6	262.6	303.2	356.4
BANDHAN	21.9	22.3	39.1	42.6	47.8
DCBB	4.7	5.4	5.9	7.7	9.7
HDFCB	441.1	608.1	670.0	760.5	877.9
ICICIBC	319.0	408.9	459.1	514.5	599.8
IDFCFB	24.4	29.6	24.4	40.2	51.7
IIB	74.4	89.8	73.8	99.8	126.9
KMB	109.4	137.8	144.3	161.0	193.4
FB	30.1	37.2	41.6	49.4	60.4
RBK	8.8	11.7	10.2	17.2	25.5
AUBANK	13.3	15.3	22.4	29.2	38.7
EQUITASB	5.7	8.0	3.6	8.3	11.7
Total Pvt	1,268.6	1,622.6	1,757.2	2,033.6	2,399.9
YoY growth	40.2%	27.9%	8.3%	15.7%	18.0%
PSU Banks					
BOB	141.1	177.9	185.5	203.6	225.0
CBK	106.0	145.5	162.6	183.6	205.2
INBK	52.8	80.6	105.2	114.0	127.8
PNB	25.1	82.4	156.5	176.8	200.8
SBIN	502.3	610.8	712.3	764.0	864.5
UNBK	84.3	136.5	155.6	170.7	189.4
Total PSU	911.7	1,233.8	1,477.6	1,612.7	1,812.8
YoY growth	59.2%	35.3%	19.8%	9.1%	12.4%
Total Banks	2,180.2	2,856.4	3,234.8	3,646.4	4,212.7
YoY growth	47.6%	31.0%	13.2%	12.7%	15.5%
SBI Cards	22.6	24.1	20.4	28.6	35.8
Paytm		-14.2	-16.9	-7.0	2.1

Source: Company, MOFSL

Exhibit 4: AXSB, FB, KMB, ICICIBC, and HDFCB have higher EBLR/Repo-linked loans; PSBs have higher linkage to MCLR (%)

Loans Mix (%) - 2QFY25	MCLR	EBLR	Repo linked	Others (fixed, base rate, and foreign currency-floating)
AU BANK	28		10	62
AXSB	11	4		32
CBK	48	41		11
FB	10		50	40
HFCB	27	43		31
ICICIBC	16	1	51	32
INBK	58		36	6
KMB	13	60	-	27
PNB	34	8	41	17
RBL**	7	35		58
SBIN*	36		27	34
BOB	47	33		20

*as on 1QFY25 **as on 4QFY24 Source: MOFSL, Company

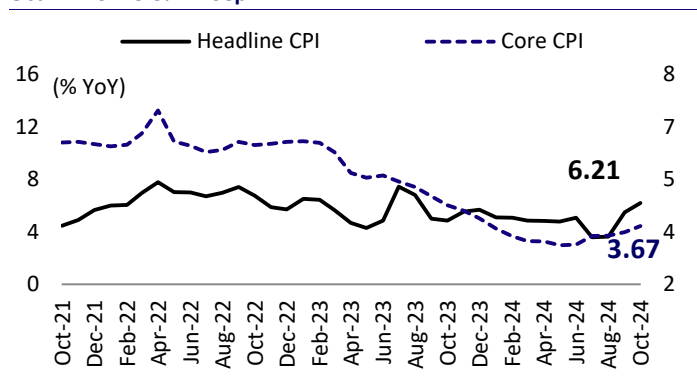
Exhibit 5: Banks with lower duration of deposits and longer duration of advances are well positioned in a declining rate environment

While we have historically observed limited correlation from the analysis of the maturity profile of a bank, typically the banks with higher duration of asset profile and lower duration of deposits are deemed to be better placed in a declining interest rate environment

	<1 year Advances	<1 year Deposits	% difference (higher the gap – the better)
PNB	36%	31%	5%
IIB	55%	53%	2%
CBK	43%	42%	1%
INBK	35%	37%	-2%
ICICIBC	30%	34%	-4%
FB	29%	36%	-7%
UNBK	48%	56%	-8%
IDFCFB	35%	46%	-11%
BOB	28%	42%	-14%
HDFCB	21%	35%	-15%
SBIN	20%	36%	-16%
RBK	53%	70%	-17%
AXSB	24%	42%	-18%
AU SFB	25%	50%	-24%
KMB	34%	67%	-33%

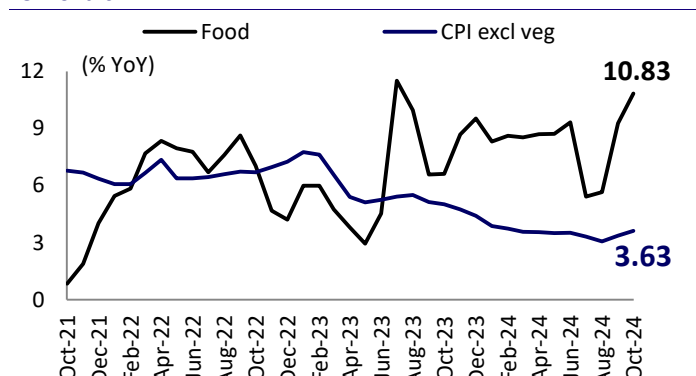
Data as on FY24, Source: MOFSL, Company

Exhibit 6: Retail inflation inched up to a 14-month high of 6.2% in Oct'24 from 5.5% in Sep'24



Core CPI excludes food & beverages and fuel & light

Exhibit 7: Food inflation mounted to 10.8% in Oct'24, the highest in 48 months



* Excluding food & energy

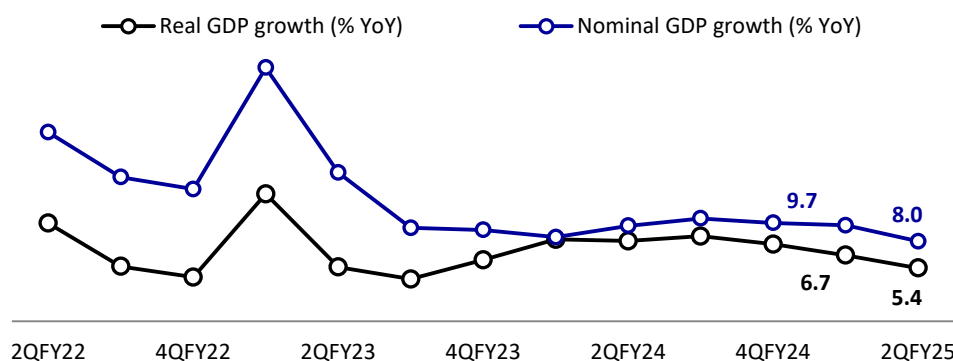
Exhibit 8: CPI and its key components

	FY24	Apr-Oct'23	Apr-Oct'24	Oct-23	Aug-24	Sep-24	Oct-24
Overall CPI	5.4	5.4	4.8	4.9	3.7	5.5	6.2
Food and beverages	7	6.4	7.5	6.3	5.3	8.4	9.7
Cereal and products	10.7	12.2	7.9	10.7	7.3	6.8	6.9
Pulses and products	15.2	12.1	13.5	18.8	13.6	9.8	7.4
Meat and fish	2.3	1.7	5.3	3.3	4.3	2.6	3.2
Milk and products	6.5	8	2.9	6.4	2.9	3	3
Vegetables	14.9	8	24.6	2.8	10.7	36	42.2
Pan, tobacco, and intoxicants	3.6	3.8	2.8	3.9	2.7	2.5	2.5
Fuel and light	1.2	3.1	-3.6	-0.4	-5.3	-1.3	-1.6
Housing	3.9	4.4	2.7	3.8	2.7	2.7	2.8
Clothing and footwear	4.7	5.7	2.7	4.3	2.7	2.7	2.7
Miscellaneous	4.5	4.9	3.8	4.5	3.9	4	4.3
Transport and communication	1.9	2	2	2	2.7	2.7	2.7
Core CPI*	4.3	4.8	3.3	4.3	3.4	3.5	3.7

*Excluding food & beverages and fuel & light

Source: Central Statistics Office (CSO), MOFSL

Exhibit 9: Real GDP growth (%) hits a seven-quarter low of 5.4% YoY in 2QFY25; elevated inflation will nevertheless make it difficult for RBI to reduce interest rate



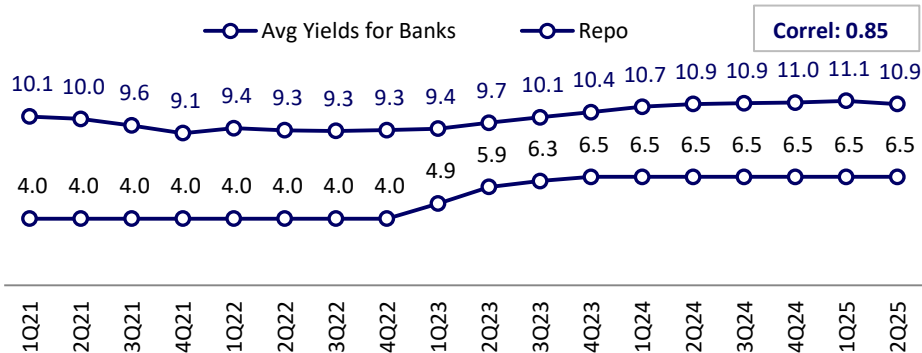
Source: MOFSL, RBI, E- RBI projections

Exhibit 10: Yields movement in line with repo rate for most banks

YoA (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
AXSB	8.17	8.08	8.22	7.91	8.45	9.02	9.58	9.43	10.33	10.44	10.56	10.32	10.32	10.23
HDFCB	8.77	8.62	8.50	8.29	8.62	9.08	9.72	9.60	10.10	11.40	11.49	11.39	11.51	9.84
ICICIBC	8.26	8.34	8.19	8.31	8.12	8.63	9.13	9.75	9.86	9.81	9.79	9.88	9.80	9.73
IDFCFB	12.94	14.18	12.93	13.63	13.83	15.19	15.26	15.37	15.59	15.89	16.30	15.95	15.93	15.43
IIB	11.75	11.66	11.36	11.29	11.39	11.51	11.75	12.02	12.24	12.30	12.45	12.66	12.57	12.31
KMB	8.70	8.39	8.50	8.44	9.09	9.68	10.14	10.53	10.91	10.81	10.99	10.89	10.89	10.84
FB	8.15	8.11	8.04	7.92	7.94	8.29	8.78	9.13	9.21	9.35	9.37	9.48	9.43	9.35
BoB	6.85	6.55	6.92	6.81	6.58	7.22	7.78	8.47	8.40	8.43	8.51	8.75	8.55	8.48
CBK	7.09	7.12	7.23	7.22	7.03	7.24	7.45	7.70	8.43	8.56	8.60	8.71	8.66	8.77
PNB	6.93	6.48	7.11	6.64	6.49	6.91	7.23	7.90	8.05	8.15	8.45	8.44	8.33	8.31
SBIN	7.42	7.51	7.57	7.58	7.43	7.66	7.87	8.10	8.78	8.86	8.88	8.91	8.83	8.87
UNBK	7.26	7.12	7.20	6.98	7.14	7.65	7.84	8.03	8.43	8.81	8.75	8.87	8.72	8.70
INBK	7.06	6.98	7.19	7.00	7.16	7.48	8.19	8.17	8.53	8.75	8.78	8.81	8.69	8.77
AUBANK	15.09	14.49	13.89	13.75	14.51	15.06	14.81	14.43	14.40	14.28	13.88	13.64	16.22	16.50
RBK	11.60	11.30	11.26	12.22	12.35	12.21	12.78	13.54	13.87	14.03	14.00	14.12	14.17	13.54
BANDHAN	13.70	12.40	12.60	13.30	12.90	12.00	12.00	12.70	13.30	13.30	13.40	13.80	13.90	13.70
DCBB	10.50	10.66	10.67	11.00	10.65	10.81	10.99	11.67	11.55	11.56	11.44	11.71	11.50	11.39
REPO RATE	4.00	4.00	4.00	4.00	4.90	5.90	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50

Source: MOFSL, Company

Exhibit 11: Average yields for banks and repo rate have a strong correlation of 85%



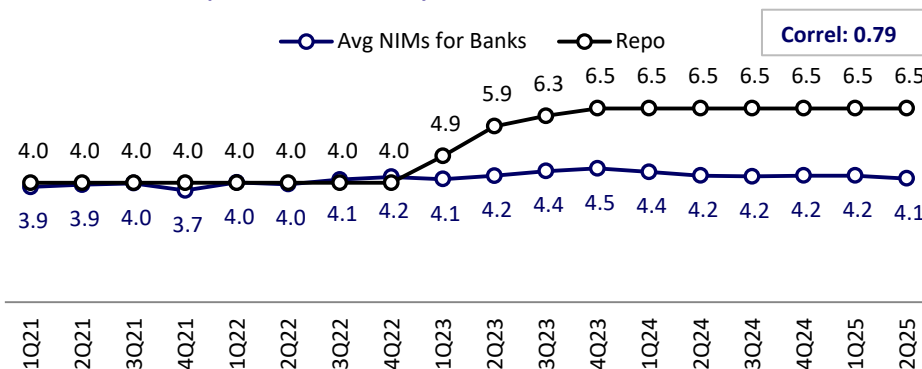
Source: MOFSL, Company

Exhibit 12: NIMs benefitted from repo hikes; however, with funding costs catching up, margins witnessed moderation

NIM (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
AXSB	3.46	3.39	3.53	3.49	3.60	3.96	4.26	4.22	4.10	4.11	4.01	4.06	4.05	3.99
HDFCB	4.10	4.10	4.10	4.00	4.00	4.10	4.10	4.10	4.10	3.40	3.40	3.44	3.47	3.46
ICICIBC	3.89	4.00	3.96	4.00	4.01	4.31	4.65	4.90	4.78	4.53	4.43	4.40	4.36	4.27
IDFCFB	5.50	5.83	6.18	6.27	5.89	5.98	6.36	6.41	6.33	6.32	6.42	6.35	6.22	6.18
IIB	4.06	4.07	4.10	4.20	4.21	4.24	4.27	4.28	4.29	4.29	4.29	4.26	4.25	4.08
KMB	4.60	4.45	4.62	4.78	4.92	5.15	5.47	5.75	5.57	5.22	5.22	5.28	5.02	4.91
FB	3.15	3.20	3.27	3.16	3.22	3.35	3.55	3.36	3.20	3.22	3.19	3.21	3.16	3.12
BoB	3.04	2.85	3.13	3.08	3.02	3.33	3.37	3.53	3.27	3.07	3.10	3.27	3.18	3.10
CBK	2.71	2.77	2.83	2.93	2.78	2.86	3.05	3.07	3.05	3.00	3.03	3.07	2.90	2.86
PNB	2.74	2.39	2.93	2.76	2.79	3.00	3.16	3.24	3.08	3.11	3.15	3.10	3.07	2.92
SBIN	2.92	3.24	3.15	3.12	3.02	3.32	3.50	3.60	3.33	3.29	3.22	3.30	3.22	3.14
UNBK	3.08	2.95	3.00	2.75	3.00	3.15	3.21	2.98	3.13	3.18	3.08	3.09	3.05	2.90
INBK	2.85	2.89	3.03	2.87	3.10	3.20	3.74	3.59	3.61	3.52	3.49	3.52	3.53	3.49
AUBANK	6.00	6.10	6.30	6.30	5.90	6.20	6.20	6.10	5.72	5.50	5.50	5.10	6.00	6.05
RBK	4.36	4.06	4.34	5.04	5.04	5.02	5.27	5.62	5.53	5.54	5.52	5.45	5.67	5.35
BANDHAN	8.50	7.60	7.80	8.70	8.00	7.00	6.50	7.30	7.30	7.20	7.20	7.60	7.60	7.40
DCBB	3.31	3.37	3.61	3.93	3.61	3.88	4.02	4.18	3.83	3.69	3.48	3.62	3.39	3.27
REPO RATE	4.00	4.00	4.00	4.00	4.90	5.90	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50

Source: MOFSL, Company

Exhibit 13: NIMs and repo rate have a healthy correlation of 79%



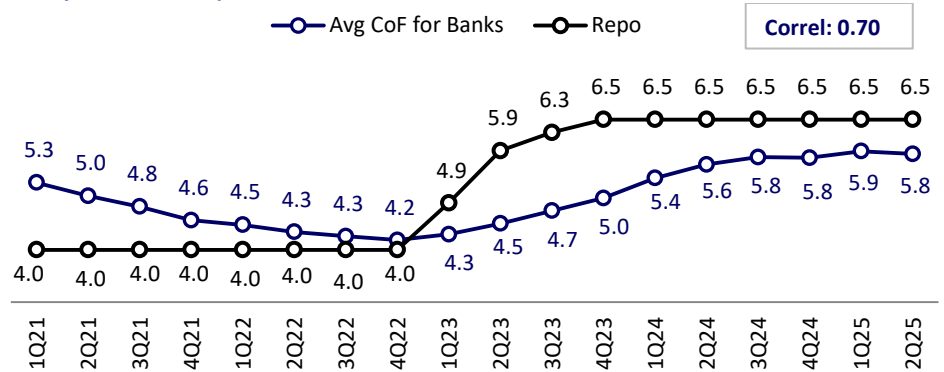
Source: MOFSL, Company

Exhibit 14: Cost of funds mounting across banks

COF (%)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
AXSB	3.97	3.87	3.77	3.83	3.89	4.09	4.34	4.75	5.03	5.17	5.35	5.43	5.44	5.45
HDFCB	3.87	3.75	3.71	3.63	3.10	3.30	3.50	3.70	4.00	4.80	4.90	4.90	4.90	4.90
ICICIBC	3.82	3.71	3.66	3.68	3.67	3.78	3.95	4.29	4.60	4.78	4.96	5.05	5.05	5.09
IDFCFB	5.82	5.49	5.51	5.14	5.62	6.11	6.35	6.28	6.59	6.74	6.92	6.62	6.94	6.75
IIB	4.53	4.37	4.26	4.08	4.14	4.41	4.72	4.92	5.31	5.40	5.46	5.59	5.62	5.61
KMB	3.25	3.28	3.17	3.17	3.26	3.58	3.83	4.11	4.62	5.10	5.24	5.00	5.10	5.15
FB	4.34	4.16	4.15	3.97	4.07	4.48	4.71	5.21	5.42	5.63	5.80	5.97	5.90	5.93
BoB	3.66	3.52	3.56	3.50	3.77	3.93	4.39	4.67	5.04	5.30	5.34	5.22	5.31	5.25
CBK	3.71	3.67	3.60	3.60	3.64	3.75	3.86	4.03	4.76	4.86	4.93	5.00	5.25	5.26
PNB	3.48	3.47	3.42	3.43	3.39	3.40	3.66	3.90	4.19	4.32	4.42	4.52	4.54	4.57
SBIN	3.86	3.83	3.76	3.69	3.84	4.01	4.26	4.48	4.82	5.01	5.31	5.03	5.40	5.31
UNBK	4.16	4.15	4.04	4.04	4.21	4.41	4.64	4.90	5.30	5.40	5.55	5.62	5.63	5.75
INBK	4.08	3.89	3.86	3.80	3.83	4.05	4.26	4.44	4.75	4.97	5.09	5.13	5.12	5.22
AUBANK	6.30	6.10	5.90	5.70	5.70	5.80	5.97	6.29	6.58	6.70	6.90	7.00	7.03	7.04
RBK	5.27	5.10	4.82	4.81	4.87	5.19	5.55	5.85	6.15	6.33	6.45	6.51	6.63	6.57
BANDHAN	5.70	5.30	5.20	5.10	5.30	5.50	5.80	5.80	6.40	6.50	6.60	6.60	7.00	7.00
DCBB	6.34	6.19	6.07	6.04	6.00	5.97	6.05	6.41	6.70	6.85	7.02	7.14	7.19	7.17
REPO RATE	4.00	4.00	4.00	4.00	4.90	5.90	6.25	6.50	6.50	6.50	6.50	6.50	6.50	6.50

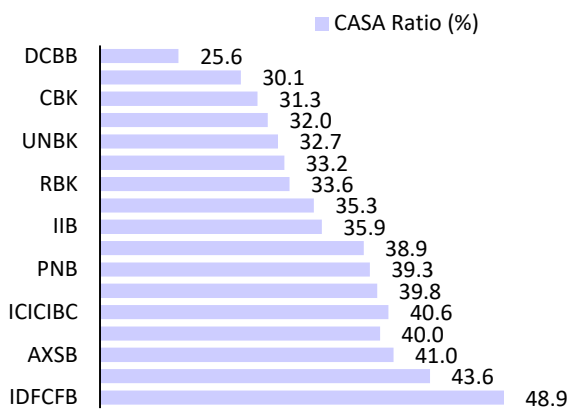
*HDFCB's CoF before 1QFY23 is on calc basis **KMB's CoF before 1QFY25 is on calc basis
Source: MOFSL, Company

Exhibit 15: Average cost of funds and repo rate have a relatively low correlation of 70%, mainly due to stability from CASA deposits



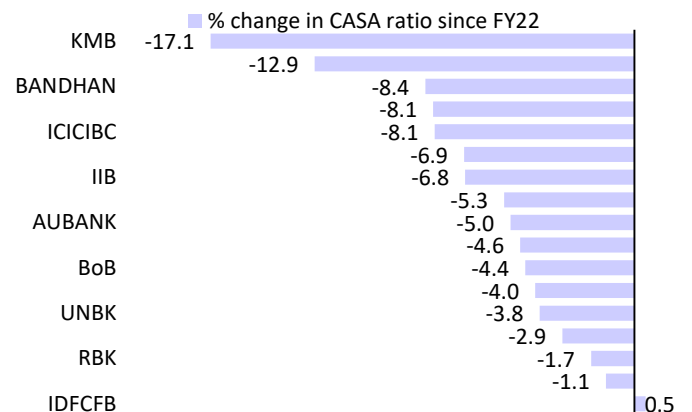
Source: MOFSL, Company

Exhibit 16: CASA ratio continues to moderate for most banks



Source: MOFSL, Company

Exhibit 17: Decline in CASA ratio for banks since FY22



Note: Decline in HDFCB is attributed partly to the merger;
Source: MOFSL, Company

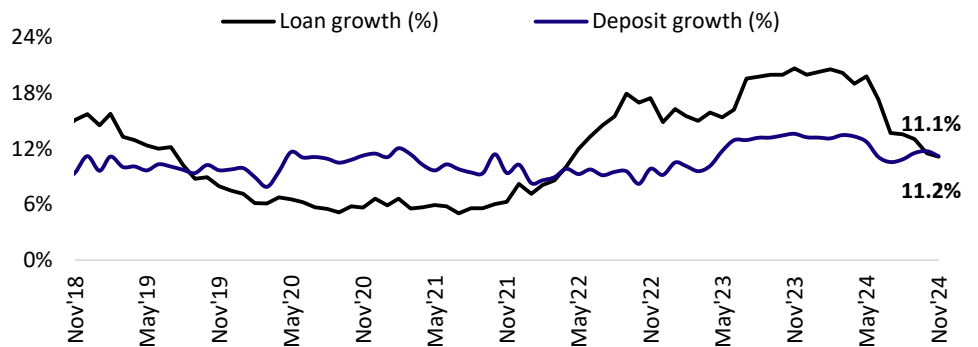
Exhibit 18: Peak term deposit rates across different buckets for major banks

(%)	7-14 days	0-3 months	3-9 months	9-15 months	15-36 months
Large Private Banks					
HDFCB	3.00	4.50	5.75	6.60	7.35
AXSB	3.00	4.50	5.75	6.70	7.25
ICICIBC	3.00	4.50	5.75	6.70	7.25
KMB	2.75	3.50	7.00	7.40	7.40
IIB	3.50	4.75	6.10	7.99	7.25
Mid-size Private Banks					
RBK	3.50	4.50	6.05	7.50	8.10
IDFCFB	3.00	4.50	5.75	7.90	7.90
BANDHAN	3.00	4.50	4.50	8.05	8.00
Federal	3.00	5.50	6.50	7.35	7.40
Small Finance Banks					
AUBANK	3.75	5.50	7.25	7.85	8.00
EQUITASB	3.50	4.50	6.75	8.15	8.25
JANASFB	3.10	5.10	8.10	8.45	8.45
UJJIVAN	3.75	4.25	7.50	8.25	8.00

Source: MOFSL, Company

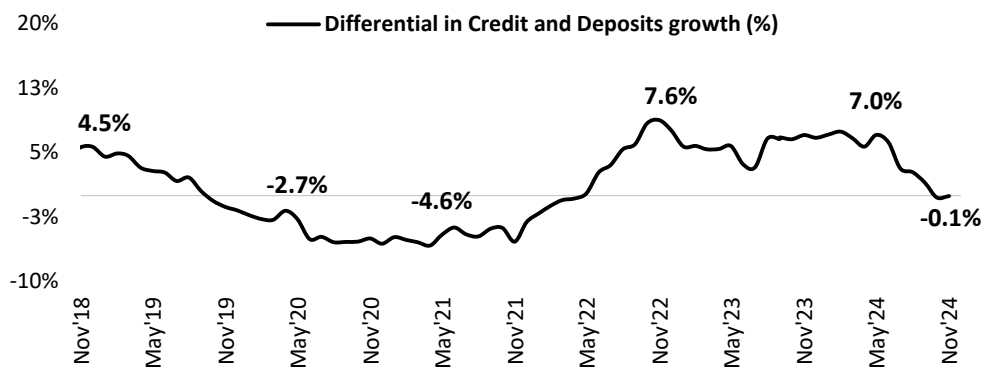
Exhibit 19: Credit growth moderated sharply to 11.1% YoY

Deposit growth of 11.2% broadly on par with credit growth of 11.1%



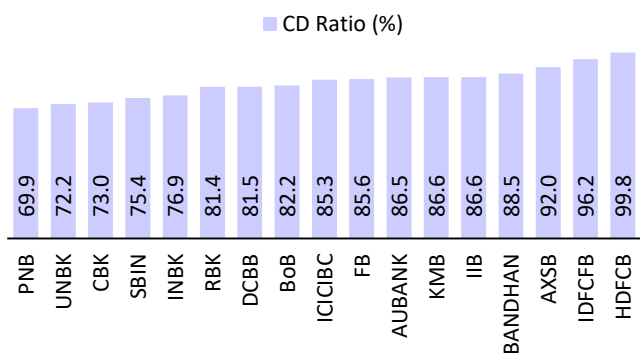
Credit growth adjusted for HDFC merger; Source: MOFSL, RBI

Exhibit 20: Credit & deposit growth differential almost NIL now after a gap of a few years



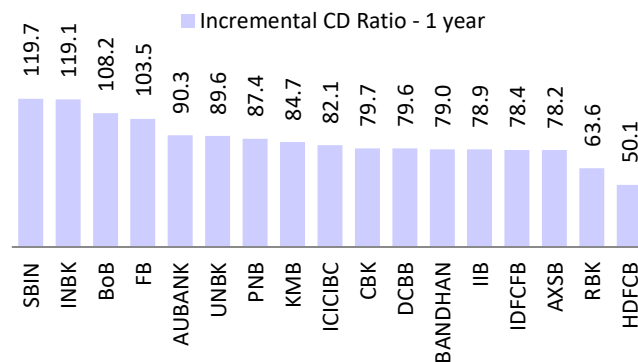
Source: MOFSL, RBI

Exhibit 21: CD ratio remained high for PVBs; PSBs had a lower CD ratio (as of 2QFY25)



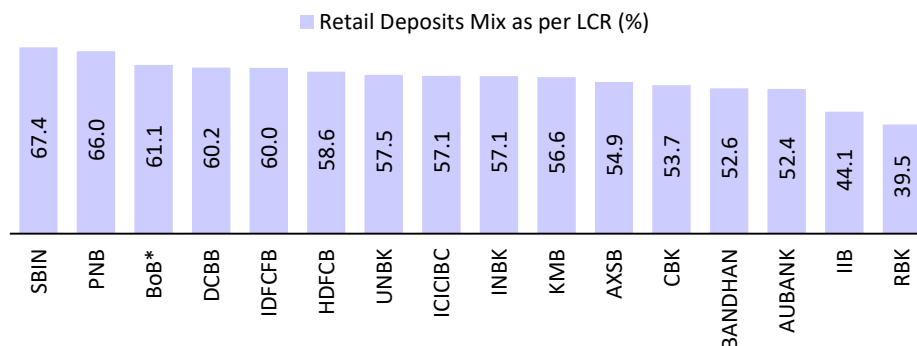
Higher CD ratio for HDFCB amid merger; Source: MOFSL, Company

Exhibit 22: Incremental CD ratio though has been higher for most PSBs



Source: MOFSL, Company

Exhibit 23: Retail deposits across banks as per LCR



*data indicates as on 1QFY25, Source: MOFSL, Company

Valuation and View

- We closely monitor the potential turn in the interest rate cycle and the overall pace of monetary easing, as these factors will significantly impact the underlying margin trajectory. Additionally, progress in deposit mobilization will be critical, as an elevated CD ratio and rising inflation rates will make it challenging for lenders to reduce deposit rates and, consequently, lower their funding costs.
- Banks with a higher proportion of fixed-rate loans and a lower duration of liabilities are expected to report more resilient NIM performance over FY26. However, we remain cautious about the ongoing delinquency cycle in unsecured loans and the associated interest reversals, as high credit costs and an adverse asset mix will exert pressure on banks’ profitability.
- During 2QFY25, we have cut aggregate earnings for Private Banks by 1.1%/0.9% for FY25/26E respectively led by sharper cuts for mid-size banks (IIB, IDFCB, and RBK). We expect Private Bank earnings to grow at 16%/18% YoY over FY26/27E respectively, however we see downside risk to this growth in case of rate cuts.
- PSU Banks: Earnings momentum of PSU Banks remain strong leading us to raise our FY25 projections by 1.5%. However, with RoA profile nearly maturing, we estimate earnings growth to broadly track loan growth at 10-11% cagr over FY25-27E. Headwinds on margins and potential rise in credit cost remains a key risk. **Top picks: ICICI, HDFCB, SBI, FB, and AUBANK.**

Exhibit 24: BFSI – Valuation summary

	Rating	CMP (INR)	Mkt. Cap (INRb)	TP (INR)	Upside (%)	EPS (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
						FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Private Banks															
ICICIBC*	Buy	1,315	9,269	1,500	14	73.3	85.4	2.2	2.2	17.4	17.4	14.4	12.4	2.3	2.0
HDFCB*	Buy	1,860	14,194	2,050	10	100.1	115.6	1.8	1.9	14.6	14.9	15.6	13.5	2.2	1.9
AXSB*	Neutral	1,159	3,586	1,225	6	98.2	115.5	1.7	1.8	15.9	16.0	10.7	9.1	1.6	1.3
BANDHAN	Neutral	178	287	190	7	26.5	29.7	1.9	1.8	16.3	16.1	6.7	6.0	1.0	0.9
KMB*	Neutral	1,757	3,493	1,950	11	81.0	97.3	2.2	2.3	13.6	14.2	14.1	11.7	1.8	1.6
IIB	Buy	999	778	1,500	50	128.2	163.1	1.6	1.8	13.6	15.2	7.8	6.1	1.0	0.9
FB	Buy	215	528	230	7	20.3	24.8	1.3	1.3	14.1	15.1	10.6	8.7	1.4	1.2
DCBB	Buy	129	41	160	24	24.7	31.0	1.0	1.0	13.7	15.1	5.2	4.2	0.7	0.6
IDFCB	Neutral	66	496	73	10	5.7	7.3	1.0	1.1	11.0	12.6	11.7	9.1	1.2	1.1
EQUITASB	Buy	65	74	80	23	7.3	10.3	1.4	1.6	12.8	16.0	8.9	6.3	1.1	0.9
AUBANK	Buy	595	443	830	39	39.3	51.8	1.7	1.8	16.2	18.1	15.1	11.5	2.3	1.9
RBK	Neutral	174	105	170	-2	28.4	42.2	1.0	1.3	10.7	14.6	6.1	4.1	0.6	0.6
PSU Banks															
SBIN*	Buy	859	7,670	1,000	16	85.6	96.9	1.1	1.1	17.4	17.2	7.1	6.3	1.1	1.0
PNB	Neutral	110	1,265	120	9	15.4	17.5	1.0	1.0	14.1	14.3	7.2	6.3	0.9	0.8
BOB	Buy	261	1,349	290	11	39.3	43.5	1.1	1.1	15.7	15.4	6.6	6.0	1.0	0.9
CBK	Buy	109	985	125	15	20.2	22.6	1.1	1.1	18.9	18.7	5.4	4.8	0.9	0.8
UNBK	Buy	128	979	135	5	22.4	24.8	1.1	1.1	15.4	15.1	5.7	5.2	0.8	0.7
INBK	Buy	603	813	670	11	83.7	93.9	1.2	1.3	17.3	17.0	7.2	6.4	1.1	1.0
Payments & Fintech															
Paytm***	Neutral	940	598	700	-25	-10.5	3.1	-3.4	0.9	-5.7	1.7	-89.1	306.7	5.1	5.2
SBICARD	Neutral	715	680	750	5	30.1	37.6	3.8	4.1	18.8	19.7	23.8	19.0	4.1	3.4
Life Insurance															
HDFCLIFE**	Buy	650	1,399	900	38	9.5	10.6	NA	NA	16.3	16.8	68.6	61.5	2.2	1.9
IPRULIFE**	Buy	676	974	900	33	7.9	10.6	NA	NA	19.8	20.3	85.5	64.0	1.6	1.3
SBILIFE**	Buy	1,452	1,454	2,100	45	24.8	27.7	NA	NA	20.0	19.1	58.6	52.5	1.7	1.4
MAXF**	Neutral	1,170	403	1,300	11	16.9	22.8	NA	NA	19.4	19.3	69.1	51.3	1.8	1.5
LICI**	Buy	971	6,141	1,200	24	71.1	76.8	NA	NA	11.2	10.9	13.7	12.6	0.7	0.6
General Insurance															
Star Health	Buy	491	287	630	28	21.3	27.4	NA	NA	15.1	16.6	23.0	17.9	3.2	2.7
ICICI Lombard	Buy	1,951	965	2,400	23	58.2	73.4	NA	NA	19.6	21.2	33.5	26.6	6.2	5.2
Capital Market															
Angel One	Buy	3,032	273	3,600	19	189.7	264.1	NA	NA	24.5	29.0	16.0	11.5	3.7	3.1
Cams Services	Buy	5,183	254	5,500	6	119.5	144.0	NA	NA	49.3	49.9	43.4	36.0	19.7	16.5
360 One Wam	Buy	1,128	437	1,300	15	33.0	37.7	NA	NA	19.5	21.1	34.2	29.9	6.4	6.2
Exchanges															
BSE	Neutral	4,572	619	4,500	-2	104.9	117.8	NA	NA	34.7	34.9	43.6	38.8	15.1	13.5
MCX	Buy	6,311	322	7,600	20	158.5	188.9	NA	NA	51.1	54.7	39.8	33.4	19.4	17.3
Housing Finance															
LIC HF	Buy	638	351	760	19	93.4	102.1	1.6	1.6	13.7	13.5	6.8	6.2	0.9	0.8
PNB HF	Buy	914	237	1,160	27	88.8	108.4	2.5	2.6	12.9	14.0	10.3	8.4	1.3	1.1
Aavas	Neutral	1,661	130	1,800	8	90.2	112.7	3.3	3.4	15.2	16.2	18.4	14.7	2.6	2.2
HomeFirst	Buy	1,200	94	1,320	10	52.8	66.1	3.4	3.4	17.5	18.5	22.7	18.2	3.7	3.1
CanFin	Neutral	844	112	900	7	72.6	83.2	2.2	2.1	17.4	17.0	11.6	10.1	1.9	1.6
Repco	Neutral	486	30	500	3	70.3	78.5	2.8	2.8	12.5	12.4	6.9	6.2	0.8	0.7
Vehicle Finance															
Cholamandalam	Buy	1,293	1,086	1,500	16	70.2	92.1	2.7	2.9	21.7	22.3	18.4	14.0	3.5	2.8
MMFS	Buy	286	353	320	12	24.8	31.1	2.2	2.4	14.0	15.7	11.5	9.2	1.5	1.4
Shriram Finance	Buy	3,130	1,176	3,700	18	264.7	321.6	3.2	3.3	16.8	17.7	11.8	9.7	1.9	1.6
Indostar	Buy	284	39	300	6	16.4	24.8	1.5	1.9	6.7	9.1	17.4	11.5	1.1	1.0
Gold Finance															
Muthoot	Neutral	1,947	781	1,815	-7	151.6	169.0	5.3	5.2	19.8	18.9	12.8	11.5	2.4	2.0
Manappuram	Neutral	170	144	160	-6	27.9	35.2	4.3	4.7	16.3	17.7	6.1	4.8	0.9	0.8

	Rating	CMP (INR)	Mkt. Cap (INRb)	TP (INR)	Upside (%)	EPS (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
						FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Diversified															
BAF	Neutral	6,732	4,167	7,250	8	342.6	439.7	4.0	4.1	19.8	21.2	19.7	15.3	3.6	3.0
Poonawalla	Buy	359	278	420	17	14.6	23.3	3.0	3.5	12.9	17.9	24.6	15.4	3.0	2.5
ABCL	Buy	199	518	250	26	16.5	19.9	0.0	0.0	13.4	14.3	12.1	10.0	1.5	1.3
LTFH	Buy	149	371	180	21	13.9	18.5	2.6	2.8	12.8	15.3	10.7	8.0	1.3	1.2
PIEL	Neutral	1,236	278	1,090	-12	57.4	75.3	1.3	1.5	4.7	5.9	21.6	16.4	1.0	0.9
MAS Financial	Buy	281	51	340	21	22.2	27.2	3.1	3.2	15.0	16.0	12.7	10.3	1.8	1.5
IIFL Finance	Buy	438	186	520	19	50.7	64.4	3.4	3.6	16.1	17.5	8.6	6.8	1.3	1.1
Microfinance															
CreditAccess	Buy	885	141	1,140	29	102.5	128.7	4.9	5.1	19.7	20.3	8.6	6.9	1.6	1.3
Fusion Micro	Neutral	180	18	190	5	46.2	65.8	4.0	4.6	17.1	20.2	3.9	2.7	0.6	0.5
Spandana Sphoorty	Buy	397	28	430	8	69.0	101.5	3.7	4.4	12.8	16.3	5.8	3.9	0.7	0.6
Power Financiers															
PFC	Buy	510	1,683	590	16	55.4	62.2	3.0	2.9	18.8	18.5	9.2	8.2	1.6	1.4
REC	Buy	544	1,432	630	16	69.3	80.1	2.6	2.6	20.9	20.7	7.8	6.8	1.5	1.3
MSME															
Five-Star	Buy	631	185	850	35	43.0	51.2	7.7	7.1	18.3	18.2	14.7	12.3	2.5	2.1

*Adjusted for subsidiaries; **BV represents EV, RoE represents ROEV and P/ABV represents P/EV ***For Paytm, ABV represents Sales per share Source: MOFSL, Company

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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