YES SECURITIES
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SECTOR REPORT | Sector: Banks

Banking Sector Report

A closer look at credit costs and other aspects

We took a closer look at 1HFY24 credit costs and other aspects of all our coverage banks and drew the following key conclusions (1) Banks whose normalized credit cost run rate most exceeds or matches FY24E consensus are IIB, RBL, KMB, HDFCB, DCB and IDFCB (2) Banks whose normalized credit cost run rate most lags FY24E consensus are BOB, INBK, AXSB, SBI, FED and ICICI (3) Banks with the largest proportion of loan book impacted by the new RBI risk weight guidelines are DCB, RBL and IDFCB (4) While NIM may see lesser volatility going forward, there are multiple moving parts to monitor in this regard (5) AXSB and INBK have the most improved liability profile over the past 12 months, achieved without resorting to premium SA rates (6) AXSB and BOB are the largecap banks with the most improved fee income traction over the past 12 months.

Banks whose normalized credit cost run rate most exceeds or matches FY24E consensus are IIB, RBL, KMB, HDFCB, DCB and IDFCB

Notably, these are the banks that are either (1) *already* in our least preferred list (RBL, KMB, IDFCB and DCB, in descending order) or (2) was in our least preferred list till recently (HDFCB) or (3) has been in the middle of our pecking order (IIB). We believe that normalized credit cost in 1HFY24 gives us a good directional sense of credit cost for full year FY24E because we do not think credit cost should likely decline in 2HFY24 in an environment where interest rates are elevated and will remain so for some time.

Banks whose normalized credit cost run rate most lags FY24E consensus are BOB, INBK, AXSB, SBI, FED and ICICI

Again, notably, these are the banks that are *already* in our most preferred list (BOB, AXSB, SBI, INBK, ICICI and FED, in descending order). We believe that comparing normalized credit cost in 1HFY24 to Bloomberg consensus is key to understanding how banks are delivering compared with what is priced in.

Banks with the largest proportion of loan book impacted by the new RBI risk weight guidelines are DCB, RBL and IDFCB

The proportion of loan book impacted for DCB, RBL and IDFCB are 31.6%, 29.7% and 26.5%, respectively. This is assuming LAP book is also impacted. Our coverage banks would see an erosion of CET1 ratio ranging between 42-135 bps due to the new risk weight guidelines. The risk weight guidelines, as such, do not necessitate common equity capital raise by our coverage banks. The guidelines are more a pronouncement on what segments the RBI feels the banking sector should slow down in.

While NIM may see lesser volatility going forward, there are multiple moving parts to monitor in this regard

Tactically, BOB, INBK and SBI have a larger share of non-EBLR floating rate loans at 63%, 59% and 42%, respectively, which implies some residual potential of yield rise from upward MCLR book repricing. Structurally, over FY18-23, IDFCB, RBL, AXSB and ICICI have seen the greatest decline in share of low-yield loans, amounting to 17.4%, 11.1%, 10.9% and 8.2% points, respectively. We do not regard the loan book mix of IDFCB and RBL to be optimal and hence, the evolution of AXSB and ICICI is most admirable in this regard. Loan mix change trends in 1HFY24 have been directionally similar.

AXSB and INBK have the most improved liability profile over the past 12 months, achieved without resorting to premium SA rates

IDFCB, INBK and AXSB have seen the greatest improvement in share of LCR retail deposits over 12 months, amounting to 858, 652 and 529 bps, respectively. IDFCB, however, has depended on premium SA rates to achieve this. KMB, IDFCB and AXSB have CASA ratios of 48.3%, 46.4% and 44.4% but, again, KMB and IDFCB have achieved the same using premium SA rates.

AXSB and BOB are the largecap banks with the most improved fee income traction over the past 12 months

The fee income to assets for AXSB and BOB has risen 21bps and 7 bps, respectively, over 12 months. The rise has also been healthy for IDFCB, CSB and RBL at 31 bps, 29 bps and 21 bps, respectively. However, IDFCB and RBL are achieving this basis a sub-optimal dependence on small-ticket unsecured lending.

Recommendation table

Company	Rating	TP
BOB	BUY	290
AXSB	BUY	1400
SBIN	BUY	760
INBK	BUY	540
ICICI	BUY	1225
FED	BUY	195
HDFCB	BUY	1925
CSB	BUY	490
IIB	BUY	1800
RBK	ADD	285
KMB	ADD	2065
IDFCFB	ADD	100
CUB	ADD	165
DCB	ADD	125

N.B. In order of investment preference

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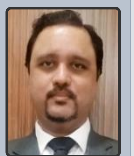

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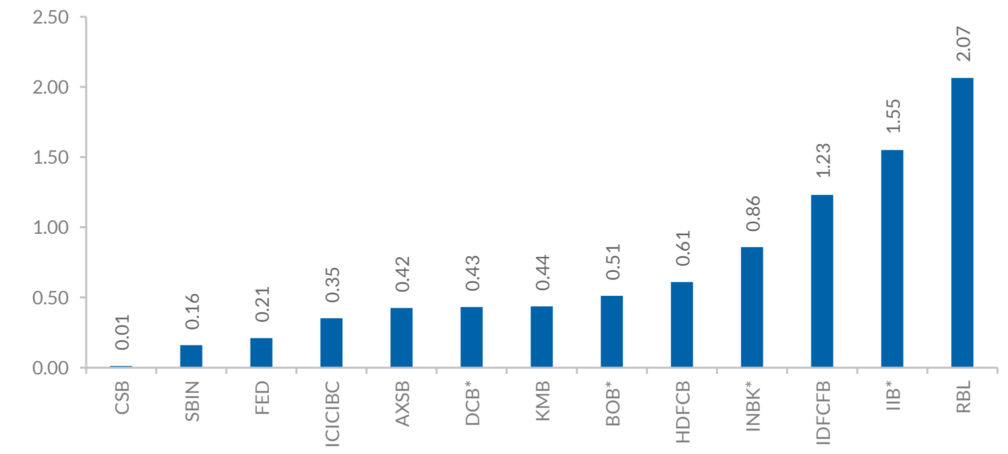
Asset Quality Aspects

Banks whose normalized credit cost run rate most exceeds or matches FY24E consensus are IIB, RBL, KMB, HDFCB, DCB and IDFCB

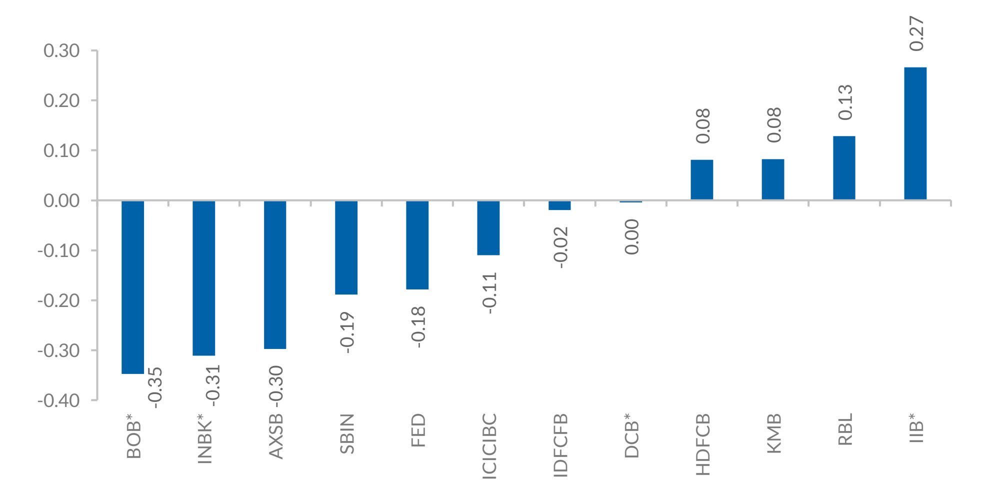
We look at reported credit cost in 1HFY24 and normalize the same by (1) reducing non-mandatory discretionary provisions (2) adding back contingent provision buffers that may have been utilised. We note that banks whose normalized credit cost run rate most exceeds or matches FY24E consensus are IIB, RBL, KMB, HDFCB, DCB and IDFCB, in descending order. Notably, these are the banks that are either (1) *already* in our least preferred list (RBL, KMB, IDFCB and DCB, in descending order) or (2) was in our least preferred list till recently (HDFCB) or (3) has been in the middle of our pecking order (IIB). We believe that normalized credit cost in 1HFY24 gives us a good directional sense of credit cost for full year FY24E because we do not think credit cost should likely decline in 2HFY24 in an environment where interest rates are elevated and will remain so for some time. Hence, its comparison to full year FY24E Bloomberg consensus makes eminent sense.

Exhibit 1: Annualised Actual Normalised Credit Cost – Absolute level – 1HFY24 - %



Source: Companies, YES Sec, *Normalised annualised credit cost (normalised for excess provisions or buffer writebacks)

Exhibit 2: Annualised Credit Cost – Difference between Actual Normalised Credit Cost and Bloomberg Consensus - FY24E - %



Source: Companies, YES Sec

Banks whose normalized credit cost run rate most lags FY24E consensus are BOB, INBK, AXSB, SBI, FED and ICICI

We note that banks whose normalized credit cost run rate most lags FY24E consensus are BOB, INBK, AXSB, SBI, FED and ICICI, in descending order. Again, notably, these are the banks that are *already* in our most preferred list (BOB, AXSB, SBI, INBK, ICICI and FED, in descending order). We believe that comparing normalized credit cost in 1HFY24 to Bloomberg consensus is key to understanding how banks are behaving compared with what is priced in. Given that credit cost is usually the most needle-moving part of a bank's RoA, the observed vs consensus differential is key to forming stock views.

Exhibit 3: Normalised Credit Cost Calculations

Bank of Baroda

Rs mn	Value
1HFY24 Actual Provisions	41,073
Excess Discretionary Provisions Made	16,200
Adjusted Provisions	24,873
Normalised Credit Cost (%)^	**0.51**

DCB

Rs mn	Value
1HFY24 Actual Provisions	774
Floating Provisions Made	90
Contingency provision on Restructured and Stressed Accounts written-back	-90
Excess Discretionary Provisions Made	0
Adjusted Provisions	774
Normalised Credit Cost (%)^	**0.43**

Indian Bank

Rs mn	Value
1HFY24 Actual Provisions	32,913
Incremental Advances, 1HFY24	187,020
Std Adv. Required provisions	842
Excess Discretionary Provisions Made	13,178
Adjusted Provisions	19,734
Normalised Credit Cost (%)^	**0.86**

RBL Bank

Rs mn	Value
1HFY24 Actual Provisions	9,065
RBL Adjusted Provision	-3,000
Adjusted Provisions	6,065
RBL Adjusted Credit Cost (%)^	**2.07**

City Union Bank

Rs mn	Value
1HFY24 Actual Provisions	2,080
Excess NPA Provision Made	2,400
1HFY24 Actual Provisions (Ex-Excess NPA Provisions)	-320
Non-recurring provisions written-back	-547
Adjusted Provisions	227
Normalised Credit Cost (%)^	**0.67**

Indusind Bank

Rs mn	Value
1HFY24 Actual Provisions	19,654
Discretionary Provisions written-back	-3,800
Adjusted Provisions	23,454
Normalised Credit Cost (%)^	**1.55**

Source: Companies, Yes Sec; ^Annualised

RBI's measures towards bank consumer credit and bank credit to NBFCs

The 2 key segments within "consumer credit" that would see risk weight rise, in our view, would be LAP and unsecured personal loans

Measures: (1) The risk weight of specified consumer credit exposure of commercial banks stands increased from 100% to 125%. (2) The risk weight of credit card receivables exposure of commercial banks stands increased from 125% to 150%.

Our take: *Based on our understanding of the RBI definition for consumer credit, we note that (1) LAP (Loan Against Property) and (2) unsecured personal loans are 2 major loan segments whose risk weights stand increased by 25% points.*

The RBI seems to earmark the credit card segment for special attention, assigning the highest risk weight of 150%.

Relatively minor segments (in terms of total loan book proportion) whose risk weights also stand increased by 25% points are loan against deposits and loan against shares.

Retail loan segments that are unimpacted are housing loans, auto loans, education loans, gold loans and KCC loans.

Furthermore, as per our understanding, loans explicitly classified as MSME loans would be unimpacted even if they satisfy the RBI definition of retail loans i.e. have ticket size less than Rs 50mn. Also, microfinance loans would be largely unimpacted since most of these loans are disbursed for business purposes. However, any microfinance loan made for consumption purposes would, in our understanding, be impacted.

The aforementioned rise in risk weights for specified loan segments will (1) lead to greater capital requirement for banks depending on the quantum of the said exposures and (2) cause banks to re-assess their growth patterns in the specified loan segments with a potential to pull back growth in these segments, likely on a moderate basis.

The majority of the loans to NBFCs would see a risk weight rise

Measure: The risk weight of exposure of commercial banks to NBFCs (excluding CICs) stands increased by 25% points in all cases where extant risk weight as per external rating of NBFCs is less than 100%.

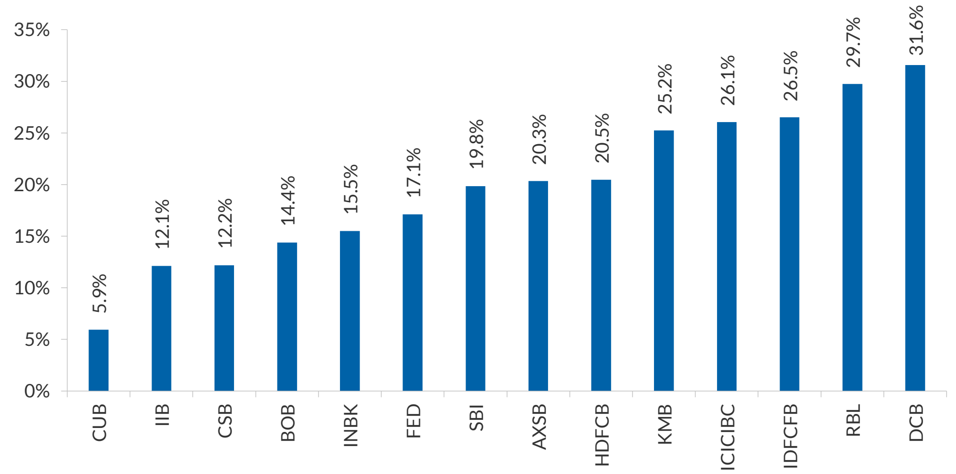
Our take: *We note that banks have often specified that their loans to NBFCs are usually high-rated, typically A and above. We, further, note that loans to corporates rated A and above are assigned a risk weight less than 100%. Hence, the lion's share of bank loans to NBFCs is likely to undergo a rise in risk weight of 25% points.*

Measures: (1) Banks shall review sectoral exposure limits for consumer credit and put in place, if not already there, Board-approved limits. In particular, limits shall be prescribed for unsecured consumer credit. (2) Top-up loans for loans against depreciating assets, such as vehicles, shall be treated as unsecured loans.

Our take: *Banks with high exposure to unsecured consumer credit as a proportion of overall balance sheet, e.g. RBL, may have to re-assess their approach. We had already downgraded RBL in our recent 2QFY24 result report.*

Banks with the largest proportion of loan book impacted by the guidelines are DCB, RBL and IDFCB

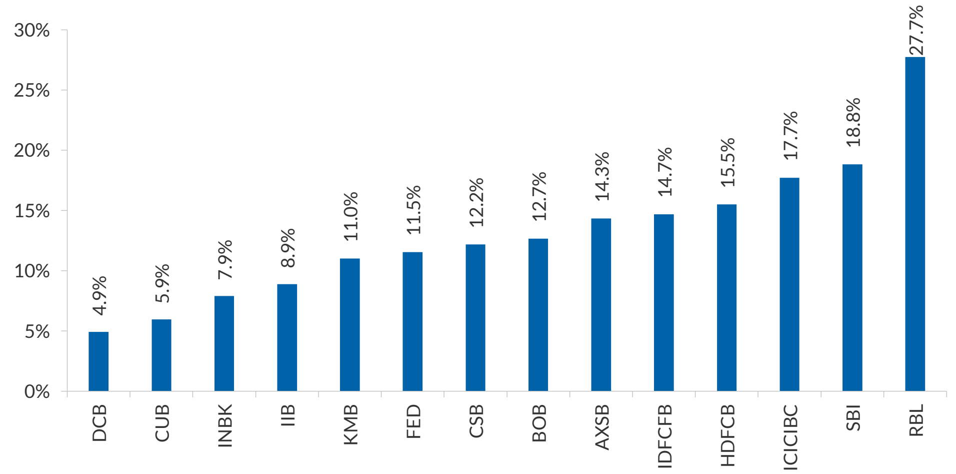
Exhibit 4: Bank-wise share of segments to undergo risk weight rise (incl. LAP) - %



Source: Companies, YES Sec, * Considered 1% of total loan book as LAS, LAD and CD exposure

Based on our conversations with banks, it is not entirely clear whether LAP is impacted and hence, we carry out an analysis excluding LAP as well.

Exhibit 5: Bank-wise share of segments to undergo risk weight rise (excl. LAP) - %

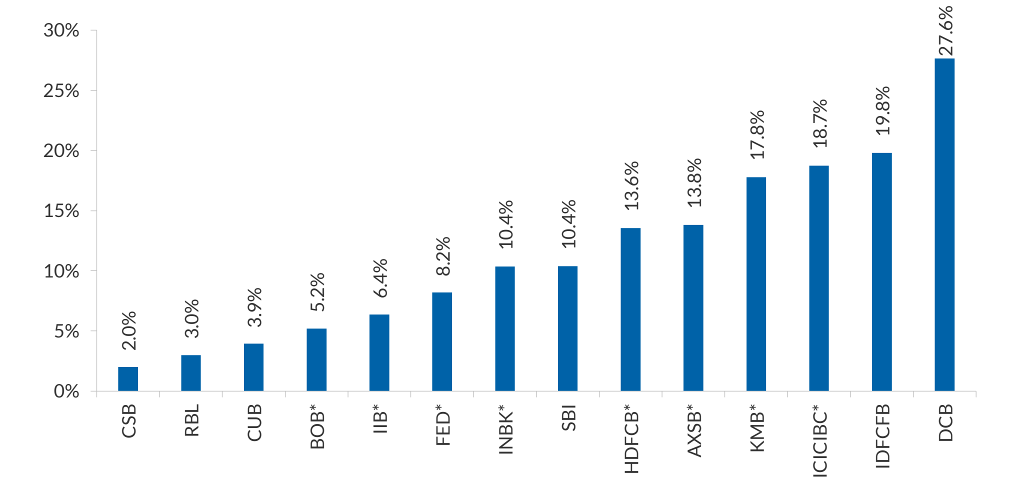


Source: Companies, YES Sec, * Considered 1% of total loan book as LAS, LAD and CD exposure

Banks with the largest proportion of consumer credit book impacted by the guidelines are DCB and IDFCB

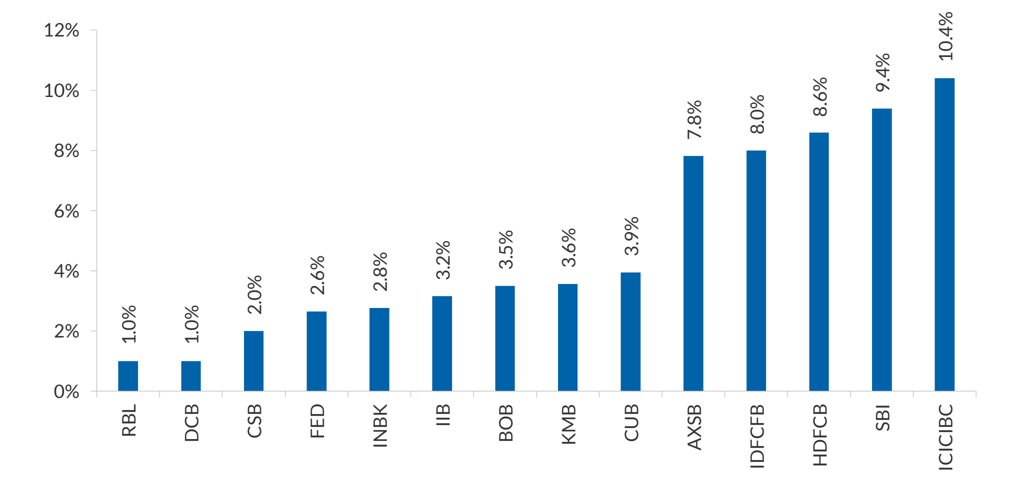
The key consumer credit segments impacted are LAP and unsecured personal loans and disclosures for these segments are generally unambiguously available.

Exhibit 6: Bank-wise share of consumer credit (including LAP) - %



Source: Companies, YES Sec, * Considered 1% of total loan book as LAS, LAD and CD exposure

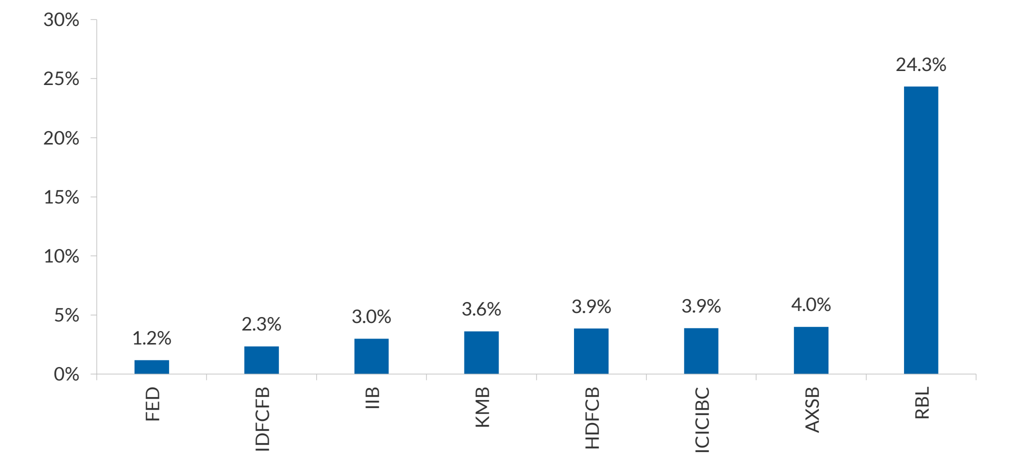
Exhibit 7: Bank-wise share of consumer credit (excluding LAP) - %



Source: Companies, YES Sec, * Considered 1% of loan book for LAS, LAD and CD exposure

The bank with the largest proportion of credit cards book impacted by the guidelines is RBL

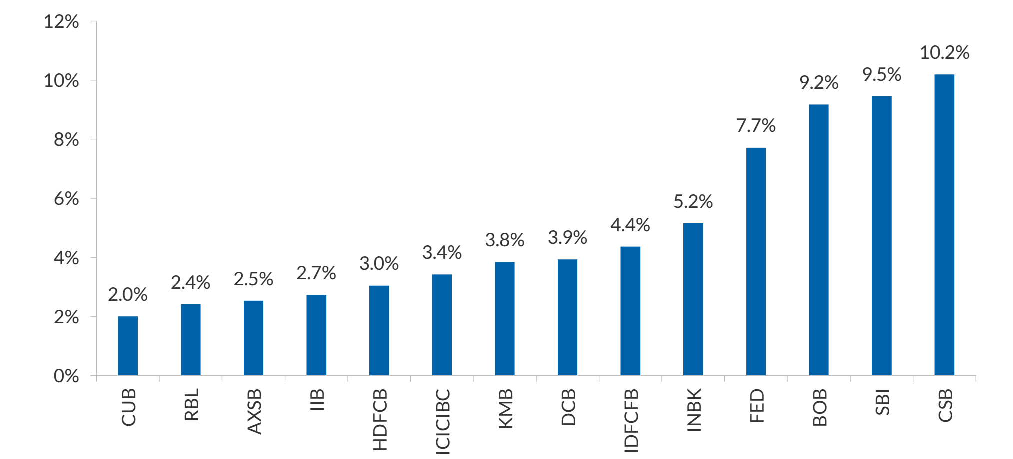
Exhibit 8: Bank-wise share of credit cards - %



Source: Companies, YES Sec

The banks with the largest proportion of NBFC book impacted by the guidelines are CSB, SBI and BOB

Exhibit 9: Bank-wise share of loans to NBFCs impacted by the guidelines- %

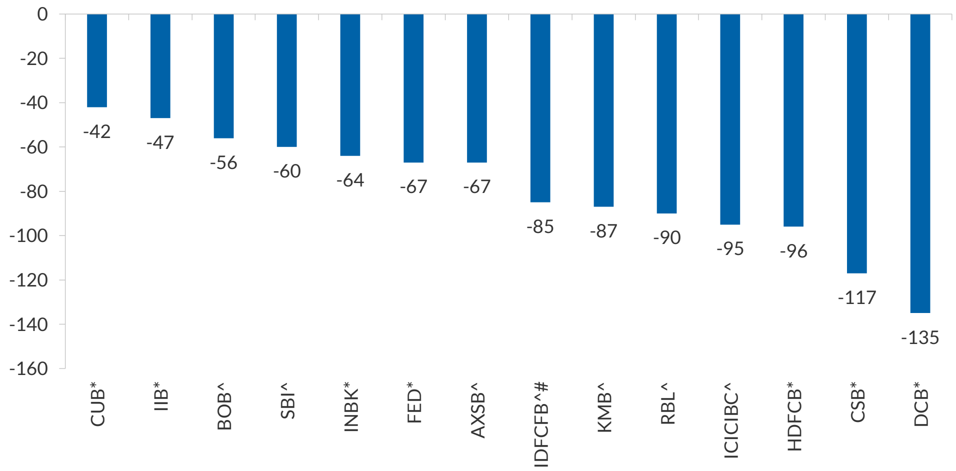


Source: Companies, YES Sec

Loans to HFCs and loans already at 100% risk weight (BBB and below) have been excluded by assuming that they are 25% of NBFC book.

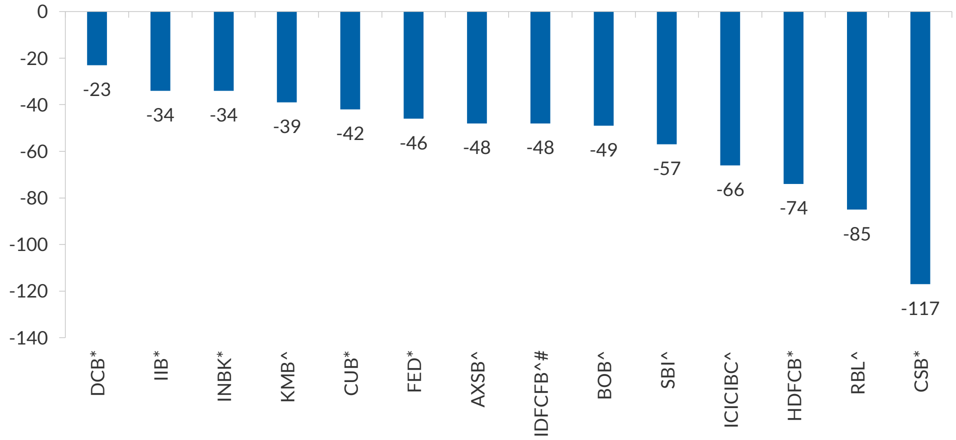
Our coverage banks would see an erosion of CET1 ratio ranging between 42-135 bps due to the new risk weight guidelines

Exhibit 10: Decline in CET1 due to change in RWA (including LAP component) - bps



Source: Companies, YES Sec, *Calculated CET1 with 1HFY24 Profit, ^Reported CET1 with 1HFY24 Profit, #Including capital raised in Oct'23

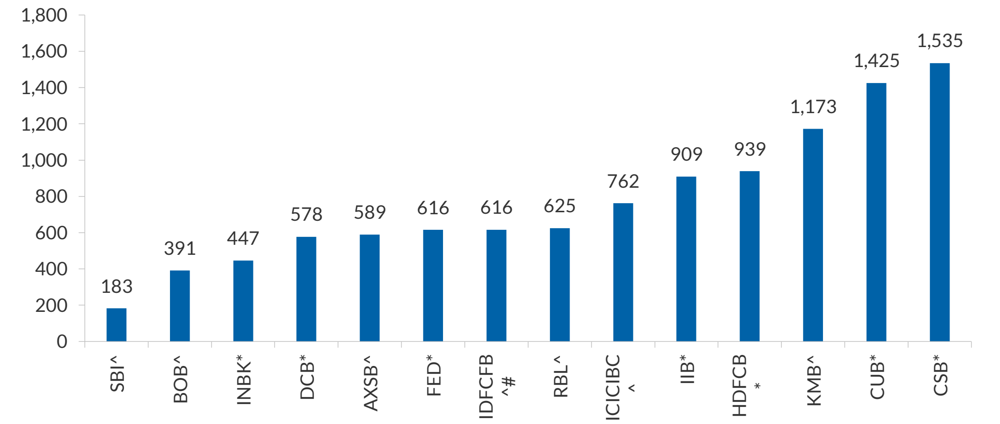
Exhibit 11: Decline in CET1 due to change in RWA (excluding LAP component) - bps



Source: Companies, YES Sec, *Calculated CET1 with 1HFY24 Profit, ^Reported CET1 with 1HFY24 Profit, #Including capital raised in Oct'23

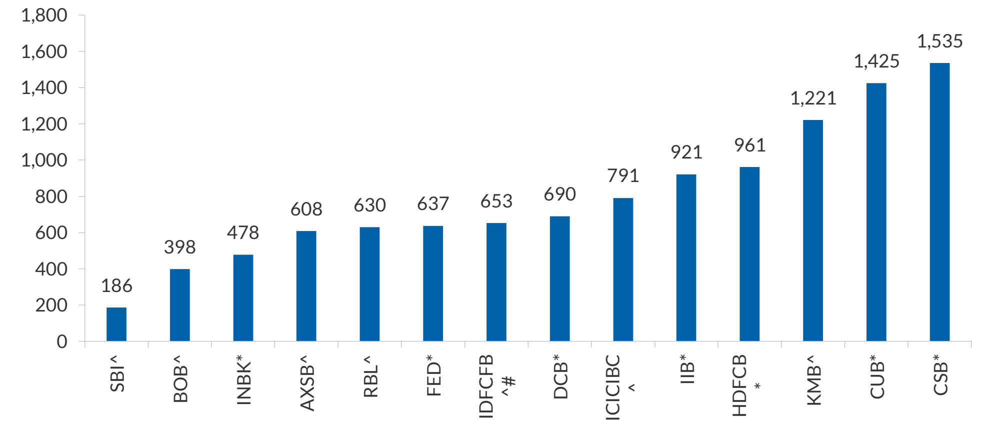
Even after erosion of CET1 capital ratio, banks would be well above minimum regulatory requirement

Exhibit 12: Excess of revised CET1 (including LAP component impact) over minimum regulatory requirement - bps



Source: Companies, YES Sec, *Calculated CET1 with 1HFY24 Profit, ^Reported CET1 with 1HFY24 Profit, #Including capital raised in Oct'23

Exhibit 13: Excess of revised CET1 (excluding LAP component impact) over minimum regulatory requirement - bps



Source: Companies, YES Sec, *Calculated CET1 with 1HFY24 Profit, ^Reported CET1 with 1HFY24 Profit, #Including capital raised in Oct'23

The risk weight guidelines, as such, do not necessitate common equity tier 1 capital raise by our coverage banks

SBI's CET1 ratio is comparatively the lowest but even SBI should likely escape the need to raise common equity capital

We do note, however, that SBI's CET1 ratio would stand revised 60 bps lower to 10.43%, which is close to the 10% mark, a threshold where private sector banks are normally seen to not allow CET1 to fall below. However, it may not be appropriate to equate SBI with private sector banks in this regard. Furthermore, SBI is still, organically accreting capital ratio and the likelihood of the guidelines necessitating common equity capital raise remain low. AXSB has clarified that the new risk weight guidelines will not necessitate a common equity capital raise (see Analyst Day report).

More than the point-in-time impact on capital ratio, the risk weight guidelines are a pronouncement on what segments the RBI feels the banking sector should slow down on.

Additional Asset Quality Aspects

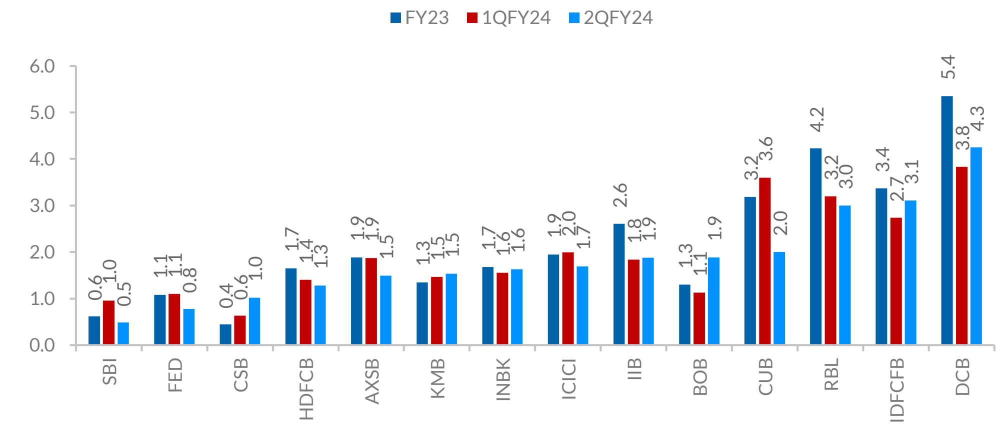
Recent gross slippage trends for DCB, IDFCB, RBL, CUB and IIB are still not satisfactory

The gross slippage ratio of DCB, IDFCB, RBL, CUB and IIB in 2Q are 4.3%, 3.1%, 3.0%, 2.0% and 1.9%, respectively, which are on the higher side.

BOB's gross slippage ratio was somewhat elevated due to Go First, which we do not regard as indicative of an underlying trend

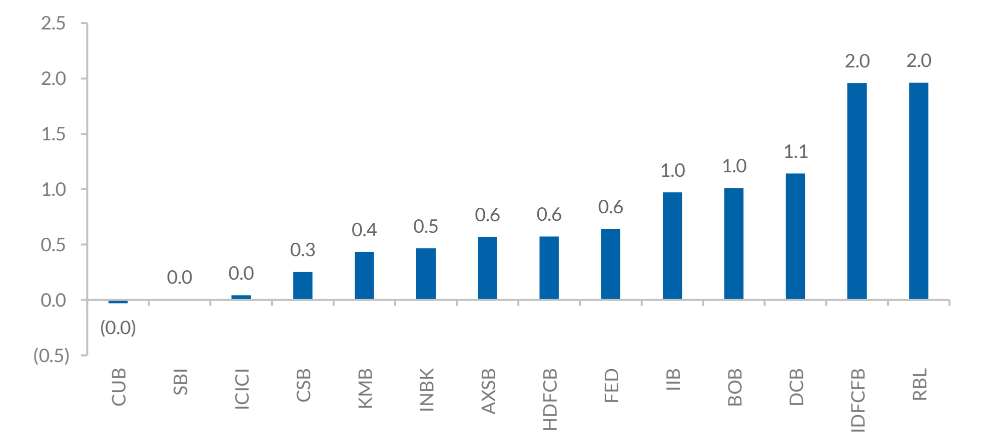
While BOB's gross slippage ratio was 1.9%, it was elevated due to the Go First slippage, which we do not regard as indicative of anything structural. Excluding Go First, gross slippage ratio was closer to the 1% mark.

Exhibit 14: Annualised Gross Slippage Ratio* – Absolute level – FY23, 1QFY24 and 2QFY24 - %



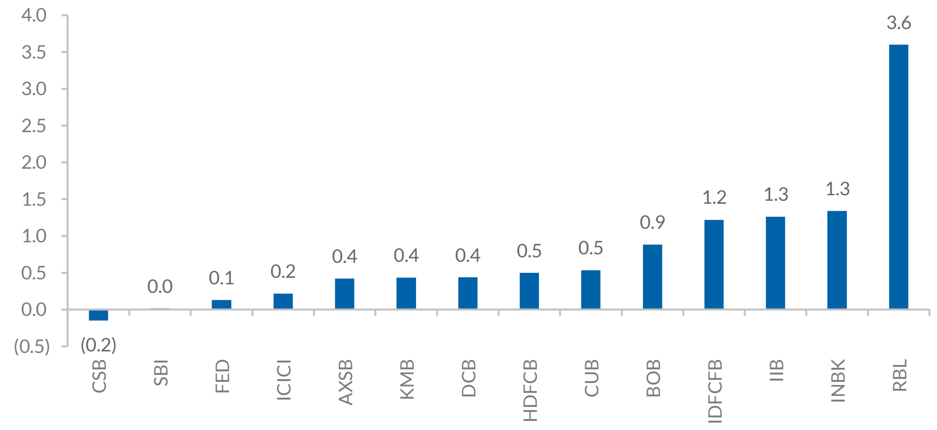
Source: Companies, YES Sec, *Annualised Gross NPA Addition Ratio

Exhibit 15: Annualised Net Slippage Ratio – Absolute level - 2QFY24 - %



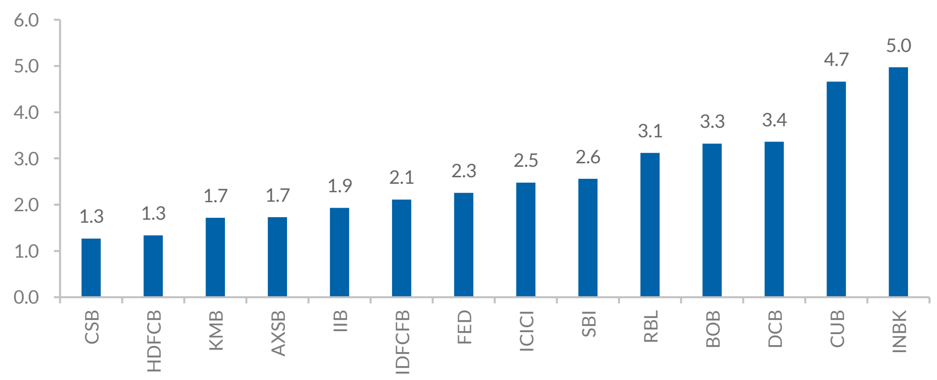
Source: Companies, YES Sec

Exhibit 16: Annualised Credit Cost – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

Exhibit 17: Gross NPA – Absolute level - 2QFY24 - %

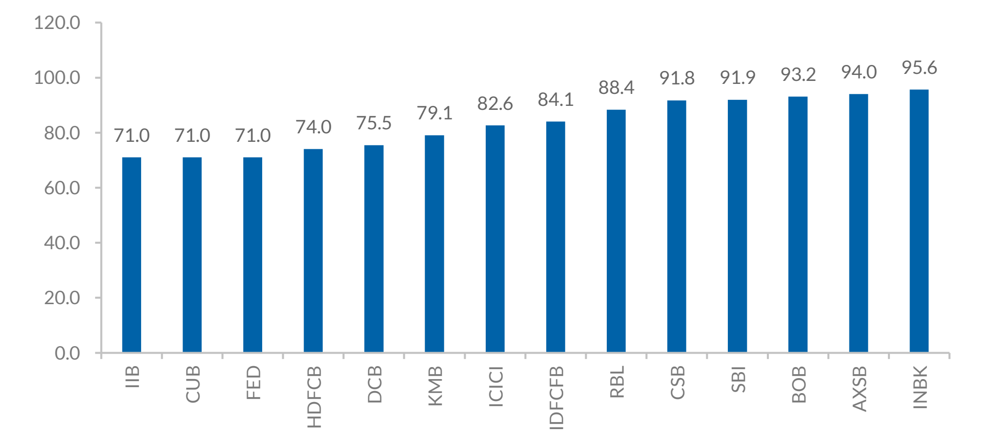


Source: Companies, YES Sec

INBK, AXSB, BOB and SBI are the best-provisioned banks from a PCR standpoint

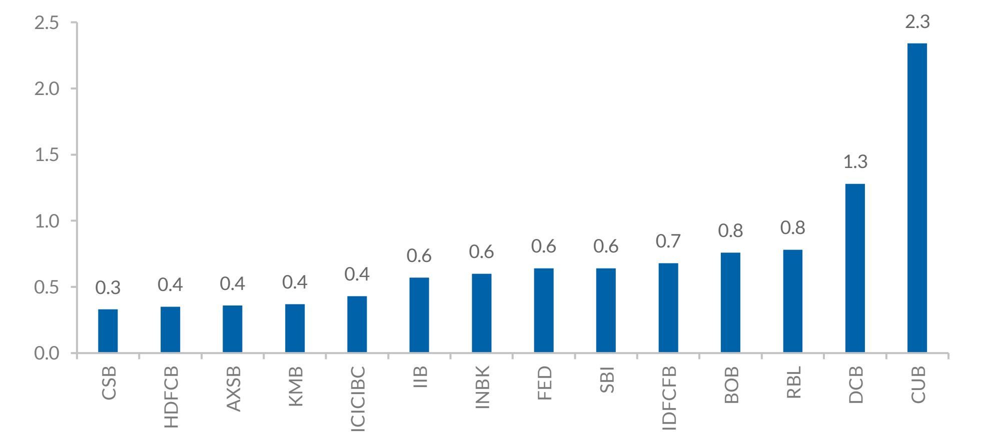
The PCR of INBK, AXSB, BOB and SBI is 95.6%, 94.0%, 93.2% and 91.9%, respectively and indicative of healthy specific provision coverage.

Exhibit 18: Provision Coverage Ratio – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

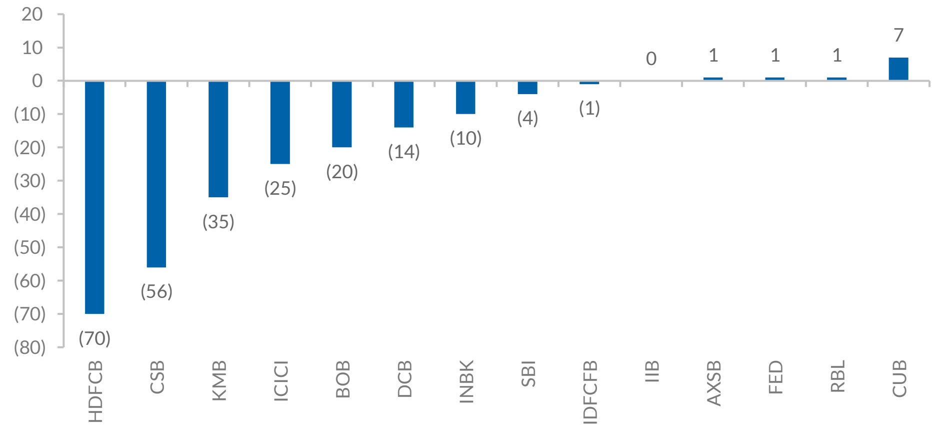
Exhibit 19: Net NPA – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

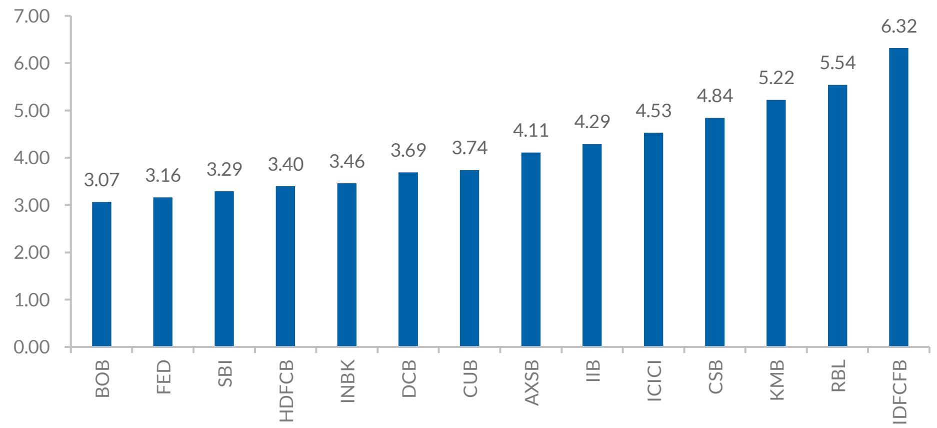
Margin Aspects

Exhibit 20: Sequential change in NIM – 2QFY24 over 1QFY24 - bps



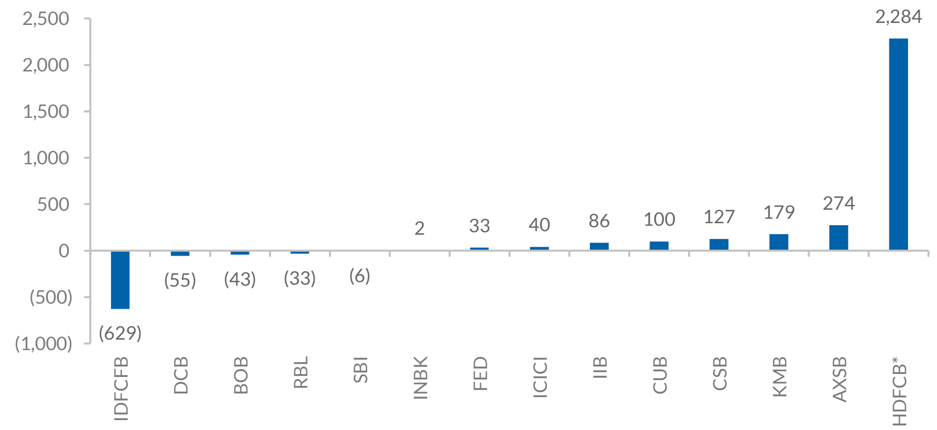
Source: Companies, YES Sec

Exhibit 21: Net Interest Margin – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

Exhibit 22: Sequential change in Loan to Deposit ratio – 2QFY24 over 1QFY24 - bps

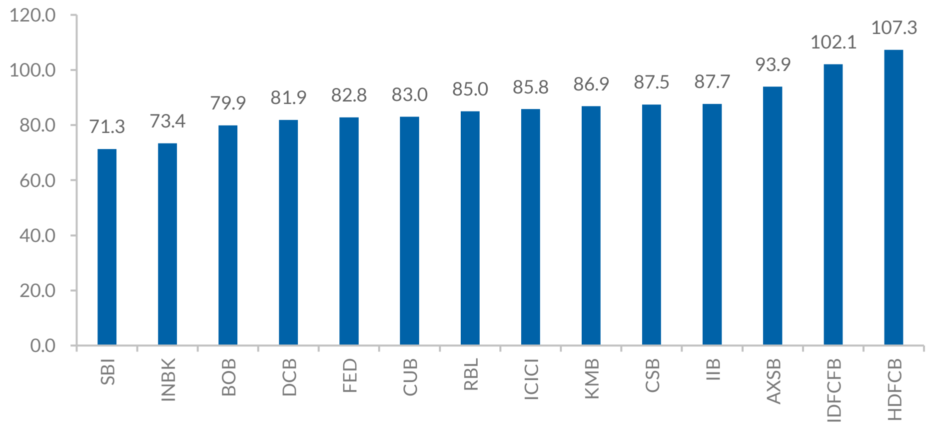


Source: Companies, YES Sec, * Numbers for HDFCB has changed materially due to merger

Post the merger, HDFCB is now at a high loan to deposit ratio (LDR), while IDFCB was already at a high LDR

The LDR for HDFCB and IDFCB is 107.3% and 102.1%, respectively, which is the highest in our coverage universe.

Exhibit 23: Loan to Deposit ratio – Absolute level - 2QFY24 - %

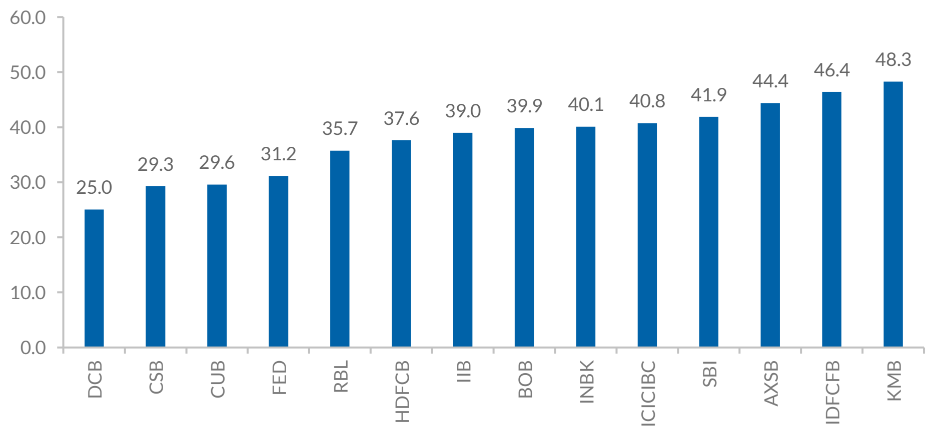


Source: Companies, YES Sec

It is particularly commendable that AXSB has achieved a healthy CASA ratio without offering premium SA rates

KMB, IDFCB and AXSB have CASA ratios of 48.3%, 46.4% and 44.4% but KMB and IDFCB have achieved the same using premium SA rates.

Exhibit 24: CASA ratio – Absolute level - 2QFY24 - %

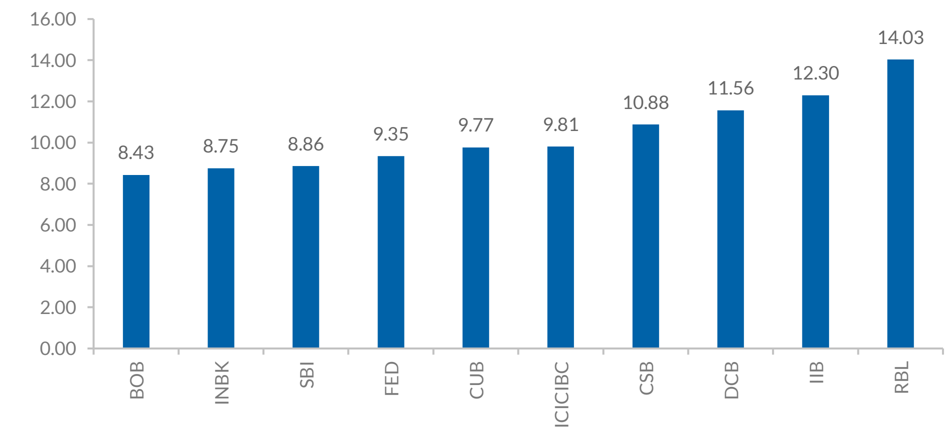


Source: Companies, YES Sec

We regard high yield on advances for RBL, IIB and DCB as reflective of a largely cyclical and sub-optimal business model

The yield on advances for RBL, IIB and DCB was 14.03%, 12.30% and 11.56%, respectively and the highest in our coverage universe.

Exhibit 25: Yield on Advances – Absolute level - 2QFY24 - %

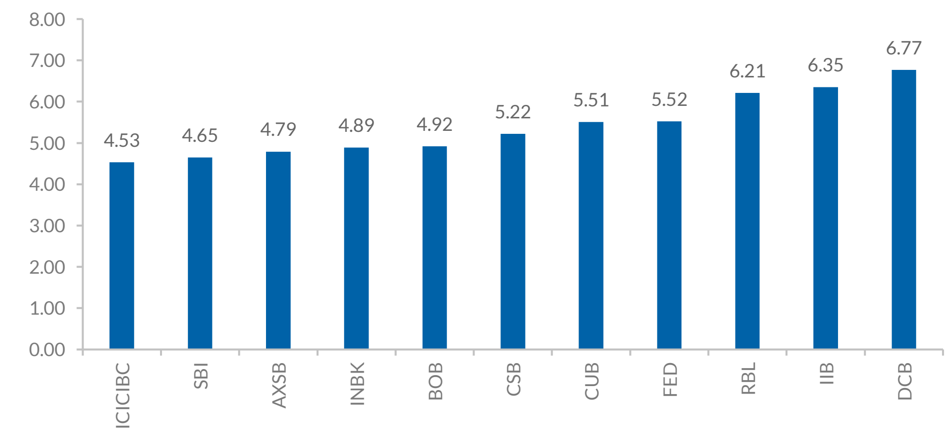


Source: Companies, YES Sec

AXSB has the third best cost of deposits behind ICICI and SBI and will try to bridge the gap

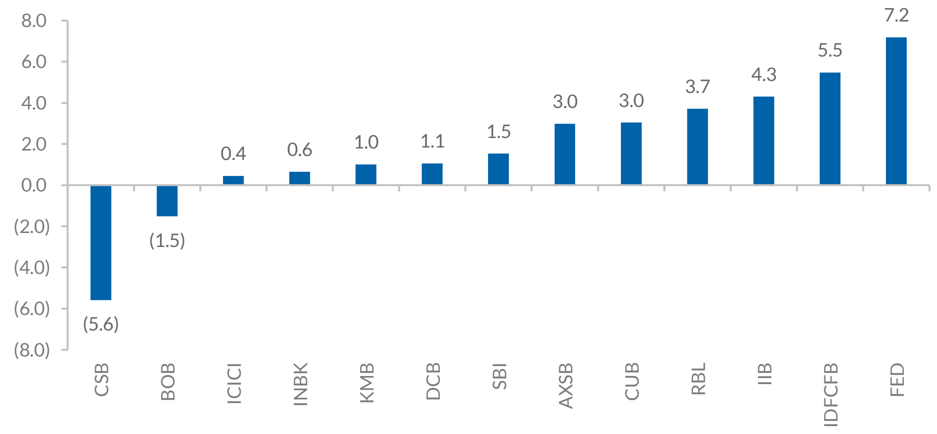
ICICI, SBI and AXSB have the lowest cost of deposits at 4.53%, 4.65% and 4.79%, respectively, in our coverage universe.

Exhibit 26: Cost of Deposits – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

Exhibit 27: Sequential Net Interest Income Growth – 2QFY24 over 1QFY24 - %



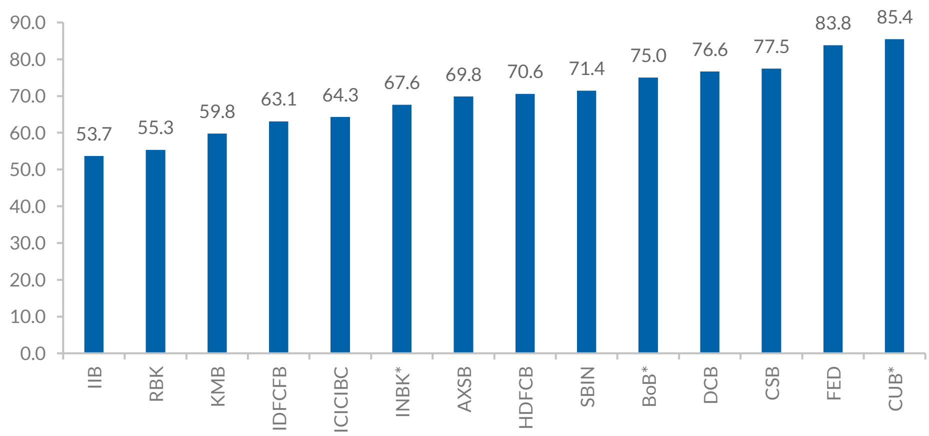
Source: Companies, YES Sec

Granularity of Deposits

CUB and FED have the highest share of LCR retail deposits in our coverage universe

CUB and FED have the highest share of LCR retail deposits at 85.4% and 83.8%, respectively. However, CUB's high share is really the result of not growing the loan book and hence, not needing to raise wholesale deposits. On the other hand, FED has normalised its business model, reducing its excessive dependence on retail deposits in pursuit of growth.

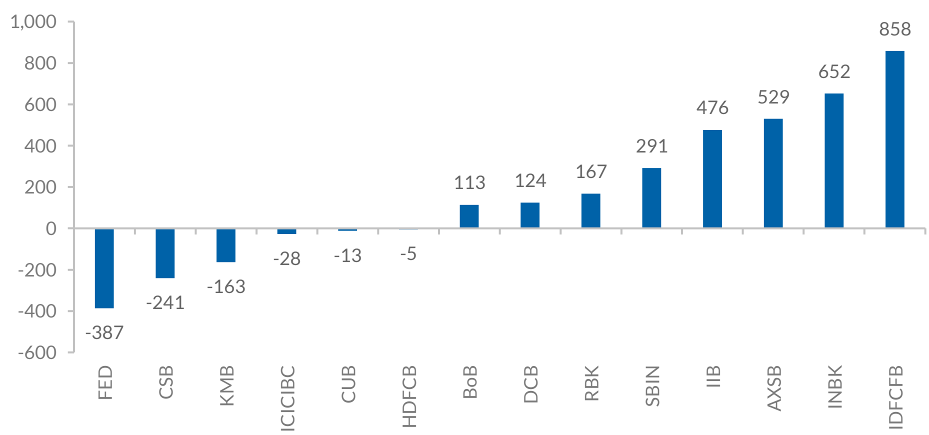
Exhibit 28: Share of LCR Retail Deposits– 2QFY24 - %



Source: Companies, YES Sec – Research, *For 1QFY24

INBK and AXSB have seen the greatest improvement in share of LCR retail deposits over 12 months without depending on premium SA rates

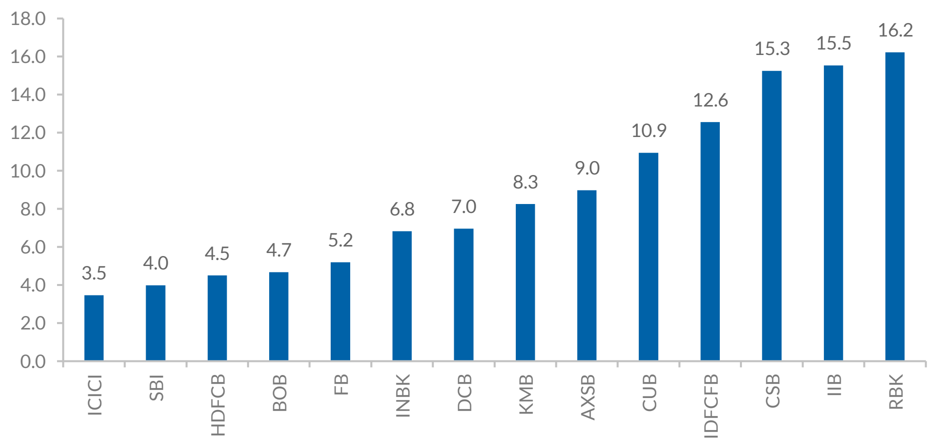
Exhibit 29: Change in Share of LCR Retail Deposits – 2QFY23 to 2QFY24 - bps



Source: Companies, YES Sec - Research

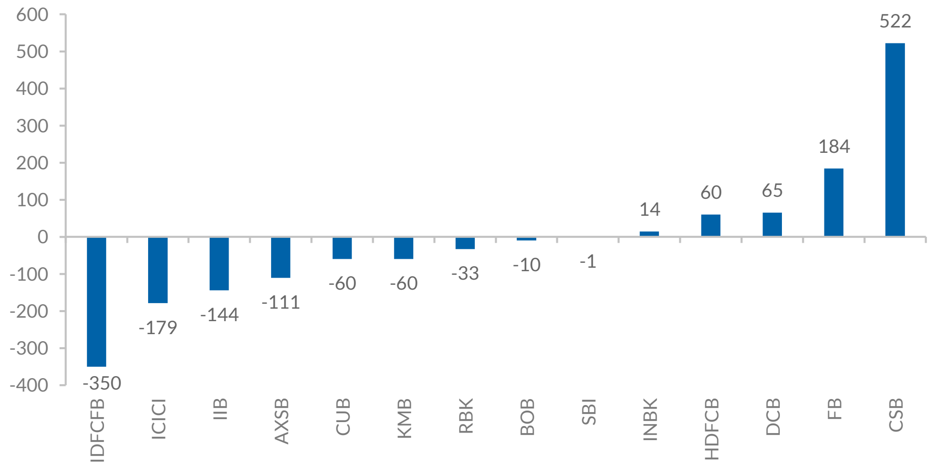
N.B. LCR retail deposits are the unweighted values of Retail deposits and deposits from small business customers as per LCR disclosures. The share of retail deposits is calculated as the unweighted values of Retail deposits and deposits from small business customers dividend by sum of unweighted values of Retail deposits and deposits from small business customers + Unsecured wholesale funding + Secured wholesale funding as per LCR disclosures.

Exhibit 30: Share of 20 largest depositors in total deposits – March 2023 - %



Source: Companies, YES Sec - Research

Exhibit 31: Change in Share of 20 largest depositors - FY23 - bps



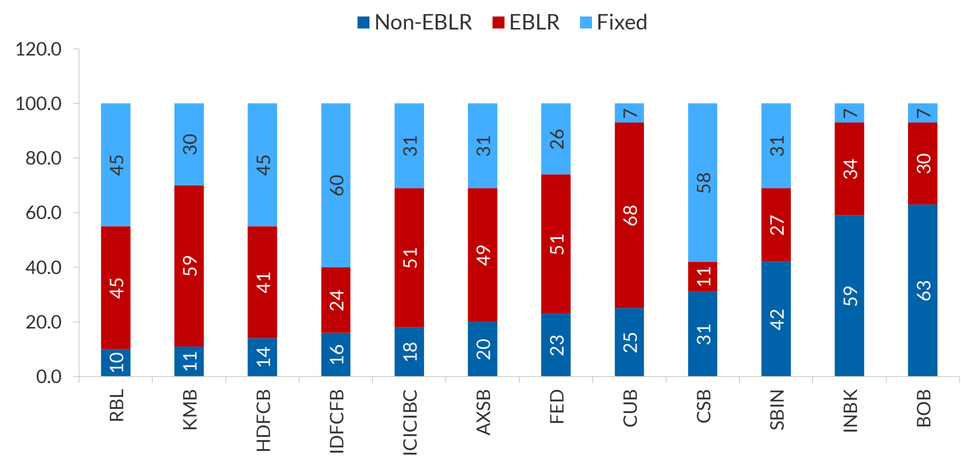
Source: Companies, YES Sec - Research

Loan Book by Rate Category

Loan book mix by rate category has become less of a prospective factor given rates have become relatively stable

While rates are not expected to rise further in the economy, the prognosis is also that they will stay at elevated levels for a relatively extended period of time.

Exhibit 32: Break-up of loan book by rate category - %

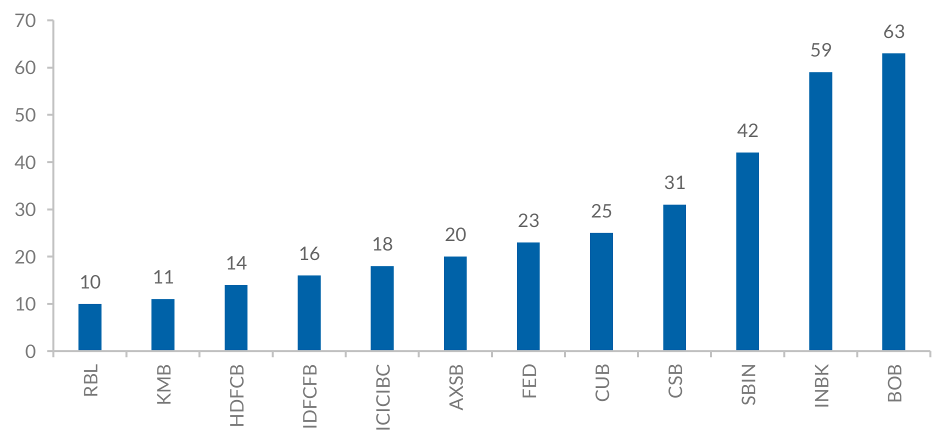


Source: Companies, YES Sec – Research, Sorted on non-EBLR

BOB, INBK and SBI have a larger share of non-EBLR floating rate loan book, which implies some residual potential of NIM improvement, ceteris paribus

A higher share of non-EBLR floating rate book implies a higher share of MCLR book as MCLR is the lion's share of the non-EBLR floating rate book. The share of non-EBLR floating rate book for BOB, INBK and SBI is 63%, 59% and 42%, respectively. Since MCLR book is generally having a high proportion of 1-year MCLR, some residual upward repricing can be expected but this would be very small. Some small upward movement in the MCLR rate itself is also possible.

Exhibit 33: Share of Non-EBLR floating loans in total loan book - %

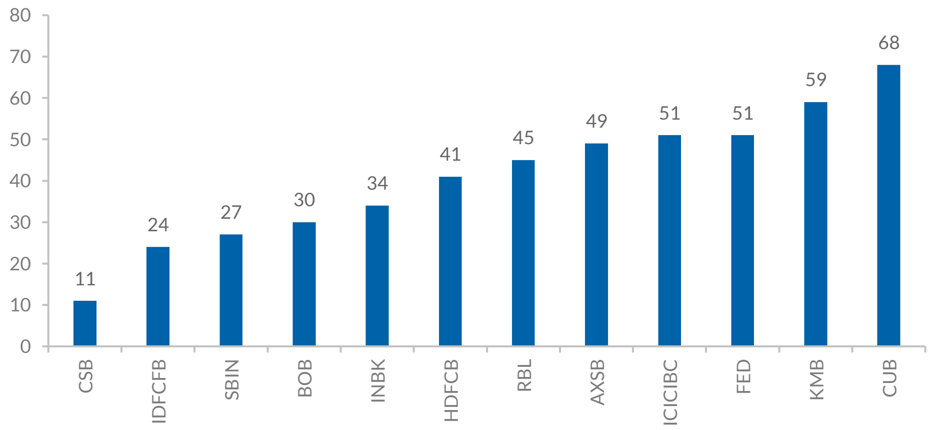


Source: Companies, YES Sec – Research

CUB and KMB have a high share of EBLR loans, which is technically vulnerable to being repricing lower

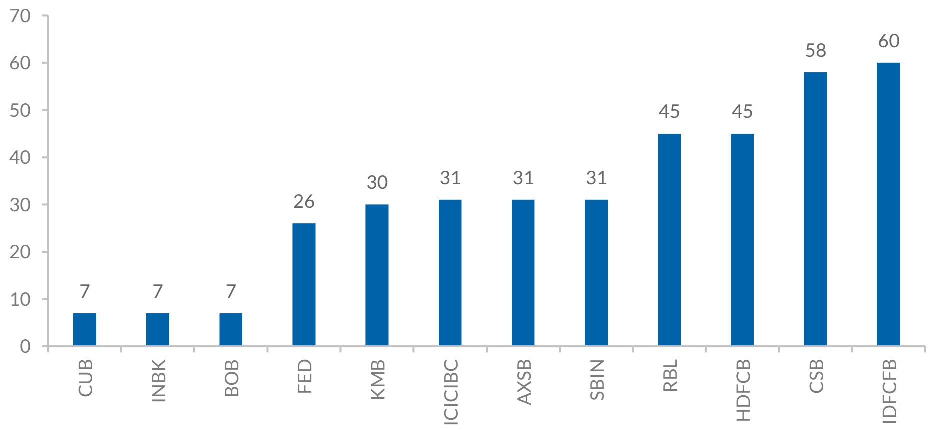
The share of EBLR loans for CUB and KMB is 68% and 59%. If the RBI starts cutting interest rates, the yield of these banks would be impacted more. Currently, however, we are operating in a "higher for longer" narrative.

Exhibit 34: Share of EBLR loans in total loan book - %



Source: Companies, YES Sec – Research

Exhibit 35: Share of fixed loans in total loan book - %



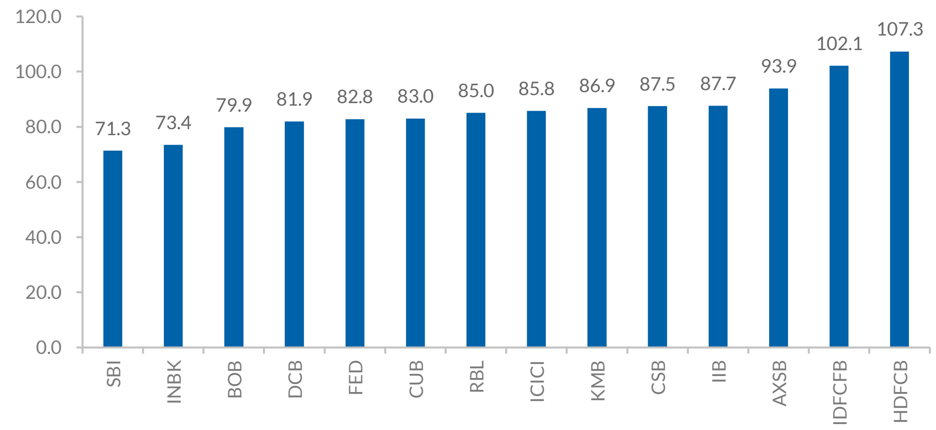
Source: Companies, YES Sec – Research

Liquidity Aspects

Loan to deposit ratio is the lowest for SBI, INBK and BOB in our coverage universe

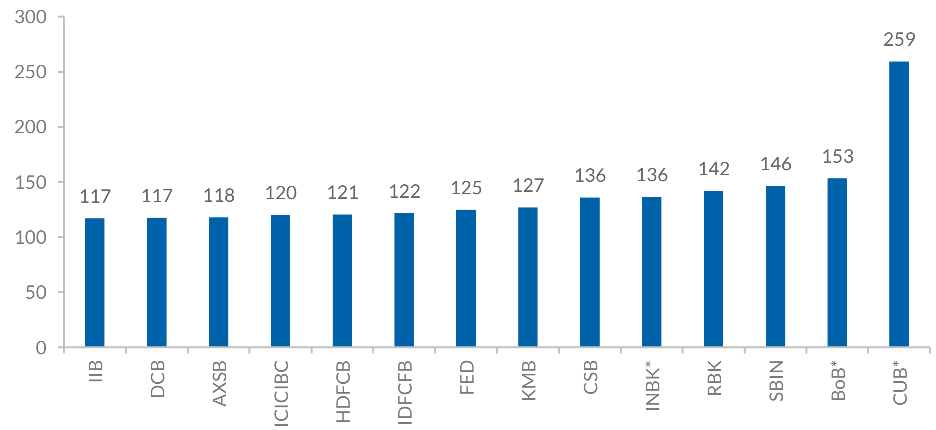
The loan to deposit ratio for SBI, INBK and BOB stood at 71.3%, 73.4% and 79.9%, respectively. This provides a near-term cushion from a need to raise deposits fast to meet loan demand.

Exhibit 36: Loan to Deposits Ratio – 2QFY24 - %



Source: Companies, YES Sec - Research

Exhibit 37: Liquidity Coverage Ratio – 2QFY24 - %



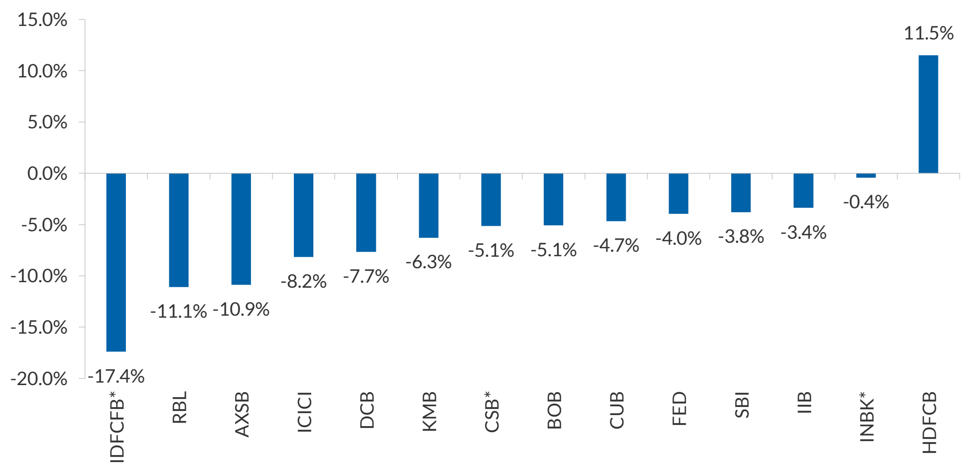
Source: Companies, YES Sec – Research, * for 1QFY24

Evolution of Loan book mix by Yield bucket and loan book mix

Over a 5-year period, IDFCB, RBL, AXSB and ICICI are the banks which have seen the greatest decline in low-yield loans

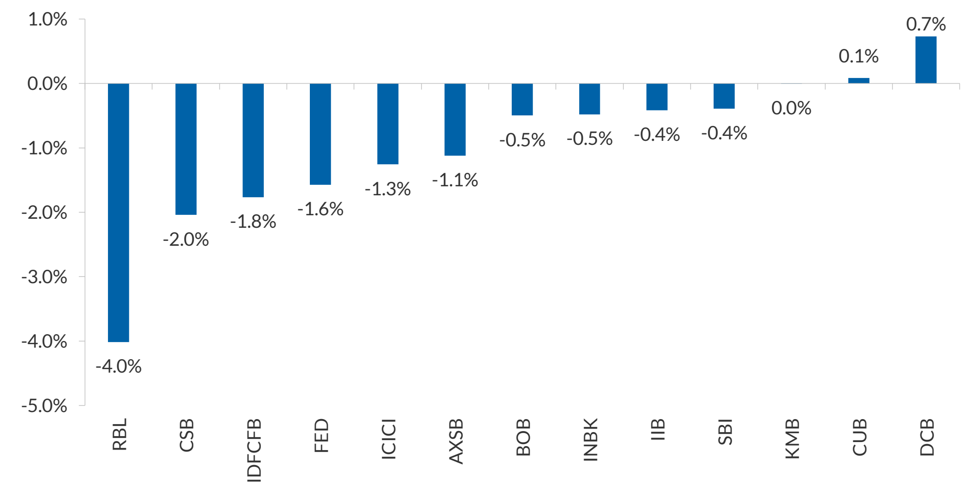
Over FY18-23, the share of low-yield loans has declined 17.4%, 11.1%, 10.9% and 8.2%, respectively. However, we do not regard the outstanding loan book mix of IDFCB and RBL to be optimal since the share of high/very-high yield loans are sub-optimally high. Hence, we regard the evolution of AXSB and ICICI to be most admirable in this regard.

Exhibit 38: 5-year delta in loan book composition - Low Yield – FY18 to FY23 - %



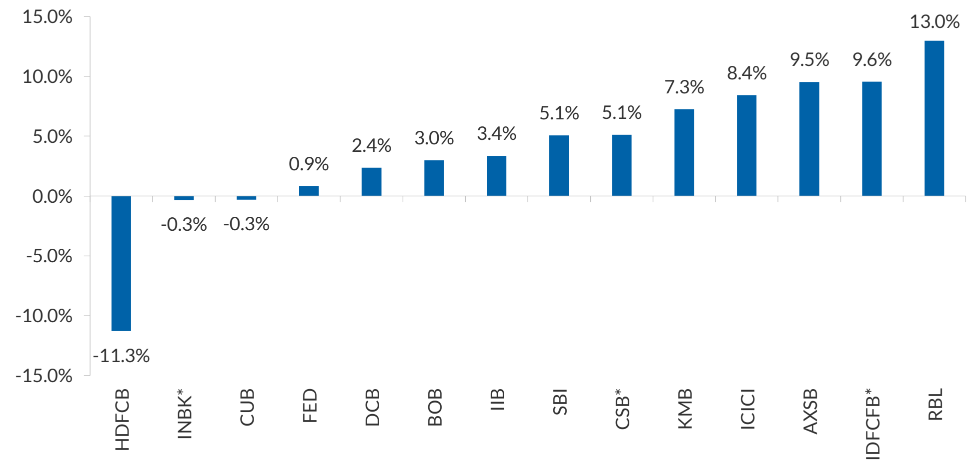
Source: Companies, YES Sec – Research, *4-year delta for for CSB, INBK and IDFCFB over FY19 to FY23

Exhibit 39: 1st-Half delta in loan book composition - Low Yield – FY23 to 1H FY24 - %



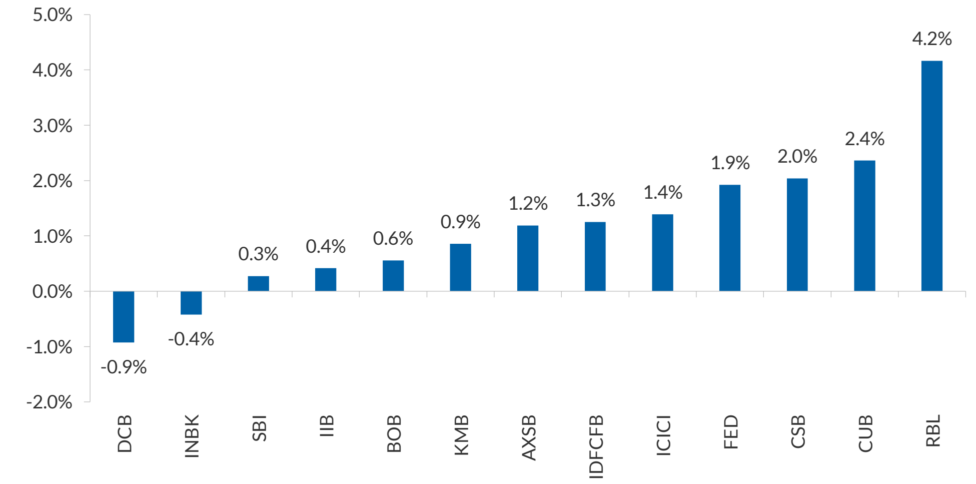
Source: Companies, YES Sec – Research

Exhibit 40: 5-year delta in loan book composition – High + Very Yield – FY18 to FY23 - %



Source: Companies, YES Sec – Research, *4-year delta for for CSB, INBK and IDFCFB over FY19 to FY23

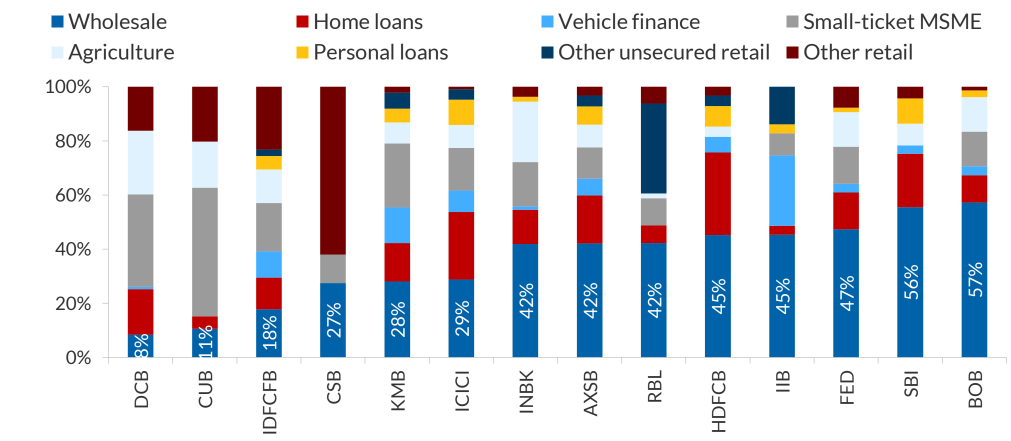
Exhibit 41: 1st-half delta in loan book composition – High + Very Yield – FY23 to 1HFY24 - %



Source: Companies, YES Sec – Research

N.B.: We have sub-divided loan books into (i) low yield, (ii) inter-mediate yield (iii) high yield and (iv) very high yield on the basis of yield profiles of the segmental buckets that had been arrived at earlier. We earmarked (1) wholesale loans and home loans as low-yield, (2) agri loans as inter-mediate-yield, (3) vehicle loans, small-ticket MSME, personal loans and other retail loans as high-yield and (4) other unsecured retail (credit card dues and microfinance) as very high-yield.

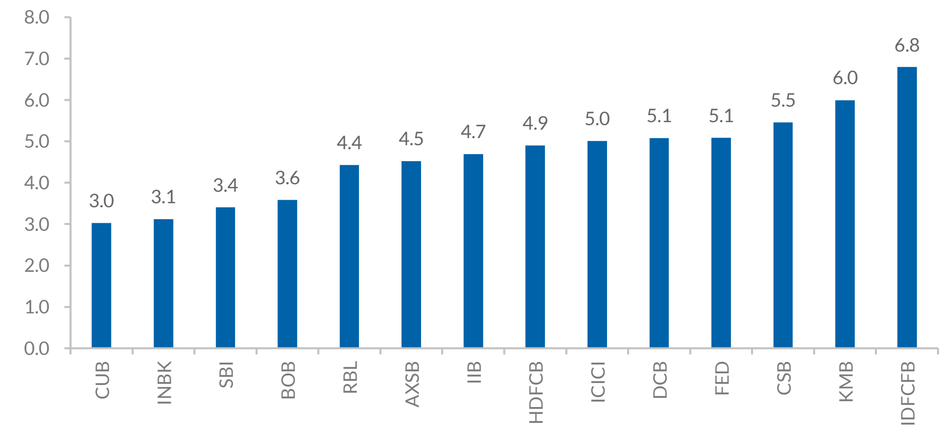
Exhibit 42: Loan book composition as per distinctly comparable buckets – 2QFY24 - %



Source: Companies, YES Sec – Research, Sorted on share of wholesale loans

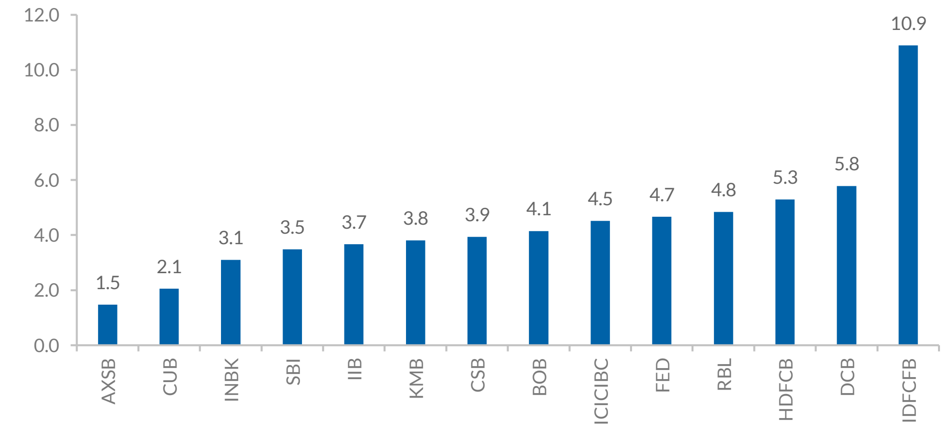
Balance sheet Growth

Exhibit 43: Sequential Loan Growth – 2QFY24 over 1QFY24 - %



Source: Companies, YES Sec

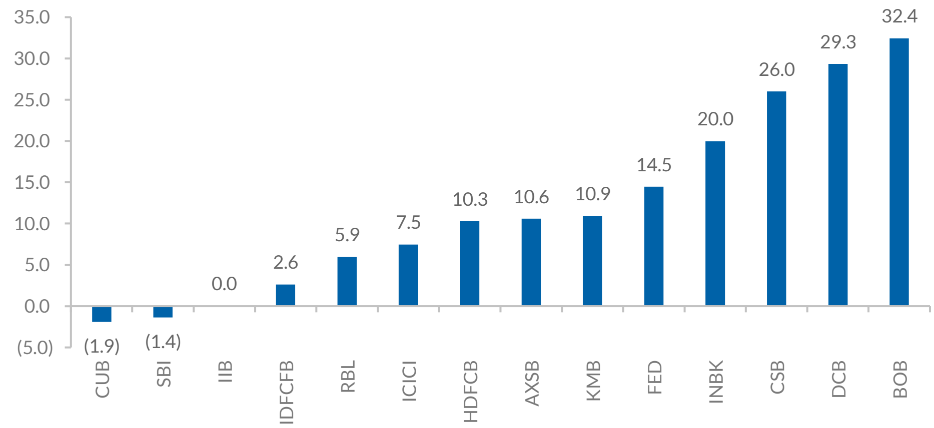
Exhibit 44: Sequential Deposits Growth – 2QFY24 over 1QFY24 - %



Source: Companies, YES Sec

Fee Income Aspects

Exhibit 45: Sequential Core Fee Growth – 2QFY24 over 1QFY24 - %

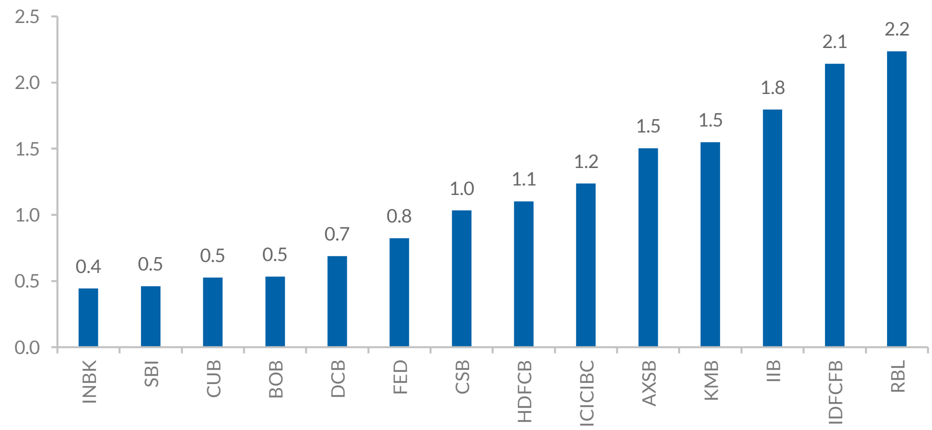


Source: Companies, YES Sec

Fee income to assets is healthy for AXSB without dependence on ultra-small unsecured ticket lending

The fee income to assets for RBL, IDFCB, IIB, KMB and AXSB is 2.2%, 2.1%, 1.8%, 1.5% and 1.5%, respectively and is the highest in our coverage universe.

Exhibit 46: Fee Income to Average Total Assets – Absolute level - 2QFY24 - %

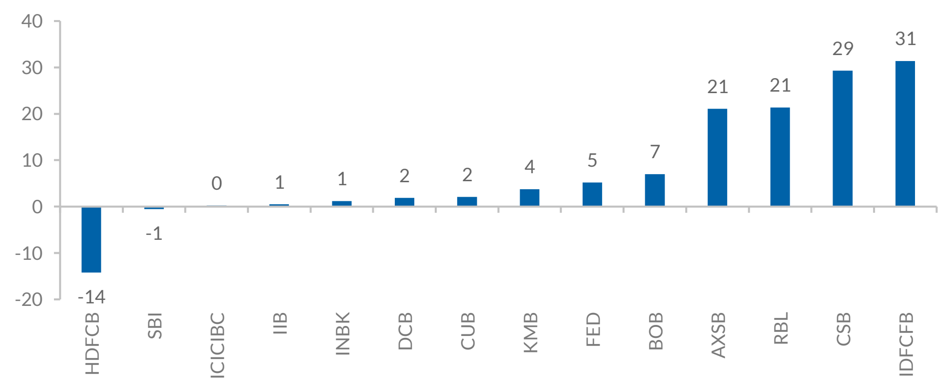


Source: Companies, YES Sec

AXSB and BOB are the largecap banks with the most improved fee income to assets ratio over the past 12 months

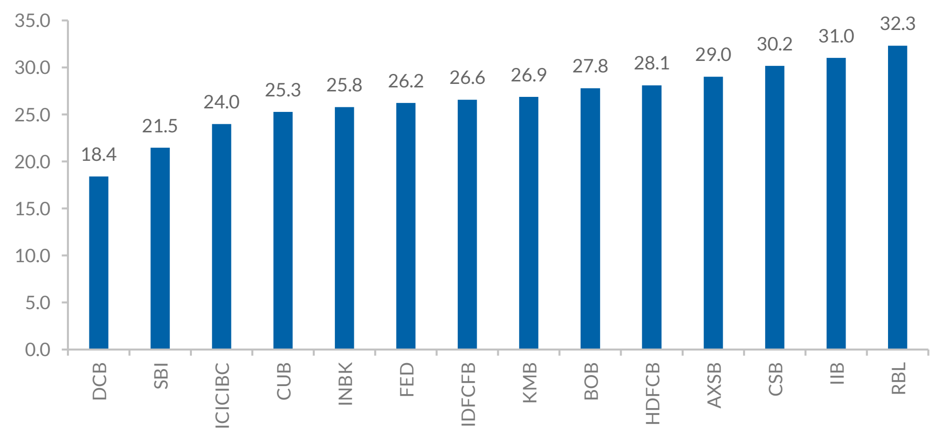
The fee income to assets for AXSB and BOB has risen 21bps and 7 bps, respectively. The rise has also been healthy for IDFCB, CSB and RBL at 31 bps, 29 bps and 21 bps, respectively. However, IDFCB and RBL are achieving this basis a sub-optimal dependence on small-ticket unsecured lending.

Exhibit 47: Change in Fee Income to Average Assets–2QFY24 over 2QFY23 - bps



Source: Companies, YES Sec

Exhibit 48: Non-Interest Income to Total income – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

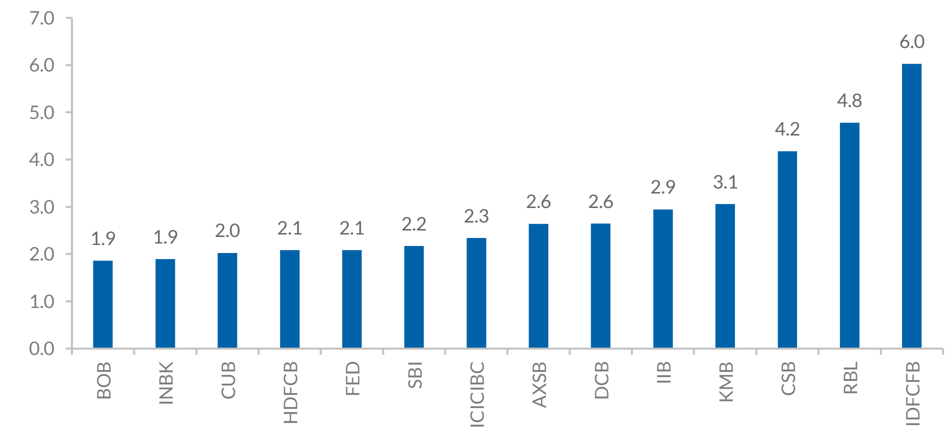
Operating Expense Aspects

Opex to assets is elevated for IDFCB, RBL, CSB, KMB, IIB and DCB, given the nature of their business models

The opex to assets for RBL, IDFCB, IIB and AXSB is 2.2%, 2.1%, 1.8% and 1.8%, respectively and is the highest in our coverage universe.

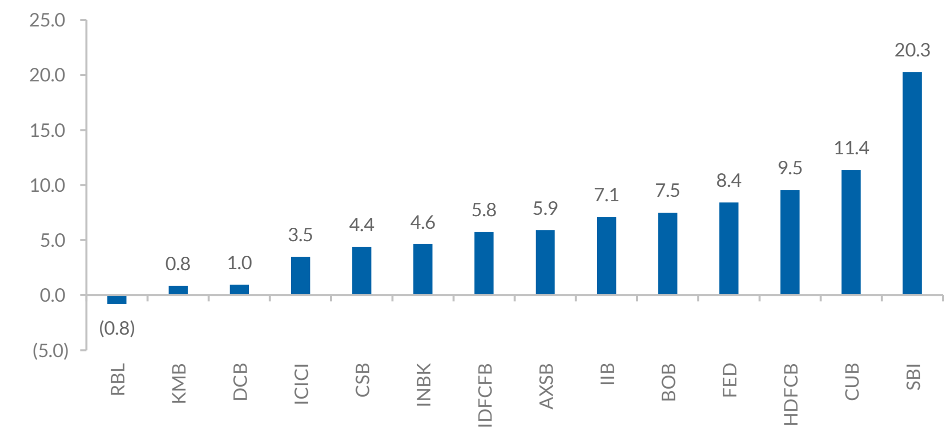
AXSB's opex to assets is somewhat elevated since the bank is utilising the good times to make transformational investments for the future rather than just for incremental change. Despite these investments, the RoE of the bank is close to 19%.

Exhibit 49: Opex to Average Total Assets – Absolute level - 2QFY24 - %



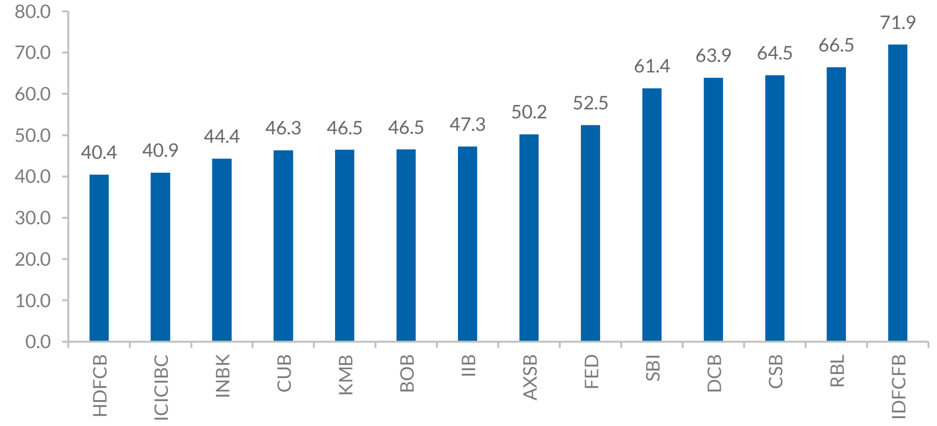
Source: Companies, YES Sec

Exhibit 50: Sequential Opex Growth – 2QFY24 over 1QFY24 - %



Source: Companies, YES Sec

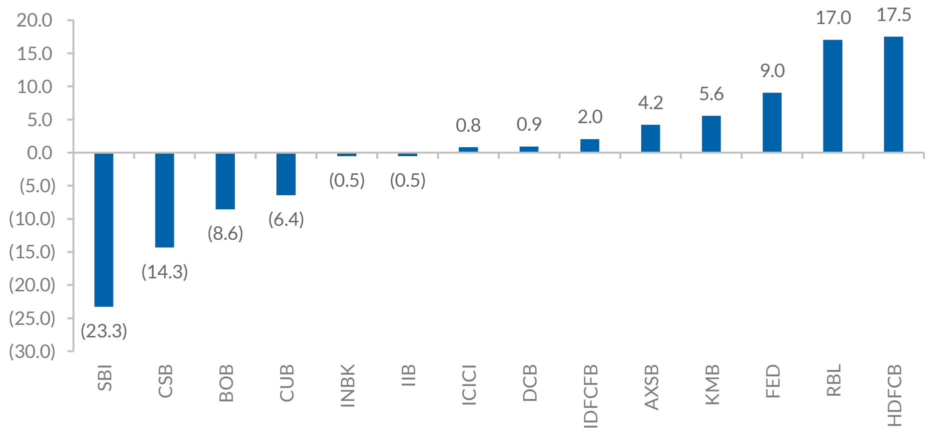
Exhibit 51: Cost to Income Ratio – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

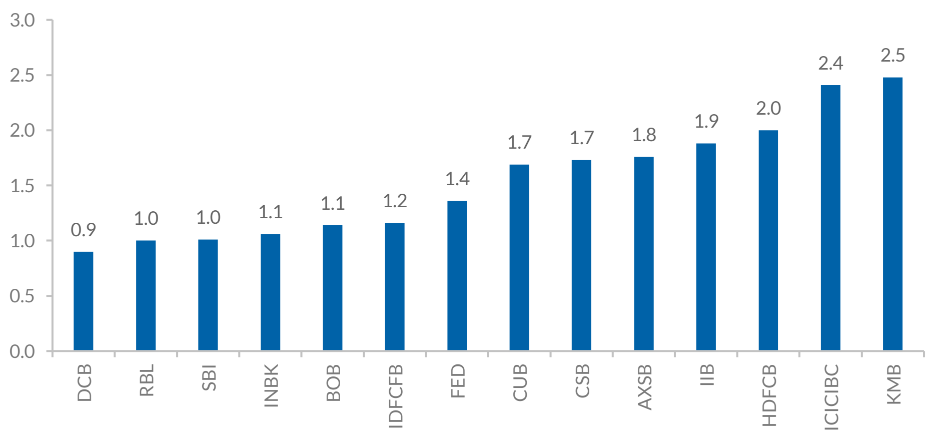
Profitability Aspects

Exhibit 52: Sequential Core PPOP Growth – 2QFY24 over 1QFY24 - %



Source: Companies, YES Sec

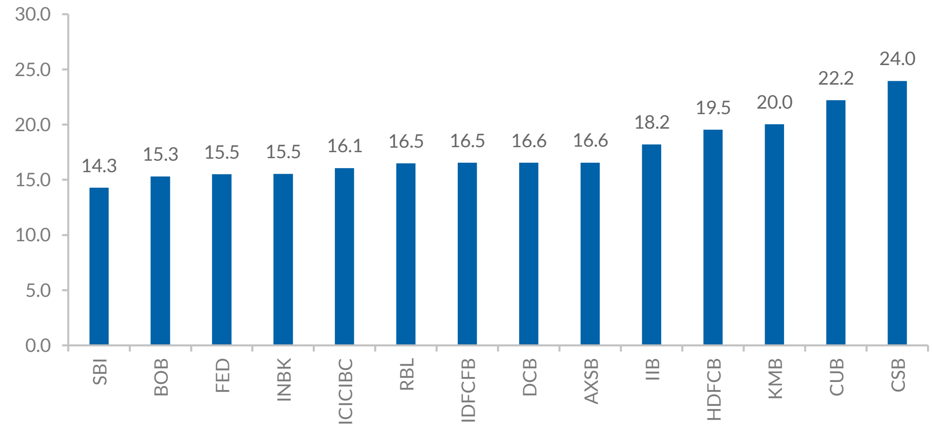
Exhibit 53: Annualised Return on Assets – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

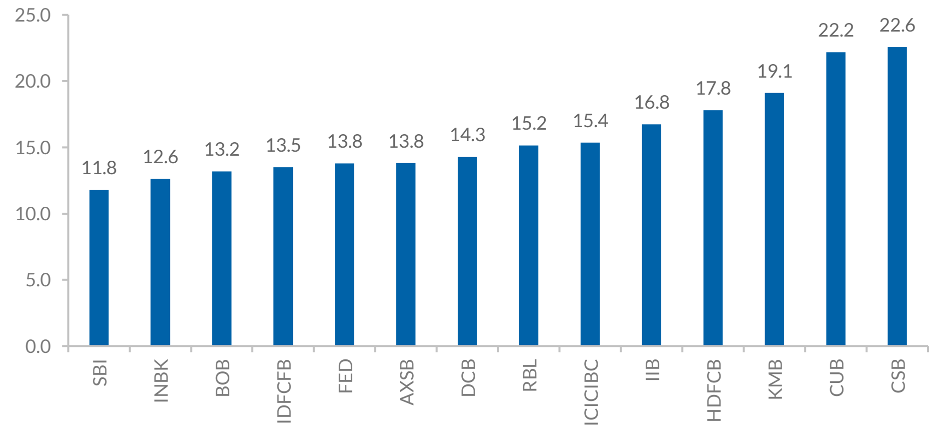
Capital Adequacy

Exhibit 54: Capital Adequacy Ratio (excl. profit) – Absolute level - 2QFY24 - %



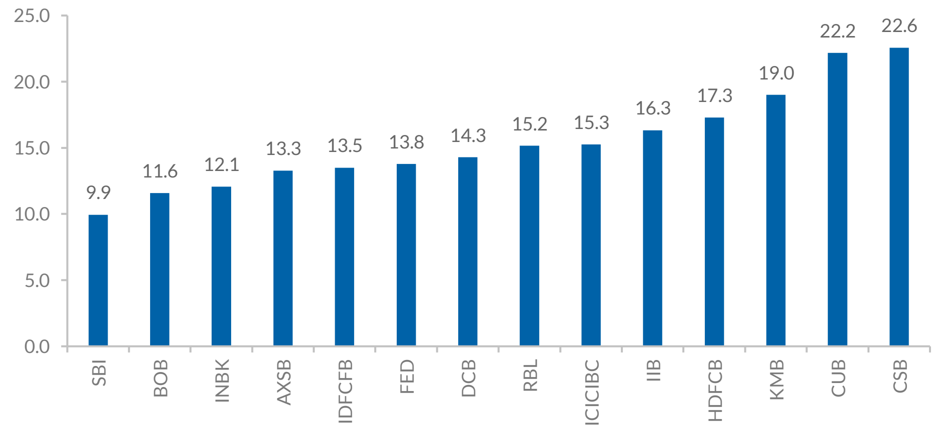
Source: Companies, YES Sec

Exhibit 55: Tier I Capital Ratio (excl. profit) – Absolute level - 2QFY24 - %



Source: Companies, YES Sec

Exhibit 56: CET 1 Capital Ratio (excl. profit) – Absolute level - 2QFY24 - %



Source: Companies, YES Sec; CET1 = Common equity tier 1

Valuation table for Coverage banks

Exhibit 57: Valuation Table (Coverage Banks – in the order of investment preference)

Bank	Rating	CMP	TP	Upside	EPS (Rs)			P/E (x)		
					FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Bank of Baroda	BUY	197	290	47	30.5	36.1	42.6	5.9	4.9	4.2
Axis Bank	BUY	1021	1400	37	76.0	97.4	117.7	11.8	9.2	7.7
State Bank of India	BUY	564	760	35	59.6	67.4	81.4	5.7	5.0	4.2
Indian Bank	BUY	403	540	34	52.6	65.8	78.6	7.7	6.1	5.1
ICICI Bank	BUY	926	1225	32	51.4	56.8	66.4	14.5	13.2	11.3
Federal Bank	BUY	150	195	30	15.5	19.3	23.2	9.1	7.3	6.1
HDFC Bank	BUY	1529	1925	26	77.3	109.5	129.4	17.1	12.1	10.2
CSB Bank	BUY	393	490	25	30.1	37.6	45.9	13.0	10.4	8.6
Indusind Bank	BUY	1478	1800	22	108.3	130.7	154.0	13.6	11.3	9.6
RBL Bank	ADD	238	285	20	20.6	27.0	33.6	11.6	8.8	7.1
Kotak M. Bank	ADD	1742	2065	19	58.8	69.1	81.9	19.4	16.5	13.9
IDFC First Bank	ADD	85	100	17	4.7	6.3	8.1	18.3	13.5	10.6
City Union Bank	ADD	147	165	12	14.0	16.2	18.6	10.5	9.1	7.9
DCB Bank	ADD	112	125	11	16.8	20.2	24.6	6.7	5.6	4.6

Bank	BVPS (Rs)			P/ BV (x)			ROE (%)			ROA (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Bank of Baroda	215	247	284	0.8	0.7	0.6	15.1	16.0	16.1	1.0	1.1	1.1
Axis Bank	483	610	727	1.9	1.5	1.2	17.1	18.1	17.6	1.6	1.8	1.9
State Bank of India	427	483	553	0.8	0.7	0.6	15.4	14.8	15.7	1.0	1.0	1.1
Indian Bank	416	472	539	1.0	0.9	0.7	13.6	14.8	15.6	0.9	1.0	1.1
ICICI Bank	331	380	438	2.3	2.0	1.7	16.6	16.0	16.2	2.1	2.0	2.0
Federal Bank	120	138	160	1.2	1.0	0.9	14.6	15.0	15.6	1.3	1.4	1.4
HDFC Bank	569	657	761	2.3	2.0	1.7	16.4	17.9	18.3	1.8	2.0	2.0
CSB Bank	215	252	298	1.8	1.6	1.3	15.1	16.1	16.7	1.6	1.6	1.6
Indusind Bank	798	915	1,055	1.9	1.6	1.4	14.4	15.3	15.6	1.7	1.8	1.8
RBL Bank	243	267	296	1.0	0.9	0.8	8.8	10.6	11.9	1.0	1.1	1.1
Kotak M. Bank	478	546	627	2.4	2.1	1.8	13.1	13.5	14.0	2.2	2.1	2.2
IDFC First Bank	46	52	58	1.8	1.7	1.5	11.4	12.9	14.7	1.3	1.4	1.5
City Union Bank	113	129	146	1.3	1.1	1.0	13.1	13.4	13.5	1.5	1.5	1.5
DCB Bank	161	179	202	0.7	0.6	0.6	11.2	11.9	12.9	1.0	1.0	1.0

Source: Companies, YES Sec – Research; Valuations are the implied valuations of standalone entity net of subsidiaries

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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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