BFSI - Banks

Q1FY26E preview: Margin contraction to weigh on earnings

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BFSI - Banks ▸ Sector Report ▸ July 09, 2025

NIFTY 50: 25,523

We expect Q1FY26 to be another soft quarter for PVBs, mainly owing to slower credit growth and sharp margin correction due to the swift rate cuts recently. However, HDFCB and ICICIB are expected to report relatively better performances. PSBs, in general, are likely to report relatively better earnings resiliency vs PVBs, aided by lower margin contraction and higher treasury gains. Similarly, we expect SBI Cards to report a better margin, benefiting from the recent uptick in APR on revolver portfolio and reducing borrowing cost, though partly offset by higher LLP. Our medium-to-long-term preferred picks based on better margin/earning resiliency are HDFCB, ICICIB, SBI, RBL, KVB, Ujjivan, Indian Bank, and SBI Cards.

Slower growth, swift lending rate cuts to hurt margins

Credit growth for the system as well as our coverage stocks remains subdued at ~10% YoY/1% QoQ, while deposit growth on a weak base is at ~11% YoY/0.5% QoQ, leading to a slight uptick in LDR. Among banks that have provided business updates, HDFCB, KMB, BOB, KVB, and AU SFB surprised positively on credit growth. Amid weak credit demand and persistent stress in unsecured loans, we believe any pick-up in credit growth will be back-ended and primarily driven by secured loans (mainly mortgages). Thus, we believe that slower credit growth and lending rate cuts (driven by repo rate cuts) should lead to sharp margin contraction in Q1FY26E and Q2FY26E, partly offset by the recent SA rate cuts. For our coverage universe, we expect margin contraction of ~5-20bps QoQ, with large PVBs at the higher-end of the bracket and PSBs at the lower-end. We expect IDFCB, CUBK, SBI, and MFI-heavy banks to report relatively lower margin compression, while SBI Cards is likely to report margin expansion.

Fresh stress flow easing in Cards, but remains elevated for MFI

MFI stress flow is likely to remain elevated due to seasonal weakness in Q1FY26 and the impact of ordinances in Karnataka and TN, leading to elevated LLP for NBFC-MFIs and MFI-heavy banks. The PL stress flow has peaked out but is likely to remain elevated in the near term. Credit card stress flow too is easing, but card players would prefer to accelerate charge-offs leading to higher LLP. Overall, corporate asset quality is holding up well and thus, we do not expect any meaningful NPA formation for PSBs. However, agri/KCC slippages could remain elevated for select large PVBs and PSBs due to seasonal factors, thereby calling for higher LLP. On an overall basis, we expect LLP to moderate but remain elevated in Q1FY26E due to higher charge-offs in unsecured and KCC loans.

Subdued profitability for PVBs in Q1; PSBs to relatively outperform

We expect overall profitability growth for PVBs to remain subdued at 4% YoY; however, PSBs' profitability growth is likely to be relatively better at 10% YoY, aided by better treasury gains, recovery from the write-off pool, and lower LLP. Among PVBs, we expect ICICIB, Indian Bank, SBI, and KVB to be outliers, while Axis would report relatively soft results due to weak margins and elevated credit cost. IndusInd Bank may turn profitable in the absence of any lumpy stress recognition. MFI-exposed banks/SFBs are likely to report slightly better profitability QoQ due to some moderation in LLP.

Prefer banks/NBFCs with earning resiliency amid growth/margin pangs in H1FY26

Bank Nifty has largely tracked the overall market performance over the past 3M (refer to Exhibit 7) amid hopes of a pick-up in credit growth following monetary policy/regulatory easing, peaking of stress in unsecured loans, and relative valuation comfort. We believe that credit growth is likely to remain soft in H1FY26E due to weak demand and banks' focus on protecting margins, but should recover in H2FY26E mainly led by secured loans. Though peak stress in unsecured loans is behind, we believe NPA formation as well as LLP would remain elevated in H1FY26E and then gradually ease. Thus, we recommend banks/NBFCs that exhibit better growth/margins and asset quality resiliency while being ready to participate in the growth phase. Our preferred picks remain HDFCB, ICICIB, SBI, RBL, KVB, Ujjivan, Indian Bank, and SBI Cards. We believe Ujjivan and RBL offer a good play on the asset quality recovery story in H2FY26, while Ujjivan also runs a good chance to secure the Universal Banking license, along with AU SFB. Thus, we increased our TP for Ujjivan, RBL, and AU SFB by 18-20%. Further, factoring in the recent capital infusion in IDFCB, lower opex, reduced credit cost owing to a better MFI outlook, and RoA of ~0.8–1.2% in FY26–28E, we raise our TP by ~14% to Rs80.

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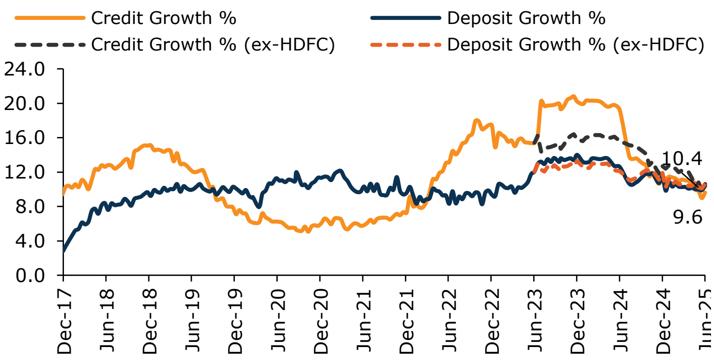
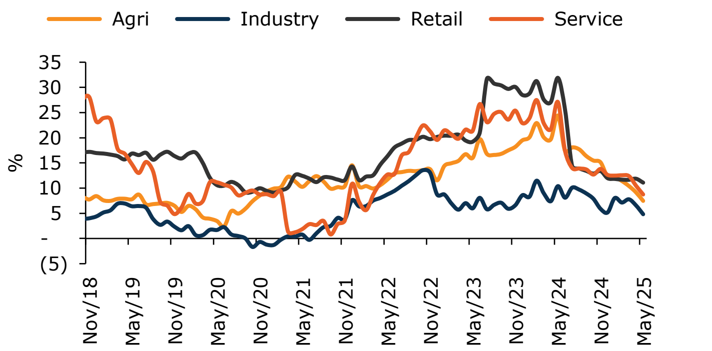
Story in Charts

Exhibit 1: Credit and deposit growth remain soft…



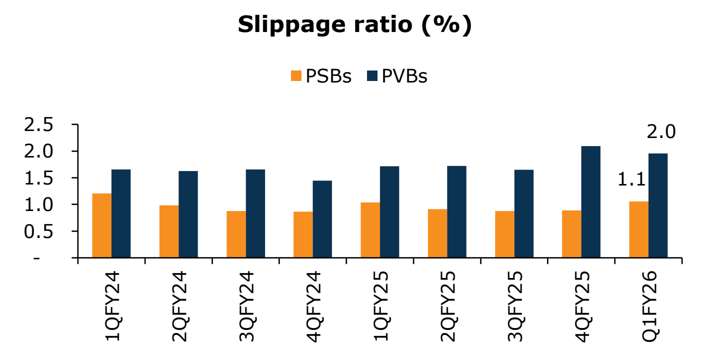
Source: RBI, Emkay Research

Exhibit 2: …due to moderate growth across segments



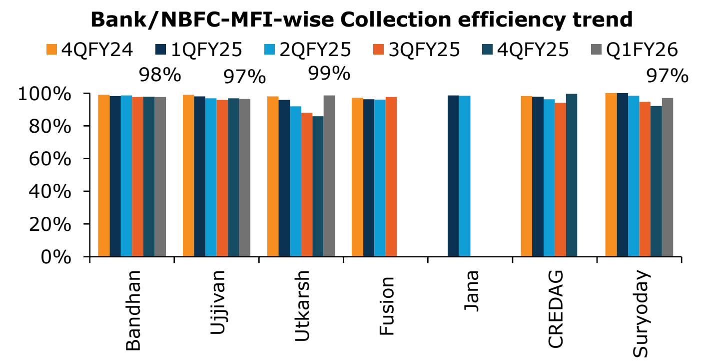
Source: RBI, Emkay Research

Exhibit 3: Slippage ratio for PVBs is expected to be elevated owing to continued stress in unsecured (PL+cards)/MFI loans



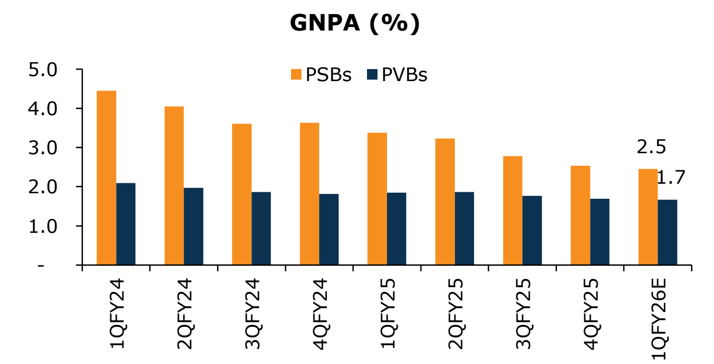
Source: Company, Emkay Research

Exhibit 4: CE has largely remained stable, except for slight improvement in Utkarsh and Suryoday



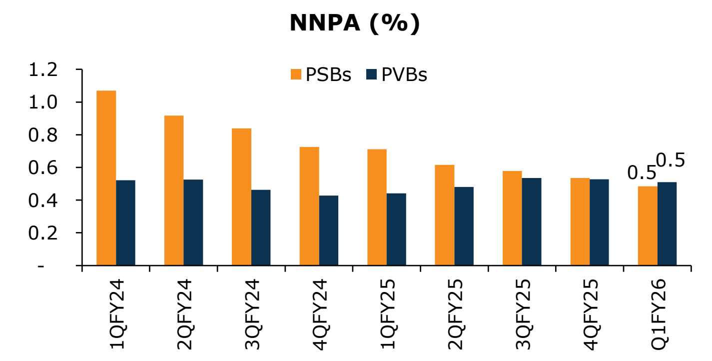
Source: Company, Emkay Research; Note: CREDAG's Q4FY25 CE represents X bucket CE (excl KA); Utkarsh's Q1FY26 CE represents X bucket CE (excl. pre-payments)

Exhibit 5: Despite the higher slippages, GNPA ratio is expected to improve owing to better recoveries/write-offs…



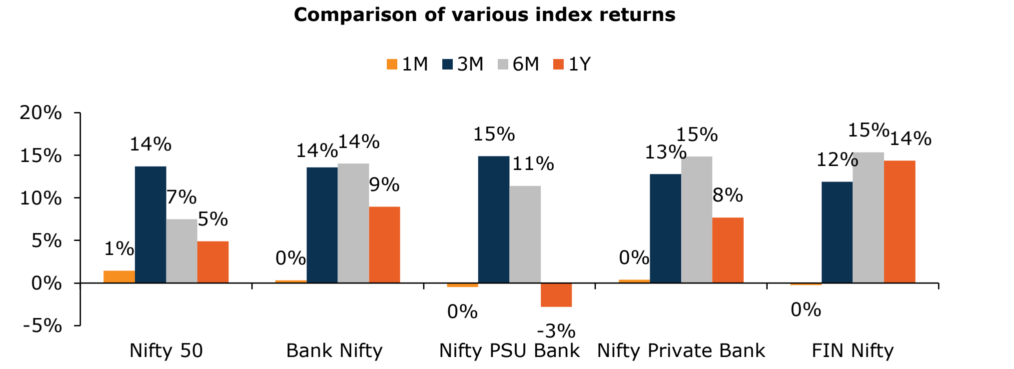
Source: Company, Emkay Research

Exhibit 6: …as also the NNPA ratio



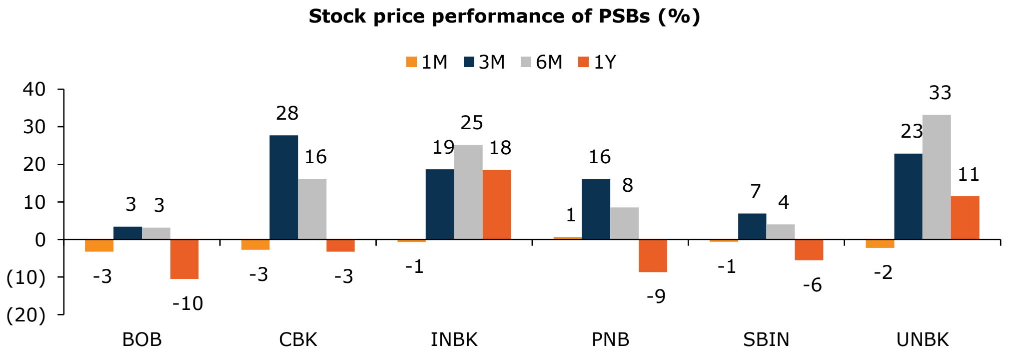
Source: Company, Emkay Research

Exhibit 7: Bank Nifty mirrors Nifty50 on credit growth hopes, easing stress in unsecured loans, and valuation comfort



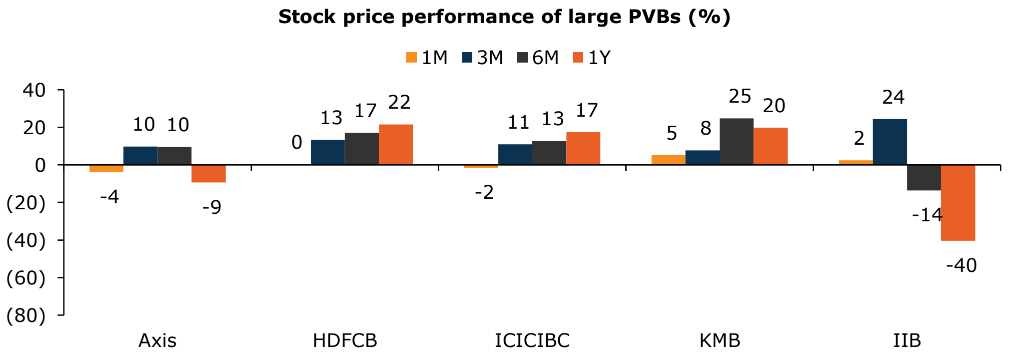
Source: Bloomberg, Emkay Research

Exhibit 8: INBK's stock returns outperformed among PSBs…



Source: Bloomberg, Emkay Research

Exhibit 9: …whereas HDFCB, ICICIB, and Kotak outperformed among large PVBs



Source: Bloomberg, Emkay Research

Exhibit 10: Valuation summary for banks/NBFCs under our coverage

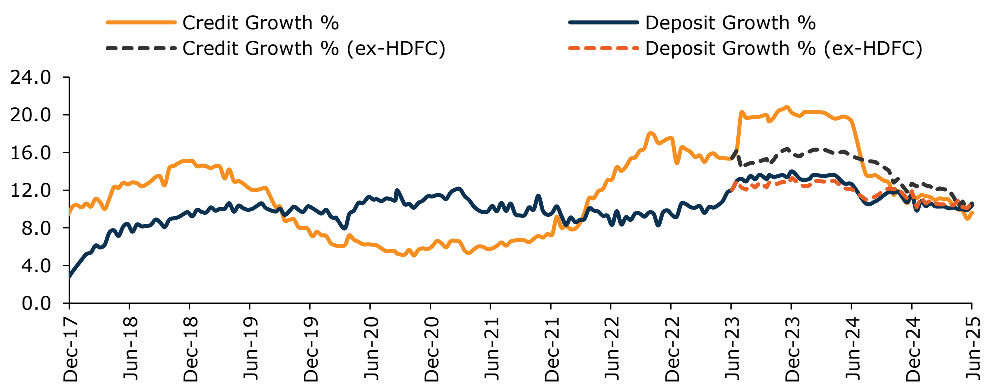
Company	Reco	TP (Rs)	Market Cap		RoA (%)			RoE (%)			P/ABV (x)			ABV (Rs)			EPS (Rs)		
			(Rs bn)	(USD bn)	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Large PVBs																			
Axis	Buy	1,400	3,614	42	1.7	1.7	1.7	15.9	14.5	14.3	1.9	1.7	1.4	552	639	737	85	91	103
HDFCB	Buy	2,200	15,347	178	1.8	1.8	1.9	14.3	13.8	14.6	2.7	2.5	2.2	626	698	781	88	96	112
ICICIB	Buy	1,600	10,289	120	2.4	2.3	2.2	18.0	16.8	15.9	3.0	2.7	2.3	389	445	507	67	73	79
IIB	Reduce	650	662	8	0.5	0.6	0.8	4.0	5.4	6.8	1.3	1.2	1.1	673	706	751	33	46	61
KMB	Reduce	1,950	4,423	51	2.1	2.1	2.0	12.8	12.0	11.9	2.8	2.5	2.2	563	635	713	69	75	84
Yes	Sell	16	627	7	0.6	0.7	0.8	5.4	6.1	7.1	1.3	1.3	1.2	16	16	17	1	1	1
Small-Mid PVBs																			
CUBK	Buy	210	159	2	1.5	1.5	1.5	12.6	12.5	12.7	1.8	1.6	1.4	121	138	154	15	17	19
KBL	Add	220	73	1	1.1	0.8	0.9	11.0	8.4	9.2	0.7	0.6	0.6	286	310	339	34	28	33
FB	Buy	240	524	6	1.2	1.2	1.3	13.0	12.1	13.3	1.5	1.4	1.2	133	148	167	16	17	21
KVB	Buy	300	217	3	1.7	1.7	1.6	17.7	16.9	15.8	1.9	1.6	1.4	147	171	196	24	27	29
RBL	Buy	300	152	2	0.5	0.8	1.0	4.6	7.5	10.7	1.0	0.9	0.8	254	269	295	11	20	31
IDFCB	Add	80	571	7	0.5	0.8	1.1	4.3	6.9	10.1	1.5	1.4	1.3	51	56	61	2	4	6
New-Age PVBs/SFBs																			
AU SFB	Reduce	725	611	7	1.6	1.6	1.7	14.2	15.2	17.2	3.7	3.2	2.7	223	256	301	28	38	49
Bandhan	Add	180	281	3	1.5	1.5	1.7	11.9	11.9	13.7	1.2	1.1	1.0	145	160	181	17	19	24
Equitas	Reduce	60	72	1	0.3	0.8	1.2	2.4	7.6	11.6	1.2	1.2	1.0	51	55	61	1	4	7
Ujjivan	Buy	60	91	1	1.6	1.7	2.0	12.4	13.6	16.6	1.5	1.3	1.2	31	35	41	4	5	6
PSBs																			
BOB	Buy	280	1,240	14	1.2	1.1	1.0	15.7	14.2	13.1	0.9	0.8	0.7	254	281	312	38	39	40
CBK	Buy	120	1,032	12	1.1	1.0	1.0	19.9	18.2	16.6	1.1	0.9	0.8	98	115	132	19	20	21
INBK	Buy	675	860	10	1.3	1.3	1.2	19.1	17.7	16.1	1.4	1.2	1.1	456	524	592	81	88	91
PNB	Buy	125	1,287	15	1.0	0.9	0.9	15.3	14.4	14.1	1.0	0.9	0.8	99	111	123	15	16	17
SBIN	Buy	975	7,253	84	1.1	1.1	1.0	18.6	17.0	15.8	1.3	1.1	1.0	426	494	565	79	85	90
UNBK	Reduce	120	1,147	13	1.2	1.1	1.0	18.1	15.4	12.9	1.1	1.0	0.9	136	154	171	24	23	22
Payments Bank																			
Fino	Buy	300	23	0.3	2.4	2.4	2.1	13.3	14.2	14.0	3.1	2.7	2.4	90	103	119	11	14	16
Card Player																			
SBI Cards	Add	1,075	874	10	3.1	4.2	5.1	14.8	19.2	22.2	6.6	5.6	4.5	138	165	203	20	30	42
NBFC-MFI																			
CREDAG	Add	1,350	207	2	1.9	3.1	4.3	7.9	12.1	16.8	3.2	2.7	2.2	410	490	601	33	57	94
Fusion	Reduce	170	26	0.3	-12.2	0.9	1.7	-54.5	3.5	6.1	1.2	1.2	1.2	159	152	161	-122	5	11

Source: Emkay Research

Slower credit growth given weak underlying demand, risk-off stance by banks

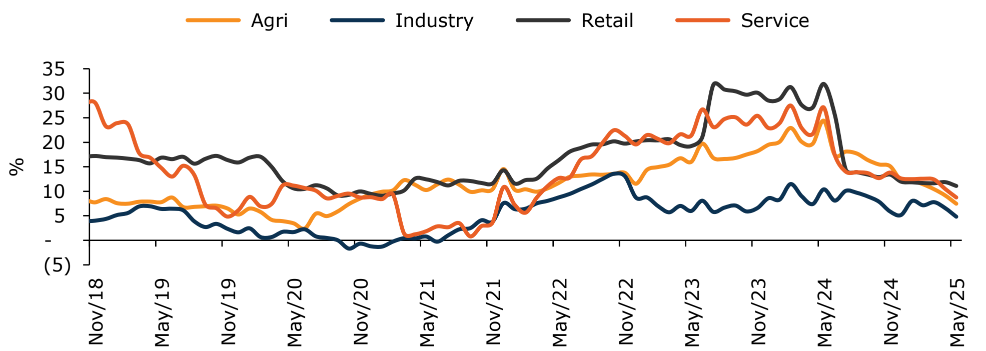
Credit growth for the system as well as our coverage stocks remains subdued at ~10% YoY/1% QoQ, while deposit growth on a weak base is at ~11% YoY/0.5% QoQ, leading to a slight uptick in LDR. Though Q1 is seasonally weak, we believe Q2 is likely to be soft as well as corporate credit demand remains weak amid macro uncertainties and continued deleveraging. Bank credit to NBFCs, a key systemic driver, has moderated and the rising disintermediation in bond markets could keep growth in check. Growth in SME and mid-corporate segments remains healthy but may not be enough to meaningfully lift the growth momentum. As far as retail credit growth is concerned, overleverage levels still remain high and so banks are unlikely to press the accelerator on unsecured loans. Underlying vehicle sales too remain weak and hence, reflect in VF growth. That said, we believe that the sharp rate cut could revive the housing loan market, more so at the beginning of the festive season. Deposit growth too remains subdued, with most banks witnessing decline in CASA books after sharp SA rate cuts, but should see some improvement once the CRR cut becomes effective and fuels M3 growth.

Exhibit 11: Credit and deposit growth almost converge



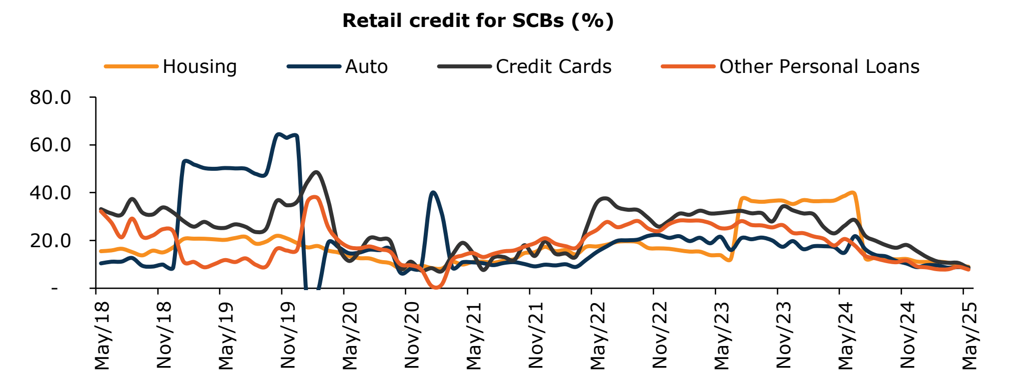
Source: RBI, Emkay Research; Note: Credit and deposit growth show a dip from Jul-24 due to the e-HDFCL impact being negated (one year since the merger)

Exhibit 12: Retail credit growth has slowed down meaningfully, due to regulatory and asset quality disruption



Source: RBI, Emkay Research

Exhibit 13: Within retail, we expect secured housing loans to recover earlier, given the swift rate-cut cycle



Source: RBI, Emkay Research

Exhibit 14: Among banks that have provided business updates, HDFCB, KMB, BOB, KVB, and AU SFB surprised positively on credit growth

Bank (Rs bn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
BOB	12,071	10,717	12.6	12,305	-1.9
INBK	6,000	5,390	11.3	5,880	2.0
PNB	11,307	10,287	9.9	11,166	1.3
HDFCB	26,530	24,869	6.7	26,435	0.4
KMB	38,996	44,473	-12.3	42,691	-8.7
IIB	3,345	3,479	-3.9	3,450	-3.1
RBL	967	884	9.3	948	2.0
Yes	2,414	2,296	5.1	2,462	-2.0
KVB	894	777	15.0	845	5.8
AU SFB	1,116	907	23.1	1088	2.6
Bandhan	1,336	1,256	6.4	1,370	-2.45
Equitas SFB	380	349	9.1	380	0.13
Ujjivan SFB	333	301	10.7	321	3.6
CREDAG	261	263	-0.8	259	0.8

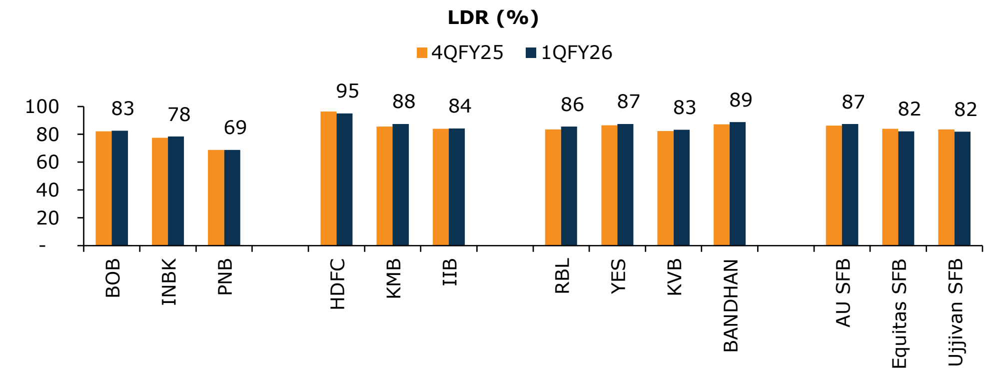
Source: Company, Emkay Research; Note: Figures of KMB, IIB, and Yes bank represents net advances, while others represent gross advances

Exhibit 15: Provisional deposit growth numbers seem to be strong for HDFCB, KMB, KVB, AU SFB, and Ujjivan SFB

Bank (Rs bn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
BOB	14,356	13,156	9.1	14,720	-2.5
INBK	7,440	6,812	9.2	7,372	0.9
PNB	15,888	14,082	12.8	15,666	1.4
HDFCB	27,640	23,791	16.2	27,147	1.8
KMB	5,011	4,474	12.0	4,991	0.4
IIB	3,972	3,985	-0.3	4,109	-3.3
RBL	1,105	1,014	9.0	1,109	-0.4
Yes	2,759	2,651	4.1	2,845	-3.0
KVB	1,067	923	15.5	1,021	4.5
AU SFB	1,277	973	31.3	1,243	2.8
Bandhan	1,492	1,332	12.0	1,512	-1.3
Equitas SFB	450	375	20.0	431	4.5
Ujjivan SFB	387	325	19.0	376	2.8

Source: Company, Emkay Research

Exhibit 16: LDR inched-up slightly across banks, barring HDFCB

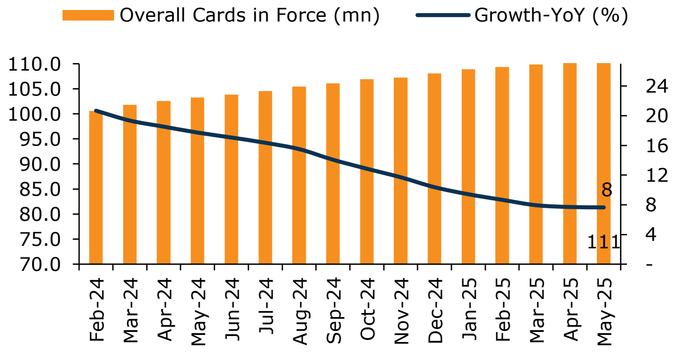


Source: Emkay Research; Note: Q1FY26 LDR is based on banks' provisional business update numbers

Credit card (CIF) continues to fall, while spends pick up

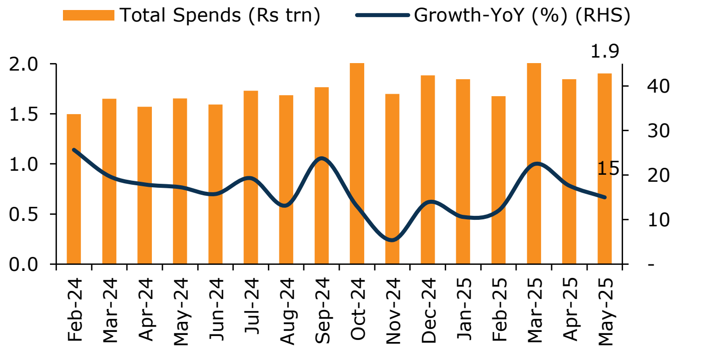
Credit card growth (CIF) slowed to 9% YoY, mainly due to reduced card issuances amid rising asset quality pressures, especially in the sub-Rs50k segment. However, spends growth improved slightly to 15% YoY in May-25, supported by seasonal factors. HDFCB gained a marginal CIF market share (21.8%), while ICICI (16.4%), Axis (13.5%), and RBL (4.3%) saw slight declines—RBL's drop reflects a cautious approach and the end of its Bajaj Finance partnership, as it plans to focus on organic growth ahead. SBI and KMB's shares remained stable. Channel checks indicate easing fresh stress flows, but card players are likely to increase charge-offs, which shall lead to higher LLP. We expect the current growth slowdown (driven by asset quality concerns) to be transitory, with industry growth rebounding by Q2FY26.

Exhibit 17: Slower new cards issuance leads to stable CIF growth…



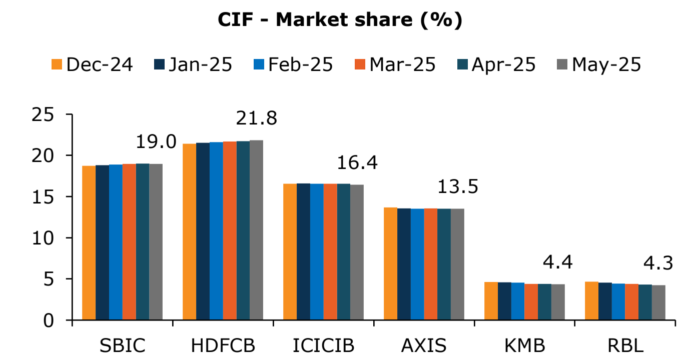
Source: RBI, Emkay Research

Exhibit 18: …but spends picked up owing to seasonal tailwinds



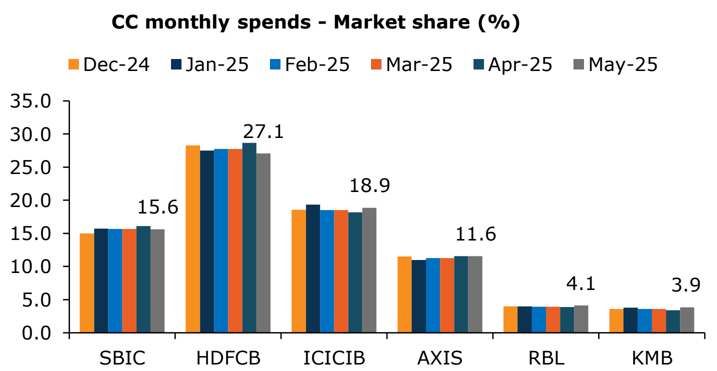
Source: RBI, Emkay Research

Exhibit 19: HDFCB gained slight CIF market share, while ICICIB, Axis, and RBL saw a marginal loss in market share



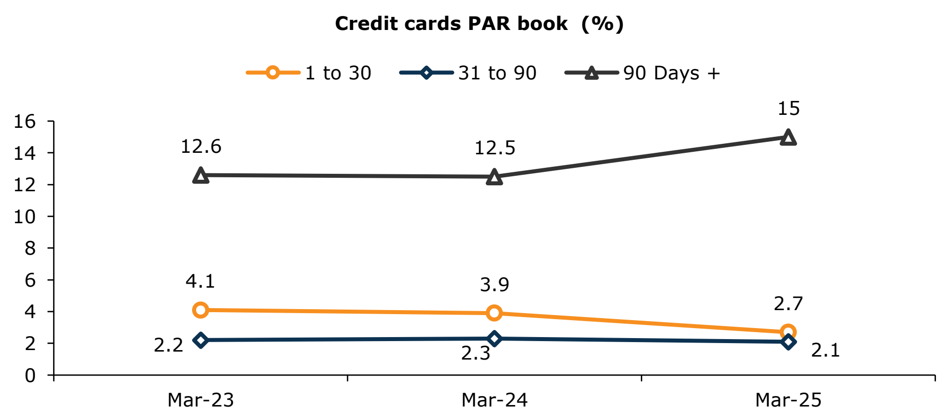
Source: RBI, Emkay Research

Exhibit 20: ICICIB, Axis, RBL, and KMB's spends market share have increased, while SBI and HDFCB lose marginal share



Source: RBI, Emkay Research

Exhibit 21: Systemic stress has largely peaked out and new fresh flows have started easing



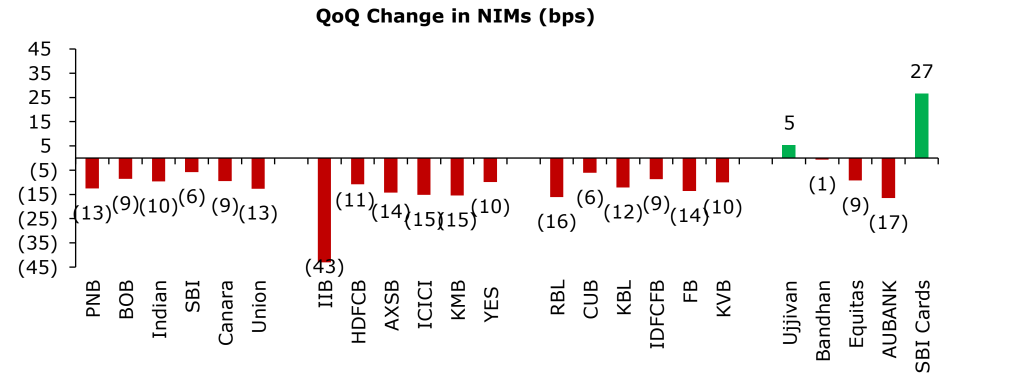
Source: CRIF Highmark, Emkay Research

Swift rate-cut cycle to hurt margins for banks

The new Governor has gone full throttle on cutting policy rate, thereby effectively cutting repo rate by 100bps to 5.5%, with an additional CRR cut by 100bps to a historic low of 3% (to be effective from Sep-Nov), to support growth. However, we believe credit growth will take time to pick up, but margins would contract sharply in H1 due to the impact of repo rate cuts on floating rate loans, partly offset by SA rate cuts taken by banks. The benefit of the CRR cut and hence, liquidity release will be more back-ended, thereby providing some support to margins in H2.

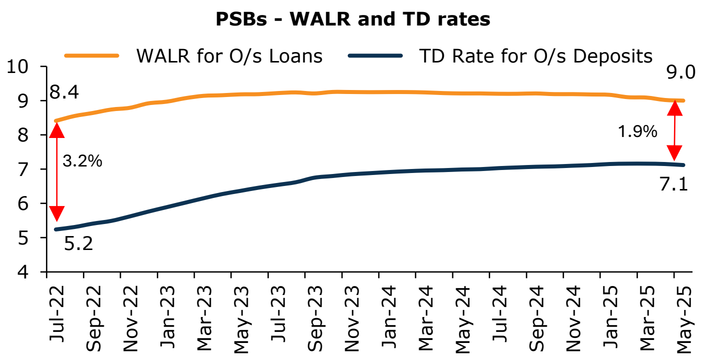
For our coverage universe, we expect margin contraction of ~5-20bps QoQ, with large PVBs at the higher-end of the bracket, and PSBs at the lower-end. We expect banks like IDFCB, CUBK, SBI, and MFI-heavy banks to report relatively lower margin compression, while SBI Cards would report margin expansion.

Exhibit 22: While all banks (except Ujjivan) shall witness margin contraction, PSB's margin shall be better-off relative to PVBs; SBI Cards to report margin expansion



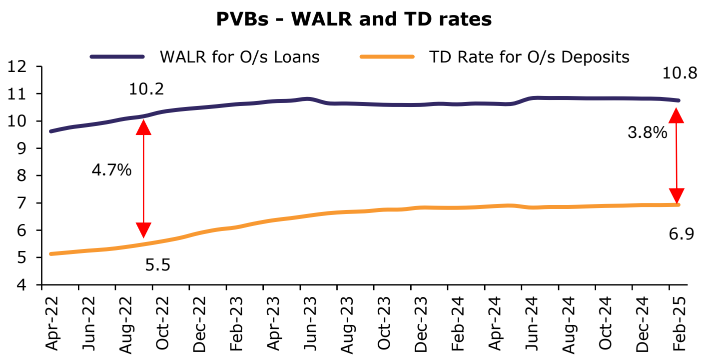
Source: RBI, Emkay Research; Note: For IIB, we have considered Q4FY25 NIMs (excl. one-offs). The QoQ expected change in NIMs with Q4FY25 NIMs (incl. one-offs) would be (-)82bps

Exhibit 23: Spreads for PSBs have contracted at a faster pace…



Source: RBI, Emkay Research

Exhibit 24: …while those for PVBs have been relatively slower

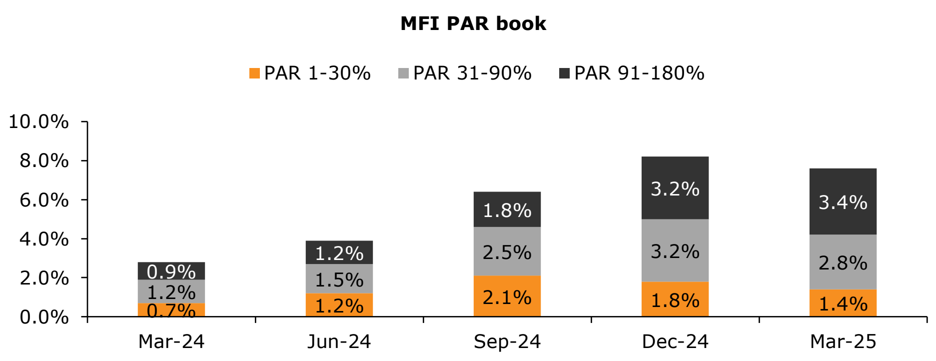


Source: RBI, Emkay Research

MFI stress remains elevated; Cards, PL stress peaked out

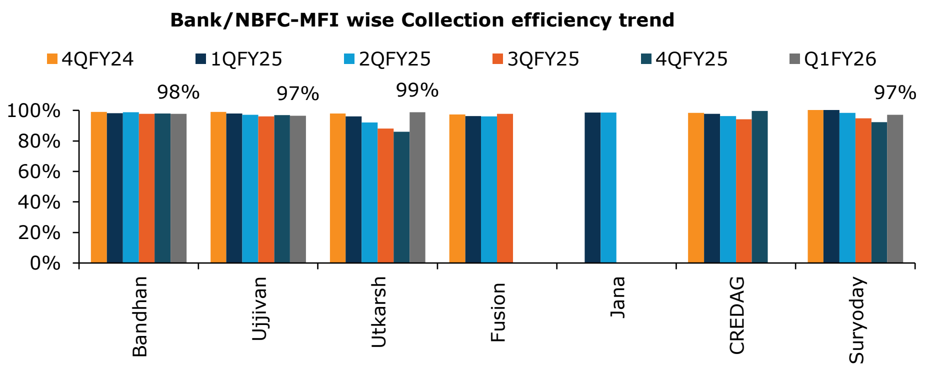
MFI stress flow is likely to remain elevated due to seasonal weakness in Q1 and the impact of ordinances in Karnataka and TN, leading to elevated LLP for NBFC-MFIs and MFI-heavy banks. The PL stress flow has peaked out but is likely to remain elevated in the near term; this, coupled with higher write-offs is likely to keep LLP elevated. Credit card stress flow too is easing but card players would prefer to accelerate charge-offs, leading to higher LLP. Overall, corporate asset quality is holding up well and thus, we do not expect any meaningful NPA formation for PSBs; recoveries too will be relatively slower in Q1. However, Agri/KCC slippages could remain elevated for select large PVBs and PSBs due to seasonal factors, thereby calling for higher LLP.

Exhibit 25: After peaking out in Q3FY25, incremental stress flow started to ease



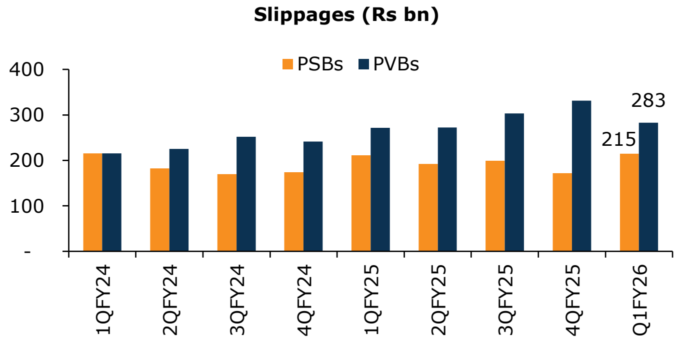
Source: CRIF Highmark, Emkay Research

Exhibit 26: CE has largely remained stable, except for slight improvement in Utkarsh and Suryoday



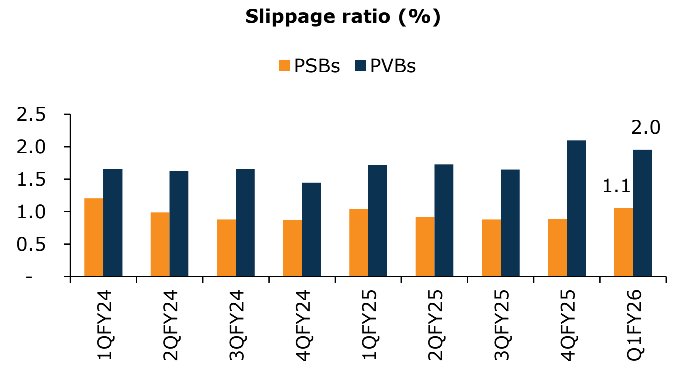
Source: Emkay Research; Note: CREDAG's Q4FY25 CE represents X bucket CE (excl KA); Utkarsh's Q1FY26 CE represents X bucket CE (excl. pre-payments)

Exhibit 27: Slippages for PVBs expected to be elevated owing to continued stress in unsecured (PL+ cards)/MFI loans…



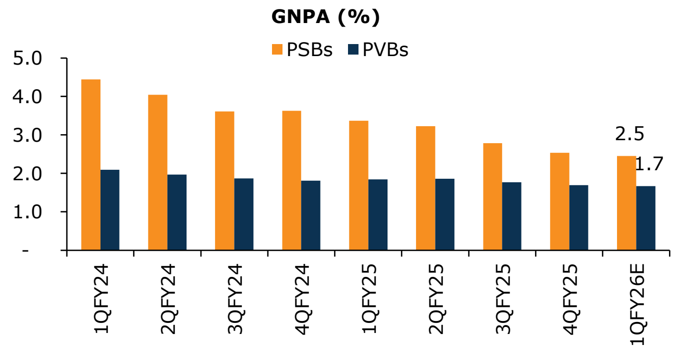
Source: Company, Emkay Research

Exhibit 28: …as also the slippage ratio



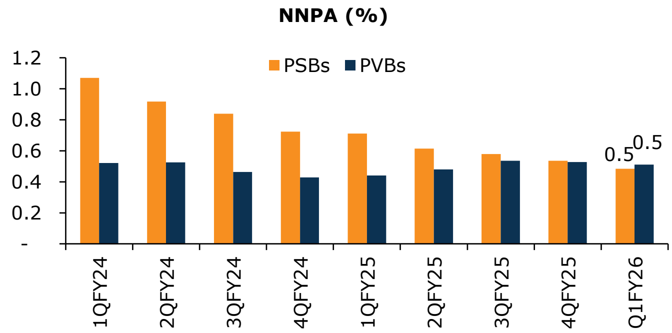
Source: Company, Emkay Research

Exhibit 29: Despite contained slippages for PSBs, slower recoveries shall lead to sticky GNPA ratio…



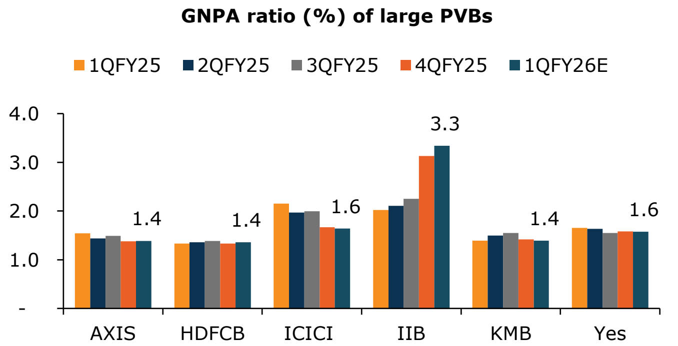
Source: Company, Emkay Research

Exhibit 30: …as also the NNPA ratio



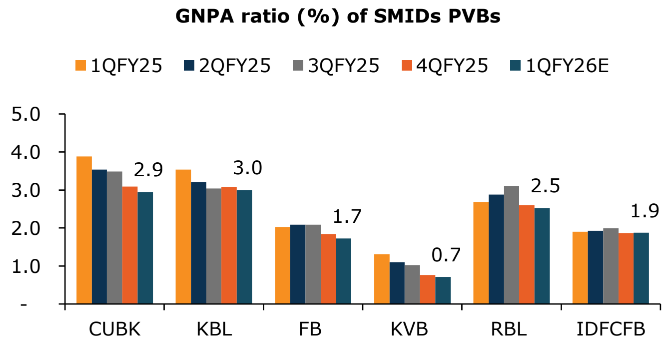
Source: Company, Emkay Research

Exhibit 31: GNPA ratio of large PVBs to be sticky, while that of IIB is expected to inch-up owing to continued MFI stress



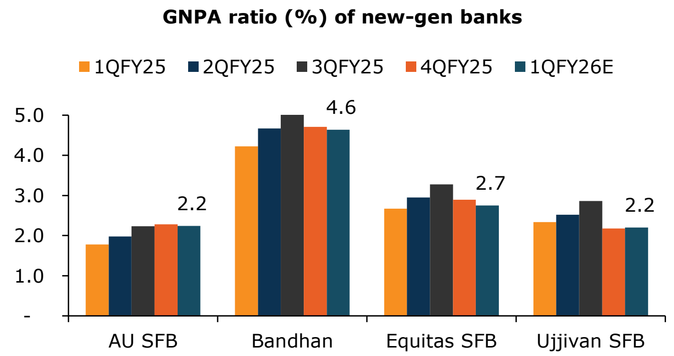
Source: Company, Emkay Research

Exhibit 32: GNPA ratio of SMID PVBs is expected to improve sequentially



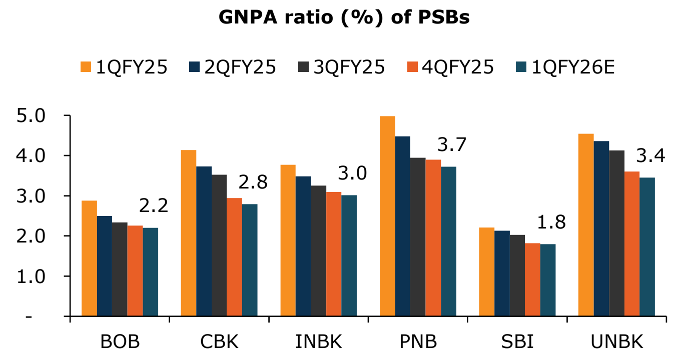
Source: Company, Emkay Research

Exhibit 33: ...while that of new-gen banks shall remain elevated



Source: Company, Emkay Research

Exhibit 34: Contained slippages partly offset by slower recoveries shall lead to sticky/marginal improvement in GNPA ratio of PSBs



Source: Company, Emkay Research

Subdued profitability for PVBs; PSBs to relatively outperform

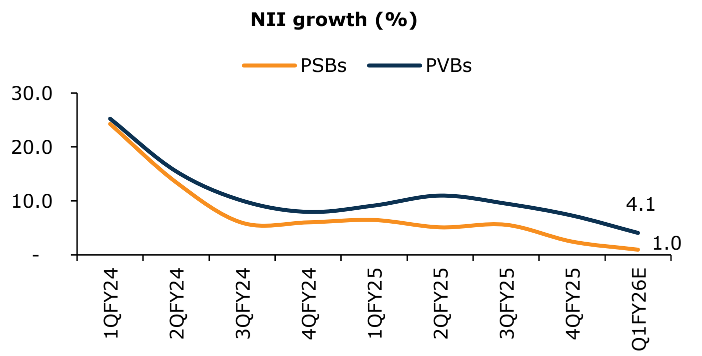
We expect overall profitability growth for PVBs to remain subdued at 4% YoY. However, for PSBs, we see profitability growth being relatively better at 10% YoY, aided by better treasury gains, recovery from the write-off pool, and lower LLP. Among PVBs, we expect ICICIB, Indian Bank, SBI, and KVB to be outliers, while Axis would report relatively soft results due to weak margins and elevated credit cost. IndusInd Bank may turn profitable in the absence of any lumpy stress recognition. MFI-exposed banks/SFBs are likely to report slightly better profitability on a sequential basis due to some moderation in LLP.

Exhibit 35: Better treasury gains, recovery from the NPA pool and lower LLP is likely to lead to better profitability for PSBs, while profitability for PVBs is expected to remain subdued

(Rs bn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26E	YoY (%)	QoQ (%)
NII	1,827	1,844	1,859	1,874	1,878	2.8	0.2
Non-interest Income	645	757	685	875	737	14.3	(15.8)
Total Net Income	**2,472**	**2,601**	**2,544**	**2,750**	**2,616**	**5.8**	**(4.9)**
PPOP	1,295	1,379	1,301	1,378	1,335	**3.1**	**(3.1)**
LLP	228	254	216	268	230	1.1	(14.0)
Overall PAT	**817**	**844**	**815**	**839**	**826**	**1.1**	**(1.5)**
PAT - PVBs	**470**	**450**	**437**	**427**	**445**	**(5.4)**	**4.1**
PAT - PSBs	**347**	**393**	**378**	**412**	**382**	**10.0**	**(7.4)**

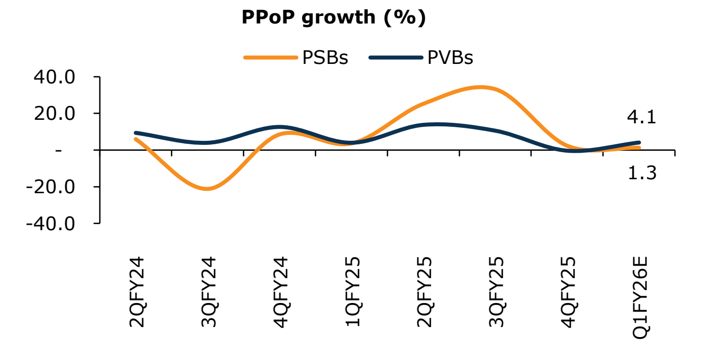
Source: Emkay Research

Exhibit 36: NII to moderate due to slower advances growth and continued cost pressure…



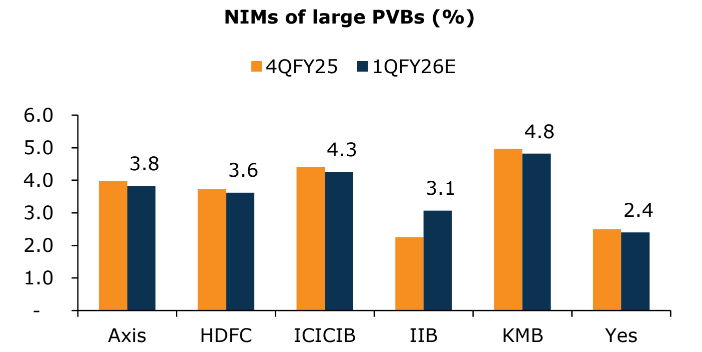
Source: Company, Emkay Research

Exhibit 37: …which, coupled with elevated opex and LLP, is likely to result in moderate PPOP growth



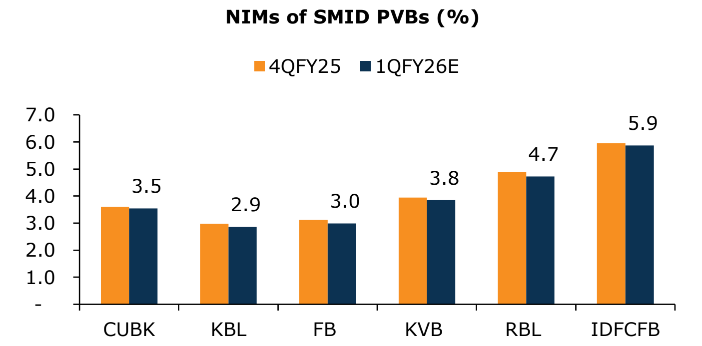
Source: Company, Emkay Research

Exhibit 38: Margin contraction of large PVBs shall be relatively higher than PSBs, owing to higher EBLR book…



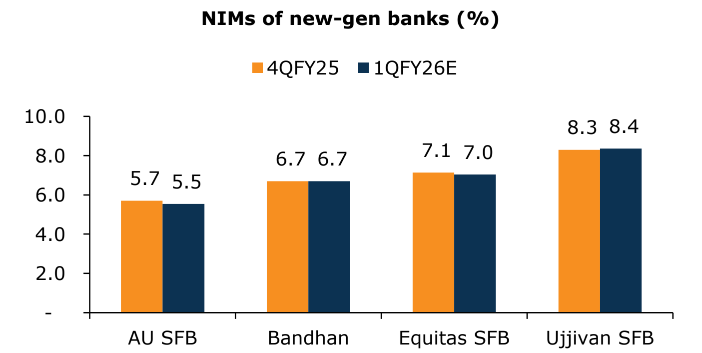
Source: Company, Emkay Research

Exhibit 39: …and also for SMID PVBs



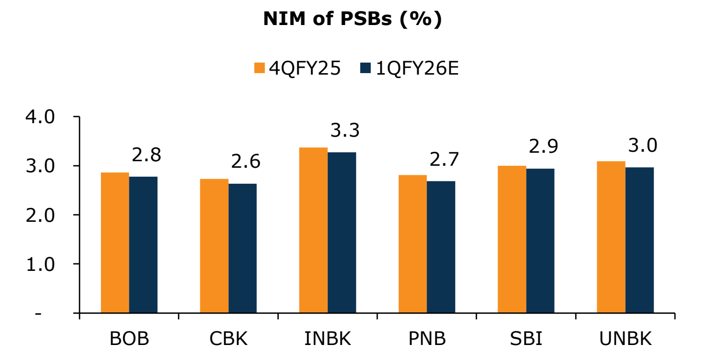
Source: Company, Emkay Research

Exhibit 40: Margins of all new-gen banks (except Ujjivan) shall dip in Q1



Source: Company, Emkay Research

Exhibit 41: PSB's margin contraction shall be relatively lower than that of PVBs



Source: Company, Emkay Research

Exhibit 42: Summary of financial estimates (Q1FY26E)

Banks	NII			PPoP			PAT		
(Rs mn)	Q1FY26E	YoY (%)	QoQ (%)	Q1FY26E	YoY (%)	QoQ (%)	Q1FY26E	YoY (%)	QoQ (%)
Large Private									
Axis Bank	137,461	2.2	(0.5)	104,111	3.0	(3.2)	64,325	6.6	(9.6)
HDFC Bank	319,046	6.9	(0.5)	262,227	9.8	(1.2)	175,359	8.4	(0.5)
ICICI Bank	213,451	9.2	0.7	179,091	11.8	1.4	123,818	12.0	(2.0)
IIB	40,799	(24.6)	33.8	22,592	(42.8)	NA	1,944	(91.0)	NA
Kotak Bank	74,095	8.3	1.7	54,041	2.9	(1.2)	35,516	0.9	(0.0)
Yes Bank	22,048	(1.7)	(3.1)	9,611	8.6	(26.9)	5,391	7.3	(27.0)
Sub Total	**806,900**	**4.3**	**1.3**	**631,673**	**5.1**	**3.1**	**406,352**	**3.0**	**3.3**
Small-Mid Private									
City Union Bank	6,082	11.6	1.3	4,269	14.3	(3.2)	2,877	8.8	(0.1)
Karnataka Bank	7,837	(13.2)	0.4	4,166	(25.4)	11.1	2,653	(33.7)	5.1
Federal Bank	23,376	2.0	(1.7)	15,473	3.1	5.6	9,704	(3.9)	(5.8)
Karur Vysya Bank	11,020	7.6	1.2	8,106	8.7	(2.9)	5,091	11.0	(0.8)
RBL Bank	15,592	(8.3)	(0.2)	7,907	(8.0)	(8.2)	1,580	(57.5)	130.0
IDFC First	51,698	10.1	5.4	19,693	4.6	8.7	4,707	(30.8)	54.8
Sub Total	**115,606**	**3.6**	**2.1**	**59,615**	**0.7**	**3.0**	**26,612**	**(16.4)**	**8.3**
New Age/SFBs									
AU SFB	21,884	13.9	4.5	12,433	30.6	(3.8)	5,200	3.5	3.2
Bandhan	28,538	(5.0)	3.6	16,038	(17.4)	2.1	4,516	(57.5)	42.1
Equitas SFB	8,463	5.6	2.0	3,279	(3.7)	5.3	809	214.5	92.1
Ujjivan SFB	8,960	(4.8)	3.7	3,442	(32.5)	(4.3)	1,233	(59.0)	47.9
Sub Total	**67,845**	**1.7**	**3.7**	**35,192**	**(6.0)**	**(0.4)**	**11,759**	**(37.9)**	**24.2**
PSBs									
BOB	108,202	(6.7)	(1.8)	66,608	(7.0)	(18.1)	41,890	(6.0)	(17.0)
Canara Bank	93,749	2.3	(0.7)	77,842	2.2	(6.0)	44,762	14.6	(10.5)
Indian Bank	64,342	4.1	0.7	46,538	3.4	(7.3)	27,330	13.7	(7.5)
PNB	104,740	(0.0)	(2.6)	64,616	(1.8)	(4.6)	41,283	27.0	(9.6)
SBI	423,133	2.9	(1.1)	277,356	4.9	(11.3)	181,282	6.4	(2.8)
Union Bank	93,870	(0.3)	(1.3)	75,719	(2.7)	(1.7)	45,044	22.4	(9.6)
Sub Total	**888,037**	**1.0**	**(1.2)**	**608,679**	**1.3**	**(9.4)**	**381,591**	**9.9**	**(7.4)**
Payments bank									
Fino	4,981	16.1	6.5	334	37.4	12.5	261	7.2	11.2
Card Player									
SBI Cards	17,141	16.1	5.8	19,700	3.7	0.3	5,759	(3.1)	7.8
NBFC-MFI									
CREDAG	8,909	(6.5)	1.6	6,463	(8.9)	1.9	960	(75.9)	103.3
Fusion	2,572	(35.4)	(4.5)	629	(78.9)	(30.2)	(801)	NA	NA

Source: Company, Emkay Research

Change in estimates and TP

AU SFB (REDUCE): Factoring in better-than-expected credit growth trajectory in Q1 (18% AUM growth) and also anticipated during the year coupled with expected moderation in credit cost as MFI stress eases, we upgrade our earnings estimates for FY26E/FY27E/FY28E by 5%/8%/9%. Given steady improvement in RoE to 15-18% over FY26-28E, from 14% in FY25, and the bank's potential to secure the Universal banking license, which we believe shall be a long-term positive, we raise the TP multiple to 2.3x Jun-27E ABV (from earlier 2x Mar-27E ABV) and increase our TP by 20% to Rs725. However, given expensive valuations, we retain REDUCE.

IDFCB (ADD): We believe the recent capital raise (Rs75bn from Warburg Pincus and ADIA) would support the bank's growth for the next 12-24 months. Factoring in lower opex, decline in credit costs owing to the improving outlook on MFI and easing of fresh stress flow, and RoA at ~0.8–1.2% for FY26-28E, we raise our TP by ~14% to Rs80; we retain ADD on the stock.

Exhibit 43: Revision in estimates for banks under our coverage

Company	Change in EPS (Rs)									Change in TP (Rs)		
	FY26E			FY27E			FY28E					
	Earlier	Revised	Chg	Earlier	Revised	Chg	Earlier	Revised	Chg	Earlier	Revised	Chg
Small-Mid PVBs												
FB	18	17	-3.3%	21	21	0.0%	27	27	1.3%	240	240	0.0%
IDFC	4	4	0.0%	6	6	0.0%	8	8	0.0%	70	80	14.3%
New Age PVBs/SFBs												
AU SFB	36	38	4.8%	46	49	7.5%	57	63	9.2%	600	725	20.8%

Source: Emkay Research

Exhibit 44: Q1FY26E results preview for Banks/NBFCs under our coverage

Name			Q1FY26E	Q4FY25	Q1FY25	% Chg YoY	% Chg QoQ	Comments
Axis Bank								
CMP(Rs)	1,165	NII (Rs mn)	137,461	138,105	134,482	2.2%	-0.5%	Slower growth, margin contraction, and elevated credit cost to keep earnings in check. Higher unsecured loan and KCC slippages to weigh on slippages.
Mkt Cap (Rs bn)	3,614	Op. Profit (Rs mn)	104,111	107,524	101,062	3.0%	-3.2%	
Reco	Buy	NIM (%)	3.8	4.0	4.1	-22bps	-14bps	
		PAT (Rs mn)	64,325	71,175	60,346	6.6%	-9.6%	
		EPS (Rs)	20.7	23.0	19.5	6.6%	-9.6%	
HDFC Bank								
CMP(Rs)	2,001	NII (Rs mn)	319,046	320,658	298,371	6.9%	-0.5%	Strong deposit growth, coupled with rate cut and higher KCC slippages should lead to margin compression and thus keep earnings growth in check.
Mkt Cap (Rs bn)	15,347	Op. Profit (Rs mn)	262,227	265,367	238,846	9.8%	-1.2%	
Reco	Buy	NIM (%)	3.6	3.7	3.7	-4bps	-11bps	
		PAT (Rs mn)	175,359	176,161	161,748	8.4%	-0.5%	
		EPS (Rs)	22.9	23.0	21.1	8.4%	-0.5%	
ICICI Bank								
CMP(Rs)	1,442	NII (Rs mn)	213,451	211,929	195,529	9.2%	0.7%	The bank should report higher margin contraction, but treasury gains coupled with lower LLP should support earnings.
Mkt Cap (Rs bn)	10,289	Op. Profit (Rs mn)	179,091	176,643	160,248	11.8%	1.4%	
Reco	Buy	NIM (%)	4.3	4.4	4.4	-10bps	-15bps	
		PAT (Rs mn)	123,818	126,296	110,591	12.0%	-2.0%	
		EPS (Rs)	17.4	17.7	15.5	12.0%	-2.0%	
IndusInd Bank								
CMP(Rs)	850	NII (Rs mn)	40,799	30,483	54,076	-24.6%	33.8%	The bank should recover from a heavy loss in Q4 due to recognition of stress in MFI and derivative loss. Slippages to moderate QoQ, but still remain elevated.
Mkt Cap (Rs bn)	662	Op. Profit (Rs mn)	22,592	-4,909	39,518	-42.8%	NA	
Reco	Reduce	NIM (%)	3.1	2.3	4.3	-118bps	82bps	
		PAT (Rs mn)	1,944	-23,289	21,707	-91.0%	NA	
		EPS (Rs)	2.5	(29.9)	27.9	-91.0%	NA	
Kotak Bank								
CMP(Rs)	2,225	NII (Rs mn)	74,143	72,836	68,424	8.4%	1.8%	Slower growth, higher margin compression coupled with slower fees to weigh on earnings. Slippages should remain largely flat QoQ.
Mkt Cap (Rs bn)	4,423	Op. Profit (Rs mn)	54,089	54,722	52,541	2.9%	-1.2%	
Reco	Reduce	NIM (%)	4.8	5.0	5.0	-22bps	-17bps	
		PAT (Rs mn)	35,553	35,517	35,196	1.0%	0.1%	
		EPS (Rs)	17.9	17.9	17.7	1.0%	0.1%	
Yes Bank								
CMP(Rs)	20	NII (Rs mn)	22,048	22,764	22,440	-1.7%	-3.1%	Slower growth, margin compression, and higher LLP should keep earnings in check. We expect slippages to remain elevated due to stress in retail loans.
Mkt Cap (Rs bn)	627	Op. Profit (Rs mn)	9,611	13,144	8,853	8.6%	-26.9%	
Reco	Sell	NIM (%)	2.4	2.5	2.4	0bps	-10bps	
		PAT (Rs mn)	5,391	7,381	5,024	7.3%	-27.0%	
		EPS (Rs)	0.2	0.2	0.2	7.3%	-27.0%	

Source: Company, Emkay Research

...(Contd)...Q1FY26E results preview for Banks/NBFCs under our coverage

Name			Q1FY26E	Q4FY25	Q1FY25	% Chg YoY	% Chg QoQ	Comments
City Union Bank								
CMP(Rs)	215	NII (Rs mn)	6,082	6,003	5,452	11.6%	1.3%	We expect the bank to clock RoA of 1.6-1.7% in Q1, aided by healthy growth, lower margin compression, and credit cost. After an uptick in Q4, slippages should normalize in Q1FY26
Mkt Cap (Rs bn)	159	Op. Profit (Rs mn)	4,269	4,410	3,735	14.3%	-3.2%	
Reco	Buy	NIM (%)	3.5	3.6	3.5	0bps	-6bps	
		PAT (Rs mn)	2,877	2,880	2,645	8.8%	-0.1%	
		EPS (Rs)	3.9	3.9	3.6	8.8%	-0.1%	
Karnataka Bank								
CMP(Rs)	193	NII (Rs mn)	7,575	7,807	9,034	-16.1%	-3.0%	Slower growth, margin contraction, and elevated LLP to hurt earnings. Slippages to remain elevated.
Mkt Cap (Rs bn)	73	Op. Profit (Rs mn)	3,904	3,750	5,586	-30.1%	4.1%	
Reco	Add	NIM (%)	2.8	3.0	3.5	-71bps	-15bps	
		PAT (Rs mn)	2,577	2,524	4,003	-35.6%	2.1%	
		EPS (Rs)	6.8	6.7	10.6	-35.6%	2.1%	
Federal Bank								
CMP(Rs)	214	NII (Rs mn)	23,376	23,774	22,920	2.0%	-1.7%	Slower growth, higher margin compression to keep earnings in check. Slippages to remain range-bound.
Mkt Cap (Rs bn)	524	Op. Profit (Rs mn)	15,473	14,654	15,009	3.1%	5.6%	
Reco	Buy	NIM (%)	3.0	3.1	3.2	-18bps	-14bps	
		PAT (Rs mn)	9,704	10,302	10,095	-3.9%	-5.8%	
		EPS (Rs)	4.0	4.2	4.1	-3.9%	-5.8%	
Karur Vysya Bank								
CMP(Rs)	272	NII (Rs mn)	11,020	10,893	10,244	7.6%	1.2%	Strong growth coupled with healthy treasury gains and lower LLP should help the bank report 1.7% RoA. Slippages to remain range-bound.
Mkt Cap (Rs bn)	217	Op. Profit (Rs mn)	8,106	8,350	7,459	8.7%	-2.9%	
Reco	Buy	NIM (%)	3.8	3.9	4.1	-29bps	-10bps	
		PAT (Rs mn)	5,091	5,134	4,587	11.0%	-0.8%	
		EPS (Rs)	6.4	6.4	5.7	11.0%	-0.8%	
RBL Bank								
CMP(Rs)	250	NII (Rs mn)	15,592	15,630	17,000	-8.3%	-0.2%	After a clean-up act in Q4, we expect profitability to be better QoQ due to lower LLP. Lower stress in cards, MFI to drive down slippages.
Mkt Cap (Rs bn)	152	Op. Profit (Rs mn)	7,907	8,612	8,591	-8.0%	-8.2%	
Reco	Buy	NIM (%)	4.7	4.9	5.7	-94bps	-16bps	
		PAT (Rs mn)	1,580	687	3,715	-57.5%	130.0%	
		EPS (Rs)	2.6	1.1	6.1	-57.5%	130.0%	
IDFC First Bank								
CMP(Rs)	78	NII (Rs mn)	51,698	49,072	46,948	10.1%	5.4%	We expect profitability to be better QoQ due to better growth and some moderation in LLP. Slippages to remain elevated due to stress in MFI, Cards.
Mkt Cap (Rs bn)	571	Op. Profit (Rs mn)	19,693	18,116	18,824	4.6%	8.7%	
Reco	Add	NIM (%)	5.9	6.0	6.2	-36bps	-9bps	
		PAT (Rs mn)	4,707	3,041	6,806	-30.8%	54.8%	
		EPS (Rs)	0.6	0.4	0.9	-30.8%	54.8%	

Source: Company, Emkay Research

***...(Contd)...*Q1FY26E results preview for Banks/NBFCs under our coverage**

Name			Q1FY26E	Q4FY25	Q1FY25	% Chg YoY	% Chg QoQ	Comments
AU SFB								
CMP(Rs)	820	NII (Rs mn)	21,884	20,939	19,206	13.9%	4.5%	Higher margin compression coupled with elevated credit cost should weigh on earnings. Slippages to moderate QoQ, but still remain elevated.
Mkt Cap (Rs bn)	611	Op. Profit (Rs mn)	12,433	12,923	9,517	30.6%	-3.8%	
Reco	Reduce	NIM (%)	5.5	5.7	6.2	-71bps	-17bps	
		PAT (Rs mn)	5,200	5,037	5,026	3.5%	3.2%	
		EPS (Rs)	7.0	6.8	6.7	3.5%	3.2%	
Bandhan Bank								
CMP(Rs)	175	NII (Rs mn)	27,051	27,559	30,050	-10.0%	-1.8%	Slower growth, higher LLP to weigh on earnings. MFI stress to manifest via higher slippages.
Mkt Cap (Rs bn)	281	Op. Profit (Rs mn)	14,709	15,713	19,409	-24.2%	-6.4%	
Reco	Add	NIM (%)	6.4	6.7	7.6	-117bps	-27bps	
		PAT (Rs mn)	3,522	3,179	10,635	-66.9%	10.8%	
		EPS (Rs)	2.2	2.0	6.6	-66.9%	10.8%	
Equitas SFB								
CMP(Rs)	63	NII (Rs mn)	8,123	8,294	8,014	1.4%	-2.1%	Slower growth, lower margins, and higher provisions to hurt earnings. Higher stress in MFI portfolio to keep slippages elevated.
Mkt Cap (Rs bn)	72	Op. Profit (Rs mn)	2,939	3,113	3,404	-13.6%	-5.6%	
Reco	Reduce	NIM (%)	6.9	7.1	8.0	-108bps	-24bps	
		PAT (Rs mn)	554	421	257	115.4%	31.6%	
		EPS (Rs)	0.5	0.4	0.2	115.4%	31.6%	
Ujjivan SFB								
CMP(Rs)	47	NII (Rs mn)	8,955	8,643	9,415	-4.9%	3.6%	Profitability to improve QoQ, but higher provisions to keep overall earnings in check. Slippages to remain elevated due to stress in Karnataka and TN.
Mkt Cap (Rs bn)	91	Op. Profit (Rs mn)	3,436	3,598	5,095	-32.6%	-4.5%	
Reco	Buy	NIM (%)	8.3	8.3	9.3	-101bps	-1bps	
		PAT (Rs mn)	1,149	834	3,011	-61.9%	37.7%	
		EPS (Rs)	0.6	0.4	1.6	-61.9%	37.7%	
Bank of Baroda								
CMP(Rs)	240	NII (Rs mn)	108,202	110,196	116,001	-6.7%	-1.8%	Credit growth has been healthy, but slower margins and treasury gains vs peers should keep earnings in check. Slippages to remain range-bound.
Mkt Cap (Rs bn)	1240	Op. Profit (Rs mn)	66,608	81,321	71,613	-7.0%	-18.1%	
Reco	Buy	NIM (%)	2.8	2.9	3.2	-41bps	-9bps	
		PAT (Rs mn)	41,890	50,477	44,582	-6.0%	-17.0%	
		EPS (Rs)	8.1	9.8	8.6	-6.0%	-17.0%	
Canara Bank								
CMP(Rs)	114	NII (Rs mn)	93,749	94,419	91,663	2.3%	-0.7%	The bank should report higher margin contraction, but healthy treasury gains should support earnings. Agri slippages could be slightly elevated due to seasonal factors.
Mkt Cap (Rs bn)	1032	Op. Profit (Rs mn)	77,842	82,837	76,162	2.2%	-6.0%	
Reco	Buy	NIM (%)	2.6	2.7	2.9	-26bps	-9bps	
		PAT (Rs mn)	44,762	50,027	39,053	14.6%	-10.5%	
		EPS (Rs)	4.9	5.5	4.3	14.6%	-10.5%	
Indian Bank								
CMP(Rs)	639	NII (Rs mn)	64,342	63,893	61,781	4.1%	0.7%	A sharp rate cut, coupled with agri slippages could weigh on margins, but better treasury gains and lower credit cost should help the bank clock >1% RoA. Agri slippages could be on the higher side in Q1.
Mkt Cap (Rs bn)	860	Op. Profit (Rs mn)	46,538	50,187	45,016	3.4%	-7.3%	
Reco	Buy	NIM (%)	3.3	3.4	3.4	-17bps	-10bps	
		PAT (Rs mn)	27,330	29,561	24,034	13.7%	-7.5%	
		EPS (Rs)	20.3	21.9	17.8	13.7%	-7.5%	

Source: Company, Emkay Research

...(Contd)...Q1FY26E results preview for Banks/NBFCs under our coverage

Name			Q1FY26E	Q4FY25	Q1FY25	% Chg YoY	% Chg QoQ	Comments
Punjab National Bank								
CMP(Rs)	112	NII (Rs mn)	104,740	107,570	104,763	0.0%	-2.6%	Slower growth, coupled with lower margins could keep earnings in check. Slippages to normalize in Q1 after a sharp uptick in Q4.
Mkt Cap (Rs bn)	1287	Op. Profit (Rs mn)	64,616	67,757	65,812	-1.8%	-4.6%	
Reco	Buy	NIM (%)	2.7	2.8	3.1	-37bps	-13bps	
		PAT (Rs mn)	41,283	45,670	32,516	27.0%	-9.6%	
		EPS (Rs)	3.6	4.0	2.8	27.0%	-9.6%	
State Bank of India								
CMP(Rs)	813	NII (Rs mn)	423,133	427,746	411,254	2.9%	-1.1%	We expect better growth coupled with higher treasury gains, lower opex, and contained credit cost to help clock 1% RoA. Seasonally, Q1 slippages will be higher due to agri NPAs.
Mkt Cap (Rs bn)	7253	Op. Profit (Rs mn)	277,356	312,860	264,486	4.9%	-11.3%	
Reco	Buy	NIM (%)	2.9	3.0	3.2	-28bps	-6bps	
		PAT (Rs mn)	181,282	186,426	170,352	6.4%	-2.8%	
		EPS (Rs)	20.3	20.9	19.1	6.4%	-2.8%	
Union Bank of India								
CMP(Rs)	150	NII (Rs mn)	93,870	95,140	94,121	-0.3%	-1.3%	Margin contraction could be higher, but treasury gains should support bank's earnings. Slippages should remain largely flat QoQ.
Mkt Cap (Rs bn)	1147	Op. Profit (Rs mn)	75,719	77,001	77,853	-2.7%	-1.7%	
Reco	Reduce	NIM (%)	3.0	3.1	3.1	-9bps	-13bps	
		PAT (Rs mn)	45,044	49,849	36,789	22.4%	-9.6%	
		EPS (Rs)	5.9	6.5	4.8	22.4%	-9.6%	
SBI Cards								
CMP(Rs)	919	NII (Rs mn)	17,141	16,199	14,765	16.1%	5.8%	We expect margins to expand QoQ, but higher LLP to keep earnings range-bound. Fresh stress flow is moderating, but NPA formation to remain elevated due to bucket movement.
Mkt Cap (Rs bn)	874	Op. Profit (Rs mn)	19,700	19,637	18,998	3.7%	0.3%	
Reco	Add	NIM (%)	11.5	11.2	10.9	57bps	27bps	
		PAT (Rs mn)	5,759	5,342	5,944	-3.1%	7.8%	
		EPS (Rs)	6.1	5.6	6.2	-3.1%	7.8%	
CREDAG								
CMP(Rs)	1,207	NII (Rs mn)	8,909	8,765	9,525	-6.5%	1.6%	Earnings to improve QoQ due to some moderation in LLP. Fresh stress flow is moderating, but NPA formation to remain elevated due to bucket movement.
Mkt Cap (Rs bn)	193	Op. Profit (Rs mn)	6,463	6,340	7,093	-8.9%	1.9%	
Reco	Add	NIM (%)	12.7	12.7	13.0	-28bps	2bps	
		PAT (Rs mn)	960	472	3,976	-75.9%	103.3%	
		EPS (Rs)	6.0	3.0	24.9	-75.9%	103.3%	
Fusion								
CMP(Rs)	199	NII (Rs mn)	2,572	2,693	3,979	-35.4%	-4.5%	The company will remain in loss due to higher provisions. Higher stress in MFI portfolio to keep slippages elevated.
Mkt Cap (Rs bn)	28	Op. Profit (Rs mn)	629	901	2,978	-78.9%	-30.2%	
Reco	Reduce	NIM (%)	8.9	8.6	11.6	-274bps	33bps	
		PAT (Rs mn)	-801	-1,646	-356	NA	NA	
		EPS (Rs)	(7.9)	(16.3)	(3.5)	NA	NA	

Source: Company, Emkay Research

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