

# Financials: Banks

Year	Bank credit YoY%
FY13	13.6
FY14	13.9
FY15	12.2
FY16	10.2
FY17	4.7
FY18	9.4
FY19	13.3
FY20	6.1
FY21	5.6
FY22	8.6
FY23	15.0
FY24	16.3
FY25	11.0
FY26	16.1
May'26	17.7

## Credit growth nears a decadal high; macros turn favorable

**PSBs gain market share for the second straight year; est. 14% loan CAGR over FY26-28**

- The RBI, in its recent fortnightly print, has reported a 17.7% YoY systemic credit growth. This growth has demonstrated healthy momentum since 2HFY26, boosted by GST cuts and supportive regulatory measures. Consequently, credit growth has risen to 17.7% YoY, nearing its highest level in at least the past ten years.
- The growth distribution remains broad-based, with retail growth in the mid-teens strongly supported by healthy trends in the industrial and services segments.
- PSBs have been gaining incremental market share in credit and together account for 53% of the loan mix as of Mar'26. We note that FY26 has turned out to be the second consecutive year in which PSBs have gained market share over Private banks.
- Deposit growth, while picking up, continues to lag behind credit growth, standing at 12.2% YoY as of 31<sup>st</sup> May'26. The systemic LDR remains elevated at ~83%.
- The recent RBI relief measures for **FCNR (B) Deposits** are expected to facilitate deposit mobilization, with anticipated forex inflows of USD40-50b. This should translate into INR4.0-4.5t in deposits (forming 1.5-1.8% of overall deposits). Further, the removal of capital gains tax in the debt markets, the introduction of new long-term G-Secs, and incentives for ECBs and overseas borrowings will further attract foreign inflows, stabilize the currency, reduce borrowing costs for banks, and improve systemic liquidity.
- While we have currently penciled in an FY27 growth of 13.6% for our banking coverage universe — with PSBs expected to grow at 12.8% YoY and private banks at 14.8% YoY — there is an upside risk to our estimates with the current growth trends.
- Overall, macroeconomic conditions are becoming more favorable for large banks, supported by improved liquidity, a near-term appreciation of the USD/INR exchange rate, potential repo rate hikes by the end of FY27, declining bond yields, increased anticipated participation in mobilizing FCNR(B) deposits, and overseas borrowings at lower funding costs.
- We expect the banking sector's earnings to rebound with ~15% CAGR over FY26-28, fueled by ~15% CAGR in net interest income (NII). Private banks, with an anticipated earnings CAGR of ~21%, are likely to outperform PSU banks, which are expected to have an earnings CAGR of ~8%. Our top ideas are ICICIBC, HDFCB, SBIN, and AUBANK.

## Credit growth in May'26 nears a decadal high; momentum to continue

- Following a largely muted CY25, bank credit experienced a surge in CY26, backed by GST rationalization and the impact of an overall 125bp rate cut by the RBI. This led to healthy credit momentum sustaining at mid-teen levels in the early parts of 2026. As per the latest fortnightly print as of 31<sup>st</sup> May'26, the credit growth has surged further to 17.7% YoY, nearing decadal high levels (adjusting for the impact of the HDFC Bank and HDFC Ltd. merger in FY23-24). The credit growth has sustained these levels despite the uncertainty in the current macro environment and rising inflationary pressures.
- This credit growth is likely to be further supported by improved deposit mobilization and enhanced systemic liquidity, resulting from recent RBI relief measures aimed at attracting higher FCNR(B) deposits and overseas borrowings, as well as the resolution of the West Asia crisis.

- Overall, we expect growth to surge further by the end of 1QFY27, gradually moderating to mid-teens as we approach 2HFY27. We have currently penciled in a growth of 13.6% for FY27 for our banking universe, and we do envisage an upside risk to our current estimates if the current growth momentum continues while macroeconomic conditions turn favorable.

#### **Deposit mobilization to gain pace, aided by FCNR(B) flows**

Deposit growth at 12.2% YoY currently continues to lag credit growth. The growth has been in the range of 10-12% since the start of CY26, leading to an all-time high LDR ratio of ~83%. However, the RBI's current easing measures on FCNR (B) deposits and overseas borrowings are likely to get in USD40-50b of forex flows, which translates into 1.5-1.8% of the aggregate system deposits. These flows shall temporarily cool off the deposit mobilization and liquidity crunch, with multiple avenues open for banks to attract funding. We expect the deposit mobilization pace to gain further traction, aiding the credit growth trends.

#### **Broad-based growth; corporate credit growth holding strong**

The credit growth trends demonstrate broad-based expansion, with retail credit growth strongly supported by the industrial and services sectors. The retail credit growth as of Apr'25 was 16.4%, with services and industry sectors growing at 17.0% and 16.5%, respectively. There has been a meaningful increase in industry credit from mid-single digits in 1HFY26 to mid-teens from Dec'25, largely due to hardening of bond yields and higher working capital requirements by large and mid-corporate/MSMEs. Bank credit to NBFCs has also thus seen a rapid surge over the past few months. Within the retail segment, the growth has been driven by vehicle finance (18% YoY), while growth in the credit card segment continues to be muted.

#### **Private banks likely to outpace PSBs in business growth**

PSBs have been gaining incremental market share in credit and together account for 53% of the loan mix as of Mar'26. We note that FY26 has turned out to be the second consecutive year in which PSBs have gained market share over private banks. However, going forward, we estimate private banks' growth to recover, and the segment will likely outpace PSBs. This will be led by higher participation of private banks in corporate credit, business banking, and MSME lending and recovery in unsecured credit as well. We have modeled a growth of 14.8% YoY for private banks and 12.8% YoY for PSBs in our coverage universe for FY27. The C/D ratio for private banks in the MOFSL banking universe is likely to remain flat at 90% for FY27/FY28, while for PSBs, the C/D is expected to go up to 82.5% in FY28 from 79.8% in FY26.

### Macros turn favorable; healthy growth to boost sector performance

With twin forex swap facilities announced by the RBI and the West Asia crisis now most likely at its fag end, the overall macros are gradually turning favorable for the banking sector.

- The RBI swap window is likely to encourage foreign capital inflows and boost forex reserves, thus supporting the USD/INR exchange rate. Following the RBI measures last week, the rupee has already strengthened by 1.4% to ~94.5.
- Bond yields have eased to ~6.8% from 7.0%+ a week back due to the US-Iran peace announcement. Further, the tax relief measures for debt investments by FPIs, in turn, eased pressure on borrowing costs for the banks.
- Continued liquidity support by the RBI through OMO purchases and VRR auctions, combined with higher FCNR(B) deposits, is likely to enhance deposit mobilization for banks, serving as a catalyst to sustain loan growth momentum.
- Due to some inflationary pressures expected as a result of the geopolitical tensions, a rate hike is likely during 2HFY27, which will possibly help banks to improve their margins in the near term.

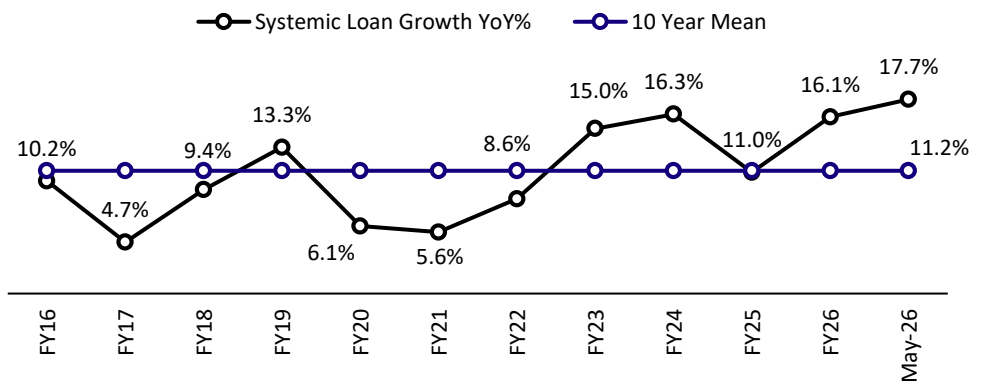
### Prefer ICICIB, HDFCB, SBIN, and AUBANK

- We expect credit growth to sustain at mid-to-high teen levels in the near term, supported by recent relief measures from the RBI, increased foreign flows, and continued RBI support for short-term and durable liquidity.
- Large private banks are well-placed to capitalize on the current favorable macros, having the ability to raise a larger proportion of FCNR (B) deposits backed by leverage and raise lower-cost overseas borrowings. Any possible rate hikes in the near future shall also aid large private banks more, given a higher proportion of their loans are linked to EBLR.
- FIIs have been on a selling spree recently, and that has hurt the stock performance of the larger banks. The recent measures by the RBI, alongside the reduction in tax rates on capital gains in debt securities, will help arrest currency depreciation and aid FX reserves.
- While we have currently penciled in an FY27 growth of 13.6% for our banking coverage universe — with PSBs expected to grow at 12.8% YoY and private banks at 14.8% YoY — there is an upside risk to our estimates with the current growth trends.
- We expect the banking sector's earnings to rebound with ~15% CAGR over FY26-28, fueled by ~15% CAGR in net interest income (NII). Private banks, with an anticipated earnings CAGR of ~21%, are likely to outperform PSU banks, which are expected to have an earnings CAGR of ~8%. **Our top ideas are ICICIB, HDFCB, SBIN, and AUBANK.**

## Story in charts

**Exhibit 1: Systemic credit growth is nearing the 10-year high and is way above the mean**

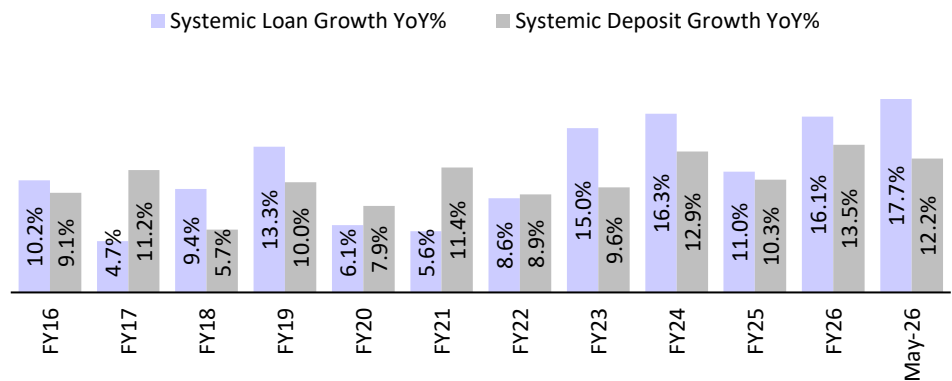
Credit growth continues its healthy momentum at mid-to-high-teens in the last few months and is now nearing the 10-year high levels



Source: RBI, MOFSL, Note: FY24 excludes the HDFC Bank and HDFC Ltd. merger

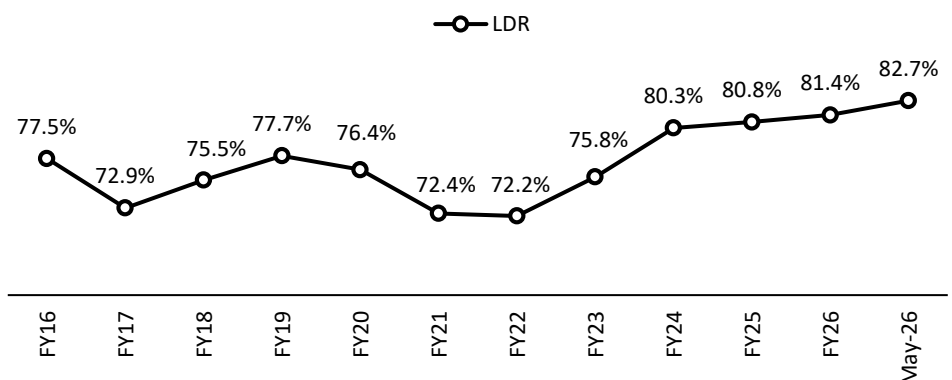
**Exhibit 2: Deposit growth continues to lag behind loan growth in the early teens**

Deposit growth, while healthier compared to the last few years, continues to lag behind credit growth considerably



Source: RBI, MOFSL, Note: FY24 excludes the HDFC Bank and HDFC Ltd. merger

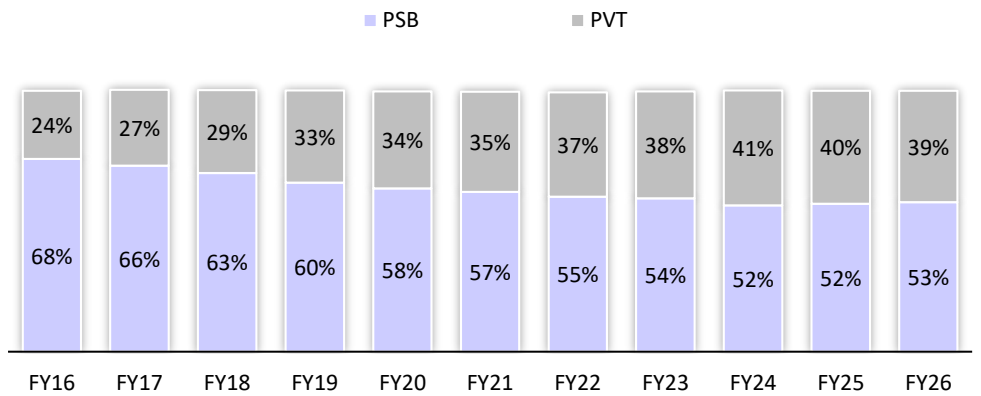
**Exhibit 3: LDR ratio at 82.7% continues to inch up**



Source: RBI, MOFSL

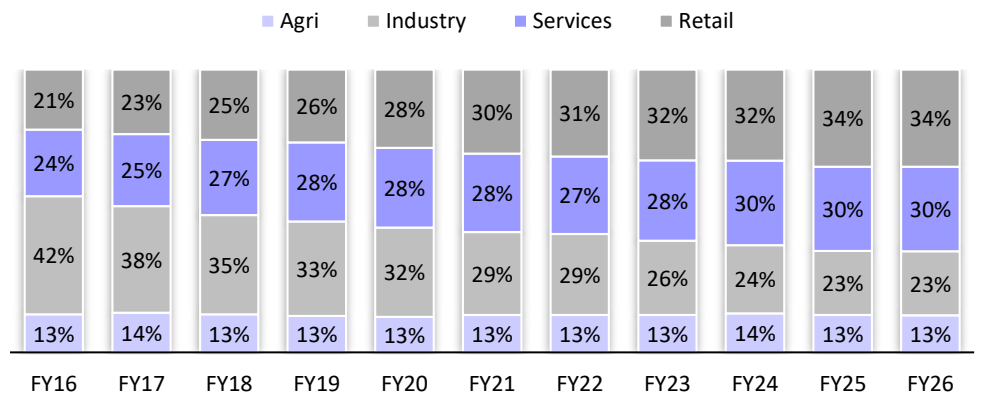
**Exhibit 4: PSBs gained 57% incremental market share for two consecutive years**

PSBs have gained 57% incremental market share for two consecutive years, driven by a surge in retail loans



Source: RBI, MOFSL

**Exhibit 5: Retail and Services continue to form major drivers of incremental loan growth**



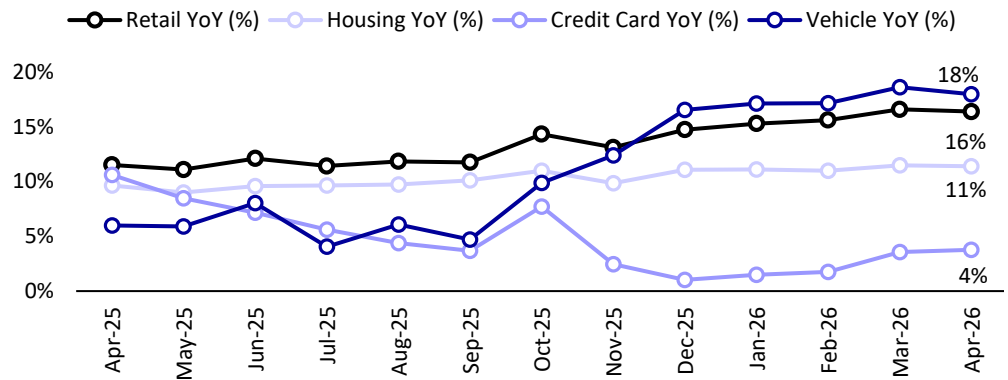
Source: RBI, MOFSL

**Exhibit 6: Growth trends across major categories – Pick up in industrial and services credit in the last few months**

Growth YoY (%)	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-26	Feb-26	Mar-26	Apr-26
Agri Credit	9	7	7	7	3	9	6	9	12	11	12	16	14
Industrial Credit	3	3	4	3	3	6	8	11	14	13	15	16	16
Services Credit	9	8	7	5	2	6	6	10	14	14	15	17	17
Retail Credit	15	15	14	13	7	14	10	13	15	15	16	17	16

Source: RBI, MOFSL

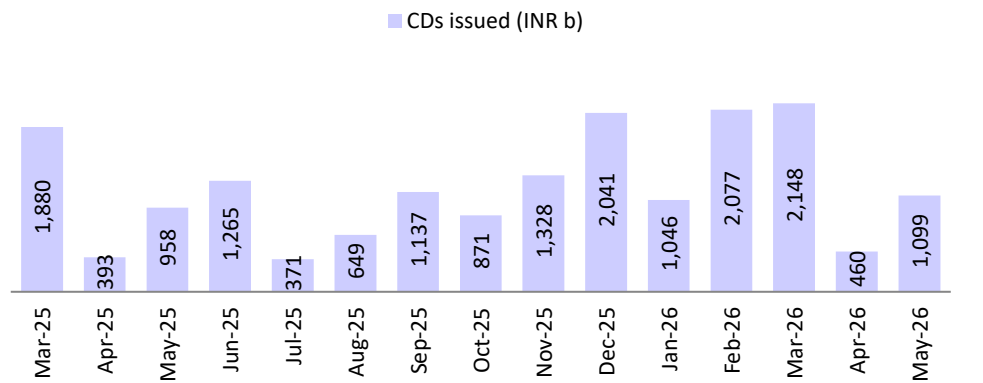
**Exhibit 7: Within retail, vehicle finance has been a growth driver, while credit card growth continues to lag**



Source: RBI, MOFSL

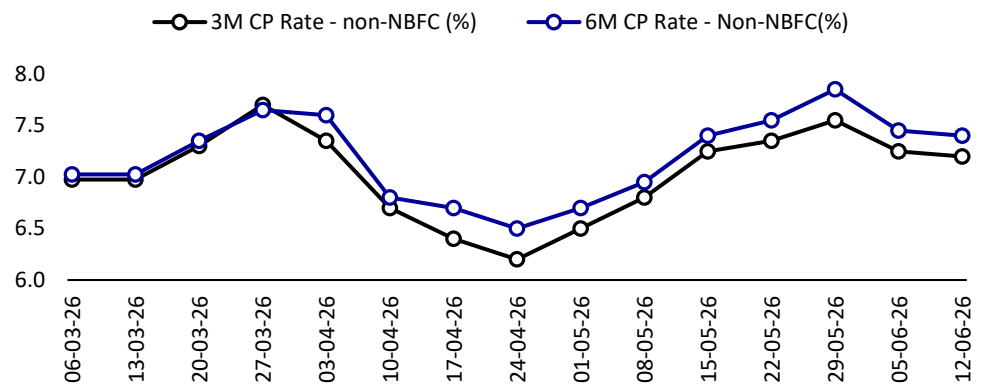
**Exhibit 8: CD issuances have declined after Mar'26**

CD issuances have eased in Apr-May'26 and are expected to remain lower, with a surge expected in FCNR(B) deposits

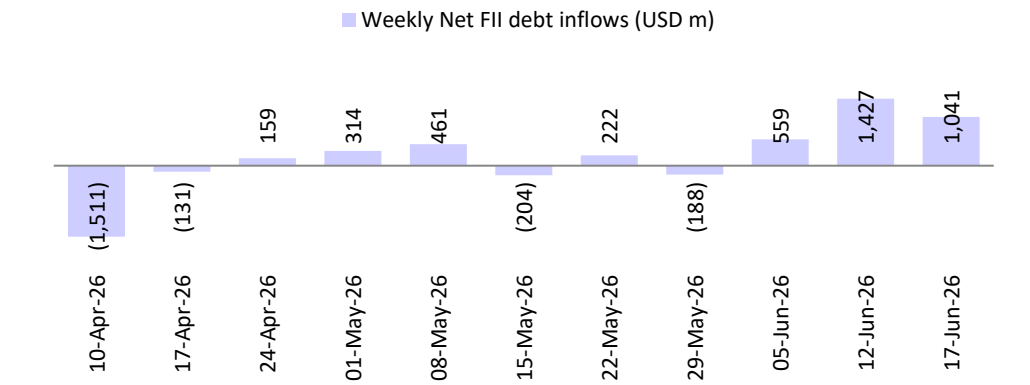


Source: RBI, MOFSL

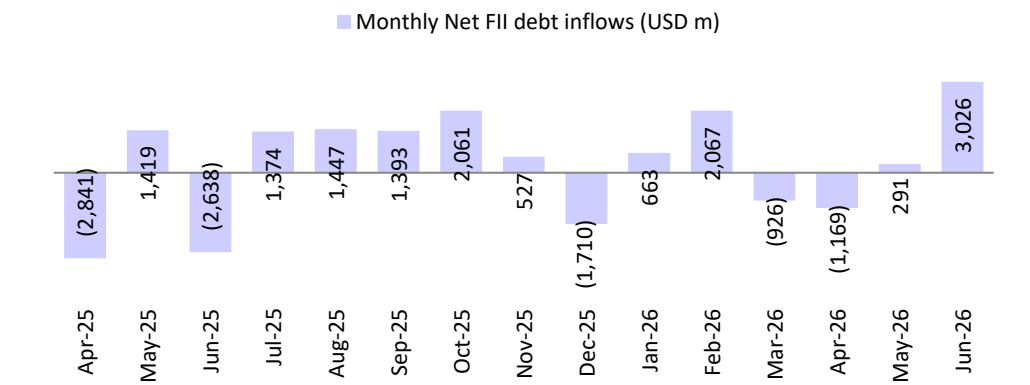
**Exhibit 9: CP rates for non-NBFCs have fallen from a peak of 7.6-7.9% in May-26 to 7.2-7.4% post-RBI relief measures**



Source: Bloomberg, MOFSL

**Exhibit 10: Weekly net FII inflow (USD m) trends showcase FII inflows of USD3t post-taxation benefits on bonds by the RBI**


Source: NSDL, MOFSL

**Exhibit 11: Monthly net FII inflows of USD3.0b in Jun'26 – the highest in the last one year**


Source: NSDL, MOFSL

**Exhibit 12: MOFSL Banking Coverage: Credit growth trajectory and estimates**

Advances (INRb)	Loan book						Market Share					
	FY23	FY24	FY25	FY26E	FY27E	FY28E	FY23	FY24	FY25	FY26E	FY27E	FY28E
<b>Pvt banks</b>												
AXSB	8,453	9,651	10,408	12,336	14,001	16,031	19.4	14.2	7.8	18.5	13.5	14.5
BANDHAN	1,048	1,211	1,320	1,501	1,729	2,006	11.5	15.6	9.0	13.7	15.2	16.0
DCBB	344	409	510	600	717	854	18.2	19.0	24.7	17.6	19.4	19.2
HDFCB	16,006	24,849	26,196	29,372	33,190	37,770	16.9	55.2	5.4	12.1	13.0	13.8
ICICIBC	10,196	11,844	13,418	15,539	17,963	20,837	18.7	16.2	13.3	15.8	15.6	16.0
IDFCFB	1,518	1,946	2,331	2,804	3,387	4,078	28.8	28.2	19.8	20.3	20.8	20.4
IIB	2,899	3,433	3,450	3,159	3,579	4,087	21.3	18.4	0.5	-8.4	13.3	14.2
KMB	3,199	3,761	4,269	4,960	5,779	6,726	17.9	17.6	13.5	16.2	16.5	16.4
FB	1,744	2,094	2,348	2,646	3,061	3,573	20.4	20.0	12.1	12.7	15.7	16.7
RBK	702	840	926	1,142	1,471	1,794	17.0	19.6	10.3	23.3	28.7	22.0
AUBANK	584	732	1,071	1,343	1,674	2,085	26.7	25.2	46.4	25.4	24.7	24.5
EQUITASB	258	310	362	428	504	600	33.2	20.0	16.9	18.1	18.0	19.0
<b>Pvt Banks YoY (%)</b>							<b>18.6</b>	<b>30.1</b>	<b>9.1</b>	<b>13.8</b>	<b>14.8</b>	<b>15.4</b>
<b>PSU Banks</b>												
BOB	9,410	10,658	12,096	14,091	15,880	17,866	21.1	13.3	13.5	16.5	12.7	12.5
CBK	8,307	9,316	10,492	11,815	13,174	14,689	18.1	12.2	12.6	12.6	11.5	11.5
INBK	4,493	5,149	5,711	6,549	7,367	8,274	15.4	14.6	10.9	14.7	12.5	12.3
PNB	8,308	9,344	10,775	12,253	13,821	15,632	14.1	12.5	15.3	13.7	12.8	13.1
SBIN	31,993	37,040	41,633	48,779	55,462	62,949	17.0	15.8	12.4	17.2	13.7	13.5
UNBK	7,618	8,708	9,535	10,533	11,586	12,861	15.3	14.3	9.5	10.5	10.0	11.0
<b>Pvt Banks YoY (%)</b>							<b>17.0</b>	<b>14.4</b>	<b>12.5</b>	<b>15.3</b>	<b>12.8</b>	<b>12.8</b>
<b>Total Banks YoY (%)</b>							<b>17.7</b>	<b>20.7</b>	<b>11.0</b>	<b>14.7</b>	<b>13.6</b>	<b>13.9</b>

Source: Company, MOFSL

**Exhibit 13: Trend in advances market share (%) among select banks**

Market share (%)	Market Share (%)							
	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
<b>Pvt banks</b>								
AXSB	6.6	6.7	6.8	6.5	6.3	6.5	6.5	6.6
DCBB	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.4
HDFCB	12.2	13.0	12.9	16.7	15.9	15.6	15.5	15.5
ICICIBC	7.9	8.2	8.2	8.0	8.1	8.2	8.4	8.6
IIB	2.3	2.3	2.3	2.3	2.1	1.7	1.7	1.7
KMB	2.4	2.6	2.6	2.5	2.6	2.6	2.7	2.8
Yes Bank	1.8	1.7	1.6	1.5	1.5	1.4	1.4	1.4
FB	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.5
J&K Bank	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
RBK	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7
SIB	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.5
IDFCB	1.1	1.1	1.2	1.3	1.4	1.5	1.6	1.7
<b>Pvt banks Share</b>	<b>37.9</b>	<b>39.1</b>	<b>39.3</b>	<b>42.3</b>	<b>41.4</b>	<b>41.1</b>	<b>41.5</b>	<b>42.0</b>
<b>PSU Banks</b>								
BOB	7.6	7.4	7.6	7.2	7.3	7.5	7.4	7.4
BOI	3.9	4.0	3.9	3.8	3.9	3.8	3.7	3.6
CBK	6.9	6.7	6.7	6.3	6.4	6.3	6.2	6.0
INBK	3.9	3.7	3.6	3.5	3.5	3.5	3.4	3.4
PNB	7.2	6.9	6.7	6.3	6.5	6.5	6.5	6.4
SBIN	26.3	26.0	25.9	24.9	25.2	25.8	25.9	25.9
UNBK	6.3	6.3	6.2	5.9	5.8	5.6	5.4	5.3
<b>PSU Banks</b>	<b>62.1</b>	<b>60.9</b>	<b>60.7</b>	<b>57.7</b>	<b>58.6</b>	<b>58.9</b>	<b>58.5</b>	<b>58.0</b>

Source: Company, MOFSL

**Exhibit 14: Banks' valuation matrix**

Val summary	Rating	CMP (INR)	TP (INR)	Upside (%)	Mcap (INRb)	EPS (INR)			RoA (%)			RoE (%)			P/E (x)			P/BV (x)			
						FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	FY26	FY27E	FY28E	
<b>Private Banks</b>																					
ICICIBC*	Buy	1,343	1,750	30	9,602	70.2	79.0	92.1	2.2	2.2	2.3	16.1	15.9	16.2	15.2	13.5	11.6	2.9	2.5	2.2	
HDFCB*	Buy	799	1,100	38	12,285	48.6	55.2	64.2	1.8	1.8	1.9	14.0	14.4	14.9	13.6	12.0	10.3	2.2	2.0	1.7	
AXSB*	Neutral	1,361	1,475	8	4,225	78.8	101.6	124.9	1.4	1.6	1.7	12.7	14.6	15.8	15.4	11.9	9.7	2.1	1.9	1.6	
BANDHAN	Buy	214	210	-2	345	7.6	18.1	24.0	0.6	1.3	1.5	4.9	11.1	13.5	28.2	11.9	8.9	1.4	1.3	1.1	
KMB*	Buy	403	470	17	4,006	14.1	16.5	20.0	1.9	2.0	2.1	11.1	12.1	13.6	16.9	14.4	11.9	3.0	2.9	2.6	
IIB	Neutral	939	950	1	731	11.4	47.7	77.1	0.2	0.7	0.9	1.4	5.6	8.6	82.3	19.7	12.2	1.1	1.1	1.0	
FB	Buy	321	325	1	790	16.7	20.5	24.1	1.1	1.3	1.4	11.4	12.2	12.8	19.2	15.7	13.3	2.0	1.8	1.6	
DCBB	Buy	186	235	26	60	22.7	30.9	38.9	0.9	1.0	1.1	12.5	15.1	16.6	8.2	6.0	4.8	0.9	0.8	0.7	
IDFCFB	Neutral	78	75	-4	671	2.1	4.3	6.4	0.4	0.8	1.0	3.9	7.6	10.6	38.0	18.2	12.2	1.4	1.3	1.2	
EQUITASB	Buy	78	85	9	89	0.9	6.0	8.6	0.2	1.1	1.3	1.7	10.9	14.1	86.0	12.9	9.1	1.4	1.4	1.2	
AUBANK	Buy	1,026	1,275	24	765	35.4	49.8	64.8	1.5	1.8	1.9	14.4	17.4	19.0	29.0	20.6	15.8	3.9	3.3	2.8	
RBK	Buy	369	370	0	228	13.3	11.9	19.3	0.5	1.0	1.3	5.2	6.4	6.9	27.7	31.0	19.1	1.4	1.3	1.3	
<b>PSU Banks</b>																					
SBIN*	Buy	1,043	1,300	25	9,626	88.2	89.8	100.5	1.1	1.0	1.0	17.3	15.1	15.5	7.8	7.7	6.9	1.8	1.7	1.5	
PNB	Buy	110	135	23	1,260	14.7	18.2	21.4	0.9	1.0	1.1	13.3	14.8	15.5	7.4	6.0	5.1	0.9	0.8	0.7	
BOB	Neutral	283	300	6	1,466	38.7	39.7	43.2	1.1	1.0	1.0	14.8	13.8	13.9	7.3	7.1	6.6	1.0	0.9	0.8	
CBK	Buy	135	160	19	1,224	21.2	19.8	22.8	1.1	0.9	1.0	19.1	16.2	17.5	6.4	6.8	5.9	1.1	1.0	1.0	
UNBK	Neutral	176	180	2	1,344	24.5	23.7	26.3	1.2	1.1	1.1	16.2	13.9	13.9	7.2	7.4	6.7	1.1	1.0	0.9	
INBK	Buy	876	1,025	17	1,180	90.2	100.9	112.9	1.3	1.3	1.3	17.9	17.6	17.3	9.7	8.7	7.8	1.6	1.4	1.2	
<b>Payments &amp; Fintech</b>																					
SBI Cards	Neutral	625	760	22	595	22.8	31.0	38.3	3.3	4.1	4.4	14.7	17.3	18.1	27.4	20.2	16.3	3.8	3.2	2.7	
						<b>EPS (INR)</b>			<b>PAT (INRb)</b>			<b>RoA (%)</b>			<b>RoE (%)</b>			<b>P/E (x)</b>			
One 97 Comm.	Neutral	1,094	1,300	19	700	10.9	12.5	26.8	5.1	8.3	17.9	3.1	3.4	6.9	4.5	5.1	10.6	100.2	87.4	40.8	

Source: Bloomberg, MOFSL, \* Adjusted for subsidiaries

**Investment in securities market are subject to market risks. Read all the related documents carefully before investing.**

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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