



BANKING SECTOR MONTHLY UPDATE: SEPTEMBER 2023

LOAN GROWTH MOMENTUM CONTINUES; CONCERNS ON MARGIN OUTLOOK

M B Mahesh, CFA

mb.mahesh@kotak.com
+91-22-4336-0886

Nischint Chawathe

nischint.chawathe@kotak.com
+91-22-4336-0887

Abhijeet Sakhare

abhijeet.sakhare@kotak.com

Ashlesh Sonje, CFA

ashlesh.sonje@kotak.com
+91-22-4336-0889

Varun Palacharla

varun.palacharla@kotak.com

Sidham Jain

Sidham.jain@kotak.com

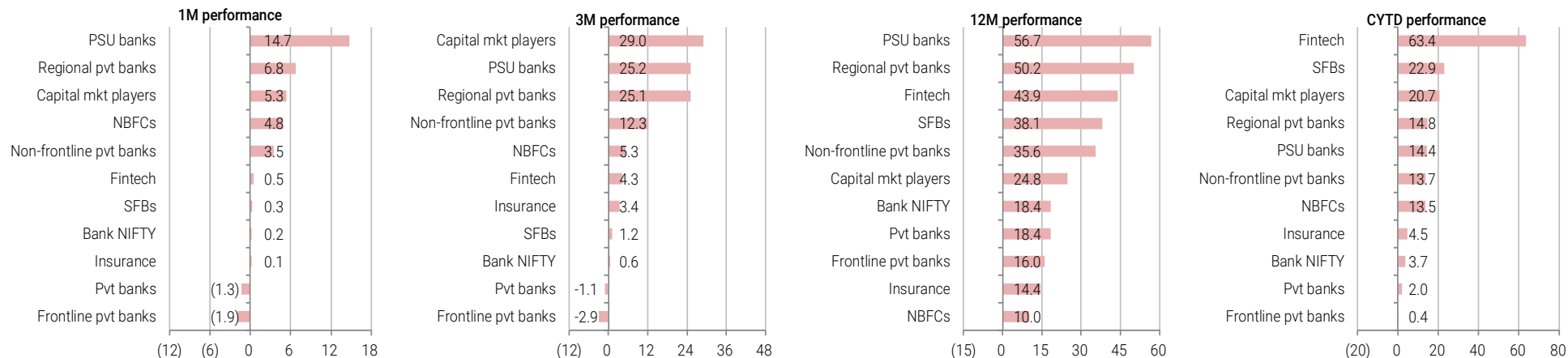
SECTOR OUTLOOK: BUSINESS MOMENTUM IS ROBUST; MARGIN CONCERNS PERSIST

- **BFSI stock price performance was mixed** in September 2023, with Bank NIFTY up 0.2% during the month.
 - AXSB was up 6%, ICICIBC was down 2% and HDFCB was down 4% mom. SBIN was up 4% mom.
 - Best-performing segments: PSU banks, regional private banks and capital market players were the best-performing segments. Central Bank of India stock saw a sharp rally of 46% mom.
 - Frontline private bank index performed relatively poorer (down 1.9% during the month).
- **Payment trends** stayed strong across the board.
 - Credit card spends (based on representative sample data) were up ~12% yoy.
 - Debit card spends (based on representative sample data) were down ~23% yoy.
 - UPI transactions were up ~41% yoy.
- **Credit growth** continues to be strong, led by retail (31% yoy), services (25% yoy) and agriculture (17% yoy), whereas credit to large industry is still sluggish (5% yoy). The month of July saw the impact of amalgamation of HDFC Ltd into HDFC Bank.
 - Retail credit has been growing well across segments: Housing (38% yoy), vehicles (21% yoy), credit cards (30% yoy).
 - Growth in credit to services is being led by NBFCs (26% yoy) and real estate (38% yoy).
 - Growth in credit to industries is being led by basic metals (19% yoy) and gems & jewelry (25% yoy).
 - CD ratio stands at ~78%.
- **Margins continue their downward trend**
 - Weighted average term deposit rates have increased ~157 bps from trough.
 - Weighted average lending rates are up ~110 bps from trough. PSU banks have a higher share of MCLR loans in the floating-rate book, which has delayed loan re-pricing.
 - Loan spreads have declined sharply from a multi-year high.

MIXED STOCK PRICE PERFORMANCE ACROSS BFSI SUB-SEGMENTS IN SEPTEMBER

Frontline bank index underperformed the BANK NIFTY during September 2023

Price performance of BFSI sub-indices (%)



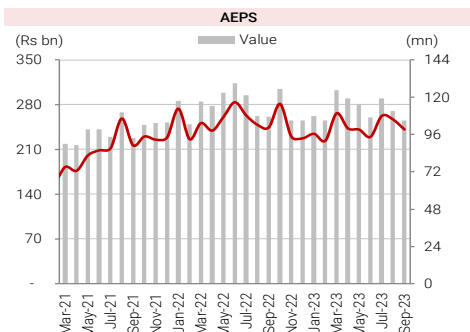
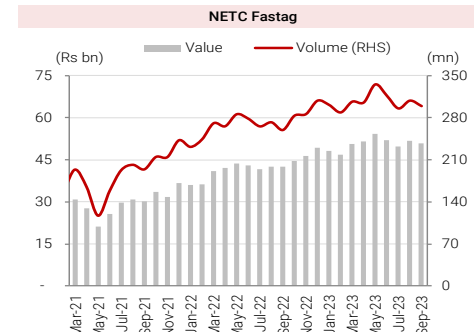
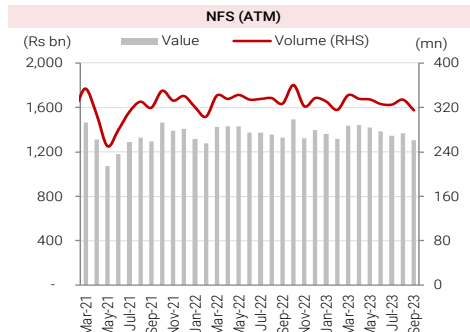
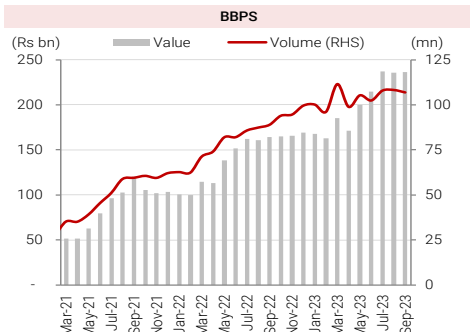
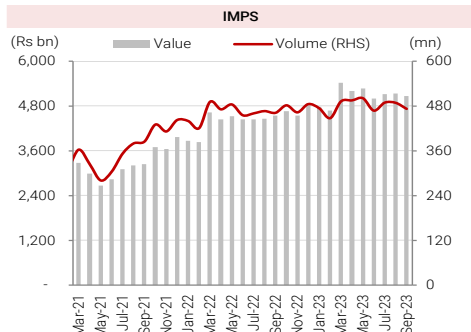
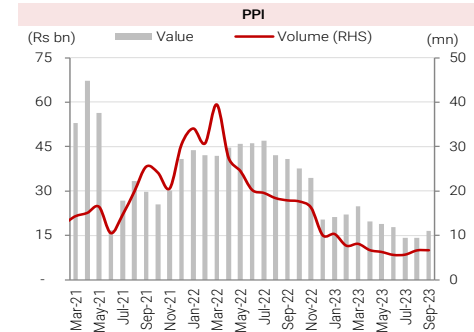
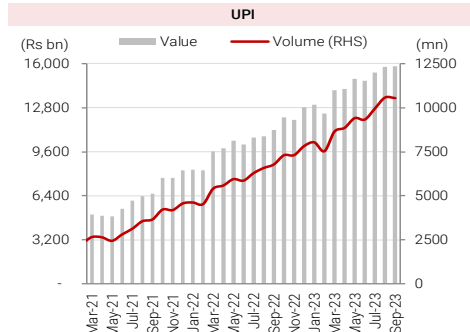
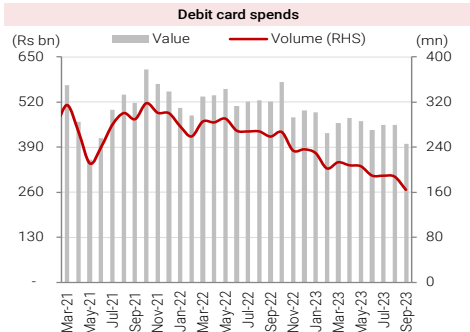
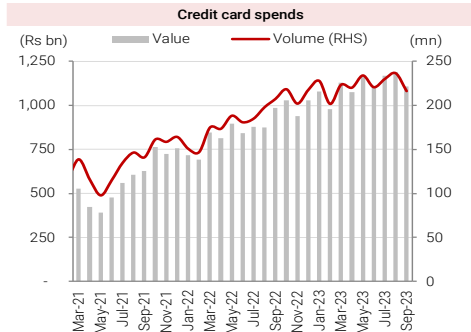
Source: Bloomberg, Kotak Institutional Equities

STRONG TRENDS IN PAYMENTS CONTINUE

UPI continues to grow

Strong trends in payments continue

Trends across payment modes



Notes:

- (1) The high-frequency credit and debit card spends data shown here is only a subset of overall spends. Historically, it has accounted for ~75-80% of spends in the case of credit cards and ~80-85% of spends in the case of debit cards.
- (2) Data on Prepaid cards includes only those that are processed by card networks.

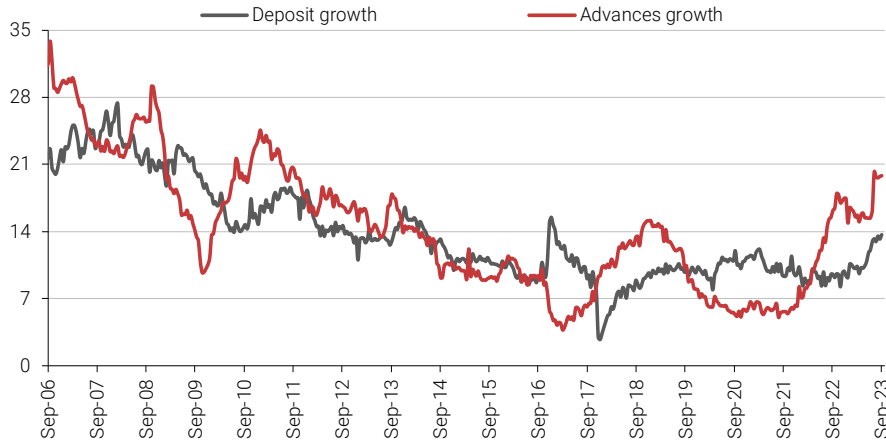
Source: RBI

LOAN GROWTH IS HEALTHY AT ~20% YOY, DEPOSIT GROWTH AT ~13% YOY

CD ratio stands at 78%

Loan growth stands at 19.8% yoy; exceeds deposit growth at 13.6% yoy

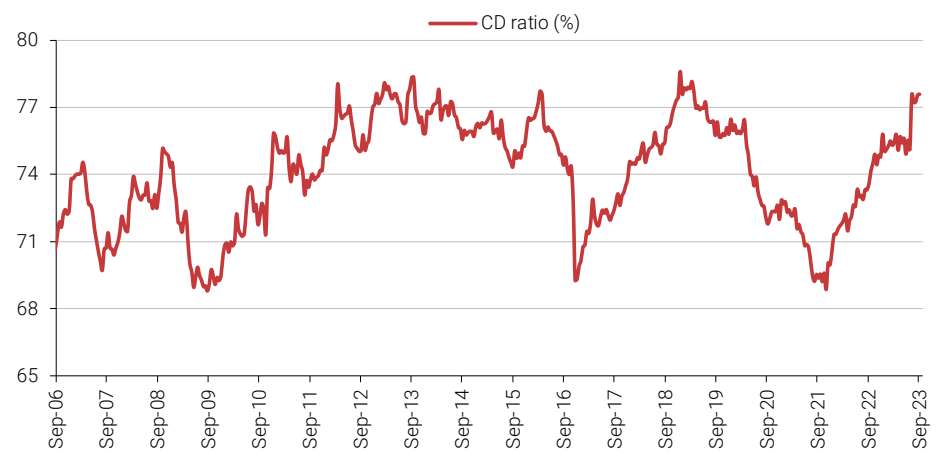
System credit, deposit growth, on a fortnightly basis (%)



Source: RBI, Kotak Institutional Equities

CD ratio for banking system stands at 78%

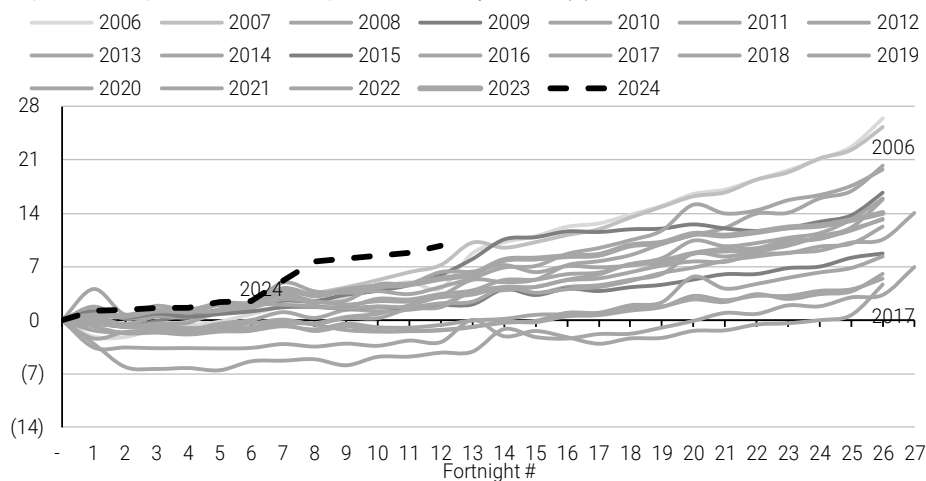
CD ratio, on a fortnightly basis (%)



Source: RBI, Kotak Institutional Equities

Loan growth has had the best start since FY2011

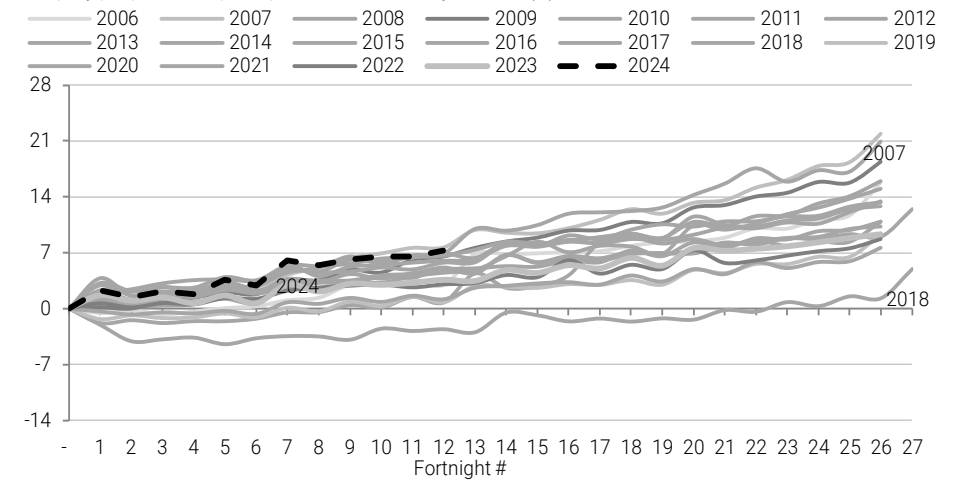
Progress of loan growth over the fortnights, March fiscal year-ends (%)



Source: RBI, Kotak Institutional Equities

Deposit growth also has started on a good note

Fortnightly progress in deposit growth, March fiscal year-ends (%)



Source: RBI, Kotak Institutional Equities

CREDIT GROWTH WAS LED BY RETAIL AT 31% YOY WITH HOUSING UP 38% YOY

Growth in large industry is still sluggish at 5% yoy; MSME credit growth was 10% yoy

Retail loan growth stands at ~31% yoy; credit card outstanding is up ~30% yoy; housing loans up ~38% yoy; credit growth to large corporates at 5% yoy

Break-up of bank credit and growth across segments, March fiscal year-ends (%)

	Proportion of loans															Growth yoy														
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Aug-23	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Aug-23	
Agriculture & Allied	13.7	13.1	12.7	12.1	12.0	12.8	13.5	14.0	13.4	12.9	12.6	13.2	13.3	13.3	12.9	16	13	8	13	15	15	12	4	8	9	10	10	15	17	
Industry	43.1	43.8	45.2	45.8	45.5	44.3	41.7	37.8	35.1	33.4	31.0	29.2	28.6	26.2	24.5	23	20	15	13	6	3	(2)	1	7	3	(1)	8	6	7	
Micro, small and medium	11.2	8.9	8.6	8.4	8.6	8.4	7.4	6.7	6.2	5.6	4.8	5.3	6.3	6.3	5.9	(3)	12	11	16	7	(4)	(2)	-	1	3	15	31	14	10	
Large	32.0	34.8	36.6	37.4	36.9	35.8	34.3	31.1	28.9	27.8	25.8	23.5	21.9	19.5	18.2	32	22	16	12	5	4	(2)	1	8	3	(5)	2	3	5	
Sector-wise:																														
Mining & Quarrying	0.6	0.7	0.8	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.4	41	28	7	3	-	9	(12)	20	1	8	(4)	13	20	0	
Food processing	2.2	2.1	2.2	2.4	2.6	2.9	2.3	2.1	2.0	1.8	1.5	1.6	1.6	1.4	1.3	18	22	24	25	17	(12)	(3)	7	1	(8)	8	11	6	9	
Textiles	4.0	4.0	3.7	3.8	3.7	3.4	3.1	2.8	2.7	2.4	2.0	2.0	2.0	1.8	1.7	20	9	15	10	(0)	2	(5)	7	(3)	(4)	5	9	2	12	
Paper & Paper Products	0.6	0.6	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3	0.4	0.4	0.3	0.3	0.3	12	17	13	16	4	4	(8)	(6)	(1)	1	23	7	6	3	
Petroleum and others	2.6	1.4	1.4	1.3	1.2	0.9	0.8	0.8	0.7	0.8	0.8	1.0	1.2	0.9	(35)	20	5	1	(13)	(9)	16	9	(3)	20	4	36	39	(11)		
Chemicals	2.8	3.0	3.0	3.3	3.0	2.6	2.5	2.4	2.1	2.2	2.2	1.8	1.8	1.7	1.5	27	17	25	4	(7)	7	5	(5)	17	10	(13)	6	10	1	
Basic metals	5.4	5.8	6.1	6.5	6.4	6.4	5.9	5.4	4.3	3.6	3.0	2.6	2.7	2.6	3.2	22	20	15	7	8	1	(11)	(11)	(6)	(12)	(6)	19	19		
Engineering	2.4	2.5	2.6	2.6	2.6	2.4	2.1	2.0	2.0	1.7	1.5	1.5	1.4	1.3	1.3	26	21	13	14	5	-	(3)	4	9	(4)	(5)	9	4	9	
Vehicles, and others	1.3	1.2	1.2	1.2	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.7	0.7	18	13	13	13	3	1	7	1	6	1	5	7	14		
Gems & jewellery	1.0	1.1	1.2	1.3	1.3	1.2	1.1	1.0	0.9	0.7	0.7	0.6	0.7	0.6	0.7	26	29	19	14	3	1	(5)	5	(1)	(8)	12	8	(3)	25	
Construction	1.5	1.2	1.1	1.1	1.1	1.2	1.1	1.2	1.2	1.2	1.2	1.2	1.1	1.0	0.9	(2)	12	7	20	19	-	10	10	10	11	8	(2)	4	7	
Infrastructure	12.5	14.2	14.7	15.0	15.1	15.4	14.7	12.8	11.6	12.2	11.3	10.9	10.8	9.9	8.9	38	21	16	15	11	4	(6)	(2)	19	3	1	9	(1)	2	
Power	6.2	7.3	7.7	8.5	8.8	9.3	8.9	7.4	6.8	6.6	5.9	5.7	5.5	4.8	4.4	42	24	26	17	15	4	(9)	(1)	9	-	-	7	(1)	(1)	
Telecom	2.0	2.5	2.2	1.8	1.6	1.5	1.4	1.2	1.1	1.3	1.5	1.1	1.2	0.9	1.0	58	1	(7)	1	4	(1)	(7)	(1)	37	27	(22)	13	(15)	3	
Roads	2.4	2.5	2.6	2.7	2.9	2.8	2.7	2.5	2.2	2.0	1.9	2.3	2.5	2.2	2.2	24	22	18	20	7	5	1	(7)	5	4	25	19	5	7	
Other Infrastructure	1.9	1.9	2.2	1.9	1.9	1.8	1.8	1.6	1.6	2.3	1.9	1.8	1.7	1.5	1.4	21	32	-	9	3	9	(0)	4	63	(6)	(0)	(0)	1	5	
Other Industries	4.1	3.7	4.2	3.7	3.4	3.1	3.0	2.8	2.5	2.3	2.6	2.3	2.3	2.0	1.9	9	32	1	4	(2)	6	1	(4)	7	26	(10)	11	1	8	
Services	23.9	24.2	23.7	23.7	24.2	23.5	23.5	25.4	26.7	28.0	28.2	27.6	27.3	28.4	28.3	23	14	13	16	6	9	17	14	18	12	2	9	20	25	
Transport operators	1.7	1.9	1.8	1.6	1.7	1.5	1.5	1.6	1.6	1.5	1.4	1.4	1.4	1.4	1.4	33	9	4	16	(1)	9	11	10	6	3	8	9	13	22	
Computer Software	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	11	3	18	10	(7)	11	(6)	4	(0)	3	4	5	3	13	
Tourism, Hotels & Restaurants	0.6	0.8	0.8	0.7	0.7	0.6	0.6	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	43	16	9	13	(7)	-	1	(3)	7	38	10	8	3	12	
Shipping	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	(13)	(0)	3	25	(1)	3	(20)	(25)	23	(19)	29	5	(21)	(21)	
Aviation																														
Professional Services	1.4	1.2	1.1	1.2	1.4	1.4	1.6	1.9	2.0	2.0	1.8	1.1	1.1	1.1	1.0	4	5	19	41	6	24	32	13	10	(1)	(36)	8	15	21	
Trade	5.4	5.0	5.2	5.7	5.9	6.1	5.8	6.0	6.1	6.1	5.8	6.3	6.3	6.4	6.0	13	21	22	18	12	4	12	9	13	5	13	11	18	14	
- Wholesale Trade (other than I)	2.8	2.6	2.8	3.1	3.0	3.0	2.6	2.7	2.7	2.9	2.8	3.3	3.2	3.1	2.9	10	27	25	12	7	(6)	15	6	22	7	22	7	13	6	
- Retail Trade	2.6	2.5	2.4	2.6	2.9	3.1	3.2	3.3	3.4	3.2	3.0	3.0	3.1	3.3	3.1	17	15	20	26	17	14	10	12	6	4	4	15	23	24	
Real Estate	3.0	2.6	2.6	2.6	2.8	2.8	2.7	2.6	2.4	2.3	3.0	2.9	2.6	2.5	2.9	6	16	12	22	9	7	4	-	9	43	-	0.6	8	38	
NBFCs	3.7	5.0	5.3	5.3	5.3	5.2	5.4	5.5	6.5	8.1	10.0	9.4	9.3	10.5	9.9	62	24	14	13	6	13	11	27	41	36	(1)	8	30	26	
HFCs																														
Other Services	7.2	7.0	6.4	6.0	5.9	5.5	5.5	6.8	7.3	6.9	5.2	5.4	5.6	5.6	6.1	17	6	7	11	2	9	35	16	5	(16)	8	14	16	30	
Personal Loans	19.3	19.0	18.4	18.4	18.3	19.4	21.3	22.8	24.8	25.7	28.3	30.0	30.7	32.1	34.3	19	13	14	12	16	19	16	18	16	22	11	13	21	31	
Consumer Durables	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.1	0.2	0.2	0.3	0.3	0.2	(24)	13	17	53	19	16	17	(5)	(68)	155	7	60	35	11	
Housing	9.9	9.7	9.4	9.4	9.7	10.5	11.4	12.1	12.7	13.4	14.2	14.9	15.3	15.2	17.6	19	12	13	18	17	19	15	13	19	18	10	13	15	38	
Credit card	0.7	0.5	0.5	0.5	0.4	0.5	0.6	0.7	0.9	1.0	1.2	1.3	1.3	1.5	1.6	(10)	13	22	(0)	23	24	38	32	29	36	10	13	31	30	
Education	1.2	1.2	1.2	1.1	1.1	1.1	1.0	1.0	0.9	0.8	0.7	0.8	0.8	0.8	0.8	17	16	10	9	6	8	3	(1)	(2)	(4)	19	6	17	20	
Vehicle	2.1	2.0	2.1	2.3	1.9	2.1	2.3	2.4	2.5	2.3	2.9	3.7	3.7	4.0	3.8	14	22	24	(4)	17	23	12	11	7	38	32	9	25	21	
Loans against gold jewellery																														
Other Personal Loans	3.4	4.0	3.7	3.6	3.6	3.9	4.5	5.3	6.6	6.8	7.9	7.6	8.0	8.7	8.8	42	8	11	13	18	25	27	35	15	30	1	15	25	26	
Loans against FD	1.6	1.3	1.3	1.3	1.2	1.0	1.0	0.9	0.9	1.0	0.8	0.8	0.8	1.0	0.8	2	15	7	4	(2)	7	(1)	10	14	(13)	8	7	46	20	

Notes:

(1) Personal loans (which makes up ~34% of total bank credit), by RBI definition, refers to retail loans.

(2) Sectoral non-food credit data are based on 40 banks accounting for ~93% of total non-food credit extended by all SCBs.

Source: RBI, Kotak Institutional Equities

CD RATIO FOR PUBLIC SECTOR BANKS IS MEANINGFULLY LOWER AT ~70% YOY

While it has touched 90% for some of the private banks

CD ratio for both private and PSU banks

March fiscal year-ends (%)

	CD ratio (%)													
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	1QFY24
PSU banks														
Central Bank of India	72	75	76	74	74	68	47	53	49	48	47	49	56	59
IDBI Bank	87	86	86	84	80	81	71	69	65	58	56	59	64	68
Indian Overseas Bank	77	79	79	77	70	72	66	61	60	54	53	55	68	68
UCO Bank	68	75	74	75	69	61	59	59	50	52	54	55	63	64
Bank of Baroda	75	75	69	70	69	67	64	72	73	73	73	74	78	80
Bank of India	71	78	76	78	76	70	68	66	65	66	58	67	73	71
Bank of Maharashtra	70	73	80	76	81	77	69	62	59	58	59	65	73	70
Canara Bank	72	71	68	72	70	68	69	73	71	69	63	65	70	72
Indian Bank	71	75	74	75	74	72	70	75	75	76	68	66	72	73
Punjab and Sind Bank	71	73	73	68	74	70	68	65	70	65	63	62	70	67
Punjab National Bank	77	77	79	77	76	75	67	68	68	67	61	64	65	67
State Bank of India	80	82	85	86	82	83	72	71	75	72	67	67	72	71
Union Bank of India	75	80	79	77	81	78	76	71	71	70	64	64	68	68
PSU banks overall	76	78	79	78	77	75	69	69	70	68	64	66	71	71
Private banks														
Axis Bank	75	77	78	82	87	95	90	97	90	89	87	86	89	91
Bandhan Bank						103	72	88	92	117	105	98	97	91
City Union Bank	72	74	75	73	75	78	79	85	85	83	81	85	82	80
DCB Bank	76	83	79	79	83	87	82	85	83	83	87	84	83	82
Federal Bank	74	77	77	73	72	73	75	82	82	80	76	80	82	82
HDFC Bank	77	81	83	86	85	89	86	83	89	87	85	88	85	84
ICICI Bank	96	99	99	102	107	103	95	91	90	84	79	81	86	85
IndusInd Bank	76	83	82	91	93	95	89	96	96	102	83	81	86	87
Jammu and Kashmir Bank	59	62	61	67	68	72	69	71	74	66	62	61	67	70
Karnataka Bank	63	66	70	70	69	67	65	75	80	79	68	71	69	71
Karur Vysya Bank	72	75	76	78	81	78	76	79	81	78	80	81	82	82
RBL Bank	93	87	76	85	85	87	85	92	93	100	80	76	83	85
South Indian Bank	69	75	72	76	72	74	70	76	78	78	70	67	76	75
Private banks overall	81	84	84	87	90	92	88	90	90	88	83	84	86	86
Grand total	77	79	80	80	79	79	74	74	75	74	70	71	76	76

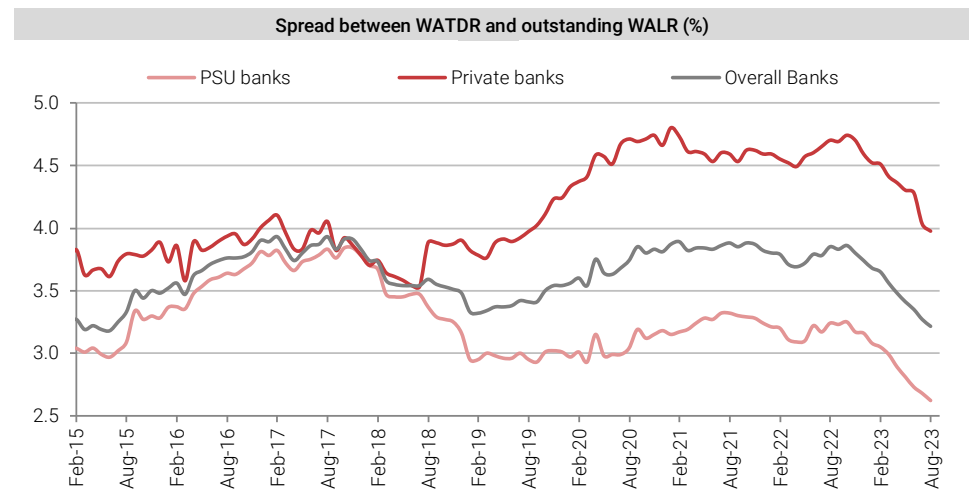
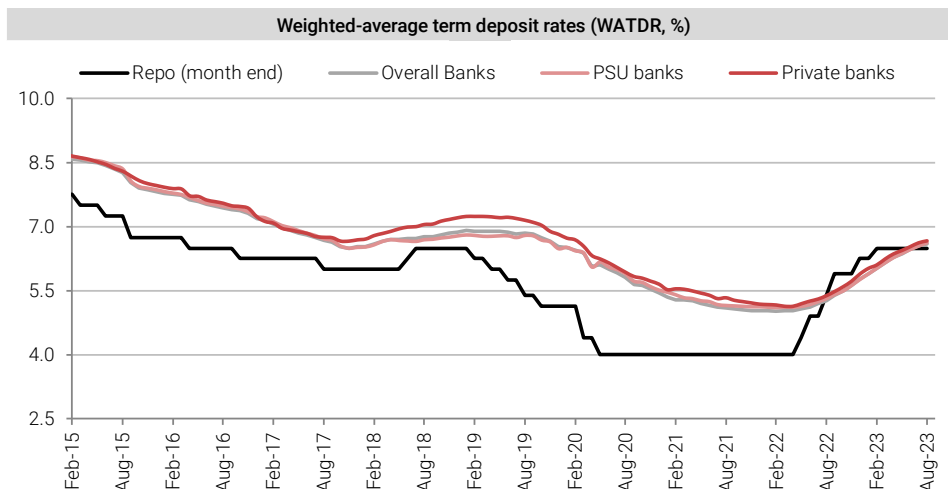
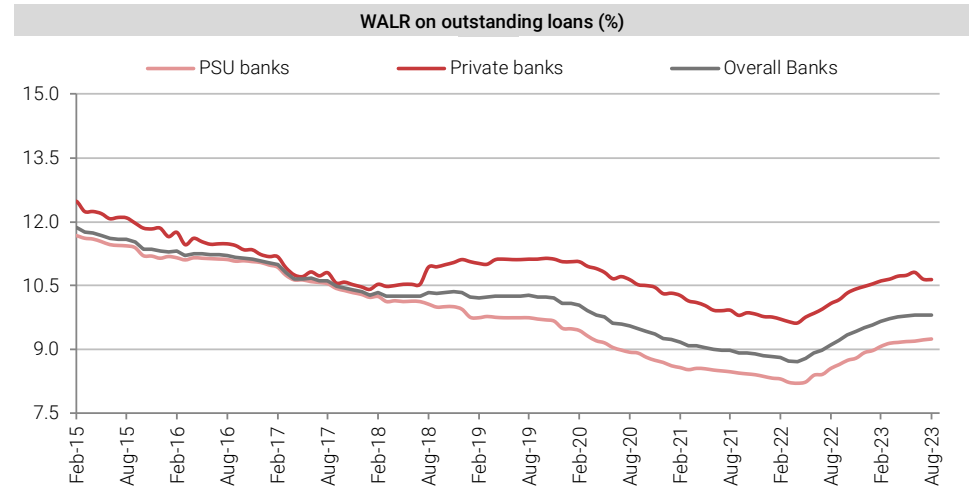
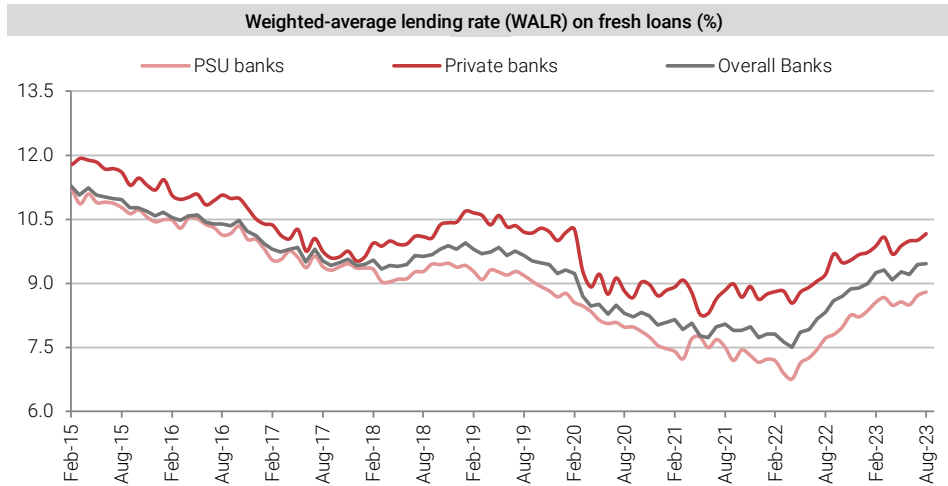
Source: Capitaline, Companies, Kotak Institutional Equities

INCREASE IN DEPOSIT RATES ON OUTSTANDING BOOK HAS CAUGHT UP

Loan spreads have declined sharply recently, partially driven by HDFC merger

Term deposit rates are up by ~157 bps, while outstanding WALR rates are up by ~110 bps from trough

Weighted average term deposit rates and lending rates for banking system (%)



Source: RBI

MCLR RATES HAVE INCREASED SLOWER THAN REPO

Frontline banks have seen their MCLR increase by 155-190 bps from March 2022 level

MCLR rates have increased by 155-190 bps from March 2022 level for the frontline banks

1-year MCLR rates across banks, March fiscal year ends (%)

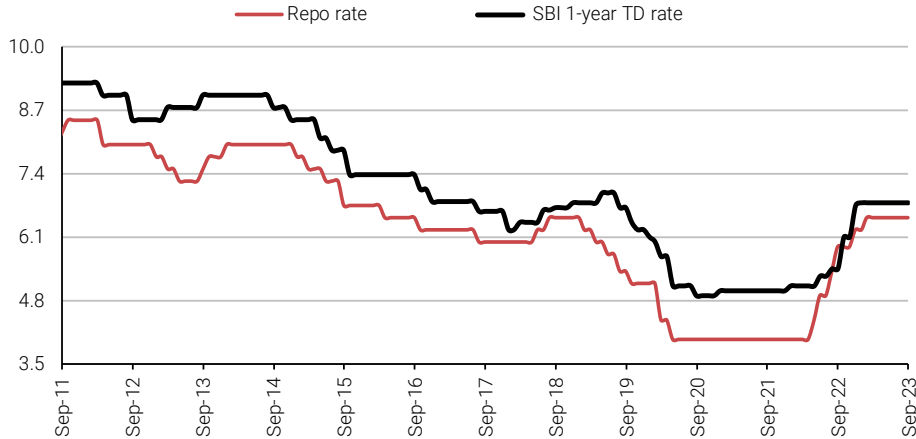
	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	(% change) (Sep-22 to Sep-23)
Public sector banks																				
BoB	7.30	7.35	7.40	7.40	7.65	7.70	7.80	7.95	8.05	8.30	8.50	8.55	8.55	8.60	8.60	8.65	8.65	8.70	8.70	0.90
Canara	7.25	7.25	7.35	7.40	7.40	7.65	7.75	7.90	8.10	8.15	8.35	8.50	8.60	8.65	8.65	8.65	8.65	8.70	8.70	0.95
PNB	7.25	7.25	7.25	7.40	7.55	7.65	7.70	7.75	8.05	8.10	8.30	8.40	8.50	8.50	8.50	8.60	8.60	8.60	8.65	0.95
SBI	7.00	7.10	7.20	7.40	7.50	7.70	7.70	7.95	8.05	8.30	8.40	8.50	8.50	8.50	8.50	8.50	8.55	8.55	8.55	0.85
Union	7.25	7.25	7.35	7.35	7.55	7.70	7.75	7.90	8.20	8.25	8.40	8.65	8.65	8.65	8.65	8.65	8.65	8.65	8.70	0.95
Old private banks																				
CUBK	7.50	7.50	7.50	7.75	7.75	8.00	8.00	8.25	8.25	8.25	8.25	8.40	8.40	8.40	8.40	8.15	8.10	8.10	8.10	0.10
FB	7.90	8.00	8.20	8.20	8.30	8.50	8.50	8.70	8.70	9.00	9.20	9.20	9.30	9.30	9.40	9.30	9.40	9.40	9.40	0.90
KVB	8.35	8.35	8.35	8.35	8.35	8.35	8.50	8.70	8.80	9.05	9.05	9.05	9.35	9.35	9.35	9.35	9.35	9.60	9.60	1.10
New private banks																				
Axis	7.35	7.40	7.75	7.75	8.00	8.05	8.05	8.35	8.45	8.75	8.80	8.90	8.95	8.95	9.10	9.10	9.10	9.15	9.15	1.10
Bandhan	9.25	8.85	9.16	9.16	9.45	9.95	10.00	10.00	10.57	10.57	10.80	10.96	11.13	11.05	11.05	11.10	11.17	11.23	11.02	1.02
HDFC Bank	7.25	7.25	7.50	7.85	8.05	8.10	8.20	8.20	8.55	8.60	8.85	8.90	8.95	8.95	9.05	9.05	9.05	9.10	9.15	0.95
ICICI	7.25	7.25	7.55	7.55	7.75	7.90	8.00	8.10	8.40	8.40	8.55	8.65	8.75	8.75	8.75	8.85	8.90	8.90	8.95	0.95
IndusInd	8.50	8.55	8.75	8.75	9.10	9.30	9.30	9.55	9.80	9.80	9.95	10.05	10.15	10.20	10.20	10.20	10.25	10.25	10.30	1.00
Yes	8.50	8.60	8.60	8.75	8.95	8.95	8.95	9.65	9.70	9.75	9.85	9.90	10.10	10.15	10.15	10.05	10.10	10.15	10.25	1.30
Small finance banks																				
AU	10.15	9.90	10.15	10.25	10.55	10.70	10.75	10.70	11.00	11.05	11.35	11.35	11.75	11.25	11.45	11.65	11.60	11.65	11.90	1.15
Equitas	13.70	12.90	12.90	12.95	13.25	13.25	13.35	13.45	14.05	14.05	13.90	13.90	14.05	14.10	14.15	14.25	14.15	14.00	13.85	0.50
Ujjivan	12.10	11.60	13.50	12.20	12.10	12.20	12.20	12.00	12.20	12.20	11.90	12.70	12.20	12.20	14.10	12.80	12.70	12.60	12.80	0.60

Source: Company, Kotak Institutional Equities

SBI 1-YEAR TD RATES AND REPO RATES HAVE BEEN STABLE RECENTLY

Repo rate has seen smooth pass-through to deposit rates

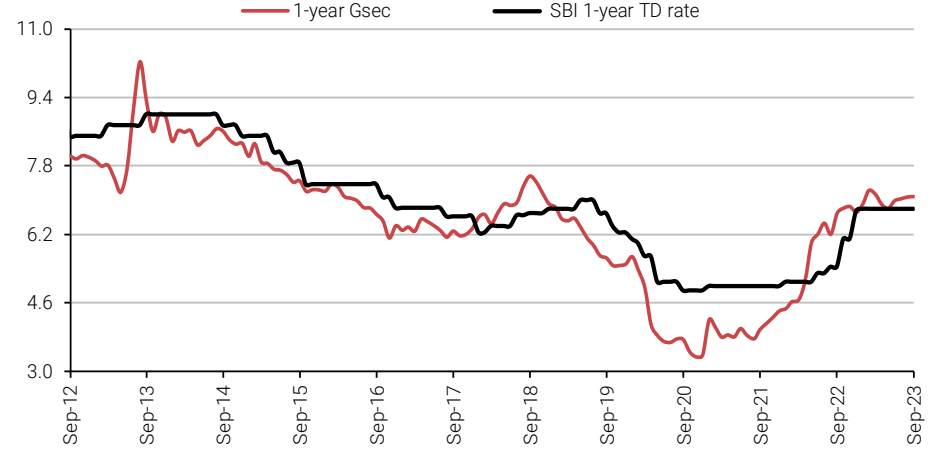
Repo rate and SBI 1-year term deposit rate (%)



Source: RBI, SBI

G-Sec is higher than deposit rates

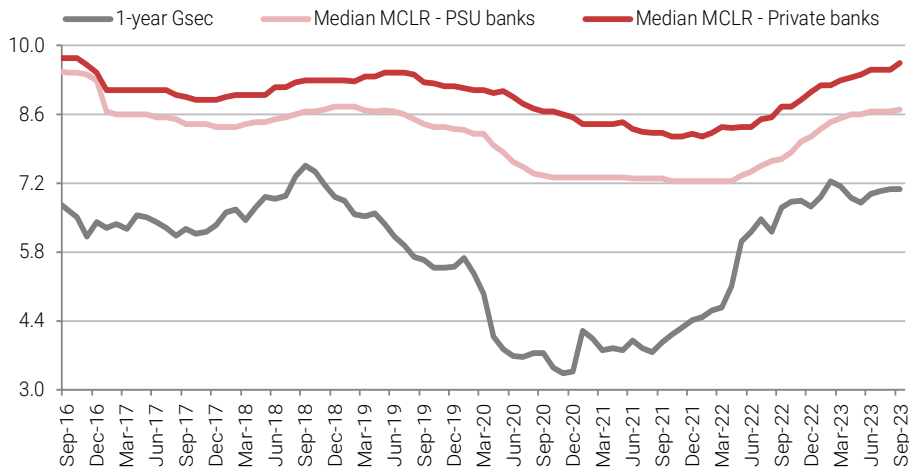
Gsec yield and SBI term deposit rate (1-year tenors) (%)



Source: RBI, SBI

Bank MCLR has been significantly less volatile than G-sec yields

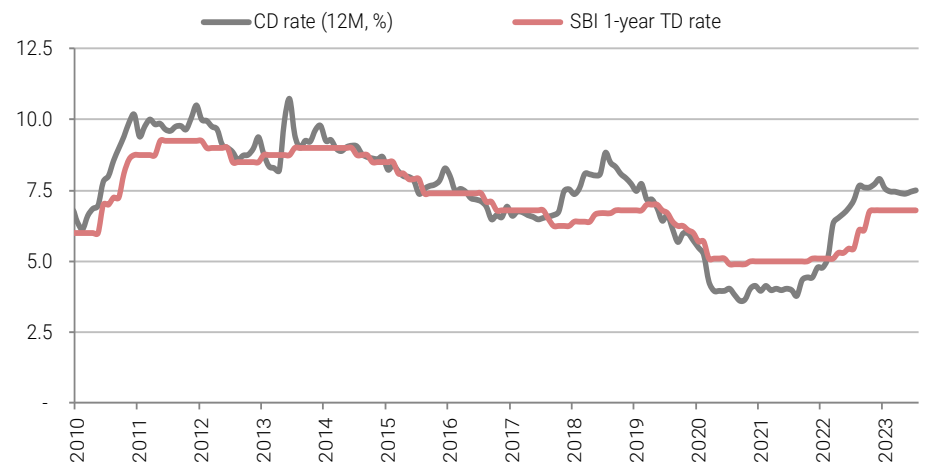
Comparison of bank MCLR with G-sec yields (%)



Source: RBI, Bloomberg

CD Rates continue to be higher than SBI term deposit rates

SBI term deposit rate (1-year tenor) and CD rate (12M tenor)

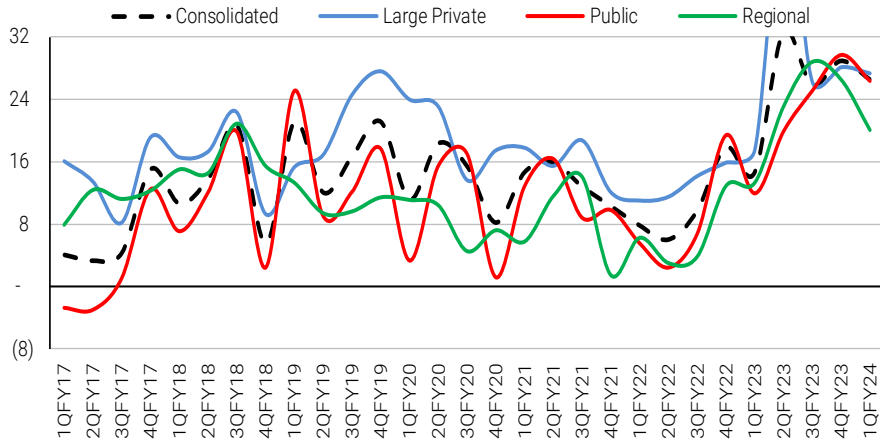


Source: Company, Kotak Institutional Equities

KEY METRICS GROWTH FOR BANKS

NII growth appears to have peaked in 4QFY23 with question now on the pace of deceleration

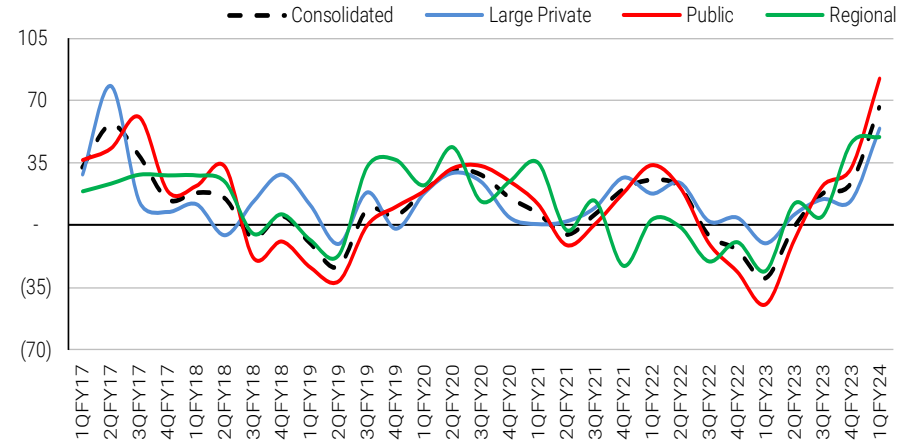
NII growth for banks (consolidated), March fiscal year-ends, 1QFY17-1QFY24 (%)



Source: Company, Kotak Institutional Equities

Lower treasury and lower recovery has resulted in a slower non-interest income growth

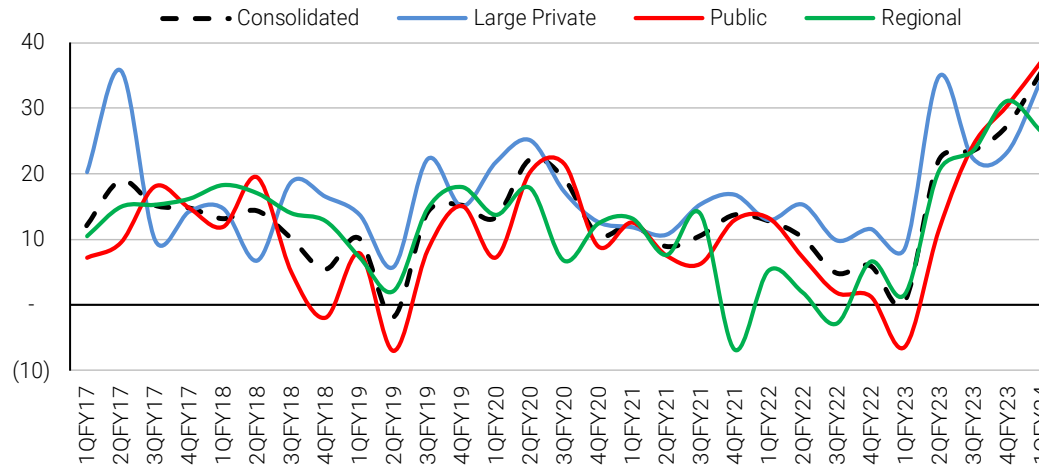
Non-interest income growth for banks (consolidated), March fiscal year-ends, 1QFY17-1QFY24 (%)



Source: Company, Kotak Institutional Equities

Revenue growth is being led by higher NII growth

Revenue growth for banks (consolidated), March fiscal year-ends, 1QFY17-1QFY24 (%)

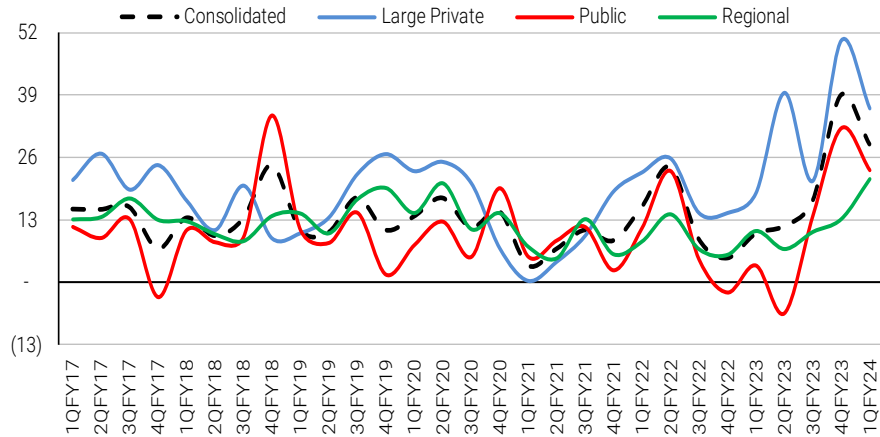


Source: Company, Kotak Institutional Equities

KEY METRICS GROWTH FOR BANKS

Several one-off is leading the lower growth in operating expenses

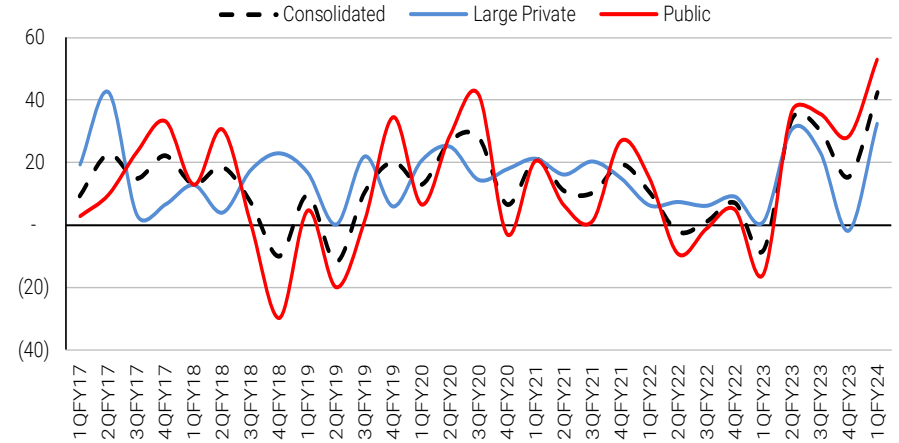
Operating expenses growth for banks (consolidated), March fiscal year-ends, 1QFY17-1QFY24 (%)



Source: Company, Kotak Institutional Equities

Pre-provisioning operating profit growth has been quite solid giving comfort on growth

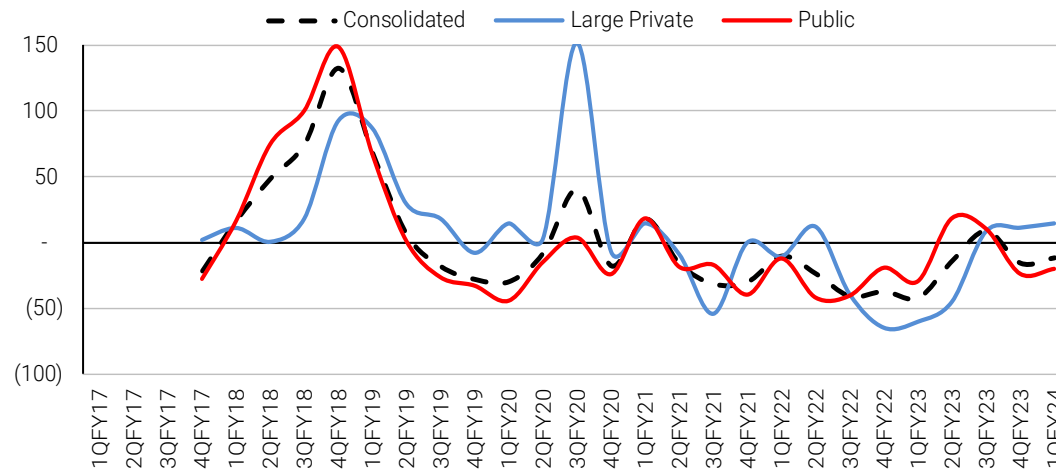
PPoP growth for banks (consolidated), March fiscal year-ends, 1QFY17-1QFY24 (%)



Source: Company, Kotak Institutional Equities

Most of the provisions has been towards to reduce net NPL ratios

Provisions growth for banks (consolidated), March fiscal year-ends, 1QFY17-1QFY24 (%)



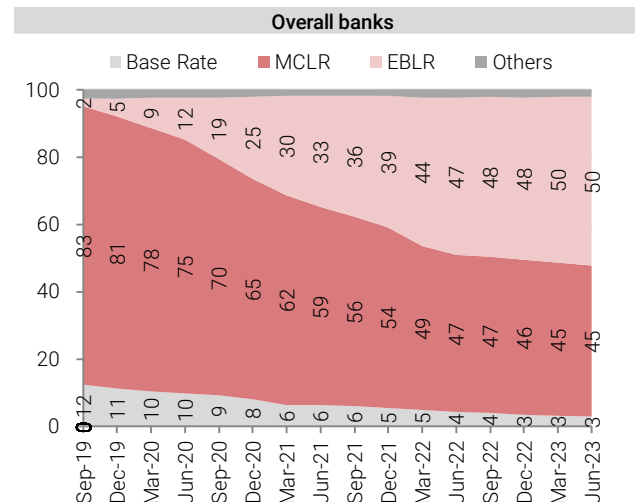
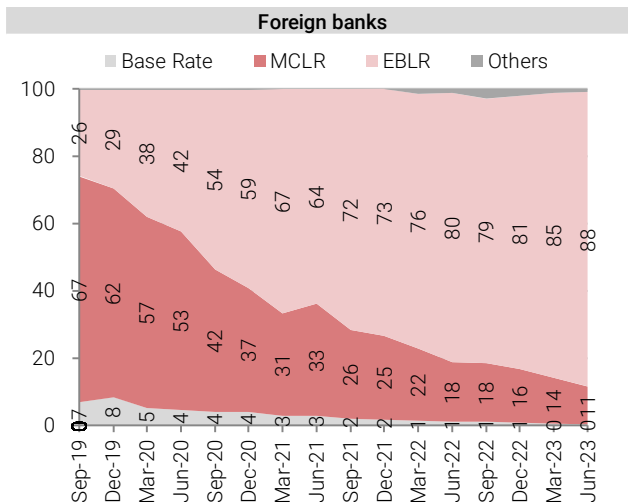
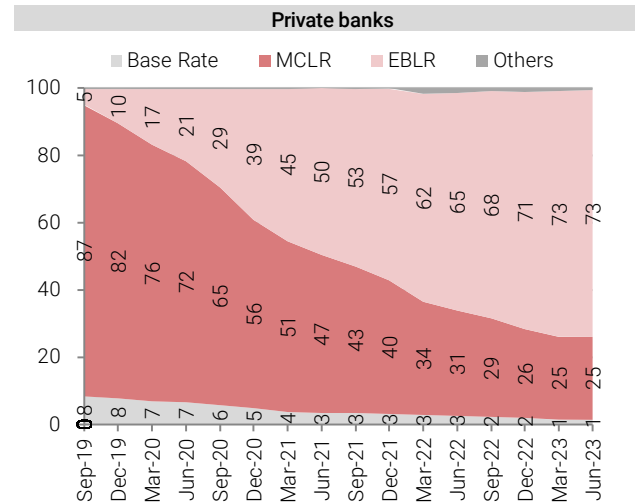
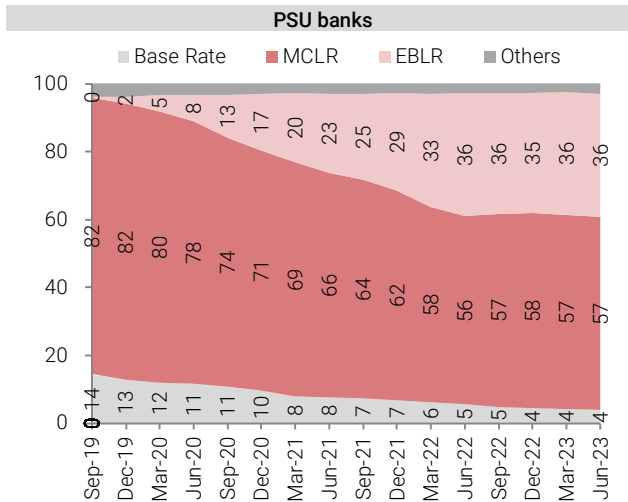
Source: Company, Kotak Institutional Equities

PSU BANKS HAVE A LARGER MCLR BOOK WITHIN FLOATING RATE LOANS

This implies slower transmission on the yield front than private banks

Share of MCLR in floating rate loan book is ~25% for private banks and ~57% for PSU banks

Share of Outstanding Floating Rate Rupee Loans of SCBs across Interest Rate Benchmarks (%)



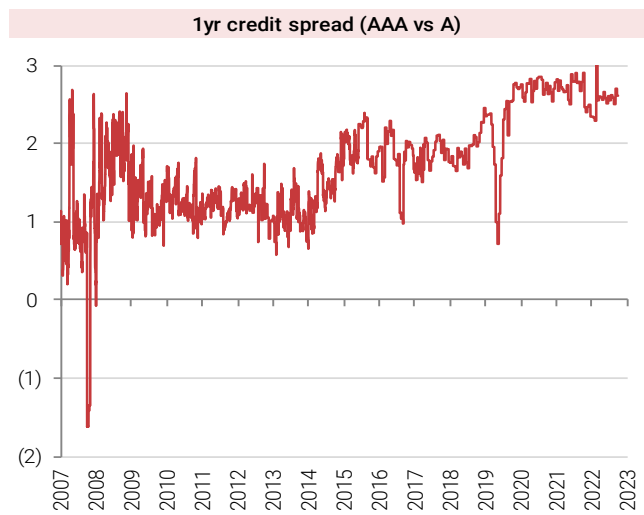
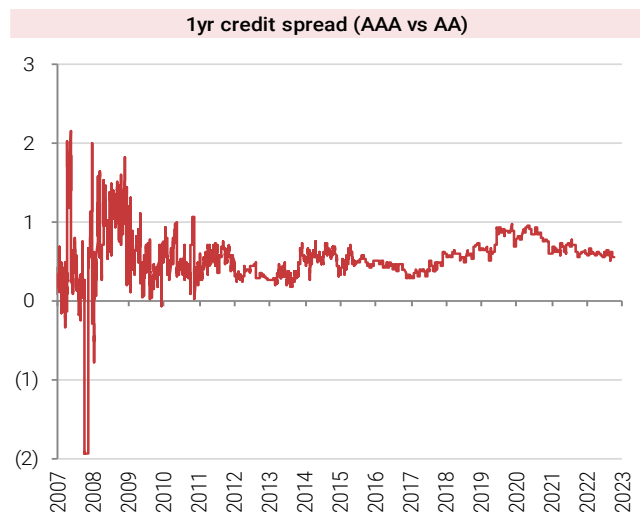
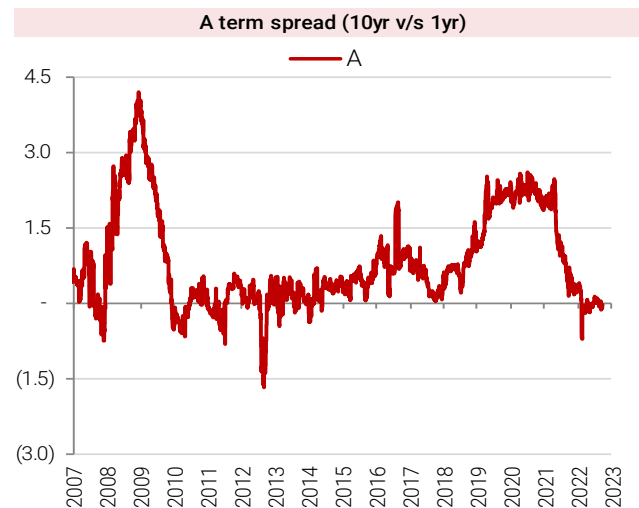
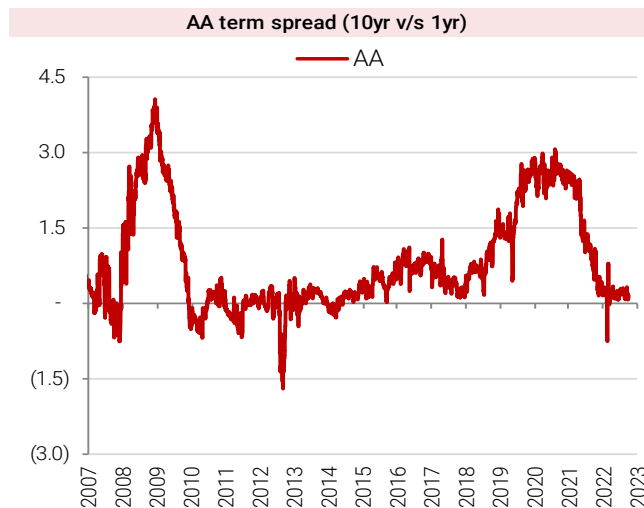
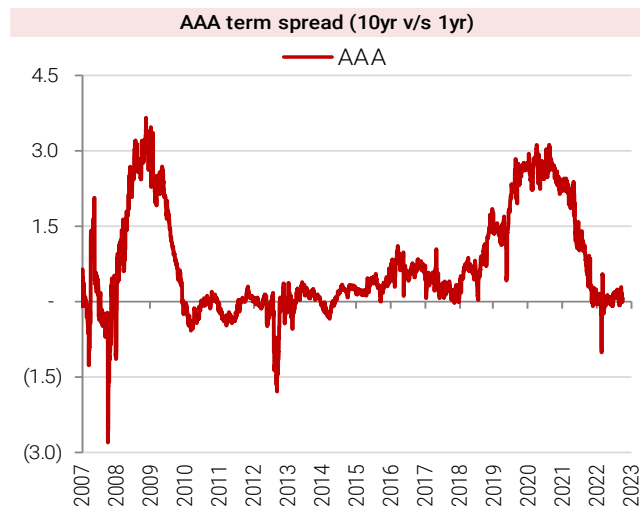
Source: RBI

TERM PREMIUM INCREASED POST THE PANDEMIC, BUT HAS DECLINED SHARPLY

Credit spreads are, however, still elevated

Term premium increased post the pandemic, but has declined sharply in the past few months; AAA-A spread is quite elevated

Trends in term spread and credit spread on corporate bonds in India, December calendar year-ends (%)

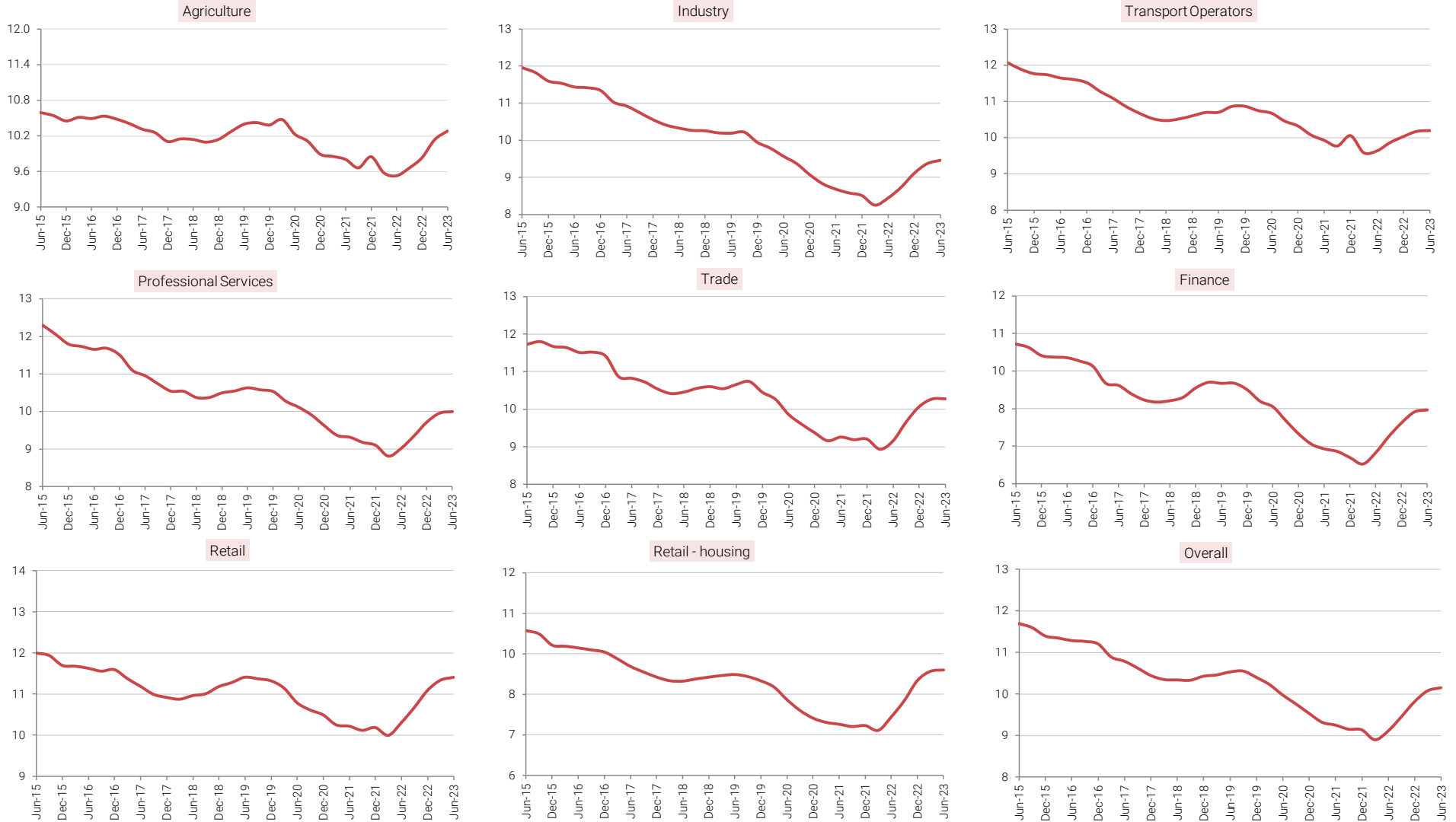


Source: Bloomberg

HOUSING AND LOANS TO FINANCE COMPANIES SAW SHARP INCREASE IN YIELDS

Transmission has been relatively slower in agri and transport segments

Weighted average yield on housing loans has increased from the bottom of ~7.3% to ~9.1% in the current rate hike cycle
Weighted average loan yields for banking system across sectors (%)

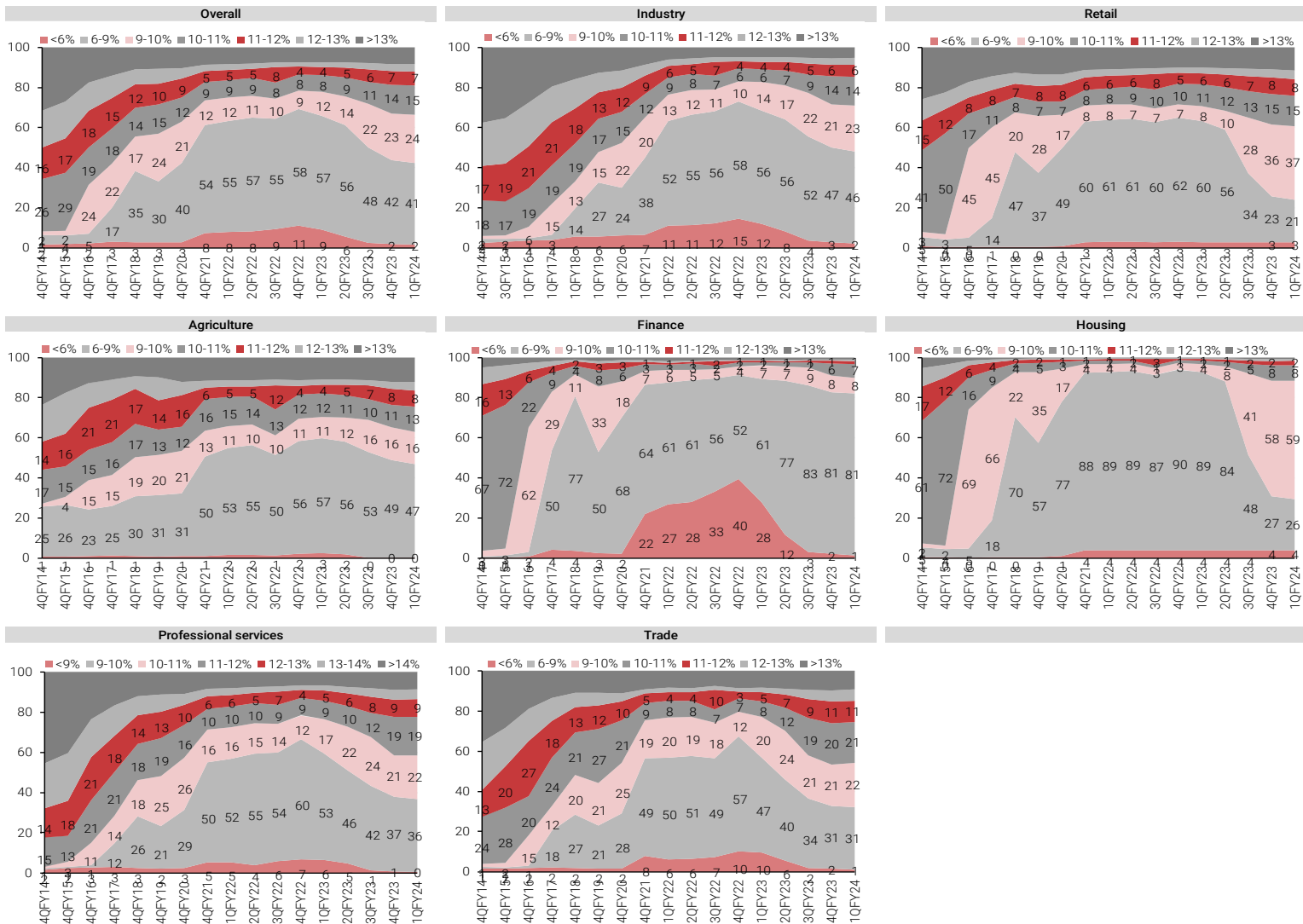


Source: RBI, Kotak Institutional Equities

YIELD MIX OF BANK LOAN BOOK HAS SEEN SHARP CHANGE RECENTLY

Retail segment (especially housing) has seen a significant shift in loans toward higher rate buckets

Yield mix of bank loan book has seen sharp change over the past few quarters across all loan segments, except agriculture
Break-up of loan book of banks across interest rate buckets, March fiscal year-ends (%)

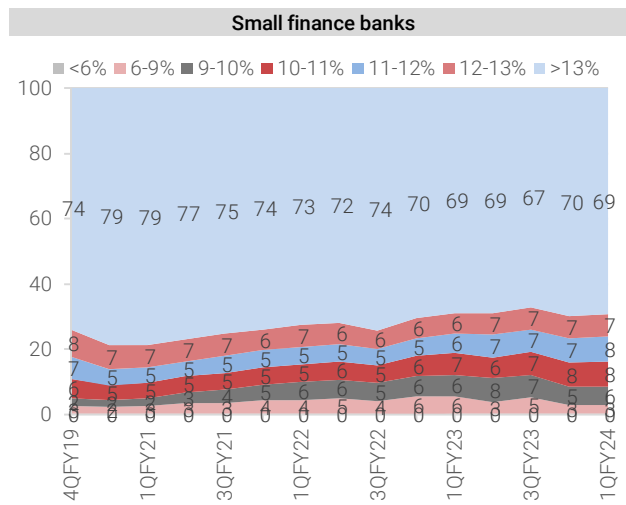
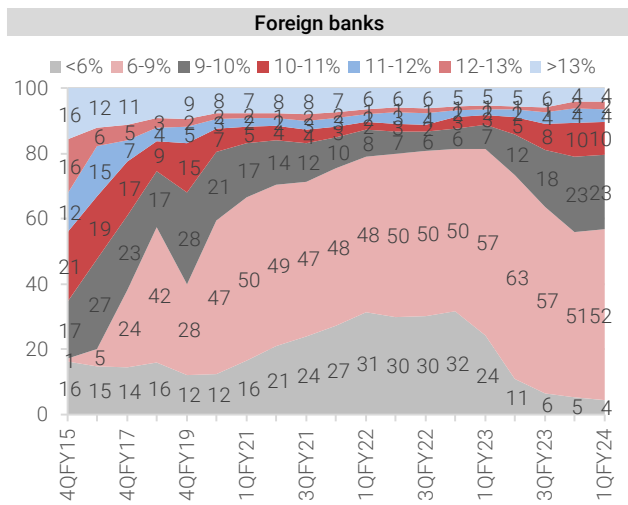
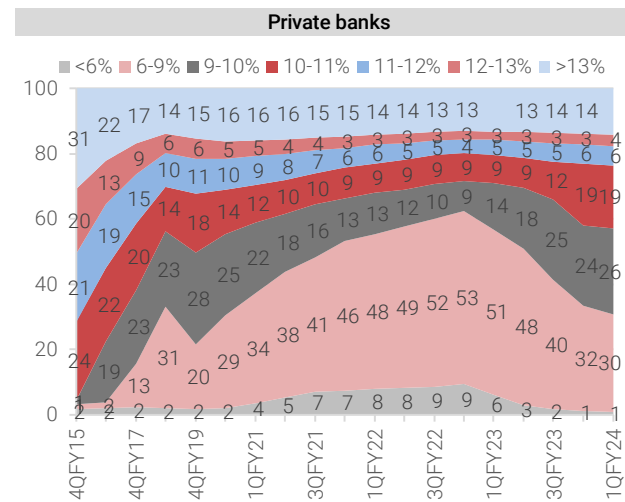
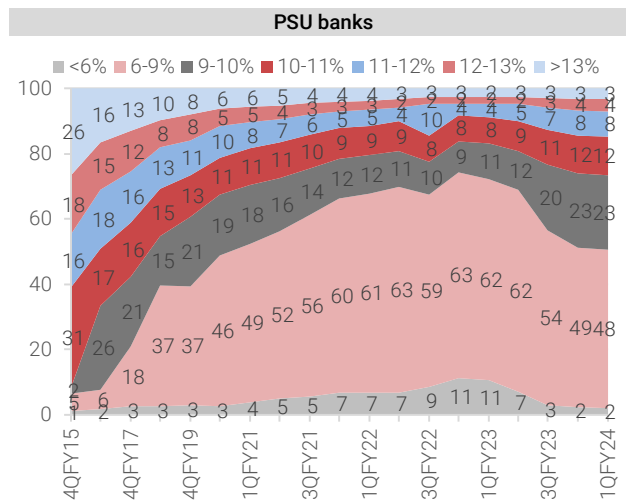
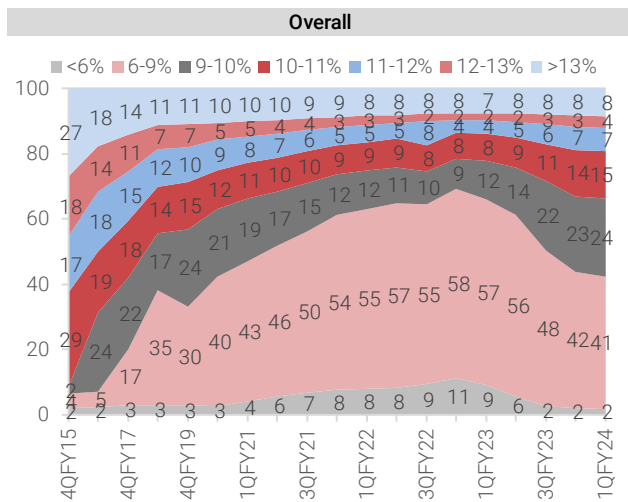


Source: RBI, Kotak Institutional Equities

PRIVATE BANKS HAVE SEEN QUICKER PASS-THROUGH OF RISING RATES

SFBs tend to operate in high yield segments of customers and loan products

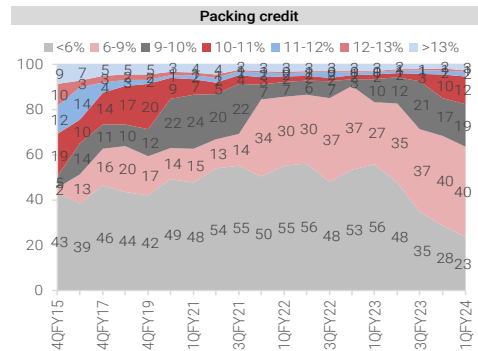
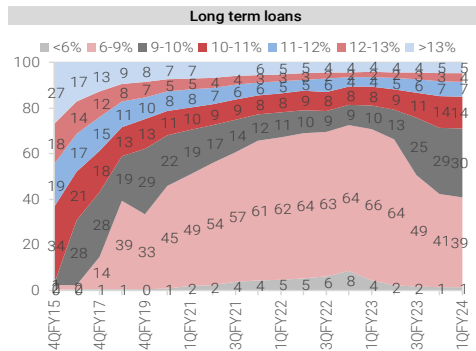
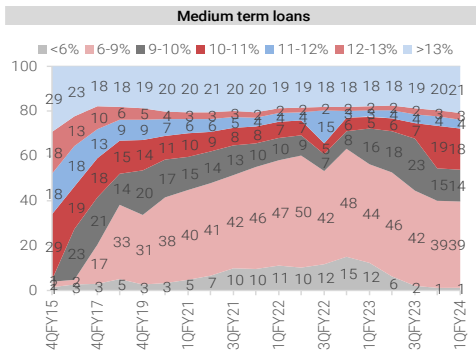
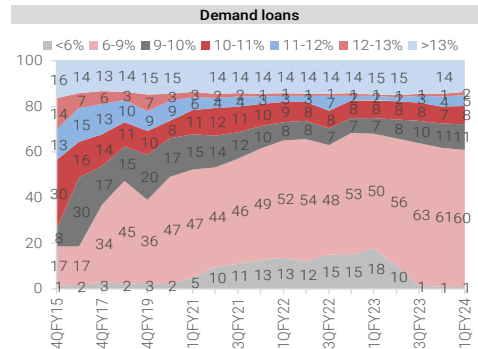
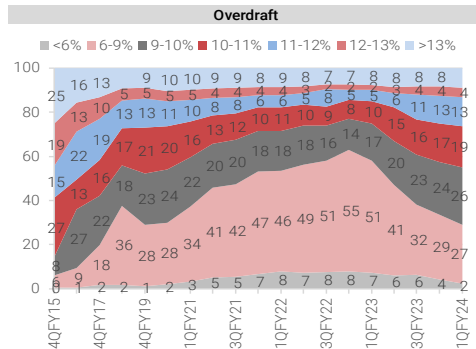
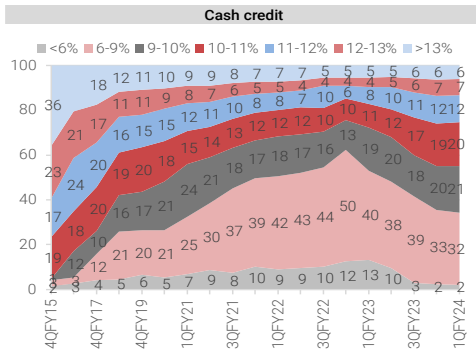
Break-up of advances across interest rate buckets for various bank groups, March fiscal year-ends, 4QFY15 onwards (%)



Source: RBI

PASS-THROUGH OF RISING RATES HAS BEEN SWIFT IN CC/ OD AND LONG TERM LOANS

Pass-through of rising rates has been slow in medium term loans, but quite swift in other products (CC, OD, demand loans and long term loans)
Break-up of advances across interest rate buckets for various account types, March fiscal year-ends, 4QFY15 onwards (%)

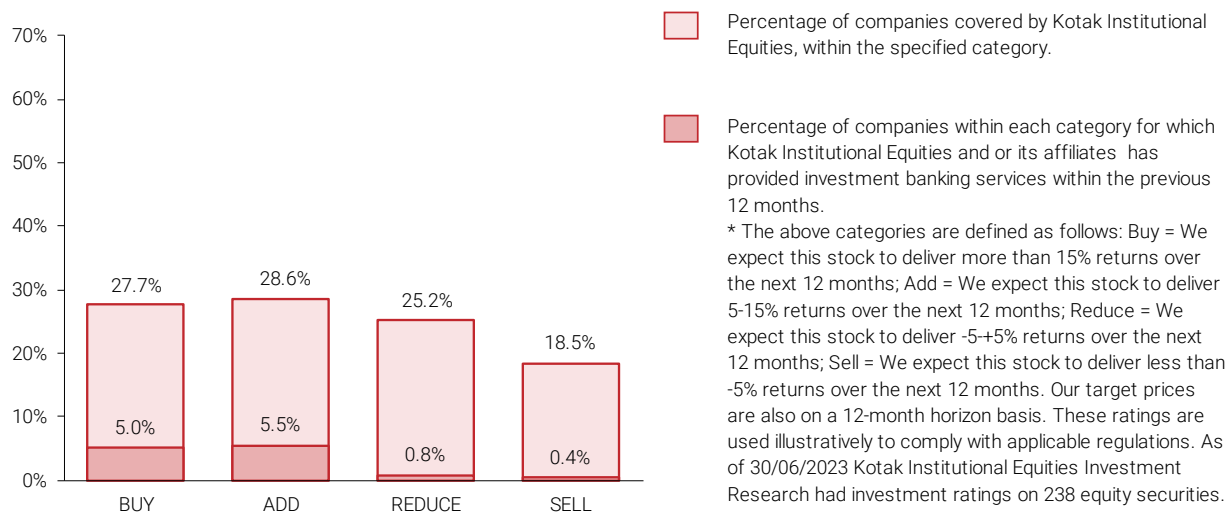


DISCLOSURES

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: M B Mahesh, Nischint Chawathe, Ashlesh Sonje, Abhijeet Sakhare, Varun Palacharla, Sidham Jain."

Distribution of ratings/investment banking relationships

Kotak Institutional Equities Research coverage universe



Source: Kotak Institutional Equities

As of June 30, 2023

RATINGS AND OTHER DEFINITIONS/IDENTIFIERS

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5 to +5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

Other definitions

Coverage view. The coverage view represents each analyst's overall fundamental outlook on the Sector. The coverage view will consist of one of the following designations: Attractive, Neutral, Cautious.

Other ratings/identifiers

NR = Not Rated. The investment rating and fair value, if any, have been suspended temporarily. Such suspension is in compliance with applicable regulation(s) and/or Kotak Securities policies in circumstances when Kotak Securities or its affiliates is acting in an advisory capacity in a merger or strategic transaction involving this company and in certain other circumstances.

CS = Coverage Suspended. Kotak Securities has suspended coverage of this company.

NC = Not Covered. Kotak Securities does not cover this company.

RS = Rating Suspended. Kotak Securities Research has suspended the investment rating and fair value, if any, for this stock, because there is not a sufficient fundamental basis for determining an investment rating or fair value. The previous investment rating and fair value, if any, are no longer in effect for this stock and should not be relied upon.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

DISCLAIMER

Copyright 2023 Kotak Institutional Equities (Kotak Securities Limited). All rights reserved.

The Kotak Institutional Equities research report is solely a product of Kotak Securities Limited and may be used for general information only. The legal entity preparing this research report is not registered as a broker-dealer in the United States and, therefore, is not subject to US rules regarding the preparation of research reports and/or the independence of research analysts.

- Note that the research analysts contributing to this report are residents outside the United States and are not associates, employees, registered or qualified as research analysts with FINRA or a US-regulated broker dealer; and
- Such research analysts may not be associated persons of Kotak Mahindra Inc. and therefore, may not be subject to FINRA Rule 2241 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst.
- Kotak Mahindra Inc. does not accept or receive any compensation of any kind directly from US institutional investors for the dissemination of the Kotak Securities Limited research reports. However, Kotak Securities Limited has entered into an agreement with Kotak Mahindra Inc. which includes payment for sourcing new major US institutional investors and service existing clients based out of the US.
- In the United States, this research report is available solely for distribution to major US institutional investors, as defined in Rule 15a – 6 under the Securities Exchange Act of 1934. This research report is distributed in the United States by Kotak Mahindra Inc., a US-registered broker and dealer and a member of FINRA. Kotak Mahindra Inc., a US-registered broker-dealer, accepts responsibility for this research report and its dissemination in the United States.
- This Kotak Securities Limited research report is not intended for any other persons in the United States. All major US institutional investors or persons outside the United States, having received this Kotak Securities Limited research report shall neither distribute the original nor a copy to any other person in the United States. Any US recipient of the research who wishes to effect a transaction in any security covered by the report should do so with or through Kotak Mahindra Inc. Please contact a US-registered representative, Vinay Goenka, Kotak Mahindra Inc., PENN 1, 1 Pennsylvania Plaza, Suite 1720, New York, NY 10119, Direct +1 212 600 8858, vinay.goenka@kotak.com.
- This document does not constitute an offer of, or an invitation by or on behalf of Kotak Securities Limited or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Kotak Securities Limited or its affiliates consider to be reliable. None of Kotak Securities Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

This report is distributed in Singapore by Kotak Mahindra (UK) Limited (Singapore Branch) to institutional investors, accredited investors or expert investors only as defined under the Securities and Futures Act. Recipients of this analysis /report are to contact Kotak Mahindra (UK) Limited (Singapore Branch) (16 Raffles Quay, #35-02/03, Hong Leong Building, Singapore 048581) in respect of any matters arising from, or in connection with, this analysis/report. Kotak Mahindra (UK) Limited (Singapore Branch) is regulated by the Monetary Authority of Singapore.

Kotak Securities Limited and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group. We along with our affiliates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationships with a significant percentage of the companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. Investors should assume that Kotak Securities Limited and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. Our research professionals are paid in part based on the profitability of Kotak Securities Limited, which includes earnings from investment banking and other businesses. Kotak Securities Limited generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, Kotak Securities Limited generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of clients of Kotak Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. Kotak Securities Limited does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment. Certain transactions – including those involving futures, options, and other derivatives as well as non-investment-grade securities – give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavor to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so. We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Kotak Securities Limited and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, affectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the current derivatives risk disclosure document before entering into any derivative transactions.

Kotak Securities Limited established in 1994, is a subsidiary of Kotak Mahindra Bank Limited.

Kotak Securities Limited is a corporate trading and clearing member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), Metropolitan Stock Exchange of India Limited (MSE), National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX). Our businesses include stock broking, services rendered in connection with distribution of primary market issues and financial products like mutual funds and fixed deposits, depository services and portfolio management.

Kotak Securities Limited is also a Depository Participant with National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL). Kotak Securities Limited is also registered with Insurance Regulatory and Development Authority and having composite license acts as Corporate Agent of Kotak Mahindra Life Insurance Company Limited and Kotak Mahindra General Insurance Company Limited and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI). Kotak Securities Limited is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014.

We hereby declare that our activities were neither suspended nor we have defaulted with any stock exchange authority with whom we are registered in last five years. However, SEBI, exchanges and Depositories have conducted the routine inspection and based on their observations have issued advise letters or levied minor penalty on KSL for certain operational deviations. We have not been debarred from doing business by any stock exchange/SEBI or any other authorities, nor has our certificate of registration been cancelled by SEBI at any point of time.

We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. Details of Associates are available on website, i.e. www.kotak.com and <https://www.kotak.com/en/investor-relations/governance/subsidiaries.html>.

Research Analyst has served as an officer, director or employee of subject company(ies): No.

We or our associates may have received compensation from the subject company(ies) in the past 12 months.

We or our associates have managed or co-managed public offering of securities for the subject company(ies) or acted as a market maker in the financial instruments of the subject company/company (ies) discussed herein in the past 12 months. YES. Visit our website for more details <https://kie.kotak.com>.

We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company(ies) in the past 12 months. We or our associates may have received compensation or other benefits from the subject company(ies) or third party in connection with the research report.

Our associates may have financial interest in the subject company(ies).

Research Analyst or his/her relative's financial interest in the subject company(ies): No

Kotak Securities Limited has financial interest in the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: YES. Nature of Financial interest: Holding equity shares or derivatives of the subject company.

Our associates may have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No.

Kotak Securities Limited has actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of Research Report: No

Subject company(ies) may have been client during twelve months preceding the date of distribution of the research report.

A graph of daily closing prices of securities is available at <https://www.moneycontrol.com/india/stockpricequote/> and <http://economictimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the “three years” icon in the price chart).

First Cut notes published on this site are for information purposes only. They represent early notifications and responses by analysts to recent events. Data in the notes may not have been verified by us and investors should not act upon any data or views in these notes. Most First Cut notes, but not necessarily all, will be followed by final research reports on the subject.

There could be variance between the First Cut note and the final research note on any subject, in which case the contents of the final research note would prevail. We accept no liability of the First Cut Notes.

Analyst Certification

The analyst(s) authoring this research report hereby certifies that the views expressed in this research report accurately reflect such research analyst's personal views about the subject securities and issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Firm. Firm Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Our research should not be considered as an advertisement or advice, professional or otherwise. The investor is requested to take into consideration all the risk factors including their financial condition, suitability to risk return profile and the like and take professional advice before investing.

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

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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

Kotak Securities Limited. Registered Office: 27 BKC, C 27, G Block, Bandra Kuria Complex, Bandra (E), Mumbai 400051. CIN: U99999MH1994PLC134051. Telephone No.: +22 43360000. Fax No.: +22 67132430. Website: www.kotak.com / www.kotaksecurities.com. Correspondence Address: Infinity IT Park, Bldg. No 21, Opp. Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097. Telephone No: 42856225. SEBI Registration No: INZ000020137(Member of NSE, BSE, MSE, MCX & NCDEX), AMFI ARN 0164, PMS INP0000020258 and Research Analyst INH000000586. NSDL/CDSL: IN-DP-629-2021. Compliance Officer Details: Mr. Sandeep Gupta. Call: 022 - 4285 8484, or Email: ks.compliance@kotak.com

Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park,	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar	Off Western Express Highway, Malad (East), Mumbai,	022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr Sandeep Gupta	Maharashtra - 400097	022-42858484	ks.compliance@kotak.com
CEO	Mr. Jaideep Hansraj		022-42858301	ceo.ks@kotak.com

In absence of response/complaint not addressed to your satisfaction, you may lodge a complaint with SEBI at <https://scores.gov.in/scores/Welcome.html> or Exchange at <https://investorhelpline.nseindia.com/NICEPLUS/>, <https://bseisc.bseindia.com/complaint/frmlInvestorHome.aspx>, Investor Service Centre | National Commodity & Derivatives Exchange Limited (ncdex.com), <https://igrs.mcxindia.com/>. Please quote your Service Ticket/Complaint Ref No. while raising your complaint at SEBI SCORES/Exchange portal or Depository at <https://www.epass.nsdl.com/complaints/websitecomplaints.aspx> and <https://www.cdsindia.com/Footer/grievanceca>