

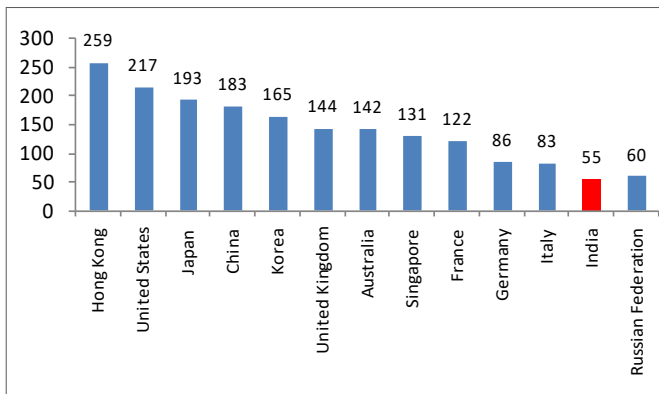
Indian Banking Opportunity

Higher Credit Growth Alongwith Lower NPAs and Higher Recoveries Promises Higher Profitability for Banks

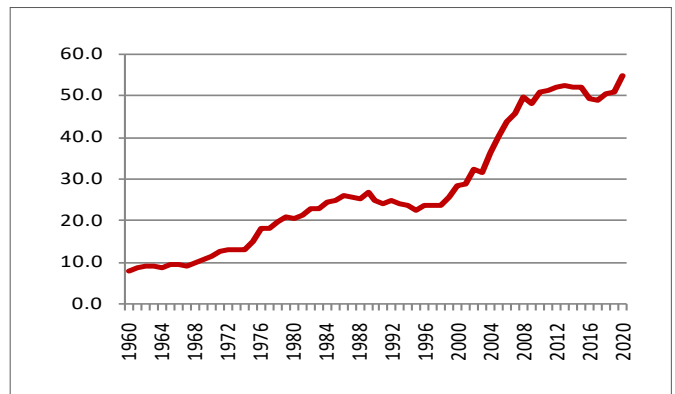
August 2022

Indian Banking System has gone through many transformations, consolidations and inclusions of new names. This sector has produced some of the largest and finest institutions of the country. Financials weight in NSE Nifty 50 Index has risen to 39% vis a vis mere 11.7% in 2002. India is the 5th largest nation by GDP. The credit penetration has improved from mere 28% of GDP since Yr 2000 to 55% of GDP currently. However, the credit penetration of Indian Banking at 54.7% is still far below when compared to developed or other comparable emerging nations of the world, the world average being 165%. This suggest a structural opportunity in the sector for Investment.

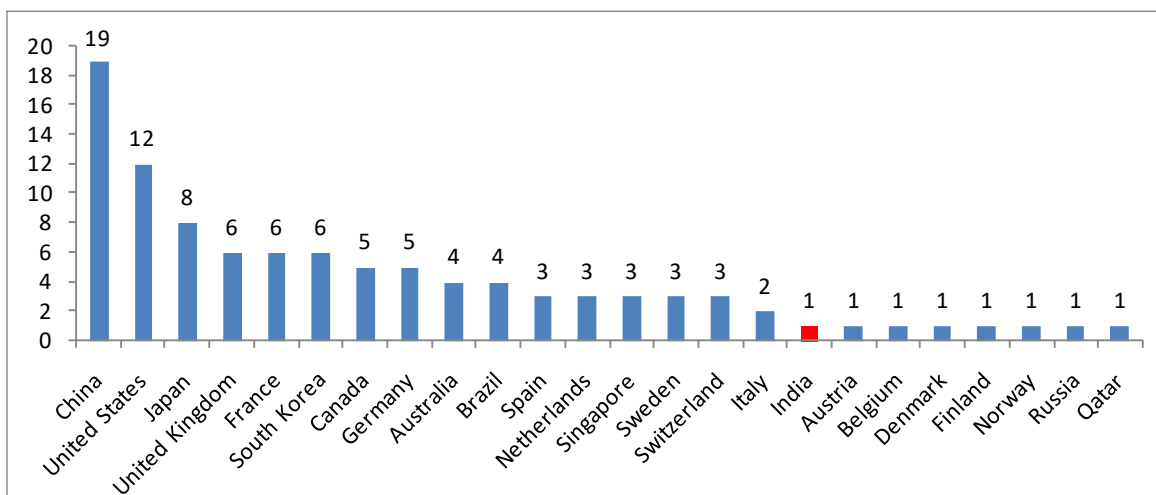
World-Domestic Credit to Private Sector by GDP%



India Credit penetration over last 60 years



Also, despite increasing penetration, in the top 100 Banks globally; India has only 1 accredited to the list, compared to China which has 19 and USA having 12 Banks in global top 100.



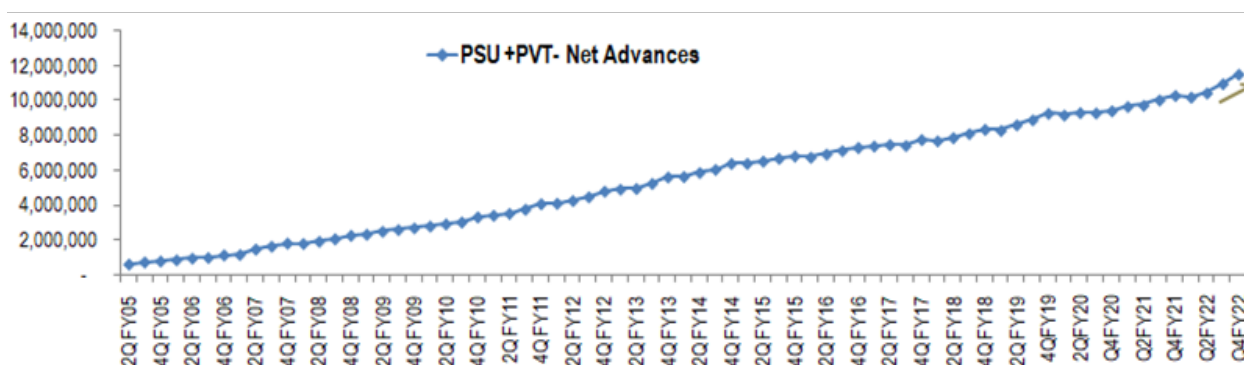
Credit growth in Banks declined from 40% in 2006-2007 to 5% in 2015 to 2018. GNPA which was 10% in 2002, fell to 2.8% in FY 12 and rose back to 12% in FY18. Just before Banks were preparing themselves to clean books from corporate led GNPA, retail and MSME led stress loomed over it during Covid. To top it all, the recent sell off by FIIs has put Indian Banking Stocks once again on the stress test.

Detailed Analysis suggest, banks Profitability is expected to improve alongwith betterment in the Asset Quality going forward as all the five important factors affecting a Bank's Profitability and Balance Sheet are turning favourable.

Factors Impacting Banking Stocks

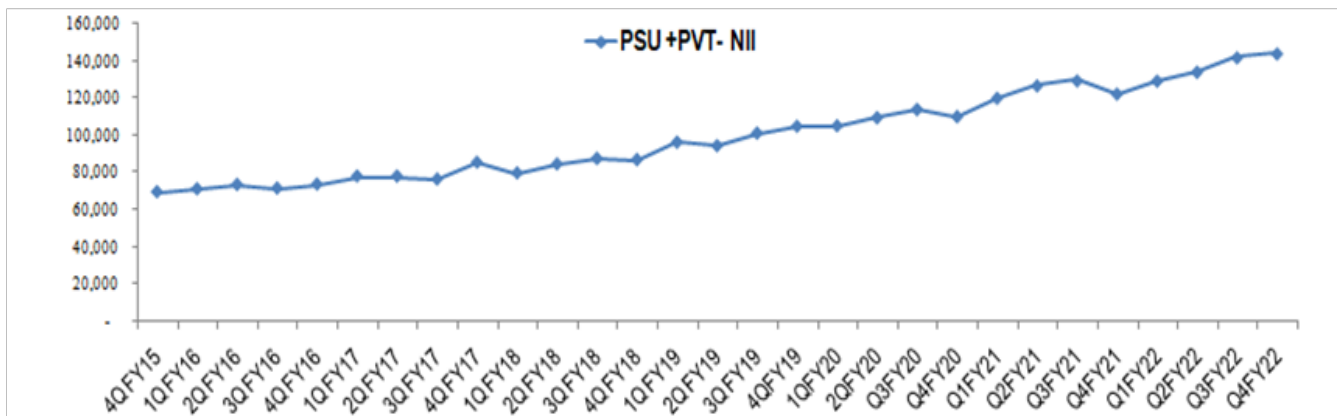


Most important factor for a Bank is that there should be credit (or say Advance) growth. Advances for Banks both PSU and Private Sector are increasing. Capex cycle is improving and the capacity utilization is already above pre covid levels at around 74%. As it crosses 78%, the growth will accelerate further. Also, due to increase in commodity prices, need for Working capital loans have also increased.



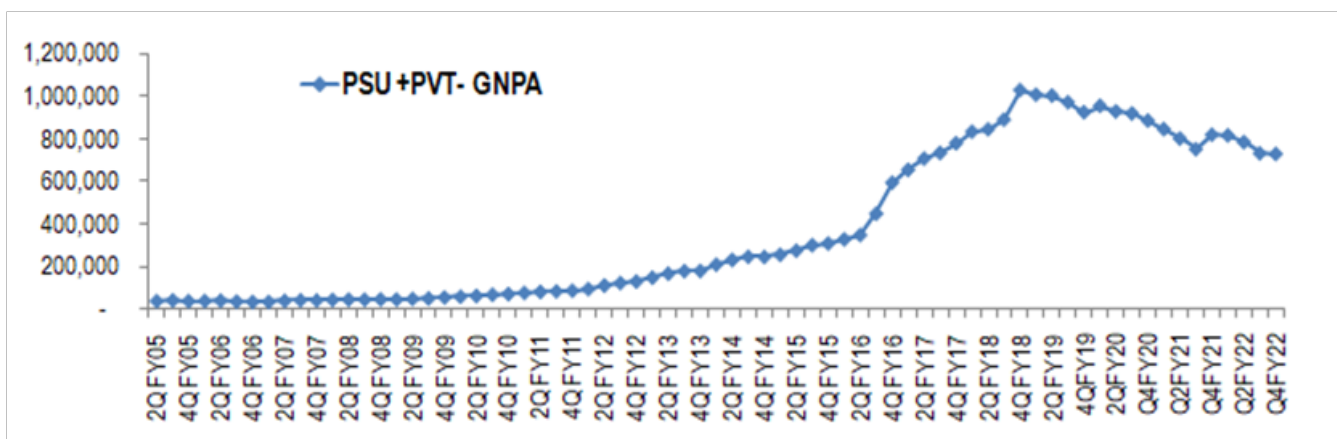
| Net Advances | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---------------|-----------|-----------|-----------|-----------|-----------|------------|------------|
| Private banks | 1,913,566 | 2,209,527 | 2,657,673 | 3,205,248 | 3,505,822 | 3,827,939 | 4,445,558 |
| YoY Growth | 25% | 15% | 20% | 21% | 9% | 9% | 16% |
| PSU Banks | 5,399,680 | 5,557,365 | 5,697,967 | 6,072,996 | 5,915,554 | 6,477,065 | 7,079,207 |
| YoY Growth | 2% | 3% | 3% | 7% | -3% | 9% | 9% |
| Total | 7,313,246 | 7,766,892 | 8,355,640 | 9,278,244 | 9,421,376 | 10,305,004 | 11,524,764 |
| YoY Growth | 7% | 6% | 8% | 11% | 2% | 9% | 12% |

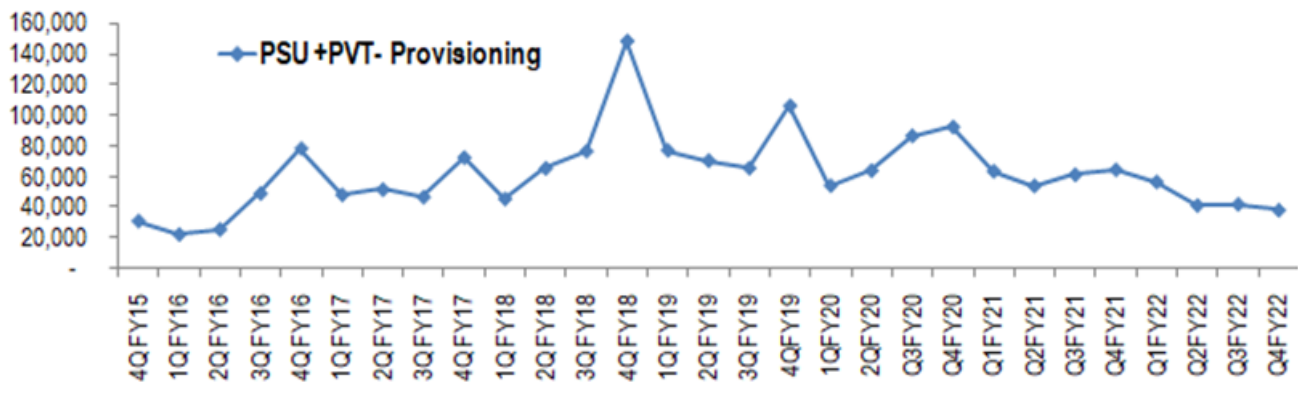
With a stable Net Interest Margin, Net Interest Income grows at a speed of Advances growth. Factors that affect Net interest growth are a) type of Advances as each category of loan has separate yield depending on tenure an risk involved and b) cost of borrowing for the bank which depends on the amount of deposits (CD ratio), lenders , tenure etc. Net Interest Income for Private banks currently show a double digit growth while for PSU there has been reduction in growth to single digit owing to lower advance growth and more loans to A rated companies.



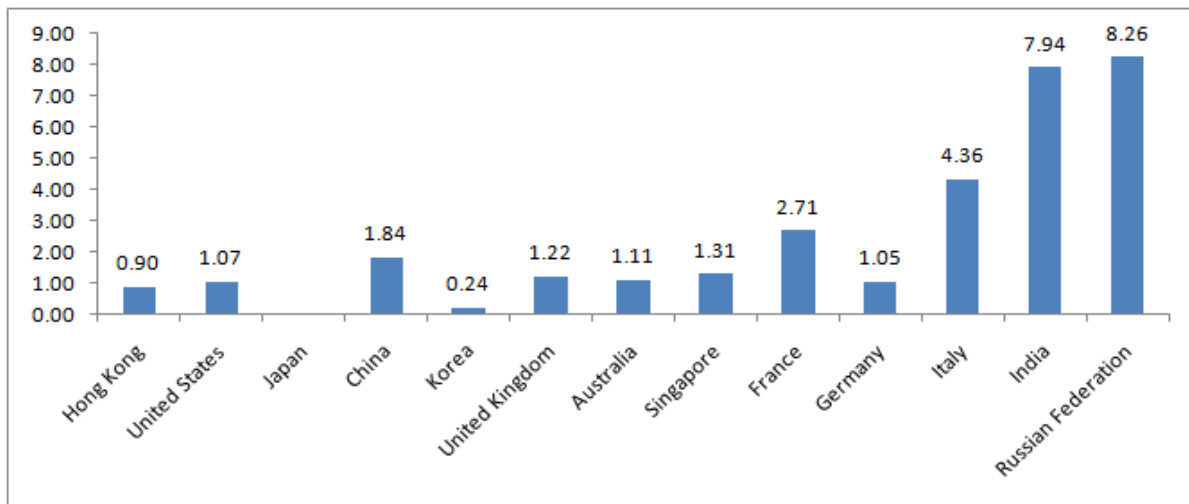
| Net Interest Income | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| Private banks | 96,720 | 113,854 | 131,945 | 158,367 | 187,240 | 213,623 | 241,157 |
| YoY Growth | | 18% | 16% | 20% | 18% | 14% | 13% |
| PSU Banks | 191,121 | 202,261 | 205,150 | 237,077 | 250,411 | 283,959 | 307,417 |
| YoY Growth | | 6% | 1% | 16% | 6% | 13% | 8% |
| Total | 287,842 | 316,115 | 337,095 | 395,444 | 437,651 | 497,582 | 548,575 |
| YoY Growth | | 10% | 7% | 17% | 11% | 14% | 10% |

Another important aspect is the Asset Quality. Asset quality of a Bank if poor can provide serious damage to P&L as well as the Balance Sheet of the Bank and put the bank under vicious cycle of ALM risks alongwith Asset Damage. Concerns in GNPA rose during Covid period but we have seen it not going beyond the peak formed in 2018. Provisioning has reduced considerably. Notable is , in PSU Banks, the average Provision coverage ratio is 88% while for private Banks the average is at 73% . Currently recoveries are more than slippages.

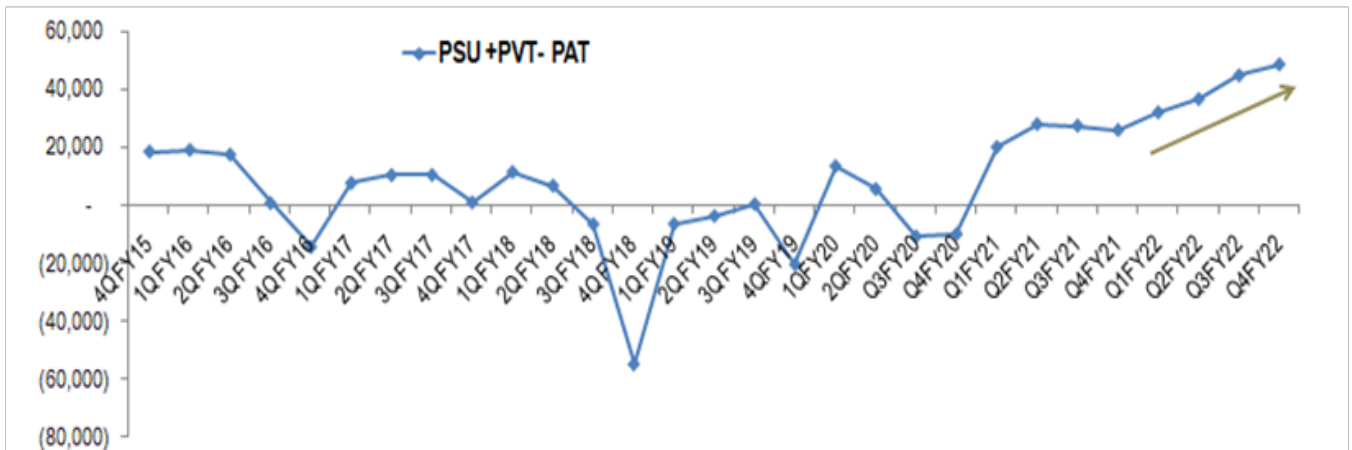




India is so far by 2020 still having worst GNPA compared to certain countries and hence a lot needs to be worked on. As better rated Advances grow at double digits, the ratio of 8% in Fy20 should fall considerable. In FY22, already the GNPA ratio for Indian listed players have fallen to 6.3% aggregate.



As provisioning for Banks are declining alongwith better recoveries and better rated Advances growth, it is assumed that Profitability should be higher going forward. Already from loss of 1759 Cr reported by Listed PSU and Pvt players together in Fy20, banks Profit after tax aggregate has risen to 1,01,000Cr in Fy21 and 1,62,000in FY22 (figures being highest Pat in Indian Banking history)



| Profit After Tax | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 |
|------------------|---------|---------|---------|---------|---------|----------------|---------|
| Private Banks | 41,023 | 42,752 | 41,940 | 43,419 | 26,556 | 68,376 | 93,505 |
| YoY Growth | | 4% | -2% | 4% | -39% | 157% | 37% |
| PSU Banks | -18,115 | -13,251 | -85,369 | -73,840 | -28,316 | 33,297 | 68,978 |
| YoY Growth | Loss | Loss | Loss | Loss | Loss | Loss to Profit | 107% |
| Total | 22,908 | 29,501 | -43,429 | -30,422 | -1,759 | 101,673 | 162,483 |
| YoY Growth | | 29% | Loss | Loss | Loss | Loss to Profit | 60% |

Banks are currently most attractive for Investment as high profitability comes with fairly low valuations for many good quality companies.

Narnolia Investment Advisors Private Ltd. (NARNOLIA) is a SEBI Registered Investment Advisors (Non Individual) having SEBI Registration Number INA300005439 (Permanent) , CIN:- U67120JH2007PTC012791 Corporate Address: 803, Wing A, Kanakia Wall Street, Chakala, Andheri, Mumbai – 400093, PH: 022 6270 1200/ 022 6839 1200, Email Id: iap@narnolia.com. SEBI Regional office address: L&T Chambers, 3rd Floor, 16 Camac Street, Kolkata – 700017

NARNOLIA is 100% subsidiary of Narnolia Capital Advisors Private Ltd. which is NBFC registered with RBI. Narnolia Capital Advisors Private Ltd is owned by Narnolia Securities under the Promotership of Mr. KrishnanandNarnolia. Details of associate entities are available on the website of the Company. Narnolia is not affiliated with any intermediaries for execution or distribution services and no consideration including any commission or referral fees is received directly or indirectly at group level for the said services. Client shall not be under any obligation to avail the execution/distribution or other services offered through any entity as recommended by NARNOLIA and no consideration is received for the same. There is no pending regulatory matter against NARNOLIA as on date.

No disciplinary action has been taken against the Company by any regulatory/statutory authority.

No complaint has been lodged by any client relating to our Investment Advisory Services.

Conflict of interest

Narnolia Financial Services Ltd., a company registered under the Companies Act, 1956, is a SEBI registered intermediary and offers services as Merchant Banker, Portfolio Manager, Research Analyst and also AMFI registered Mutual Fund distributor and is one of the affiliates/Associate Company of NARNOLIA. However, appropriate Chinese walls is maintained as required under SEBI Investment Advisor Regulation.

Disclaimer

This report has been prepared by Narnolia Financial Services Ltd. (NFSL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Investment in Securities Market is subject to Market risks, read all the related documents carefully before investing. Past performance may not be indicative of future results and no promise or guarantee can be given for the same. Performance related information is not verified by SEBI. For detailed disclosures & disclaimers please refer to our website at www.narnolia.com

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFSL& its group companies to registration or licensing requirements within such jurisdictions.