

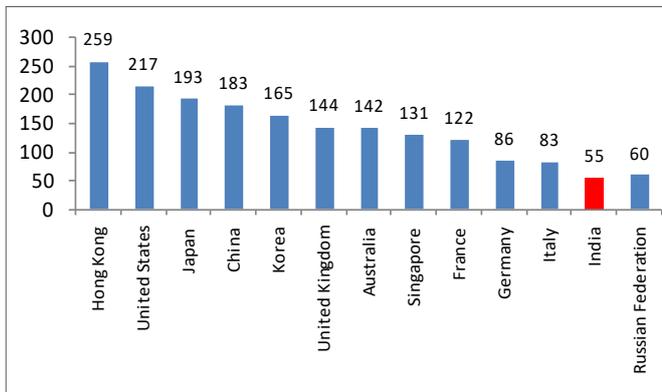
## Indian Banking Opportunity

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

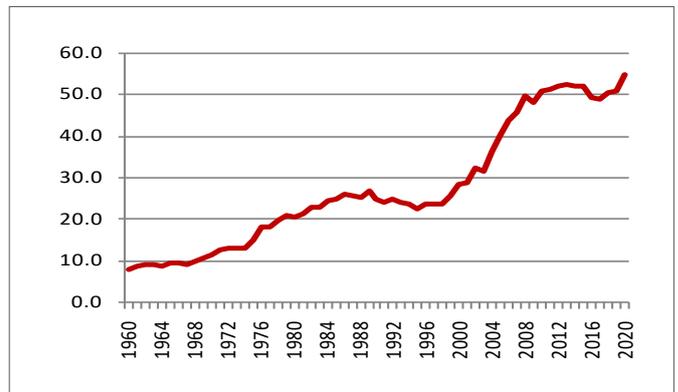
August 2022

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.

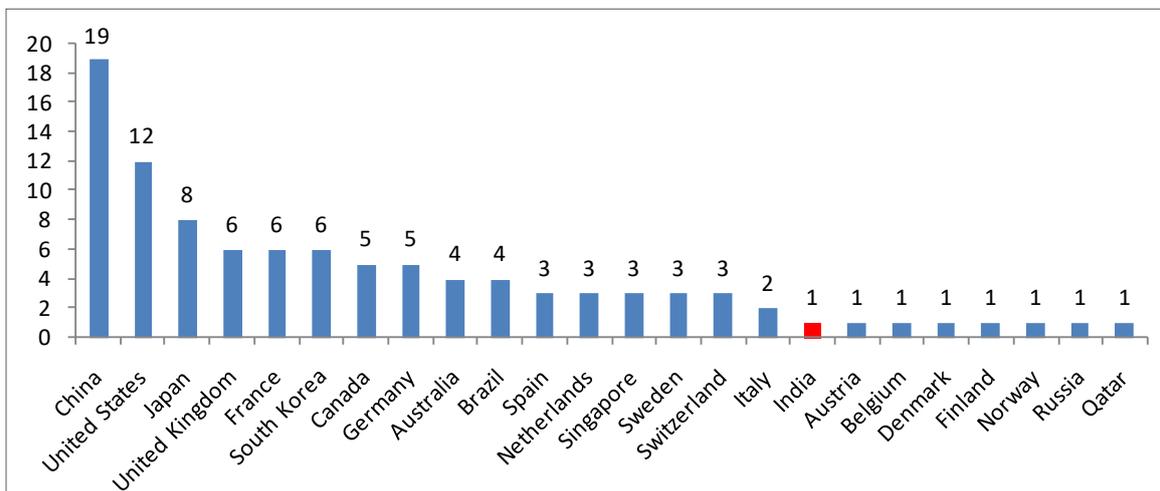
World-Domestic Credit to Private Sector by GDP%



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.



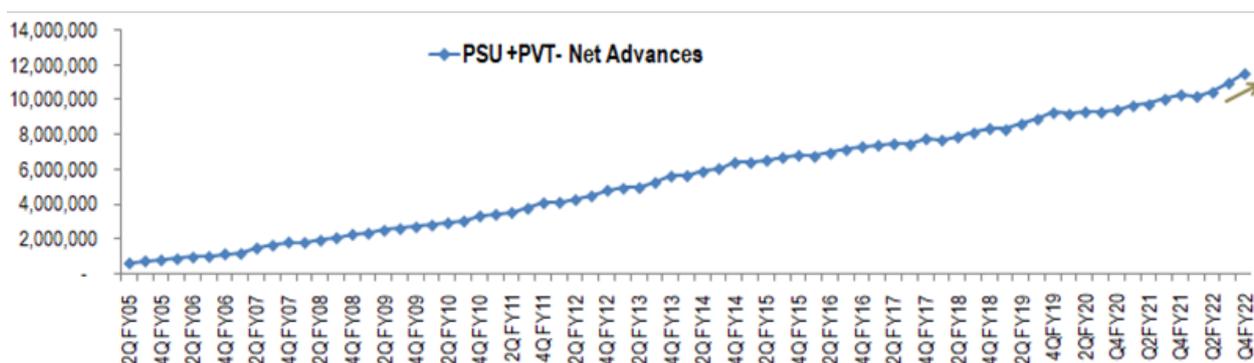
Credit growth in Banks declined from 40% in 2006-2007 to 5% in 2015 to 2018. GNPA which was 10% in 2002, fell to 2.8% in FY 12 and rose back to 12% in FY18. Just before Banks were preparing themselves to clean books from corporate led GNPA, retail and MSME led stress loomed over it during Covid. To top 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

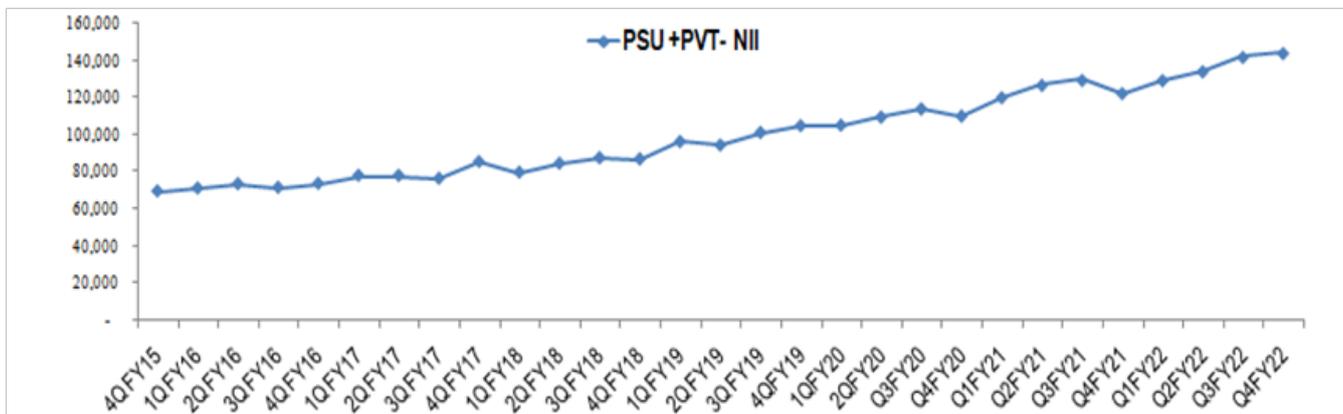


Most important factor for a Bank is that there should be credit (or say Advance) growth. Advances for Banks both PSU and Private Sector are increasing. Capex cycle is improving and the capacity utilization is already above pre covid levels at around 74%. As it crosses 78%, the growth will accelerate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



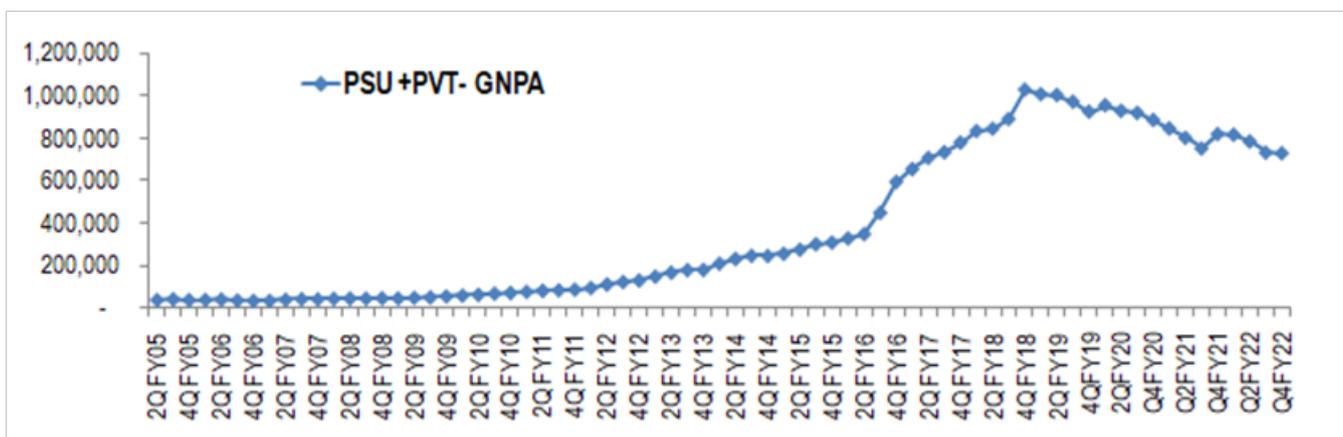
Net Advances	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Private banks	1,913,566	2,209,527	2,657,673	3,205,248	3,505,822	3,827,939	4,445,558
YoY Growth	25%	15%	20%	21%	9%	9%	16%
PSU Banks	5,399,680	5,557,365	5,697,967	6,072,996	5,915,554	6,477,065	7,079,207
YoY Growth	2%	3%	3%	7%	-3%	9%	9%
Total	7,313,246	7,766,892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

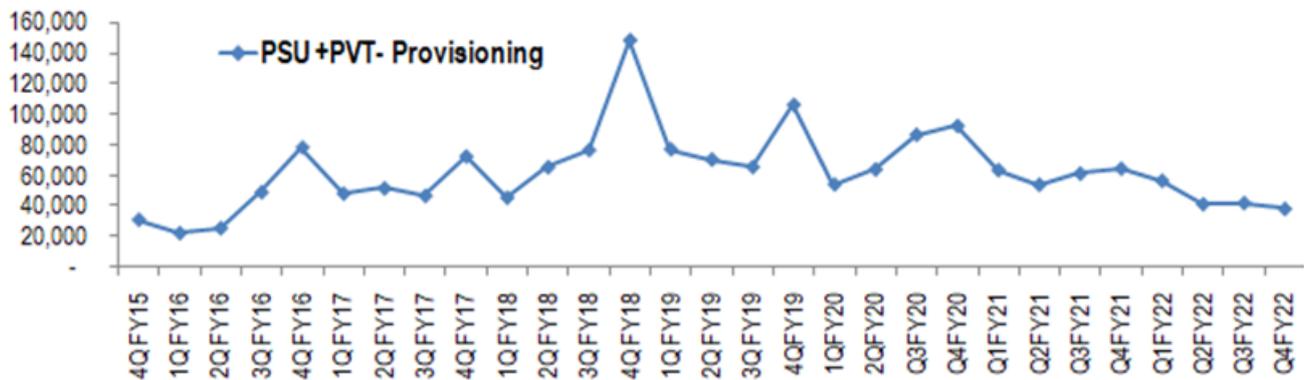
With a stable Net Interest Margin, Net Interest Income grows at a speed of Advances growth. Factors that affect Net interest growth are a) type of Advances as each category of loan has separate yield depending on tenure an risk involved and b) cost of borrowing for the bank which depends on the amount 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.



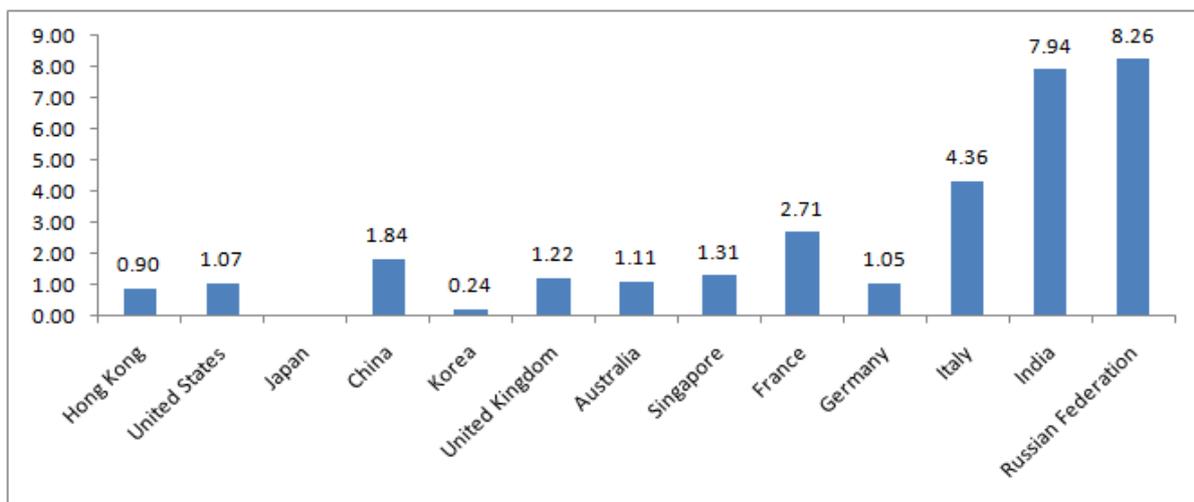
Net Interest Income	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Private banks	96,720	113,854	131,945	158,367	187,240	213,623	241,157
YoY Growth		18%	16%	20%	18%	14%	13%
PSU Banks	191,121	202,261	205,150	237,077	250,411	283,959	307,417
YoY Growth		6%	1%	16%	6%	13%	8%
Total	287,842	316,115	337,095	395,444	437,651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

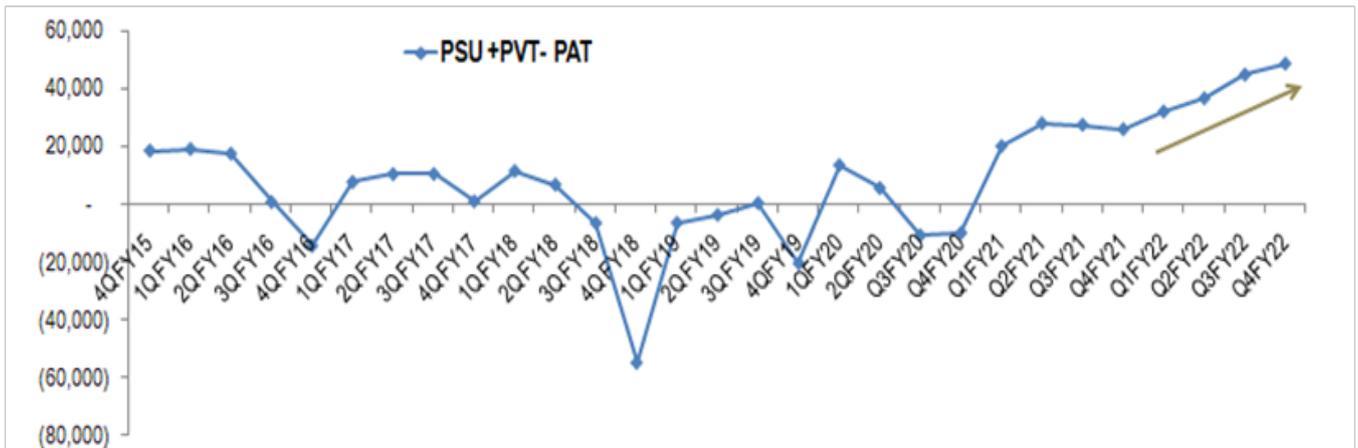




India is so far by 2020 still having worst GNPA compared to certain countries and hence a lot needs to be worked on. As better rated Advances grow at double digits, the ratio of 8% in Fy20 should fall considerable. In FY22, already the GNPA ratio for Indian listed players have fallen to 6.3% aggregate.



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.

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