

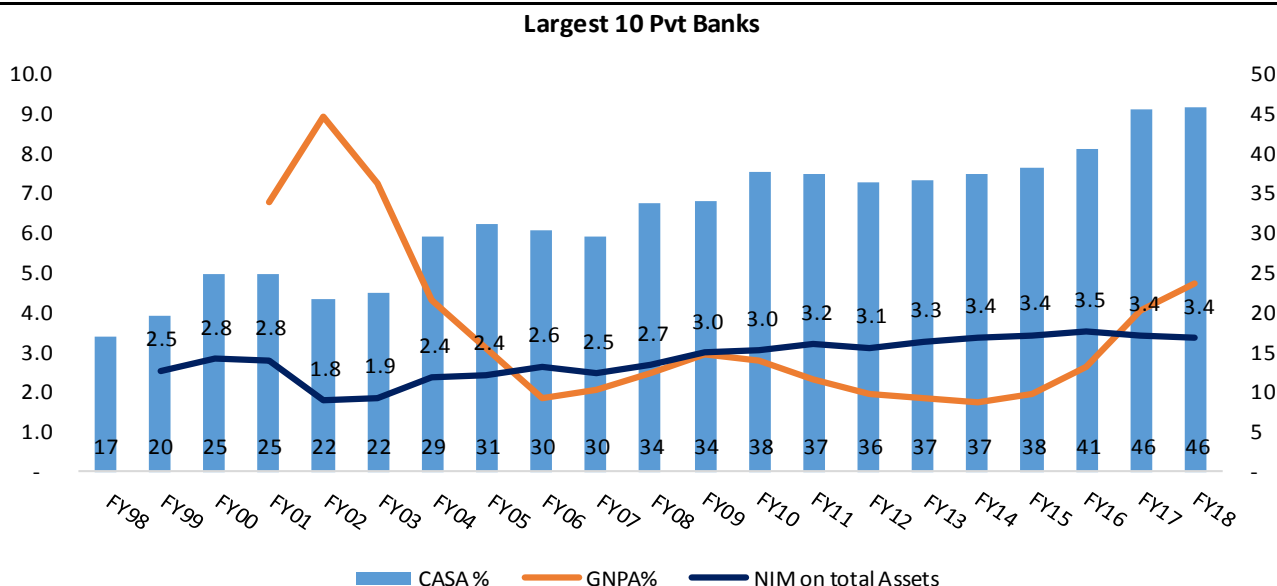
# FINANCIALS- BANKS

## NIM- Scope for Improvement

- NIM is a key lever for a bank that determines the profitability of a bank. The NIM (NII calculated on total assets of largest 10 private banks) shows expansion from 2.5% in FY99 to 3.4% in FY18. While the NIM in a long run depends on low cost deposits (CASA) of a bank, it also gets impacted by the asset quality performance of bank in medium term. CASA of our coverage banks increased from 20% in FY99 to 46% in FY18 which is the main driver for increase in NIM. Performance of assets quality has also impacted the NIM for a particular period of time.
- NIM of the banks under the coverage has increased from 1.8% in FY02 to 3.5% in FY16 before falling to 3.4% in FY18. While the CASA shares in total deposits increased from 22% in FY02 to 46% in FY18. The increase in margins was led by significant gain in low cost of deposits.
- Data for the period of FY16 to FY18 also shows that despite the increase in CASA from 41% to 46%, NIM contracted during this period mainly on account of deterioration in assets quality. The increase in NPA impacted the earning capacity of the banks on account of interest reversal. Prior to FY16 and after FY02, CASA ratio was increasing and GNPA% was favourable and hence NIM was on increasing trend for the banks.
- Along with higher credit cost due to rise in GNPA in last few years, lacklustre performance of NIM also impacted the return ratios of the banks. Data from Axis Bank and ICICI bank shows that the NIM for both the corporate lenders contracted by 50 bps and 25 bps respectively. Despite the rise in CASA ratio, NIM contracted majorly on account of deterioration in assets quality. GNPA showing some relief, we believe there is some scope of NIM improvement for corporate lender like ICICI Bank, Axis bank and SBIN. There has been also change in loan mix since last several years and the mix has been shifted mostly towards lower risk profile which gives us confidence of sustainability of NIM for a longer period.

### Exhibit 1: Largest 10 Private Banks' NIM, CASA and GNPA

Expansion in NIM was led by majorly increase in CASA ratio. While deterioration in assets quality since FY16 impacted the margins despite increase in CASA.



Source: NFAL

#### Research Analyst

**DEEPAK KUMAR**

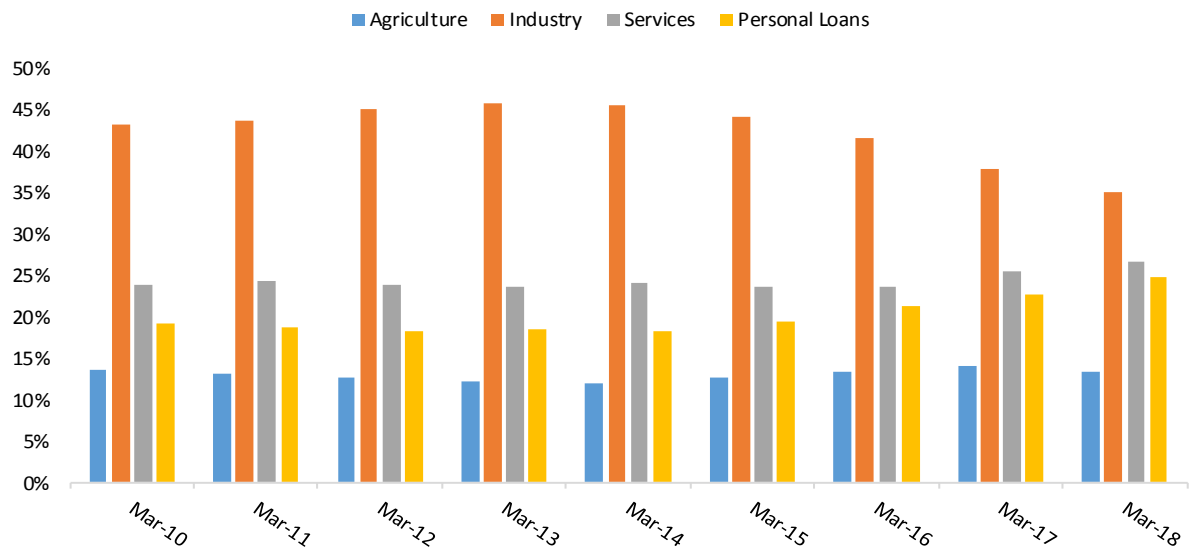
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## Exhibit 2: Loan Composition of Commercial Banks

Loan mix composition changed significantly towards personal loan and services sector.

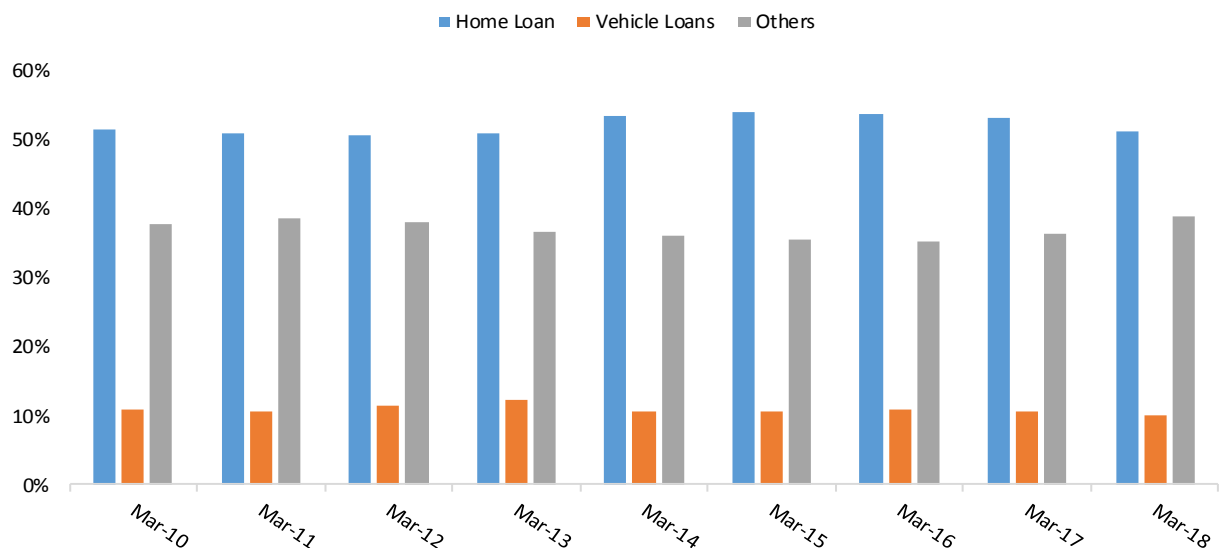


Source: RBI, NFAL

Loan mix over a period of time has tilted towards retail assets whereas exposure towards large riskier industry has declined significantly from a high of 46% in FY13 to 35% in FY18. Increasing exposure towards retail assets will provide stability to risk adjusted NIM due to lower delinquencies in the portfolio.

## Exhibit 3 : Personal Loan Composition

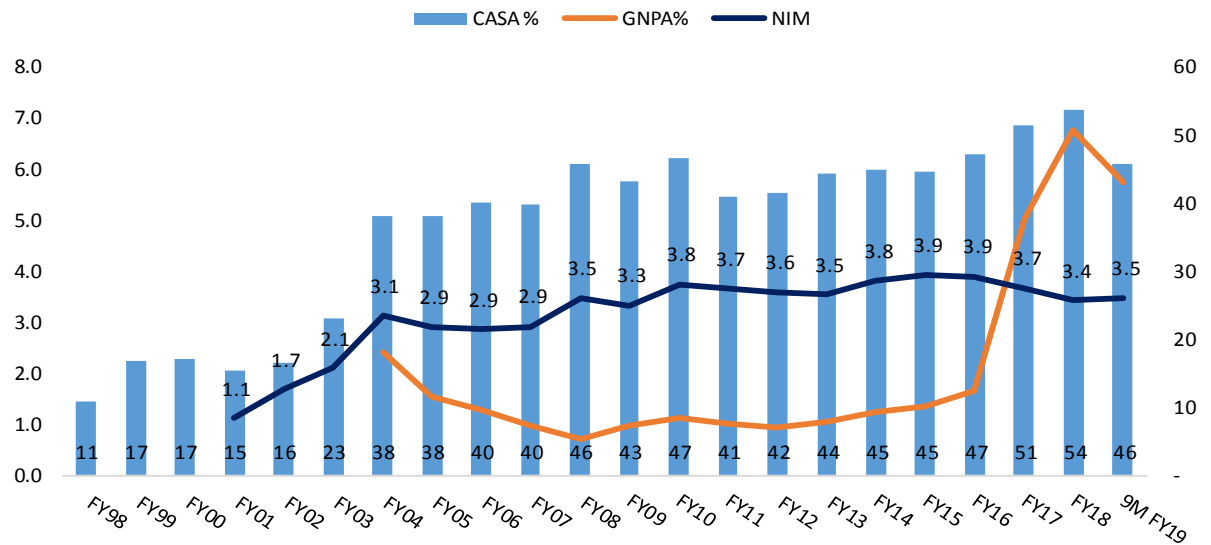
Home loan continues to dominate the share in personal loan mix



Source: RBI, NFAL

## Exhibit 4: AXIS BANK

One of the strong low-cost liability franchises and improving stress assets profile



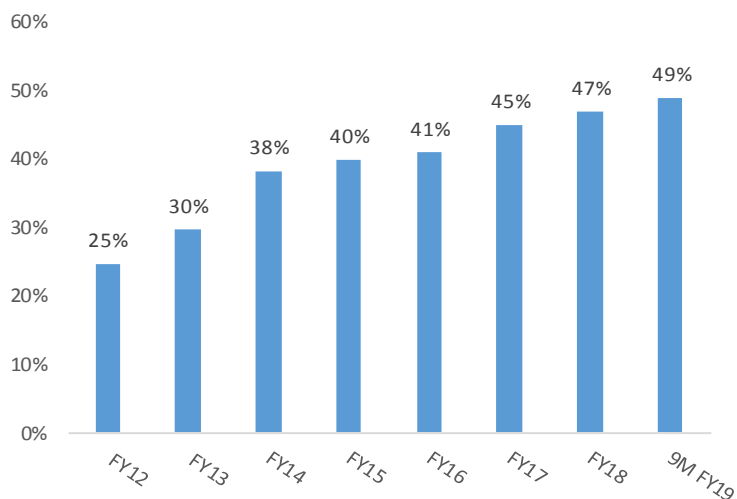
Source:NFAL

Axis Bank- NIM increased from 1.1% in FY01 to the high of 3.9% in FY15 as CASA share in the deposits increased from 15% to 47% during the same period but rise in GNPA since FY17 impacted the NIM despite rise in CASA.

## Exhibit 5: Retail Loan Composition

Retail loan assets mix increased significantly over the last few years.

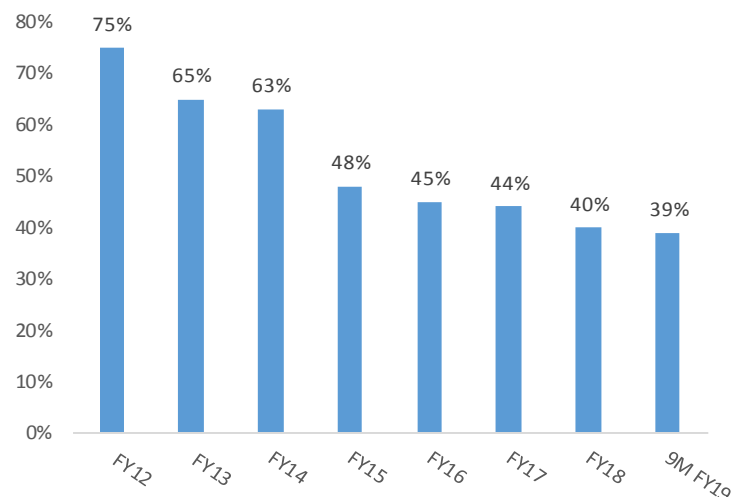
Retail Assets %



## Exhibit 6: Home Loan Composition in Retail Loan

Diversifying the retail book

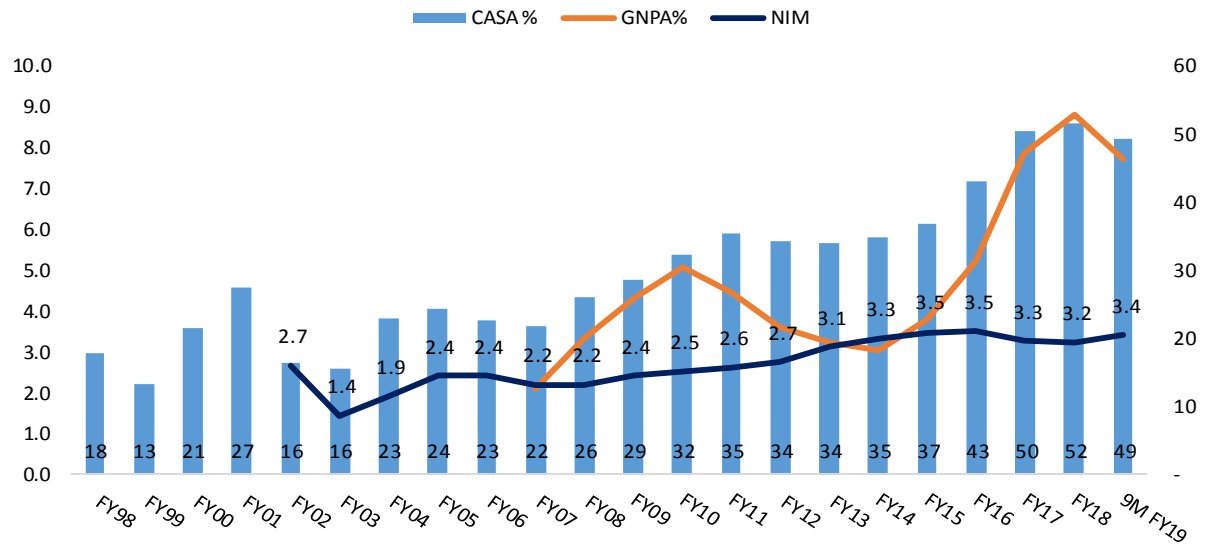
Home Loan%



Source:NFAL

## Exhibit 7: ICICI BANK

Strong CASA ratio and improving NIM as well as assets quality has shown improvement recently.



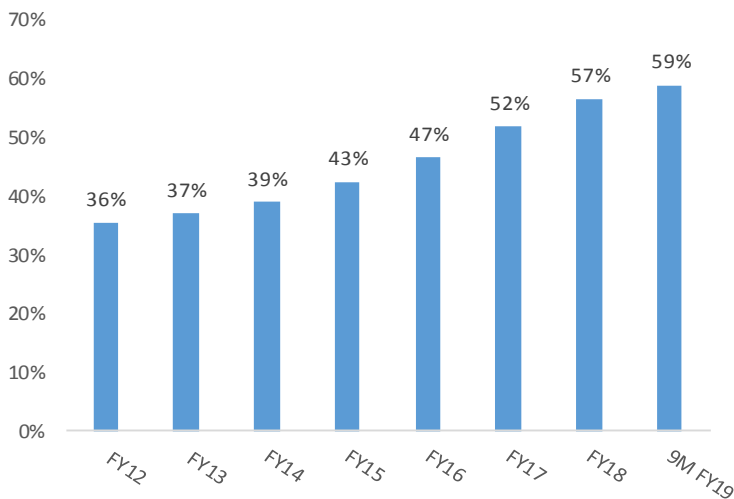
Source: NFAL

ICICI Bank- Data shows expansion in NIM was mainly led by increase in CASA ratio and contraction in NIM from FY16 was mainly led by higher interest reversal from NPA accounts.

## Exhibit 8: Retail Loan Composition

Focused has increased to retail assets

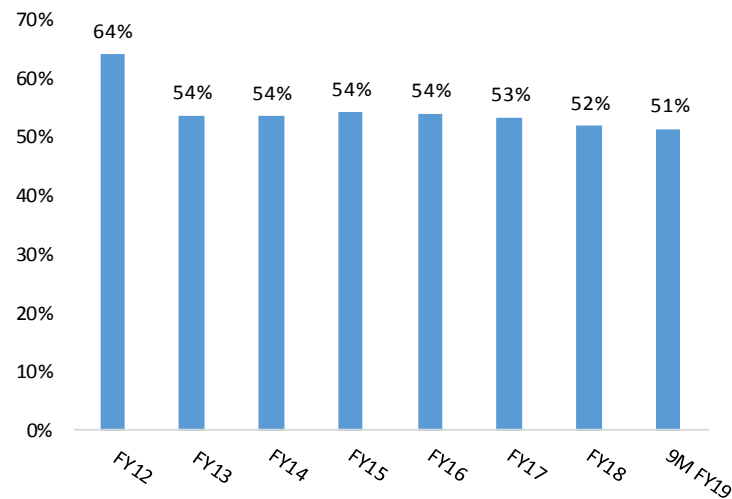
Retail Assets %



## Exhibit 9: Home Loan Composition in Retail Loan

Declining share in home loan

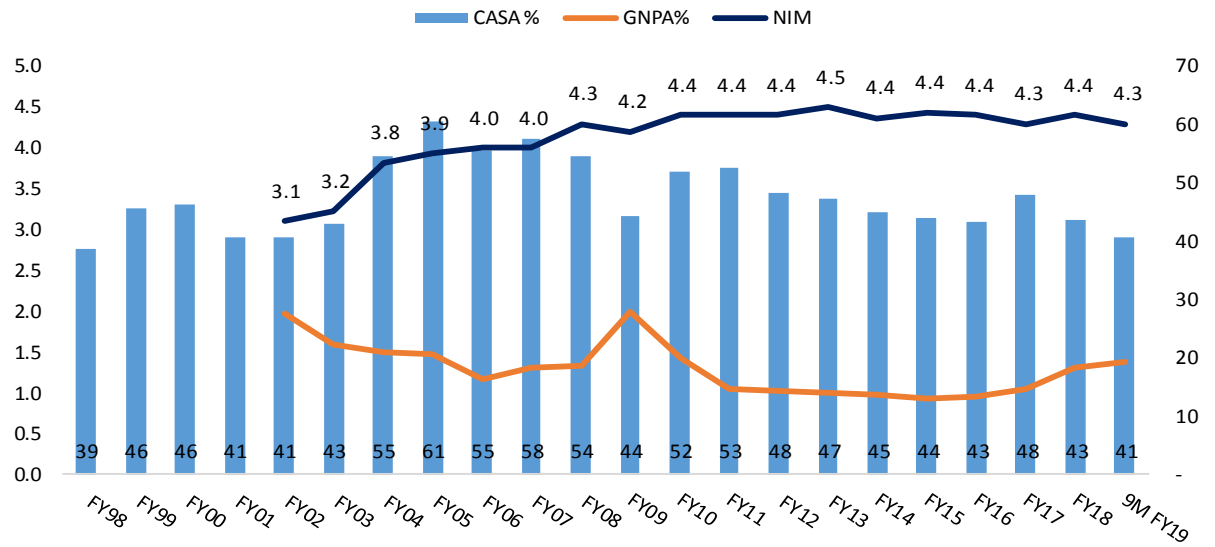
Home Loan%



Source: NFAL

## Exhibit 10: HDFC BANK

Stronger liability franchise, higher share of retail portfolio and low delinquencies have helped HDFCB to maintain superior NIM in the industry since a long time.

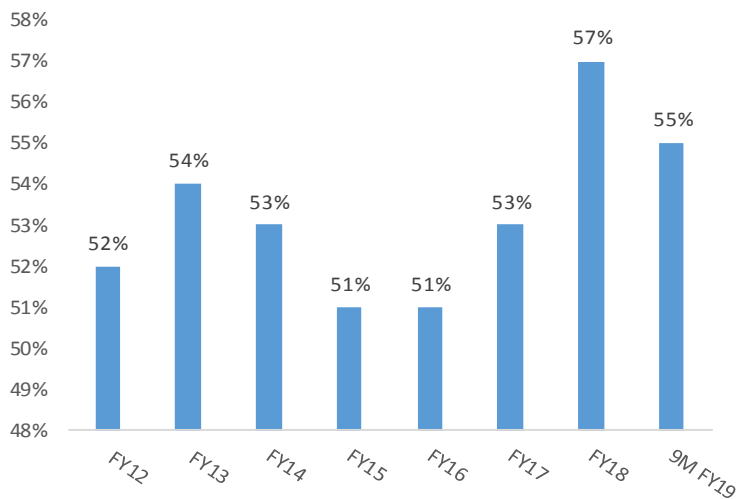


Source:NFAL

## Exhibit 11: Retail Loan Composition

Retail Assets has continuously remained over 50%

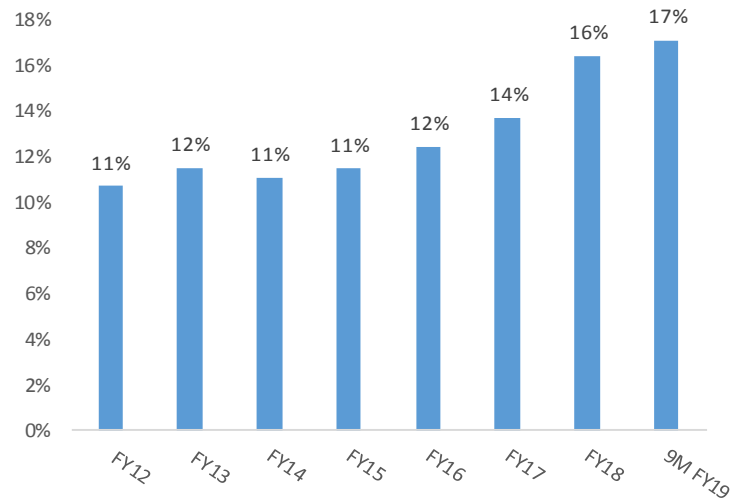
Retail Assets %



## Exhibit 12: Retail Unsecured Loan Composition

Increase in unsecured higher yield assets is also contributing to the superior NIM

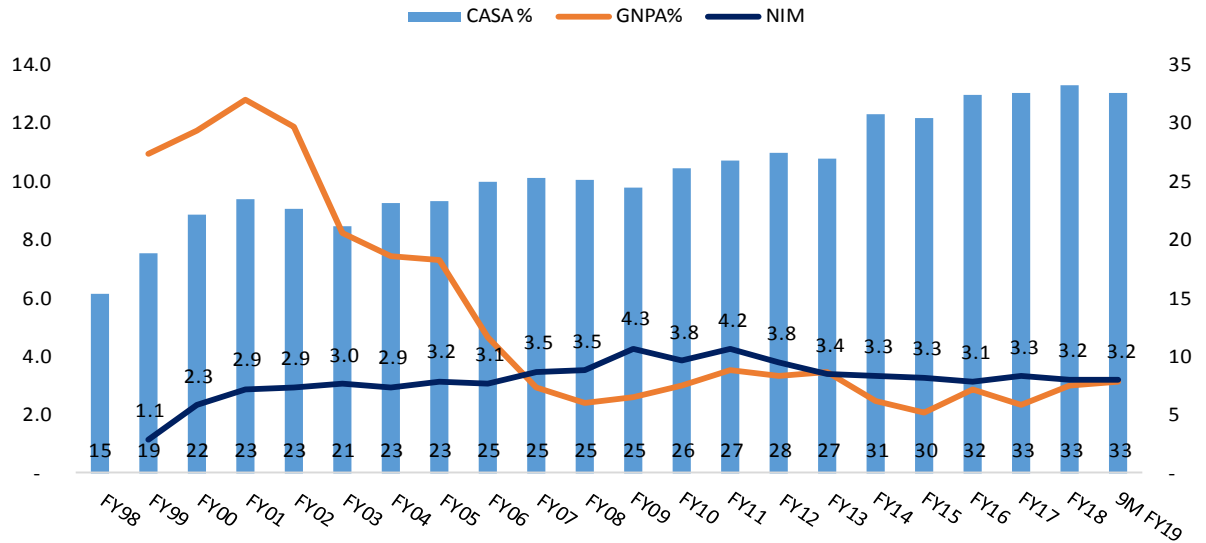
Unsecured Loan%



Source:NFAL

## Exhibit 13: FEDERAL BANK

FB CASA has improved slowly over the period of time. NIM has compressed since FY09 due to change in assets mix. Focus of management has shifted towards SME and low ticket less risky corporate loans.

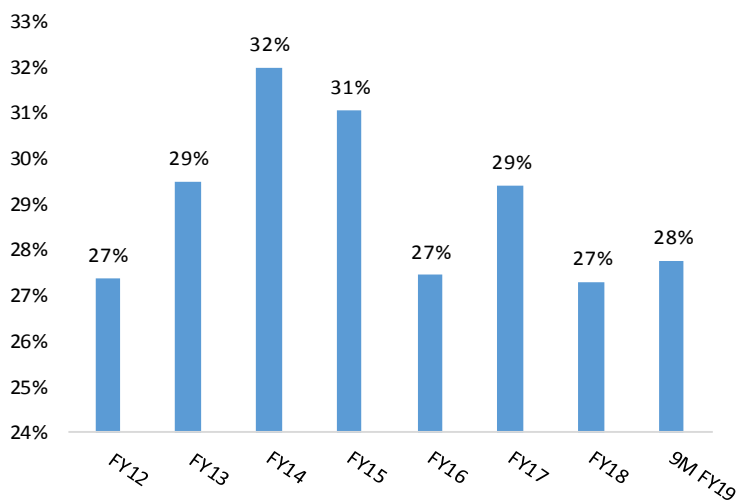


Source: NFAL

## Exhibit 14: Retail Loan Composition

Retail assets has declined over the period

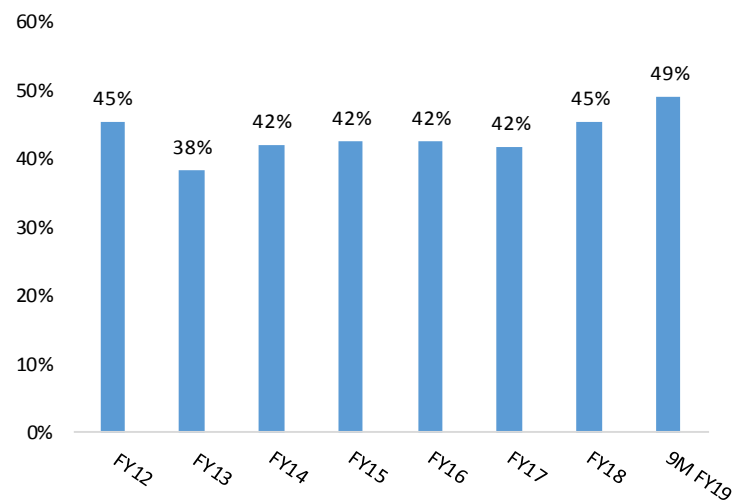
Retail Assets%



## Exhibit 15: Home Loan Composition in Retail Loan

Home loan forms major part of retail loan for federal bank

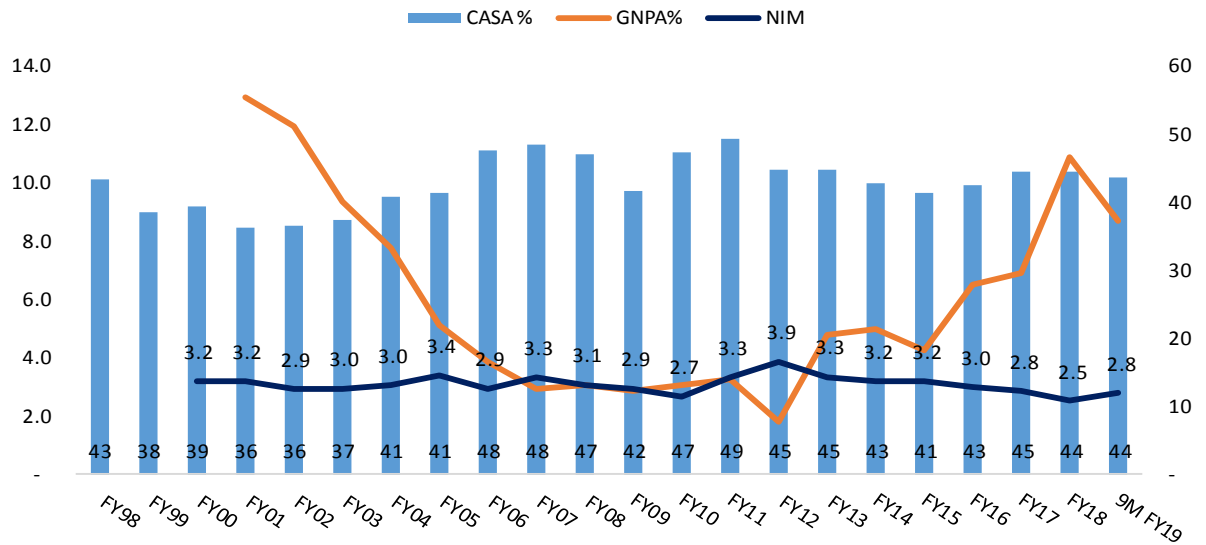
Home Loan%



Source: NFAL

## Exhibit 16: STATE BANK OF INDIA

Despite the higher CASA share, NIM of SBIN has been low compared to other private players due to higher GNPA. Assets mix has also impacted the NIM over the period of time.

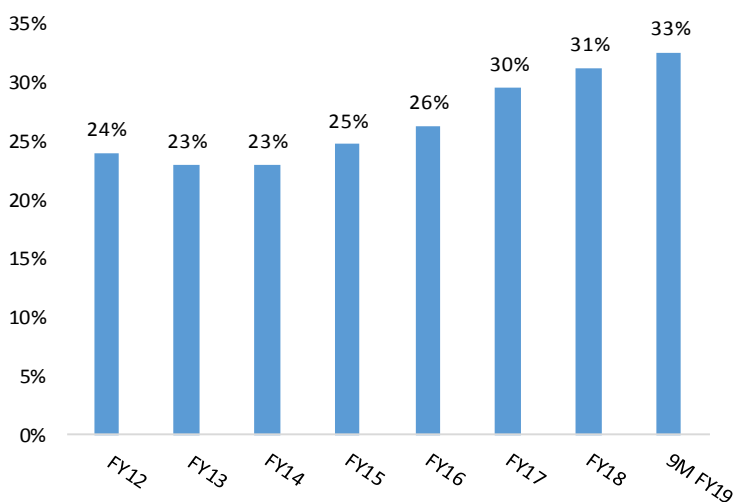


Source: NFAL

## Exhibit 17: Retail Loan Composition

Recently there has been increase in retail loan share but still remains behind the larger private bank peers

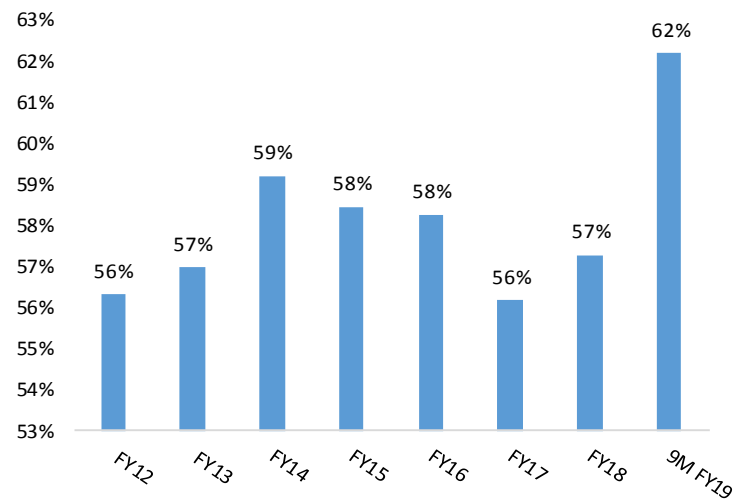
Retail Assets %



## Exhibit 18: Home Loan Composition in Retail Loan

Retail loan is dominated by home loan

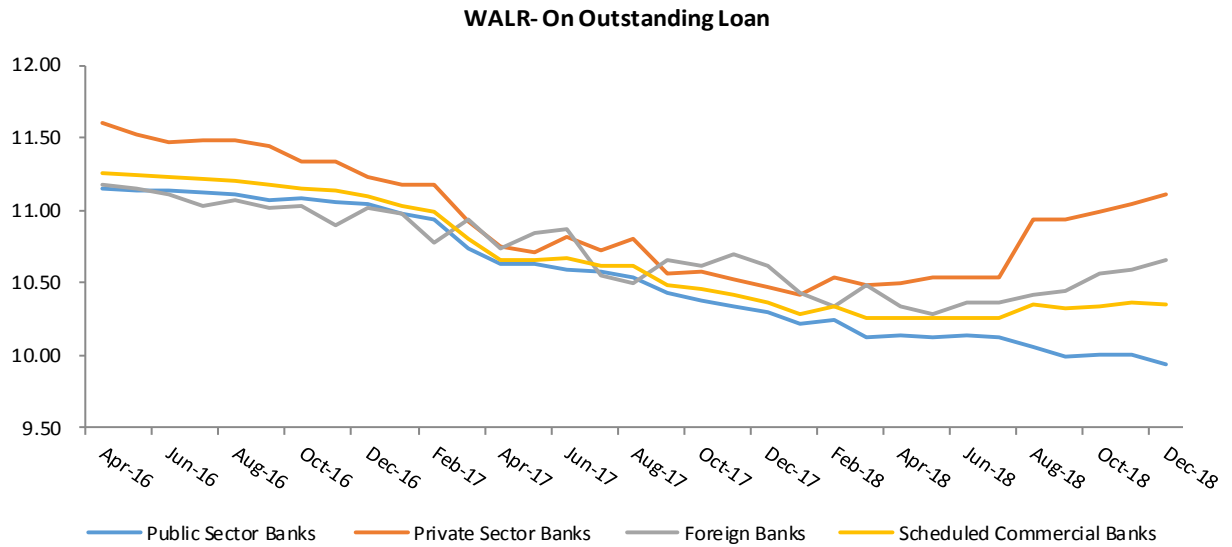
Home Loan %



Source: NFAL

## Exhibit 19: Weighted Average lending rate (On Outstanding Loans)

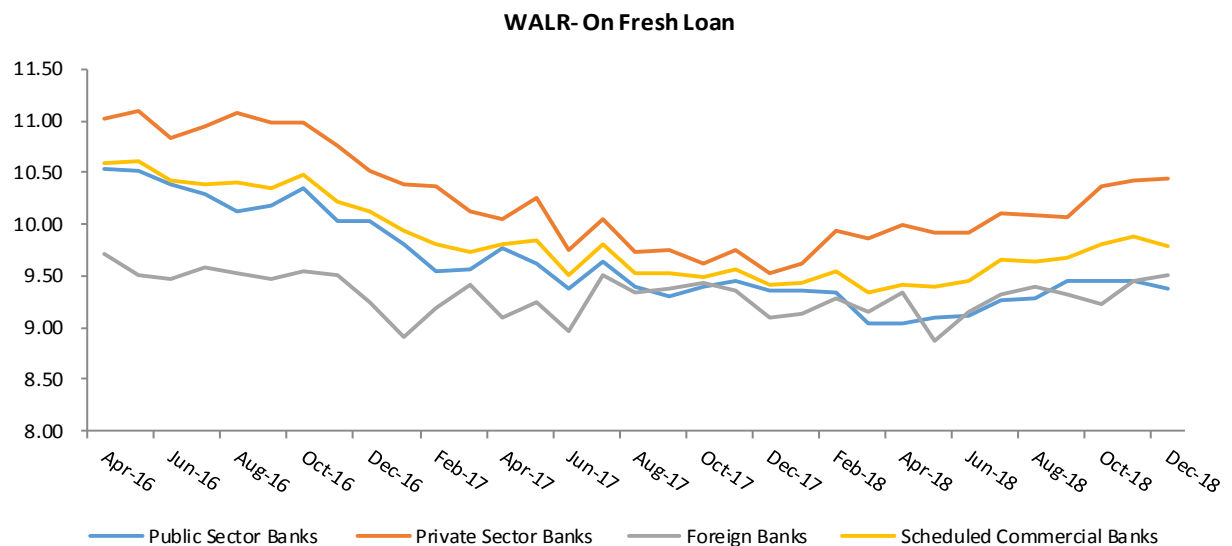
WALR has been on rising trend for Private banks while PSU banks has been still been laggard.



Source: RBI, NFAL

## Exhibit 20: Weighted Average lending rate (On Fresh Loans)

WALR on fresh loan for the private banks has been on increasing trend.

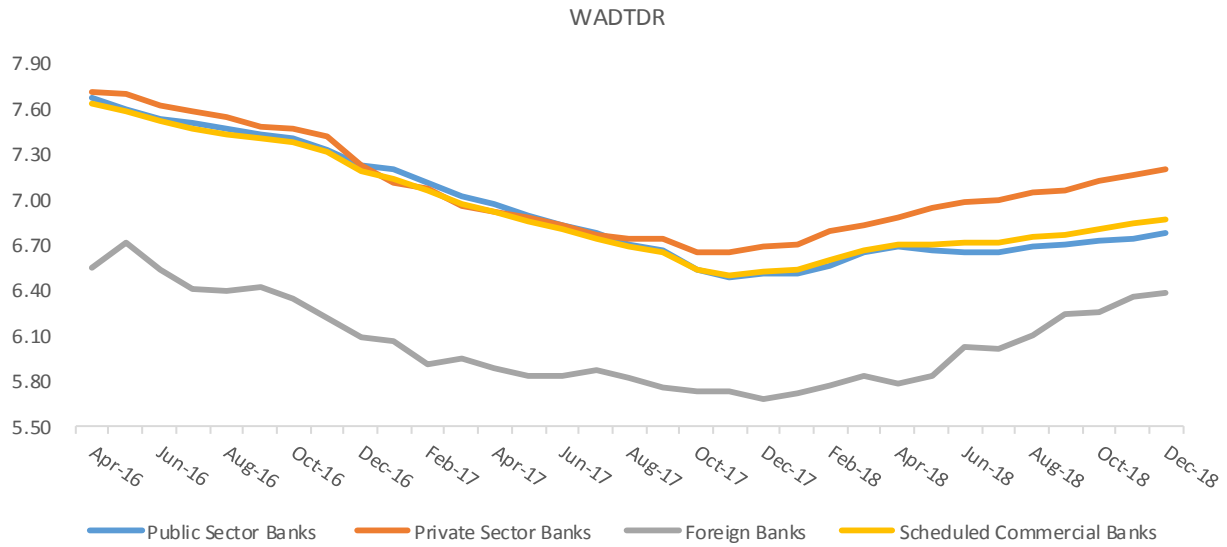


Source: RBI, NFAL



## Exhibit 21: Weighted Average Domestic Term Deposits Rates- (On Outstanding)

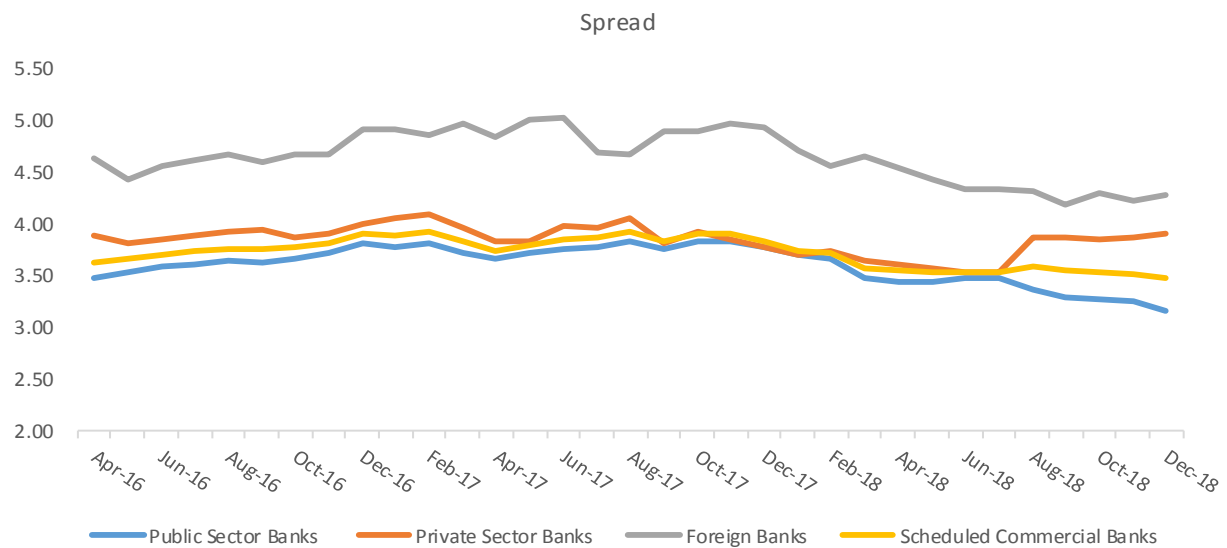
Term Deposits rates started to increase from the Aug 2017 and is still rising due to liquidity tightening. Cost for the private banks increased the most.



Source: RBI, NFAL

## Exhibit 22: Spread between WALR and WADTDR

Spread has been increasing for the Private lender.



Source: RBI, NFAL

## Exhibit 23: 1-Year MCLR of Banks

One year MCLR is up by 20-100 bps since March 2018

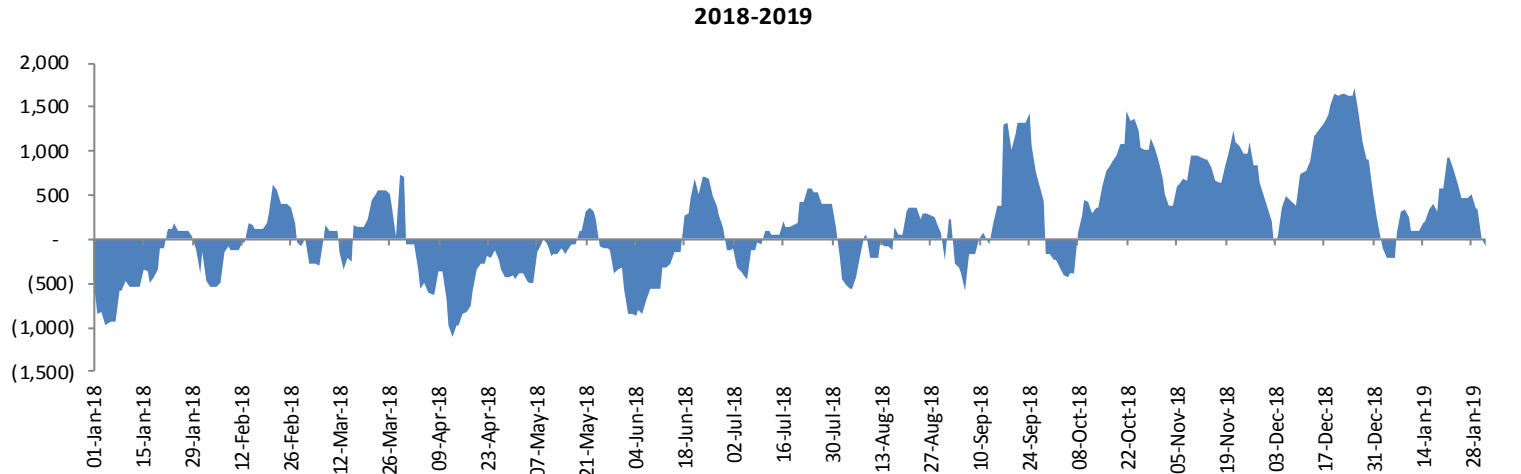
Banks	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Bank of Baroda	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.3	8.3	8.3	8.3	8.3	8.3	8.4	8.4	8.5	8.5	8.5	8.6	8.6	8.7	8.7	8.7
Bank of India	8.5	8.5	8.4	8.4	8.4	8.4	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.4	8.4	8.5	8.5	8.8	8.6	8.6	8.7	8.7	8.7
Canara Bank	8.5	8.5	8.5	8.4	8.4	8.4	8.3	8.3	8.3	8.3	8.3	8.3	8.4	8.4	8.5	8.5	8.5	8.6	8.7	8.6	8.7	8.7	8.7
State Bank of India	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.2	8.2	8.2	8.3	8.3	8.3	8.5	8.5	8.5	8.5	8.6
Union Bank of India	8.5	8.5	8.5	8.4	8.4	8.4	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.4	8.4	8.5	8.5	8.6	8.6	8.7	8.7	8.7	8.7
Axis Bank Ltd.	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.4	8.4	8.4	8.5	8.6	8.6	8.6	8.7	8.8	8.8	8.9	8.9
City Union Bank Ltd.	9.5	9.5	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.3	9.1	9.1	9.1	9.1	9.1	9.3	9.3	9.3	9.3	9.3	9.3
DCB Bank	10.0	10.0	10.0	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.9	9.9	9.9	9.9	10.0	10.0	10.1	10.4	10.6	10.7	10.8	10.8
Federal Bank Ltd.	9.0	9.0	9.0	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	8.9	9.0	9.2	9.2	9.2	9.2	9.2	9.2	9.2	9.2
HDFC Bank Ltd.	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.1	8.1	8.1	8.2	8.3	8.3	8.3	8.4	8.4	8.4	8.4	8.7	8.7	8.7	8.8
ICICI Bank Ltd.	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.3	8.3	8.3	8.4	8.4	8.4	8.6	8.6	8.7	8.8	8.8
Indusind Bank	9.1	9.1	9.1	9.1	9.1	9.0	9.0	8.9	8.9	8.9	9.0	9.1	9.3	9.3	9.4	9.6	9.6	9.6	9.7	9.7	9.8	9.8	9.9
Karur Vysya Bank Ltd.	9.6	9.5	9.5	9.4	9.1	9.1	9.0	9.0	9.0	9.0	9.0	9.0	9.2	9.1	9.2	9.3	9.3	9.6	9.6	9.6	9.7	9.7	9.7
RBL Bank	9.8	9.8	9.6	9.7	9.6	9.6	9.3	9.3	9.2	9.2	9.3	9.4	9.5	9.5	9.6	9.7	9.7	9.7	9.8	9.9	10.2	10.3	10.3
South Indian Bank Ltd.	9.1	9.1	9.1	9.1	9.1	9.0	9.0	9.0	9.0	8.9	8.9	9.0	9.0	9.0	9.0	9.2	9.3	9.3	9.4	9.4	9.5	9.5	9.5
Yes Bank Ltd.	8.8	8.8	8.8	8.9	8.6	8.9	8.8	8.8	8.8	8.9	9.0	9.2	9.3	9.3	9.4	9.5	9.5	9.6	9.7	9.7	9.8	9.9	9.9

Source: RBI, NFAL

## Exhibit 24: Quick Glance at liquidity Situation in India

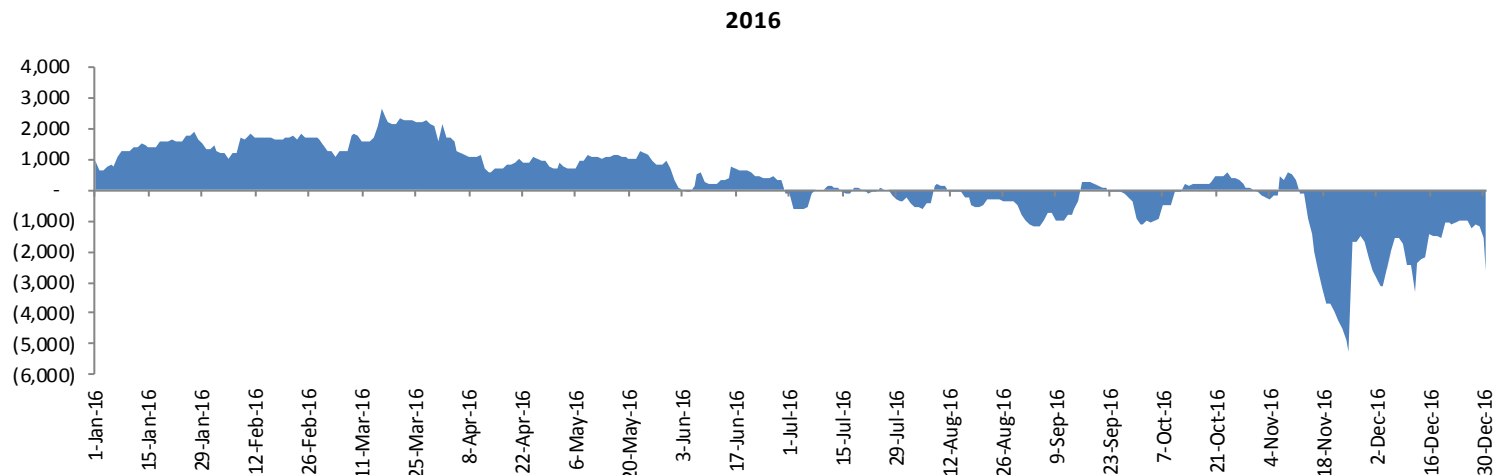
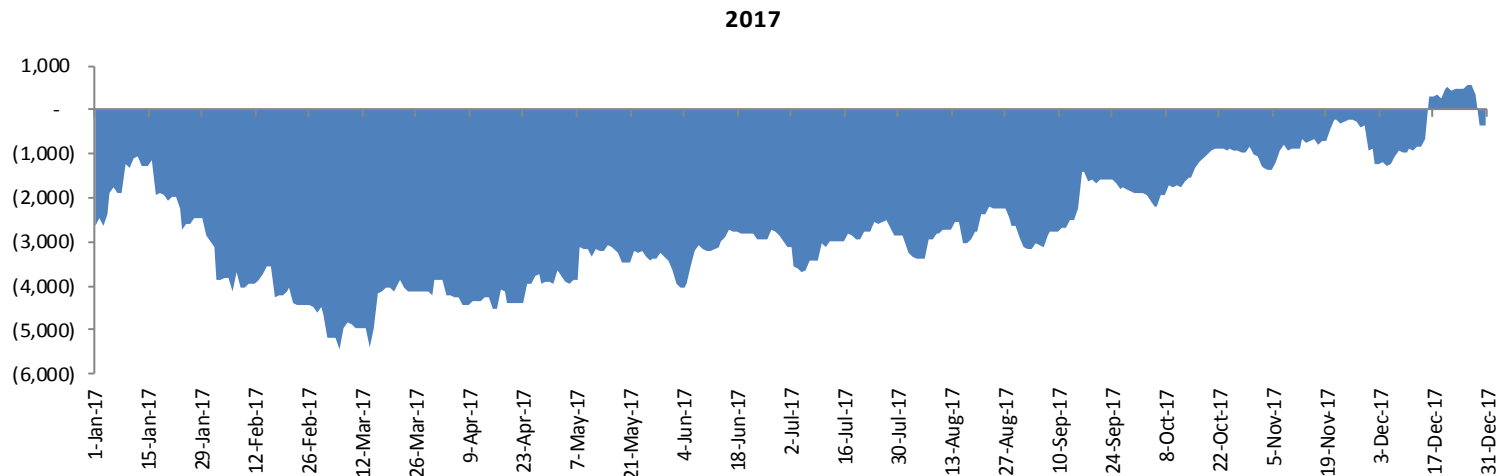
Liquidity issue started from September, 2018.

Recently Liquidity issue started from September, 2018. While there is some temporary short-term impact on NIM as the cost of deposits rises first but yield catch up the increased burden with 3-5 quarters lag effect. India has faced liquidity tightness in 2013 and 2014. Half year of 2015 was also under liquidity strain. November 2016 provided buffer to liquidity due to demonetization.



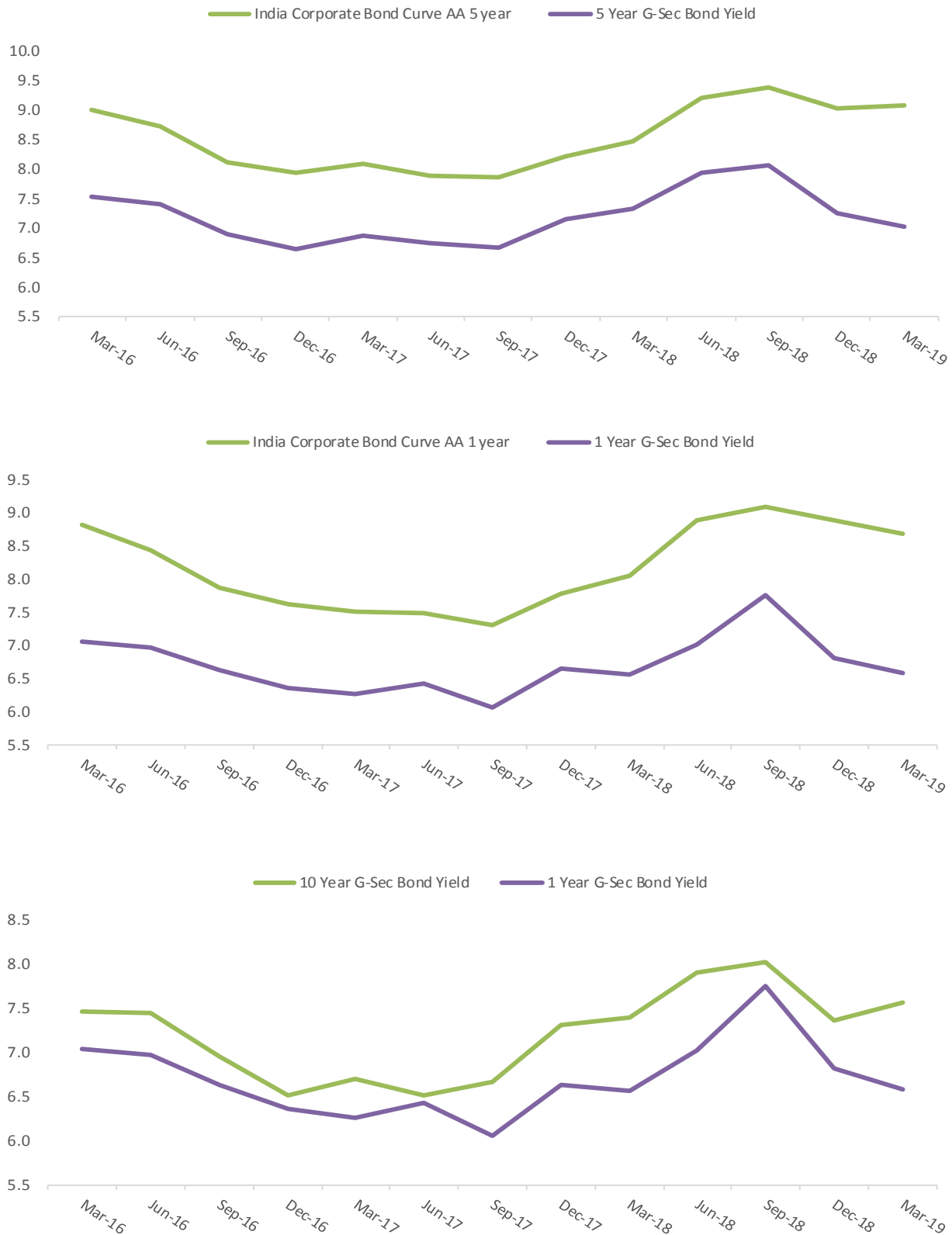
(Note- Positive figure indicates liquidity tightness in the system)

Source: Bloomberg



## Exhibit 25: Market Rates Shows sign of relief

G-Sec rates eased from September 2018 high but Corporate bond yield has not declined to the extent of G-Sec Yield due to liquidity tightness.



Source: Bloomberg, investing.com, NFAL

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