



Q4FY2025 Results Review

Sector:	Banking
Sector View:	Positive

Coverage universe

Companies	CMP (Rs)	Reco.	PT (Rs)
Large Private Banks			
HDFC Bank	1,933	Buy	2,300
ICICI Bank	1,451	Buy	1,650
Axis Bank	1,195	Buy	1,400
Mid-Tier Private Banks			
Kotak Mahindra Bank	2,065	Buy	2,500
Federal Bank	206	Buy	220
Small Private Banks			
AU SFB	719	Buy	750
CUBK	198	Hold	210
PSBs			
SBI	813	Buy	980
BOB	255	Buy	260
PNB	108	Buy	110
BOI	125	Buy	130

Source: Company, Mirae Asset Sharekhan Research

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Banking

Mixed trends; stay selective

Summary

- ♦ NII growth remained weak for most banks however other income (including fee income, treasury income, recoveries) supported PPOP, which was slightly better than estimates although PPOP growth remained muted at 1% y-o-y.
- ♦ Loan growth remained subdued at 11% y-o-y, while deposit growth improved to ~12% y-o-y led by seasonal flows. NIMs were well managed by large private banks while others saw marginal decline primarily due to policy rate cuts.
- ♦ Credit cost was largely stable/ within the guided range for large, private / PSU banks while it continued to remain elevated for most Mid & Small private banks led by stress in unsecured segment. Asset quality remained stable across other segments.
- ♦ **Top preferred picks:** *Large private banks* – ICICI Bank, HDFC Bank, Axis Bank and Kotak Mahindra Bank; *Small Banks:* AU SFB; *PSBs* – SBI.

For our coverage universe of banks, NII growth was weak on expected lines, grew by 4% y-o-y/1% q-o-q, driven by lower NIMs and slower loan growth. NIMs were well managed by large private banks while others saw decline primarily due to policy rate cuts. Outlook on NIMs remains negative for the sector as repo rate cuts are underway. Core fee income saw strong growth along with higher contribution from treasury income / recoveries especially for PSBs led to higher non-interest income. Thus, although NII growth remained weak for most banks, but other income supported the operating performance to some extent. Opex growth was contained for private banks but growth was higher for PSU banks mainly led by higher performance linked incentive provisions. Operating profit grew ~1% y-o-y for our coverage. Credit cost was largely stable/ within the guided range for large Private / PSU banks while it continued to remain elevated for most mid & small private banks led by stress in unsecured segment. PAT declined by 2% y-o-y for our coverage. Adjusted for IIB loss, PAT grew by 5% y-o-y. Private banks under our coverage reported 5% y-o-y decline in earnings. Excluding IIB loss, earnings grew by 7% y-o-y for private banks, while PSBs grew 3% y-o-y.

Margins pressure likely to be transient and has been largely priced in: Outlook on NIMs is negative for the sector as repo rate cuts are underway. The impact would differ across lenders depending on their loan mix, interest rate transmission on asset book and deposit repricing. NIMs would see pressure in H1FY26 while H2FY26 should witness stabilisation. NIMs could fall by 5-7 bps for every 25 bps of repo cut and this has been largely priced in by the market. We believe NIMs pressure is likely to be transient because as the deposit cost catches up with a lag, pressure on NIMs would be curtailed.

Loan growth to remain modest: System loan growth has moderated to ~10% y-o-y as per the latest fortnight data vs 16% year ago due to slower growth in secured retail segment, stress in the unsecured retail segment, and a higher LDR. Deposit growth for the system has been broadly at ~10% y-o-y. We estimate a credit growth of ~12% in FY26. Overall loan growth is expected to slightly improve from H2FY2026, led by a recovery in the unsecured segment and gradual pick up in private capex, supported by better liquidity and rate cuts.

Watchful on asset quality: Credit cost was largely stable/ within the guided range for large private / PSU banks while it continued to remain elevated for most mid & small private banks led by stress in unsecured segment. Asset quality remained stable across other segments. Slippages were elevated in the MFI segment and plateau in credit cards segment. Challenges persists in some of the specific geographies which remains key monitorable. However, the flows in the early buckets (SMA-0) have started to improve in MFI/ credit card segment and thus we believe that stress in unsecured segment to stabilise in H1FY26. Other segments are not showing worrisome trends in terms of asset quality, which is a key positive. Large banks (mainly HDFC Bank and ICICI Bank) guided that credit costs will remain below the long-term averages over the next couple of quarters.

Our View

FY25 has been a tough year especially for mid & small tier banks with high stress in unsecured loans, moderation in loan growth, slower deposit growth amid tight liquidity and slight moderation in NIMs. We should see most of these headwinds receding by H1FY26 and we believe profitability/ return ratios would largely bottom out. Loan growth is expected to improve from H2FY2026, led by a recovery in the unsecured segment and gradual pick up in private capex, supported by better liquidity and rate cuts. NIMs pressure is likely to be transient because as the deposit cost catches up with a lag, pressure on NIMs would be curtailed. Credit cost should also normalise in H2FY2026, as stress settles in the unsecured segment. We believe banks with a robust capital base, healthy asset quality outlook, and strong retail deposit franchises are well-placed to capture growth opportunities. We expect large banks to benchmark market returns while outperformance could come from small banks.

Leaders for Q4FY2025: HDFC Bank and ICICI Bank

Laggards for Q4FY2025: BOB, IndusInd Bank, Kotak Mahindra Bank, Federal Bank, and Axis Bank

Top Preferred Picks: *Large Private Banks* – ICICI Bank, HDFC Bank, Axis Bank and Kotak Mahindra Bank; *Small Private Banks* – AU SFB; and within *PSBs*– SBI.

Q4FY25 Result Snapshot

Banks	NII (Rs cr)					PPoP (Rs cr)					PAT (Rs cr)				
	Q4 FY25	Q4 FY24	Q3 FY25	YoY %	QoQ %	Q4 FY25	Q4 FY24	Q3 FY25	YoY %	QoQ %	Q4 FY25	Q4 FY24	Q3 FY25	YoY %	QoQ %
Large Private Banks															
HDFC Bank	32,066	29,077	30,653	10.3	4.6	26,537	29,274	25,000	-9.4	6.1	17,616	16,512	16,736	6.7	5.3
ICICI Bank	21,193	19,093	20,371	11.0	4.0	17,664	15,039	16,887	17.5	4.6	12,630	10,708	11,792	18.0	7.1
Axis Bank	13,811	13,089	13,606	5.5	1.5	10,752	10,536	10,534	2.1	2.1	7,118	7,130	6,304	-0.2	12.9
Mid-Tier Private Banks															
Kotak Mahindra Bank	7,284	6,909	7,196	5.4	1.2	5,472	5,462	5,181	0.2	5.6	3,552	4,133	3,305	-14.1	7.5
Indusind Bank	3,048	5,376	5,228	-43.3	-41.7	-491	4,082	3,601	NM	NM	-2,329	2,349	1,402	NM	NM
Federal Bank	2,377	2,195	2,431	8.3	-2.2	1,465	1,110	1,569	32.0	-6.6	1,030	906	955	13.7	7.8
Small Private Banks															
AU SFB	2,094	1,337	2,023	56.6	3.5	1,292	664	1,205	94.6	7.2	504	371	528	35.9	-4.7
CUBK	600	547	588	9.8	2.1	441	352	436	25.3	1.1	288	255	286	13.0	0.7
PSBs															
SBI	42,775	41,655	41,446	2.7	3.2	31,286	28,748	23,551	8.8	32.8	18,643	20,698	16,891	-9.9	10.4
BOB	11,020	11,793	11,417	-6.6	-3.5	8,132	8,106	7,664	0.3	6.1	5,048	4,886	4,837	3.3	4.3
PNB	10,757	10,363	11,032	3.8	-2.5	6,776	6,416	6,621	5.6	2.3	4,567	3,010	4,508	51.7	1.3
BOI	6,063	5,936	6,070	2.1	-0.1	4,885	3,557	3,703	37.3	31.9	2,626	1,439	2,517	82.5	4.3

Source: Company, Mirae Asset Sharekhan Research

Valuations

Banks	Reco.	CMP (Rs.)	TP (Rs.)	RoA (%)		RoE (%)		P/E (x)		P/B (x)	
				FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Large Private Banks											
HDFC Bank	Buy	1,933	2,300	1.8	1.8	13.5	13.5	17.8	15.6	2.2	2.0
ICICI Bank	Buy	1,451	1,650	2.1	2.2	15.3	15.5	17.7	15.0	2.5	2.1
Axis Bank	Buy	1,195	1,400	1.6	1.7	14.1	14.4	11.9	10.2	1.6	1.4
Mid-Tier Private Banks											
Kotak Mahindra Bank	Buy	2,065	2,500	2.1	2.1	12.3	12.2	17.5	15.6	2.0	1.8
Federal Bank	Buy	206	220	1.1	1.1	11.9	12.1	12.2	11.0	1.4	1.3
Small Private Banks											
AU SFB	Buy	719	750	1.7	1.8	15.7	17.8	18.4	13.7	2.8	2.3
CUBK	Hold	198	210	1.5	1.5	12.3	12.3	11.9	10.5	1.4	1.3
PSBs											
SBI	Buy	813	980	1.0	1.0	15.3	13.9	7.1	6.8	1.0	0.9
BOB	Buy	255	260	1.0	1.0	13.4	12.4	6.7	6.4	0.9	0.8
PNB	Buy	108	110	0.9	0.8	12.4	11.2	7.4	7.0	0.9	0.8
BOI	Buy	125	130	0.9	0.8	11.6	10.7	5.9	5.7	0.7	0.6

Source: Company, Mirae Asset Sharekhan Research

Company wise changes in estimates

Companies	Change in estimates	Reason	Reco	Price Target (Rs.)
HDFC Bank	Maintain	Retained earning estimates	Buy	2,300
ICICI Bank	Maintain	Retained earning estimates	Buy	1,650
Axis Bank	Maintain	Retained earning estimates	Buy	1,400
Kotak Bank	Maintain	Retained earning estimates	Buy	2,500
IndusInd Bank	Downgrade	Decreased earning estimates for FY26E/FY27E factoring in lower growth and higher credit cost	Book Out	-
Federal Bank	Downgrade	Decreased earning estimates for FY26E/FY27E factoring in lower growth	Buy	220
AU SFB	Upgrade	Increased earning estimates for FYFY27E factoring in higher NIMs and lower credit cost	Buy	750
CUBK	Maintain	Retained earning estimates	Hold	210
SBI	Maintain	Retained earning estimates	Buy	980
BOB	Downgrade	Decreased earning estimates for FYFY26E factoring in lower margins	Buy	260
PNB	Maintain	Retained earning estimates	Buy	110
BOI	Maintain	Retained earning estimates	Buy	130

Source: Company, Mirae Asset Sharekhan Research

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