

## Financials - Banks

| Month  | SCBs                |                          |       |
|--------|---------------------|--------------------------|-------|
|        | WALR – O/s<br>Loans | WALR –<br>Fresh<br>Loans | WATDR |
| Jul-24 | 9.89                | 9.40                     | 7.00  |
| Aug-24 | 9.89                | 9.41                     | 7.01  |
| Sep-24 | 9.88                | 9.37                     | 7.04  |
| Oct-24 | 9.88                | 9.54                     | 7.04  |
| Nov-24 | 9.87                | 9.40                     | 7.06  |
| Dec-24 | 9.86                | 9.25                     | 7.08  |
| Jan-25 | 9.85                | 9.32                     | 7.09  |
| Feb-25 | 9.78                | 9.40                     | 7.10  |
| Mar-25 | 9.75                | 9.35                     | 7.11  |
| Apr-25 | 9.68                | 9.26                     | 7.11  |
| May-25 | 9.67                | 9.20                     | 7.07  |
| Jun-25 | 9.44                | 8.62                     | 7.00  |
| Jul-25 | 9.38                | 8.80                     | 6.92  |

| NIM (%) | NIMs estimate for banks |      |       |
|---------|-------------------------|------|-------|
|         | 2Q25                    | 1Q26 | 2Q26E |
| AXSB    | 3.99                    | 3.80 | 3.64  |
| HDFCB   | 3.46                    | 3.35 | 3.23  |
| ICICIBC | 4.27                    | 4.34 | 4.17  |
| IDFCFB  | 6.18                    | 5.71 | 5.52  |
| IIB     | 4.08                    | 3.46 | 3.26  |
| KMB     | 4.91                    | 4.65 | 4.51  |
| FB      | 3.12                    | 2.94 | 2.88  |
| BoB     | 3.10                    | 2.91 | 2.82  |
| CBK     | 2.86                    | 2.55 | 2.45  |
| PNB     | 2.92                    | 2.70 | 2.61  |
| SBIN    | 3.14                    | 2.90 | 2.82  |
| UNBK    | 2.90                    | 2.76 | 2.63  |
| INBK    | 3.49                    | 3.35 | 3.22  |
| AUBANK  | 6.05                    | 5.40 | 5.20  |
| RBK     | 5.04                    | 4.50 | 4.56  |
| BANDHAN | 7.40                    | 6.40 | 6.16  |
| DCBB    | 3.27                    | 3.20 | 3.10  |
| EQUITAS | 7.69                    | 6.55 | 6.26  |

### Weak quarter ahead but light at the end of the tunnel

#### Sector margins to bottom-out in 2Q

- Following a 100bp repo cut in CY25, system yields have eased ~50bp, although some large PVBs reported limited decline. Tactical repricing has helped support NIMs; however, margin pressure is expected to continue through 2Q, with recovery anticipated from 3Q, aided by CRR cuts and lower deposit costs.
- The Weighted Average Lending Rate (WALR) on fresh loans declined 45bp over the past six months vs a 100bp repo rate cut. During the same period, PVBs declined 58bp, while PSBs experienced a 41bp reduction in WALR.
- WALR on O/S loans for the system declined 6bp MoM (3M decline at 30bp), as PVBs' WALR decreased 11bp MoM (3M decline of 31bp) and PSBs' WALR decreased 3bp MoM (3M decline of 29bp). The slower WALR decline during Jul'25 for PSBs highlights the faster loan repricing at these banks with loan yields falling faster in the prior months.
- The Weighted Average Term Deposit Rate (WATDR) for the system declined 8bp MoM to 6.99%, with a broadly similar decline across Private and PSU Banks. We expect deposit costs to moderate gradually as the TD portfolio reprices over 2H, enabling margin recovery.
- 2QFY26 is likely to be the trough quarter for banks, marked by sharper NIM contraction, muted loan growth, and persistent stress in segments like unsecured, CV loans. Elevated credit costs are expected to pressure earnings, with recovery expected from 3QFY26, supported by CRR cuts and demand pick-up led by reduction in GST and income tax rates. Top picks: ICICI, HDFCB, and SBIN.

#### WALR on fresh and O/S loan declines ~50bp; further 30-40bp dip possible

- WALR on fresh loans declined 45bp vs Dec'25, with private banks witnessing a larger decline of 58bp, while PSBs saw a 41bp reduction. Over the last three months from April to July, the overall WALR witnessed a steady decline of 46bp, led by a 50bp reduction for PVBs and a 33bp decline for PSBs.
- Despite the cumulative 100bp repo rate cut, spreads on fresh rupee loans vs the repo rate remain elevated at ~410bp for PVBs, compared to an average of ~375bp in CY24. **This suggests scope for a further 30-40bp decline.** For PSBs, spreads vs the repo stand at ~260bp, significantly above the CY24 average of ~210bp, **implying potential contraction of 40-50bp from current levels.**
- WALR on **outstanding loans** eased 6bp MoM to 9.38% in Jul'25, slower than the 23bp decline seen in Jun'25. Over the past three months, the WALR on O/S loans has corrected by 30bp—comprising a 31bp drop for PVBs and a 29bp decline for PSBs. Notably, spreads remain well above CY24 averages: PVB spreads stand at 482bp vs the repo (vs 426bp in CY24), indicating potential for a 50-55bp decline, while PSB spreads stand at 323bp (vs 271bp in CY24), suggesting a 40-50bp contraction ahead.
- One-year MCLR for PVBs has dipped 40-95bp over the past year, with banks like Federal and IndusInd passing on ~40bp. PSBs, however, have transmitted less aggressively, with reductions limited to 5-35bp, led by Union Bank with a 35bp cut.
- Following the cumulative 100bp repo rate cut in CY25, the banking system's lending yield has compressed ~50bp since Dec'24, across both PVBs and PSBs. Certain large private banks have, however, reported a lower decline in lending yields, benefitting from an improved asset mix and/or the retirement of high-cost borrowings.

| Month  | PSBs             |                    |       |
|--------|------------------|--------------------|-------|
|        | WALR - O/s Loans | WALR - Fresh Loans | WATDR |
| Jul-24 | 9.20             | 8.55               | 7.03  |
| Aug-24 | 9.20             | 8.60               | 7.05  |
| Sep-24 | 9.21             | 8.57               | 7.07  |
| Oct-24 | 9.19             | 8.71               | 7.08  |
| Nov-24 | 9.19             | 8.59               | 7.10  |
| Dec-24 | 9.18             | 8.54               | 7.12  |
| Jan-25 | 9.17             | 8.59               | 7.15  |
| Feb-25 | 9.10             | 8.68               | 7.16  |
| Mar-25 | 9.09             | 8.66               | 7.16  |
| Apr-25 | 9.02             | 8.46               | 7.15  |
| May-25 | 9.00             | 8.38               | 7.12  |
| Jun-25 | 8.76             | 7.82               | 7.07  |
| Jul-25 | 8.73             | 8.13               | 6.99  |

## WATDR continues to decline; pace of fall to accelerate from 2HFY26

- **WATDR declined marginally by 8bp MoM in Jul'25**, with PSBs reporting an 8bp decline and PVBs reporting a 7bp decline. Over the past three months, WATDR has dipped 19bp overall, driven by a 16bp decline for PSBs and an 18bp decline for PVBs.
- Banks have already adjusted their SA rates, while TD repricing, which typically lags, should lead to a more gradual decline in WATDR through the year.
- Between Jun'25 and Sep'25, SA rates have remained broadly unchanged for most banks. However, mid-sized players that traditionally offered higher SA rates have initiated another round of cuts, positioning themselves for a visible CoF benefit in 2Q. Additionally, select PSU banks have reduced rates in certain TD buckets over the past three months.
- **TD rate cuts announced in Jun-Jul'25 are expected to transmit into funding costs with a lag, given the existing maturity schedules. Consequently, the impact on WATDR should become more pronounced in the second half of FY26, supporting margin stabilization after near-term pressure.**

| Month  | Private Banks    |                    |       |
|--------|------------------|--------------------|-------|
|        | WALR - O/s Loans | WALR - Fresh Loans | WATDR |
| Jul-24 | 10.84            | 10.34              | 7.09  |
| Aug-24 | 10.84            | 10.19              | 7.08  |
| Sep-24 | 10.83            | 10.33              | 7.11  |
| Oct-24 | 10.83            | 10.35              | 7.13  |
| Nov-24 | 10.83            | 10.31              | 7.13  |
| Dec-24 | 10.82            | 10.16              | 7.15  |
| Jan-25 | 10.81            | 10.20              | 7.15  |
| Feb-25 | 10.75            | 10.24              | 7.15  |
| Mar-25 | 10.71            | 10.32              | 7.16  |
| Apr-25 | 10.63            | 10.08              | 7.21  |
| May-25 | 10.65            | 10.15              | 7.19  |
| Jun-25 | 10.43            | 9.74               | 7.10  |
| Jul-25 | 10.32            | 9.58               | 7.03  |

## 2QFY26: Will earnings growth bottom out?

The banking sector is expected to witness a bottom quarter in terms of NIMs and asset quality, while the loan growth outlook remains modest. As a result, we expect NIMs to bottom out in 2Q, with a gradual improvement expected to be visible from 2H onwards. The reasons for rebound can be:

- 1) **NIMs bottoming in 2Q:** Margins are expected to contract further in 2QFY26, while most banks have already taken SA and TD rate cuts, which should help recoup margins in 2H. The CRR cut of 1%, to be implemented in a phased manner starting 6<sup>th</sup> Sept'25, is also expected to benefit banks by allowing deployment of excess liquidity. This move is expected to infuse INR2.5t into the banking system.
- 2) **Asset quality expected to improve from 2H:** While unsecured retail stress shows early signs of easing, pain persists in cyclical segments like CV loans and select MSMEs. We expect credit costs to normalize as the stress eases out in 2H, thus providing some earnings support from 2H onwards.
- 3) **Loan growth modest:** Lending momentum remains sluggish, with system credit growth estimated at 11%. Loan growth for the September quarter is expected to remain weak, reflecting both cautious lending behavior and softer credit demand across key retail (ahead of the GST rate cut implementation) and corporate segments. We expect 11% credit growth for FY26, while recovery is expected to follow in FY27.

**We expect earnings deceleration to bottom out in 2QFY26:** With weaker NIMs, higher credit costs, and muted loan growth, 2QFY26 is set to be the most challenging quarter in the ongoing earnings deceleration cycle. We estimate the growth trajectory to start gaining traction from 3QFY26, aided by CRR cuts and declining deposit costs. Additionally, most corporate commentaries indicate easing stress, which should reduce credit cost pressure for banks, leading to a positive earnings cycle from 2H onwards.

### Our view: Maintain preference for ICICIBC, HDFCB, and SBI

- We expect NIM contraction to intensify in 2QFY26, making it the trough quarter for banks, as they are yet to pass the full impact of the 50bp repo cut. However, 3Q-4Q should witness some margin recovery, aided by CRR benefits and moderation in SA/TD rates, which will begin to ease funding costs.
- With funding cost pressures elevated, banks are prioritizing granular and stable deposit franchises. Strong liability profiles are proving crucial in cushioning margin stress and ensuring balance sheet resilience, particularly as loan growth remains muted.
- From 3Q onwards, NIMs should benefit from deposit repricing and the phased CRR cut, while asset quality pressures in unsecured retail and MFI segments are showing signs of stabilization. Alongside normalized credit costs, this should support a meaningful earnings recovery in 2HFY26.
- In light of these sectoral headwinds, we continue to **prefer ICICI Bank, HDFC Bank, and SBI**. These banks stand out due to their strong balance sheets, healthy PCR, and relatively better growth prospects, which are expected to help mitigate downside risks to earnings.

#### Exhibit 1: 2QFY26 NIMs likely to remain under pressure

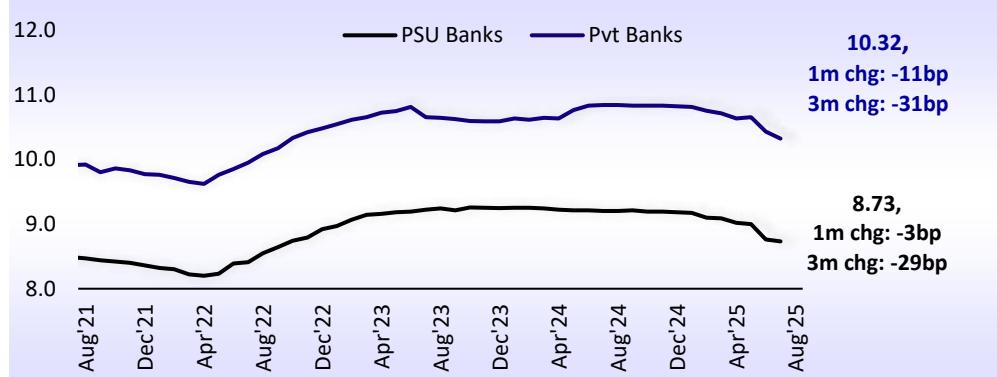
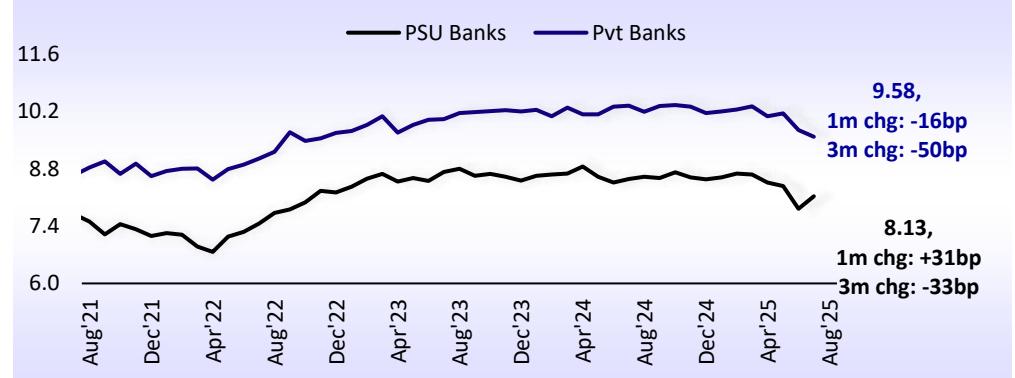
| NIM (%) | 3Q24 | 4Q24 | 1Q25 | 2Q25 | 3Q25 | 4Q25 | 1Q26 | 2Q26E |
|---------|------|------|------|------|------|------|------|-------|
| AXSB    | 4.01 | 4.06 | 4.05 | 3.99 | 3.93 | 3.97 | 3.80 | 3.64  |
| HDFCB   | 3.40 | 3.44 | 3.47 | 3.46 | 3.43 | 3.54 | 3.35 | 3.23  |
| ICICIBC | 4.43 | 4.40 | 4.36 | 4.27 | 4.25 | 4.41 | 4.34 | 4.17  |
| IDFCFB  | 6.42 | 6.35 | 6.22 | 6.18 | 6.04 | 5.95 | 5.71 | 5.52  |
| IIB     | 4.29 | 4.26 | 4.25 | 4.08 | 3.93 | 2.25 | 3.46 | 3.26  |
| KMB     | 5.22 | 5.28 | 5.02 | 4.91 | 4.93 | 4.97 | 4.65 | 4.51  |
| FB      | 3.19 | 3.21 | 3.16 | 3.12 | 3.11 | 3.12 | 2.94 | 2.88  |
| BoB     | 3.10 | 3.27 | 3.18 | 3.10 | 2.94 | 2.98 | 2.91 | 2.82  |
| CBK     | 3.03 | 3.07 | 2.90 | 2.86 | 2.71 | 2.73 | 2.55 | 2.45  |
| PNB     | 3.15 | 3.10 | 3.07 | 2.92 | 2.93 | 2.81 | 2.70 | 2.61  |
| SBIN    | 3.22 | 3.30 | 3.22 | 3.14 | 3.01 | 3.00 | 2.90 | 2.82  |
| UNBK    | 3.08 | 3.09 | 3.05 | 2.90 | 2.91 | 2.87 | 2.76 | 2.63  |
| INBK    | 3.49 | 3.52 | 3.53 | 3.49 | 3.57 | 3.48 | 3.35 | 3.22  |
| AUBANK  | 5.50 | 5.10 | 6.00 | 6.05 | 5.90 | 5.80 | 5.40 | 5.20  |
| RBK     | 5.52 | 5.45 | 5.67 | 5.04 | 4.90 | 4.89 | 4.50 | 4.56  |
| BANDHAN | 7.20 | 7.60 | 7.60 | 7.40 | 6.90 | 6.70 | 6.40 | 6.16  |
| DCBB    | 3.48 | 3.62 | 3.39 | 3.27 | 3.30 | 3.29 | 3.20 | 3.10  |
| EQUITAS | 8.37 | 8.17 | 7.97 | 7.69 | 7.39 | 7.13 | 6.55 | 6.26  |

Source: MOFSL, Company

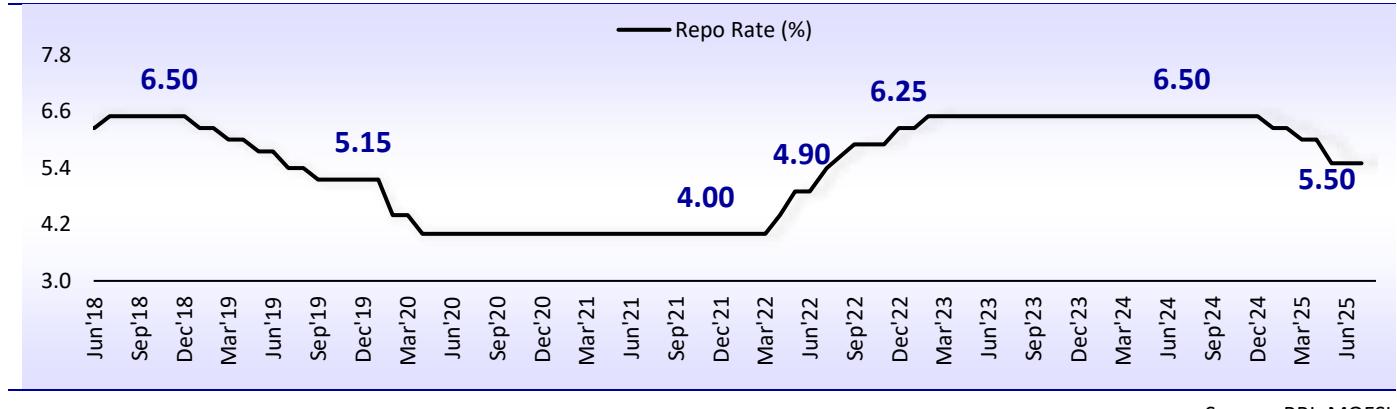
**Exhibit 2: WALR on O/s and fresh loans have declined 45-48bp since Dec'24; ICICI and HDFCB show resilient loan yields**

| Rate (%)                              | Dec'24      | Mar'25      | Jun'25      | Jul'25      | Change in bps between Jul'25 vs |                     |
|---------------------------------------|-------------|-------------|-------------|-------------|---------------------------------|---------------------|
|                                       |             |             |             |             | Dec'24                          | Mar'24              |
| <b>WALR - O/S loan</b>                | <b>9.86</b> | <b>9.75</b> | <b>9.44</b> | <b>9.38</b> | <b>-48</b>                      | <b>-37</b>          |
| - PVBs                                | 10.82       | 10.71       | 10.43       | 10.32       | -50                             | -39                 |
| - PSBs                                | 9.18        | 9.09        | 8.76        | 8.73        | -45                             | -36                 |
| <b>WALR - Fresh loan</b>              | <b>9.25</b> | <b>9.35</b> | <b>8.62</b> | <b>8.80</b> | <b>-45</b>                      | <b>-55</b>          |
| - PVBs                                | 10.16       | 10.32       | 9.74        | 9.58        | -58                             | -74                 |
| - PSBs                                | 8.54        | 8.66        | 7.82        | 8.13        | -41                             | -53                 |
| <b>Quarterly yields for Banks (%)</b> | <b>3Q25</b> | <b>4Q25</b> | <b>1Q26</b> |             | <b>fall vs 3Q25</b>             | <b>fall vs 4Q25</b> |
| AXSB                                  | 10.13       | 9.80        | 9.57        |             | -55                             | -23                 |
| HDFCB                                 | 9.66        | 9.47        | 9.46        |             | -20                             | -1                  |
| ICICIBC                               | 9.65        | 9.86        | 9.53        |             | -12                             | -33                 |
| IDFCFB                                | 15.50       | 14.91       | 14.59       |             | -91                             | -32                 |
| IIB                                   | 12.21       | 9.45        | 11.62       |             | -59                             | 217                 |
| KMB                                   | 10.70       | 10.45       | 10.17       |             | -53                             | -27                 |
| FB                                    | 9.39        | 9.31        | 9.04        |             | -35                             | -27                 |
| BoB                                   | 8.35        | 8.21        | 8.09        |             | -26                             | -12                 |
| CBK                                   | 8.79        | 8.83        | 8.47        |             | -32                             | -36                 |
| PNB                                   | 8.38        | 8.36        | 8.14        |             | -24                             | -22                 |
| SBIN                                  | 8.94        | 8.98        | 8.78        |             | -16                             | -20                 |
| UNBK                                  | 8.78        | 8.72        | 8.50        |             | -28                             | -22                 |
| INBK                                  | 8.92        | 8.64        | 8.58        |             | -34                             | -6                  |
| AUBANK                                | 16.55       | 15.78       | 14.70       |             | -186                            | -108                |
| RBK                                   | 13.30       | 13.00       | 12.50       |             | -80                             | -50                 |
| BANDHAN                               | 13.30       | 13.10       | 12.70       |             | -60                             | -40                 |
| DCBB                                  | 11.44       | 11.54       | 11.24       |             | -20                             | -30                 |

Source: MOFSL, Company

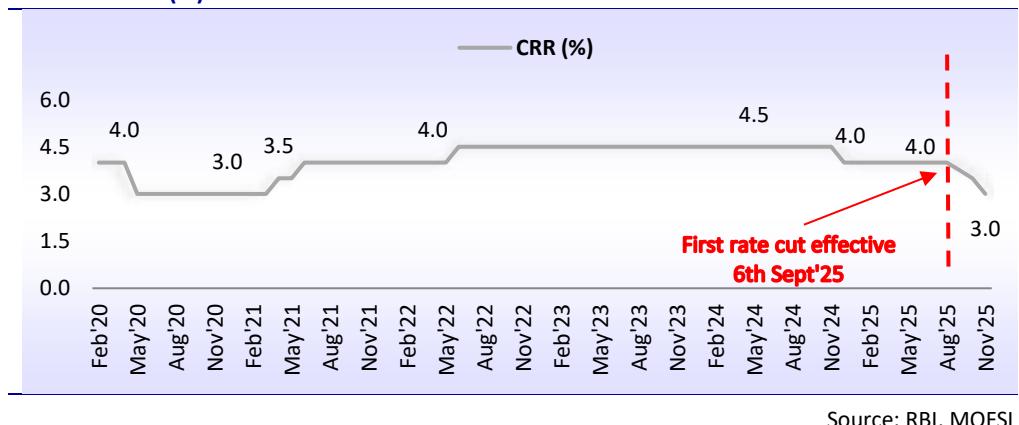
**Exhibit 3: WALR on O/s loans continues to decline for both PSBs and PVBs**

**Exhibit 4: WALR on fresh loans saw a faster decline for PVBs**


**Exhibit 5: Repo rate has seen a cut of 100bp to 5.5% between Feb'25 and Jun'25**

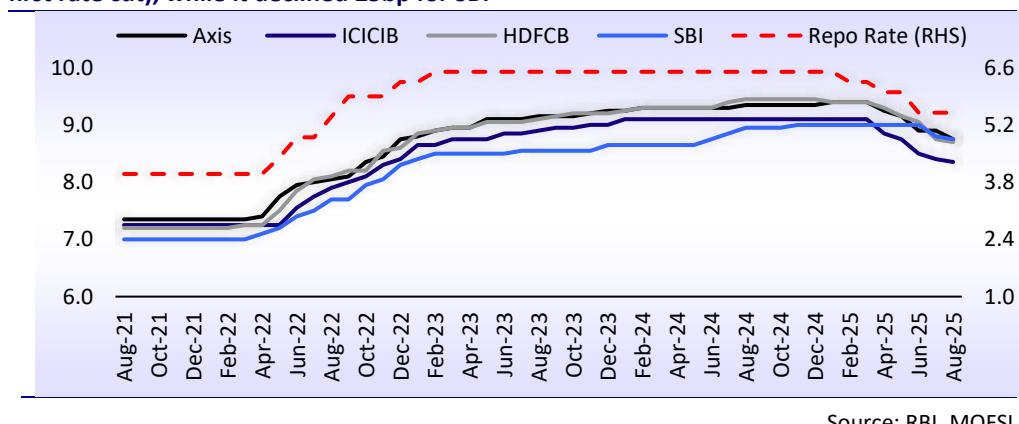


CRR to decline in a phased manner to 3%  
**3.75% - Effective 6<sup>th</sup> Sep**  
3.50% - Effective 4<sup>th</sup> Oct  
3.25% - Effective 1<sup>st</sup> Nov  
3.00% - Effective 29<sup>th</sup> Nov

**Exhibit 6: CRR (%) to see a rate decline of 1% to 3% in the next few months**



**Exhibit 7: MCLR for large PVBs declined 40-45bp over the past three months (post RBI's first rate cut), while it declined 25bp for SBI**

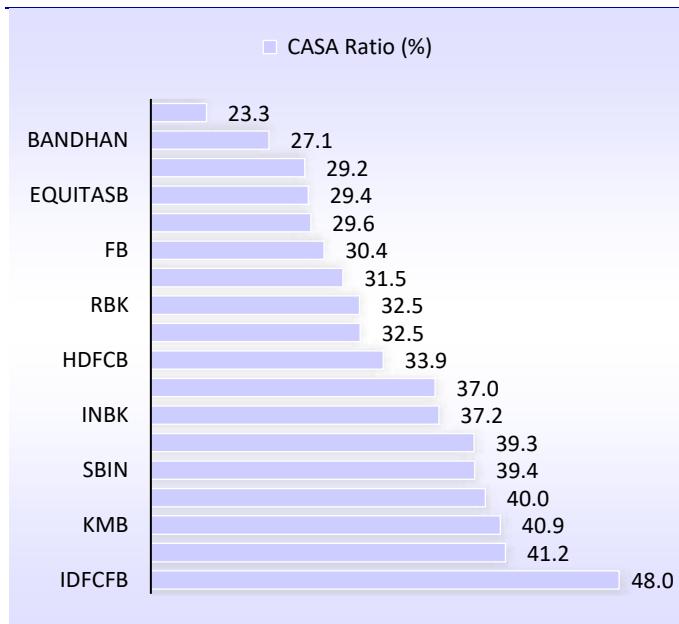


Private banks have implemented a higher MCRL cut at 40-45bp vs SBI, which saw a 25bp decline.

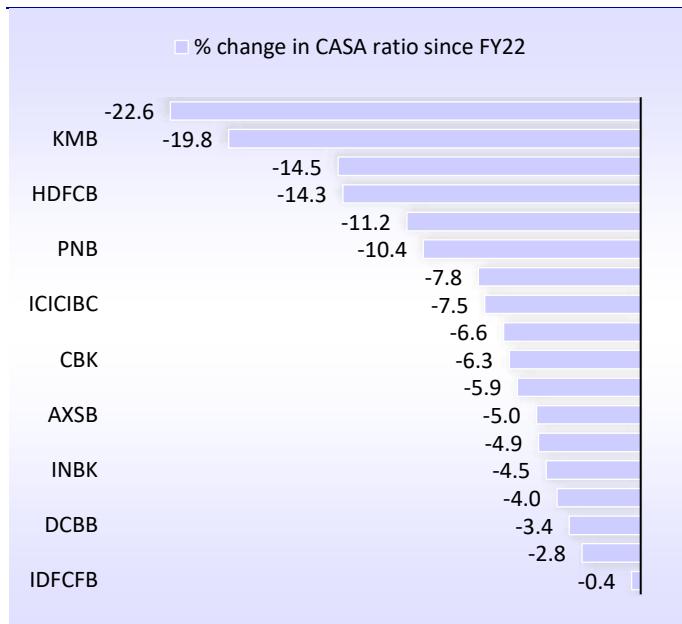
**Exhibit 8: One-year MCLR rate declined 40-95bp YoY for PVBs, while it has fallen relatively lower for PSBs at 5-35bp**

|            | 2024  |       |       |       | 2025  |       |       |       | YoY Change | QoQ Change |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|------------|------------|
|            | Mar   | Jun   | Sep   | Dec   | Mar   | Jun   | Jul   | Aug   | (in bp)    | (in bp)    |
| HDFC Bank  | 9.30  | 9.30  | 9.45  | 9.45  | 9.40  | 9.05  | 8.75  | 8.70  | (75)       | (45)       |
| ICICI      | 9.10  | 9.10  | 9.10  | 9.10  | 9.10  | 8.50  | 8.40  | 8.35  | (75)       | (40)       |
| Axis       | 9.30  | 9.30  | 9.35  | 9.40  | 9.40  | 8.90  | 8.90  | 8.75  | (60)       | (40)       |
| Kotak      | 9.45  | 9.50  | 9.55  | 9.55  | 9.55  | 8.90  | 8.75  | 8.60  | (95)       | (60)       |
| IIB        | 10.40 | 10.45 | 10.55 | 10.55 | 10.45 | 10.30 | 10.20 | 10.15 | (40)       | (20)       |
| IDFC First | 10.40 | 10.65 | 10.55 | 10.50 | 10.60 | 10.35 | 10.20 | 10.20 | (50)       | (25)       |
| RBL        | 10.30 | 10.05 | 10.40 | 10.55 | 10.40 | 9.90  | 9.65  | 9.60  | (80)       | (50)       |
| Federal    | 9.71  | 9.70  | 9.80  | 9.90  | 9.90  | 9.50  | 9.40  | 9.30  | (40)       | (30)       |
| BOB        | 8.80  | 8.85  | 8.95  | 9.00  | 9.00  | 8.90  | 8.90  | 8.80  | (15)       | (15)       |
| CBK        | 8.90  | 8.90  | 9.00  | 9.10  | 9.10  | 8.80  | 8.75  | 8.75  | (25)       | (25)       |
| INBK       | 8.85  | 8.90  | 9.00  | 9.05  | 9.10  | 9.05  | 9.00  | 9.00  | 5          | (10)       |
| PNB        | 8.80  | 8.85  | 8.90  | 9.00  | 9.05  | 8.95  | 8.90  | 8.85  | (5)        | (10)       |
| UNBK       | 8.90  | 8.90  | 8.95  | 9.00  | 9.00  | 8.90  | 8.75  | 8.60  | (35)       | (35)       |
| SBI        | 8.65  | 8.75  | 8.95  | 9.00  | 9.00  | 9.00  | 8.80  | 8.75  | (20)       | (25)       |

Source: RBI, MOFSL

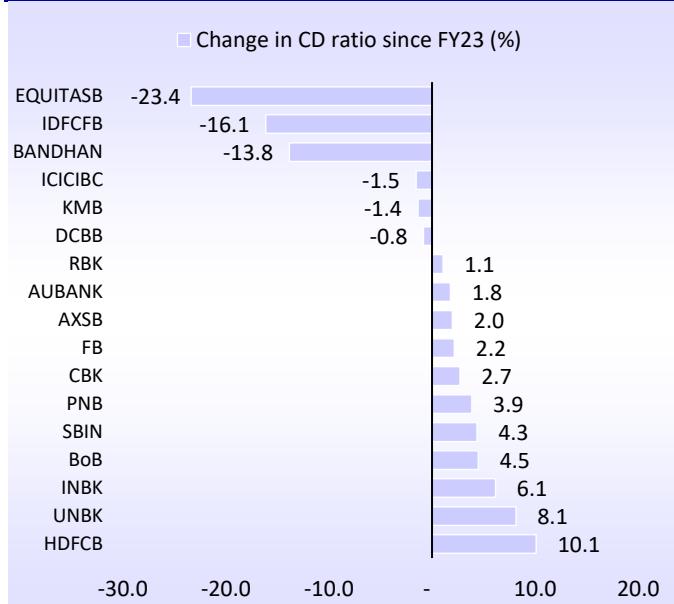
**Exhibit 9: CASA ratio for most banks has declined**


Source: MOFSL, Company

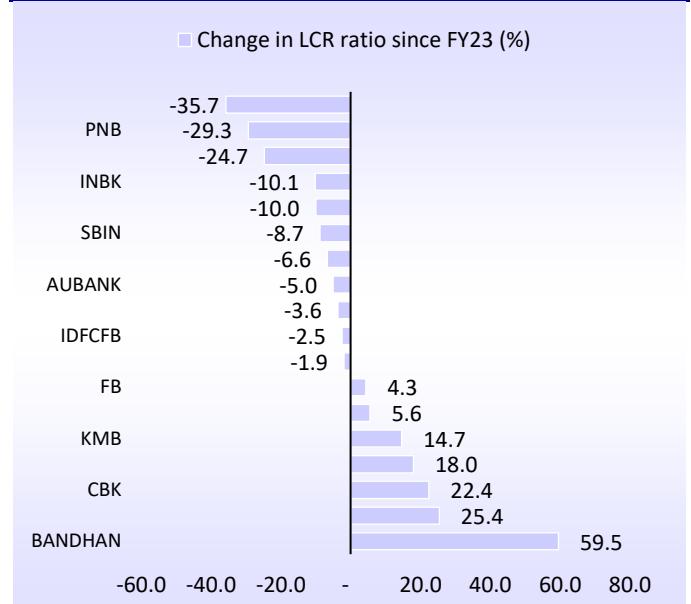
**Exhibit 10: Decline in CASA ratio for banks since FY22**


Note: Decline in HDFCB is attributed partly to the merger;

Source: MOFSL, Company

**Exhibit 11: CD ratio has increased for most banks since FY23 – PSBs have seen a greater increase**


Higher CD ratio for HDFCB amid the merger; Source: MOFSL, Company

**Exhibit 12: Change in LCR ratio since FY23 – most banks have deployed excess liquidity on their balance sheets**


Source: MOFSL, Company

**Exhibit 13: Loan mix for major banks: PSBs have a sizeable mix of MCLR-linked loans (%)**

| Loans Mix (%) - FY25 | MCLR | EBLR | Repo Linked | Others (Fixed, base rate, foreign currency-floating) |
|----------------------|------|------|-------------|--|
| AUBANK               | 30   |      | 7           | 63   |
| AXSB                 | 9    | 4    | 57          | 30   |
| CBK                  | 56   | 44   |             | 0  |
| FB                   | 9    |      | 51          | 40   |
| HDFCB*               | 25   |      | 45          | 30   |
| ICICIBC              | 15   | 1    | 53          | 31   |
| INBK*                | 57   |      | 37          | 5  |
| KMB**                | 13   | 60   |             | 27   |
| PNB                  | 31   | 15   | 44          | 11   |
| RBL                  | 9    |      | 46          | 45   |
| SBIN                 | 35   |      | 29          | 36   |
| BOB                  | 47   |      | 35          | 18   |
| Equitas*             |      |      | 20          | 80   |

\*\*As of 2QFY25, \*As of 3QFY25; Source: MOFSL, Company

**Exhibit 14: SA rates offered by various banks**

| (%)     | SA Rate  |
|---------|--|
| AXSB    | ❖ 2.50%  |
| HDFCB   | ❖ 2.50%  |
| ICICIBC | ❖ 2.50%  |
| KMB     | ❖ 2.50%  |
| IIB     | ❖ 2.5% to 5.0% (max rate for deposits above INR10m)                    |
| RBK     | ❖ 3.0% to 6.75% (max rate for deposits between INR2.5m and INR30m)     |
| IDFCFB  | ❖ 3% to 7.0% (max rate for deposits between INR0.5m and INR10m)        |
| BANDHAN | ❖ 2.7% to 6.15% (max rate for deposits above INR50m)                   |
| AUBANK  | ❖ 2.75% to 6.75% (max rate for deposits between INR0.25m and INR100mn) |
| BOB     | ❖ 2.50% to 4.75% (max rate for deposits of INR20bn and above)          |
| PNB     | ❖ 2.5% to 2.7% (max rate for deposits of INR1b and above)              |
| SBIN    | ❖ 2.50%  |
| DCBB    | ❖ 1.5% to 7.2% (max rate for deposits between INR10m and INR50m)       |

Source: MOFSL, Company

Banks have changed their SA rates aggressively amid ongoing rate cuts

Most banks have cut their savings rate in the range of 50-100bp across buckets.

**Exhibit 15: Overview of the changes in SA rates since Apr'25**

| Name of Bank    | Slabs                       | Apr-25 | Sep-25 | Difference |
|-----------------|-----------------------------|--------|--------|------------|
| HDFC Bank       | ❖ < 50 Lakhs                | 3.00%  | 2.50%  | -0.50%     |
|                 | ❖ 50 lakhs & above          | 3.50%  | 2.50%  | -1.00%     |
| Axis Bank       | ❖ < 50 Lakhs                | 3.00%  | 2.50%  | -0.50%     |
|                 | ❖ 50 lakhs to 2000 crore    | 3.50%  | 2.50%  | -1.00%     |
| DCB Bank        | ❖ 2000 crore & above        | 7.03%  | 6.00%  | -1.03%     |
|                 | ❖ < 10 lakhs                | 4.75%  | 3.75%  | -1.00%     |
| ICICI Bank      | ❖ 10 lakhs to < 1 crore     | 7.75%  | 7.15%  | -0.60%     |
|                 | ❖ 1 crore to < 10 crore     | 8.00%  | 7.20%  | -0.80%     |
| IndusInd Bank   | ❖ 10 crore and above        | 8.00%  | 6.60%  | -1.40%     |
|                 | ❖ < 50 Lakhs                | 3.00%  | 2.50%  | -0.50%     |
| KMB             | ❖ 50 lakhs or more          | 3.50%  | 2.50%  | -1.00%     |
|                 | ❖ < 10 lakhs                | 5.00%  | 3.00%  | -2.00%     |
| SBI             | ❖ 10 lakhs to < 1 crore     | 7.00%  | 4.00%  | -3.00%     |
|                 | ❖ 1 crore & above           | 7.00%  | 5.00%  | -2.00%     |
| PNB             | ❖ < 50 Lakhs                | 3.00%  | 2.50%  | -0.50%     |
|                 | ❖ 50 lakhs or more          | 3.50%  | 2.50%  | -1.00%     |
| BOB             | ❖ < 10 crore                | 2.70%  | 2.50%  | -0.20%     |
|                 | ❖ 10 crore or more          | 3.00%  | 2.50%  | -0.50%     |
| Indian Bank     | ❖ < 10 Lakhs                | 2.70%  | 2.50%  | -0.20%     |
|                 | ❖ 10 lakhs to < 100 crore   | 2.75%  | 2.50%  | -0.25%     |
| RBL Bank        | ❖ 100 crore & above         | 3.00%  | 2.70%  | -0.30%     |
|                 | ❖ < 50 lakhs                | 2.75%  | 2.70%  | -0.05%     |
| AU SFB          | ❖ 50 lakhs to < 100 crore   | 3.00%  | 2.75%  | -0.25%     |
|                 | ❖ 100 crore to < 1000 crore | 4.10%  | 3.50%  | -0.60%     |
| IDFC First Bank | ❖ 1000 crore and above      | 4.50%  | 4.75%  | 0.25%      |
|                 | ❖ < 10 lakhs                | 2.75%  | 2.75%  | 0.00%      |
| Federal Bank    | ❖ 10 lakhs to < 200 crore   | 2.80%  | 2.80%  | 0.00%      |
|                 | ❖ 200 crore & above         | 2.90%  | 2.90%  | 0.00%      |
| Bandhan Bank    | ❖ < 10 lakhs                | 5.50%  | 5.00%  | -0.50%     |
|                 | ❖ 10 lakhs to < 3 crore     | 7.50%  | 6.75%  | -0.75%     |
| Equitas SFB     | ❖ 3 crore to < 200 crore    | 6.00%  | 6.00%  | 0.00%      |
|                 | ❖ 200 crore & above         | 7.33%  | 6.05%  | -1.28%     |
| AU SFB          | ❖ < 5 crore                 | 3.50%  | 2.50%  | -1.00%     |
|                 | ❖ 5 crore to < 50 crore     | 5.25%  | 4.75%  | -0.50%     |
| IDFC First Bank | ❖ 50 crore to < 150 crore   | 6.90%  | 6.05%  | -0.85%     |
|                 | ❖ 150 crore & above         | 3.00%  | 2.50%  | -0.50%     |
| Bandhan Bank    | ❖ < 10 lakhs                | 5.00%  | 4.00%  | -1.00%     |
|                 | ❖ 10 lakhs to < 25 lakhs    | 7.00%  | 6.50%  | -0.50%     |
| Equitas SFB     | ❖ 25 lakhs to < 25 crore    | 7.25%  | 6.75%  | -0.50%     |
|                 | ❖ < 5 lakhs                 | 3.00%  | 3.00%  | 0.00%      |
| IDFC First Bank | ❖ 5 lakhs to < 10 crores    | 7.25%  | 7.00%  | -0.25%     |
|                 | ❖ 10 crores to < 200 crores | 7.25%  | 6.00%  | -1.25%     |
| Bandhan Bank    | ❖ more than 200 crores      | 3.50%  | 4.00%  | 0.50%      |
|                 | ❖ < 10 lakhs                | 5.00%  | 4.50%  | -0.50%     |
| Equitas SFB     | ❖ 10 lakhs to < 5 crore     | 7.00%  | 5.70%  | -1.30%     |
|                 | ❖ 5 crore to < 250 crore    | 7.00%  | 6.15%  | -0.85%     |
| Equitas SFB     | ❖ more than 250 crore       | 8.15%  | 7.10%  | -1.05%     |
|                 | ❖ < 10 lakhs                | 5.00%  | 4.50%  | -0.50%     |
| Equitas SFB     | ❖ 10 lakhs to < 1 crore     | 7.25%  | 7.00%  | -0.25%     |
|                 | ❖ 1 crore to < 25 crore     | 7.50%  | 7.00%  | -0.50%     |
| Equitas SFB     | ❖ more than 25 crore        | 7.80%  | 7.25%  | -0.55%     |

Source: MOFSL, Company

Most banks have lowered their peak TD rates across maturity buckets.

**Exhibit 16: Peak term deposit rates across different buckets for major banks**

| (%)                        | 7-14 days | 0-3 months | 3-9 months | 9-15 months | 15-36 months |
|----------------------------|-----------|------------|------------|-------------|--------------|
| <b>Large pvt banks</b>     |           |            |            |             |              |
| HDFCB                      | 2.75      | 4.25       | 5.50       | 6.25        | 6.45         |
| AXSB                       | 3.00      | 4.00       | 5.50       | 6.25        | 6.60         |
| ICICIBC                    | 2.75      | 4.00       | 4.50       | 6.25        | 6.60         |
| KMB                        | 2.75      | 3.50       | 5.50       | 6.60        | 6.60         |
| IIB                        | 3.25      | 4.75       | 6.00       | 7.00        | 7.00         |
| <b>Mid-size pvt banks</b>  |           |            |            |             |              |
| RBK                        | 3.50      | 4.50       | 6.05       | 7.00        | 7.20         |
| IDFCFB                     | 3.00      | 4.00       | 5.50       | 6.50        | 7.00         |
| BANDHAN                    | 2.95      | 4.20       | 4.20       | 7.00        | 7.20         |
| Federal                    | 3.00      | 4.25       | 5.75       | 6.50        | 6.50         |
| <b>Small finance banks</b> |           |            |            |             |              |
| AUBANK                     | 3.50      | 4.75       | 6.35       | 6.90        | 7.10         |
| EQUITASB                   | 3.50      | 4.75       | 6.35       | 7.00        | 7.00         |
| JANASFB                    | 5.15      | 6.00       | 7.25       | 7.25        | 7.50         |
| UJJIVAN                    | 3.50      | 4.65       | 5.50       | 7.25        | 7.25         |

Source: MOFSL, Company

TD rates have declined 25 to 100bp for most banks across maturities.

**Exhibit 17: Overview of changes in TD rates since Apr'25**

| Name of Bank               | Slabs                 | Apr-25 | Sep-25 | Difference |
|----------------------------|-----------------------|--------|--------|------------|
| HDFC Bank                  | ❖ 0 to < 90 days      | 4.50%  | 4.25%  | -0.25%     |
|                            | ❖ 90 days to < 1 year | 6.00%  | 5.75%  | -0.25%     |
|                            | ❖ 1 year to < 5 years | 7.40%  | 6.60%  | -0.80%     |
|                            | ❖ more than 5 years   | 7.00%  | 6.15%  | -0.85%     |
| Axis Bank                  | ❖ 0 to < 90 days      | 4.75%  | 4.00%  | -0.75%     |
|                            | ❖ 90 days to < 1 year | 6.00%  | 5.75%  | -0.25%     |
|                            | ❖ 1 year to < 5 years | 7.25%  | 6.60%  | -0.65%     |
|                            | ❖ more than 5 years   | 7.00%  | 6.60%  | -0.40%     |
| DCB Bank                   | ❖ 0 to < 90 days      | 4.00%  | 4.50%  | 0.50%      |
|                            | ❖ 90 days to < 1 year | 7.10%  | 6.50%  | -0.60%     |
|                            | ❖ 1 year to < 5 years | 8.00%  | 7.20%  | -0.80%     |
|                            | ❖ more than 5 years   | 7.65%  | 7.00%  | -0.65%     |
| ICICI Bank                 | ❖ 0 to < 90 days      | 4.50%  | 4.00%  | -0.50%     |
|                            | ❖ 90 days to < 1 year | 6.00%  | 5.50%  | -0.50%     |
|                            | ❖ 1 year to < 5 years | 7.25%  | 6.60%  | -0.65%     |
|                            | ❖ more than 5 years   | 6.90%  | 6.60%  | -0.30%     |
| IndusInd Bank              | ❖ 0 to < 90 days      | 4.75%  | 4.75%  | 0.00%      |
|                            | ❖ 90 days to < 1 year | 6.50%  | 6.50%  | 0.00%      |
|                            | ❖ 1 year to < 5 years | 7.75%  | 7.00%  | -0.75%     |
|                            | ❖ more than 5 years   | 7.00%  | 6.50%  | -0.50%     |
| KMB                        | ❖ 0 to < 90 days      | 3.50%  | 3.50%  | 0.00%      |
|                            | ❖ 90 days to < 1 year | 7.00%  | 6.00%  | -1.00%     |
|                            | ❖ 1 year to < 5 years | 7.40%  | 6.60%  | -0.80%     |
|                            | ❖ more than 5 years   | 6.20%  | 6.25%  | 0.05%      |
| SBI                        | ❖ 0 to < 90 days      | 5.50%  | 5.05%  | -0.45%     |
|                            | ❖ 90 days to < 1 year | 6.50%  | 6.05%  | -0.45%     |
|                            | ❖ 1 year to < 5 years | 7.00%  | 6.45%  | -0.55%     |
|                            | ❖ more than 5 years   | 6.50%  | 6.05%  | -0.45%     |
| PNB                        | ❖ 0 to < 90 days      | 4.50%  | 4.50%  | 0.00%      |
|                            | ❖ 90 days to < 1 year | 6.80%  | 5.60%  | -1.20%     |
|                            | ❖ 1 year to < 5 years | 7.25%  | 6.40%  | -0.85%     |
|                            | ❖ more than 5 years   | 6.50%  | 6.00%  | -0.50%     |
| BOB                        | ❖ 0 to < 90 days      | 5.50%  | 5.00%  | -0.50%     |
|                            | ❖ 90 days to < 1 year | 6.50%  | 6.00%  | -0.50%     |
|                            | ❖ 1 year to < 5 years | 7.30%  | 6.50%  | -0.80%     |
|                            | ❖ more than 5 years   | 6.50%  | 6.00%  | -0.50%     |
| Union Bank                 | ❖ 0 to < 90 days      | 4.50%  | 4.40%  | -0.10%     |
|                            | ❖ 90 days to < 1 year | 6.35%  | 6.15%  | -0.20%     |
|                            | ❖ 1 year to < 5 years | 7.30%  | 6.60%  | -0.70%     |
|                            | ❖ more than 5 years   | 6.50%  | 6.40%  | -0.10%     |
| Indian Bank                | ❖ 0 to < 90 days      | 3.25%  | 3.25%  | 0.00%      |
|                            | ❖ 90 days to < 1 year | 4.75%  | 4.75%  | 0.00%      |
|                            | ❖ 1 year to < 5 years | 7.15%  | 6.50%  | -0.65%     |
|                            | ❖ more than 5 years   | 6.25%  | 6.00%  | -0.25%     |
| RBL Bank                   | ❖ 0 to < 90 days      | 4.50%  | 4.50%  | 0.00%      |
|                            | ❖ 90 days to < 1 year | 6.05%  | 6.05%  | 0.00%      |
|                            | ❖ 1 year to < 5 years | 8.00%  | 7.20%  | -0.80%     |
|                            | ❖ more than 5 years   | 7.00%  | 6.70%  | -0.30%     |
| AU Small Finance Bank      | ❖ 0 to < 90 days      | 5.50%  | 4.75%  | -0.75%     |
|                            | ❖ 90 days to < 1 year | 7.25%  | 6.35%  | -0.90%     |
|                            | ❖ 1 year to < 5 years | 8.00%  | 7.10%  | -0.90%     |
|                            | ❖ more than 5 years   | 7.25%  | 6.75%  | -0.50%     |
| Bandhan Bank               | ❖ 0 to < 90 days      | 4.50%  | 4.20%  | -0.30%     |
|                            | ❖ 90 days to < 1 year | 4.50%  | 4.20%  | -0.30%     |
|                            | ❖ 1 year to < 5 years | 8.05%  | 7.20%  | -0.85%     |
|                            | ❖ more than 5 years   | 5.85%  | 5.85%  | 0.00%      |
| Equitas Small Finance Bank | ❖ 0 to < 90 days      | 5.50%  | 4.75%  | -0.75%     |
|                            | ❖ 90 days to < 1 year | 7.20%  | 6.35%  | -0.85%     |
|                            | ❖ 1 year to < 5 years | 8.05%  | 7.00%  | -1.05%     |
|                            | ❖ more than 5 years   | 7.25%  | 7.00%  | -0.25%     |

Source: MOFSL, Company

### Our view: Maintain preference for ICICIBC, HDFCB, and SBI

- We expect NIM contraction to intensify in 2QFY26, making it the trough quarter for banks, as they are yet to pass the full impact of the 50bp repo cut. However, 3Q–4Q should witness some margin recovery, aided by CRR benefits and moderation in SA/TD rates, which will begin to ease funding costs.
- With funding cost pressures elevated, banks are prioritizing granular and stable deposit franchises. Strong liability profiles are proving crucial in cushioning margin stress and ensuring balance sheet resilience, particularly as loan growth remains muted.
- From 3Q onwards, NIMs should benefit from deposit repricing and the phased CRR cut, while asset quality pressures in unsecured retail and MFI segments are showing signs of stabilization. Alongside normalized credit costs, this should support a meaningful earnings recovery in 2HFY26.
- In light of these sectoral headwinds, we continue to **prefer ICICI Bank, HDFC Bank, and SBI**. These banks stand out due to their strong balance sheets, healthy PCR, and relatively better growth prospects, which are expected to help mitigate downside risks to earnings.

#### Exhibit 18: Banking valuation summary

| Val summary                   | Rating  | CMP (INR) | EPS (INR) |       | RoA (%)    |       | RoE (%) |       | P/E (x) |       | P/BV (x) |       |
|-------------------------------|---------|-----------|-----------|-------|------------|-------|---------|-------|---------|-------|----------|-------|
|                               |         |           | FY26E     | FY27E | FY26E      | FY27E | FY26E   | FY27E | FY26E   | FY27E | FY26E    | FY27E |
| <b>Private Banks</b>          |         |           |           |       |            |       |         |       |         |       |          |       |
| ICICIBC*                      | Buy     | 1,402     | 73.9      | 84.2  | 2.3        | 2.3   | 17.0    | 16.7  | 15.2    | 13.3  | 3.0      | 2.6   |
| HDFCB*                        | Buy     | 966       | 47.0      | 56.3  | 1.8        | 1.9   | 13.7    | 14.8  | 14.5    | 12.1  | 2.7      | 2.4   |
| AXSB*                         | Neutral | 1,055     | 80.5      | 101.3 | 1.5        | 1.6   | 13.1    | 14.6  | 11.4    | 9.1   | 1.6      | 1.4   |
| BANDHAN                       | Neutral | 165       | 16.4      | 22.8  | 1.3        | 1.6   | 10.6    | 13.9  | 10.0    | 7.2   | 1.1      | 1.0   |
| KMB*                          | Buy     | 1,951     | 74.3      | 89.5  | 2.0        | 2.1   | 12.2    | 13.4  | 16.0    | 13.3  | 3.1      | 2.7   |
| IIB                           | Neutral | 750       | 40.6      | 57.1  | 0.6        | 0.7   | 4.8     | 6.4   | 18.5    | 13.1  | 0.9      | 0.8   |
| FB                            | Buy     | 191       | 16.0      | 20.6  | 1.0        | 1.2   | 11.2    | 13.0  | 11.9    | 9.2   | 1.3      | 1.1   |
| DCBB                          | Buy     | 126       | 22.7      | 31.7  | 0.8        | 1.0   | 12.5    | 15.5  | 5.6     | 4.0   | 0.7      | 0.6   |
| IDFCFB                        | Neutral | 72        | 3.3       | 5.5   | 0.7        | 1.0   | 6.2     | 9.6   | 21.6    | 13.0  | 1.3      | 1.2   |
| EQUITASB                      | Buy     | 52        | 0.4       | 6.2   | 0.1        | 1.1   | 0.8     | 11.5  | 120.9   | 8.5   | 1.0      | 0.9   |
| AUBANK                        | Buy     | 700       | 35.5      | 48.3  | 1.5        | 1.7   | 15.0    | 18.3  | 19.7    | 14.5  | 2.9      | 2.5   |
| RBK                           | Buy     | 273       | 17.1      | 31.3  | 0.7        | 1.1   | 6.5     | 11.4  | 16.0    | 8.7   | 1.0      | 1.0   |
| <b>PSU Banks</b>              |         |           |           |       |            |       |         |       |         |       |          |       |
| SBIN*                         | Buy     | 809       | 79.1      | 87.0  | 1.0        | 1.0   | 15.8    | 15.3  | 7.2     | 6.6   | 1.5      | 1.3   |
| PNB                           | Buy     | 104       | 13.5      | 18.5  | 0.8        | 1.0   | 12.4    | 15.2  | 7.7     | 5.6   | 0.9      | 0.8   |
| BOB                           | Neutral | 235       | 36.5      | 45.6  | 1.0        | 1.1   | 14.3    | 16.2  | 6.4     | 5.1   | 0.9      | 0.8   |
| CBK                           | Buy     | 108       | 21.0      | 23.4  | 1.1        | 1.1   | 19.2    | 19.0  | 5.1     | 4.6   | 0.9      | 0.8   |
| UNBK                          | Neutral | 128       | 21.7      | 24.7  | 1.1        | 1.1   | 14.6    | 14.8  | 5.9     | 5.2   | 0.8      | 0.7   |
| INBK                          | Buy     | 670       | 87.9      | 94.9  | 1.3        | 1.3   | 17.7    | 16.9  | 7.6     | 7.1   | 1.2      | 1.1   |
| <b>Payments &amp; Fintech</b> |         |           |           |       |            |       |         |       |         |       |          |       |
| SBI Cards                     | Neutral | 803       | 28        | 38    | 3.5        | 4.5   | 16.6    | 20.7  | 28.9    | 21.2  | 4.8      | 3.9   |
|                               |         |           | EPS (INR) |       | PAT (INRb) |       | RoA (%) |       | RoE (%) |       | P/E (x)  |       |
| One 97 Comm.                  | Neutral | 1,253     | 6         | 15    | 3.9        | 9.9   | 1.7     | 3.9   | 2.6     | 6.4   | 204.9    | 84.7  |

\* Adjusted for subsidiaries, Source: MOFSL, Company

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## NOTES

| Explanation of Investment Rating |  |
|----------------------------------|--|
| Investment Rating                | Expected return (over 12-month)  |
| BUY                              | >=15%  |
| SELL                             | < - 10%  |
| NEUTRAL                          | < - 10 % to 15%  |
| UNDER REVIEW                     | Rating may undergo a change  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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