Sector Update | 3 October 2025

Financials - Banks

RBI announces a slew of positive regulatory measures

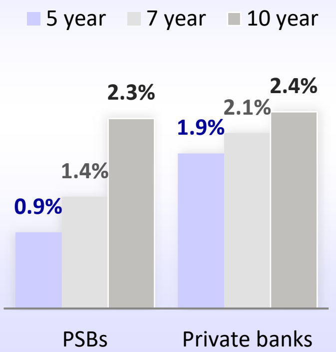
Focus remains on operational flexibility while ensuring prudent risk management

The RBI has announced a coherent package of regulatory and developmental measures aimed at strengthening banks' resilience, improving the flow of credit, and simplifying the operating environment for regulated entities. The measures include – (i) shift to an expected credit loss (ECL) provisioning framework, (ii) pragmatic updates to the Basel-3 standardized approach with calibrated easing of risk-weights for select segments, (iii) removal of proposed restriction on the overlap of group businesses, (iv) liberalization of capital-market lending limits, and (v) introduction of risk-based deposit insurance premium with the current applicable flat rate of premium as the ceiling.

We believe that these measures will further ease the operational flexibility of the banking system. The measures clearly reflect regulatory pragmatism, balancing growth with prudent risk management. Below we present our views on specific measures. **Overall, we maintain our positive view on the sector, with ICICIBC, HDFCB, SBIN and AUBANK as our preferred picks.**

Slippage rate for PSU banks has improved consistently, which will help them limit the provisioning drag arising from the migration to the ECL framework.

Average slippage ratio (%) of PSU & Private banks (till FY27E)



Expected credit loss (ECL) framework

Measure: The RBI has proposed replacing the current provisioning approach with the ECL framework for all scheduled commercial banks (excluding SFBs, Payment Banks, and RRBs) and AIFIs, effective 1st Apr'27, with a glide path (till 31st Mar'31) to smoothen the one-time impact of higher provisioning.

View: This transition was awaited for some time and the implementation from FY28 onward will give adequate time to banks to migrate to the new provisioning framework, ensuring minimal disruption. Banks are required to use the historical data from a full credit cycle, which has significantly improved vs. the trend in prior years; hence, the provisioning requirement for PSU banks and large private banks should come down meaningfully vs. previous estimates. We note that the past 5, 7, and 10 years' average slippage ratio for PSBs stands at 0.9%, 1.4% and 2.3%, respectively, thus the migration to the ECL model should translate into controlled provisioning impact. Further, the capital ratios of PSUs have improved, as most PSUs are now well capitalized and capable of absorbing any risks.

Lowers risk-weights on MSMEs and residential real estate

Measure: The RBI has proposed to issue draft guidelines on the implementation of the revised Basel framework, effective 1st Apr'27. Lower risk weights on MSMEs and residential real estate (including home loans) are part of the new standardized approach.

View: Reduction in risk-weights will ease capital requirements and improve capital efficiency, particularly benefitting banks with a higher share of MSME and mortgage portfolios. This should support incremental lending to these sectors at finer pricing, potentially boosting credit growth. However, this also increases the need for robust underwriting to avoid complacency in risk assessment.

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Removal of overlap restriction between banks and NBFCs

Measure: The RBI has removed the earlier proposed restriction on overlaps in business undertaken by banks and their group entities (NBFCs or subsidiaries). The strategic allocation of business streams among group entities will be left to the wisdom of bank boards.

View: The earlier circular risked forcing banks to divest or merge their lending subsidiaries, creating an overhang for several NBFCs (such as Kotak Prime, ICICI Housing, HDB Financial, Fedbank, and PNB Housing). The revised stance provides much-needed operational flexibility and regulatory clarity, enabling banking groups to better leverage synergies between their bank and NBFC arms. This should support more efficient capital deployment, sharper customer segmentation, and competitive product structuring, thereby enhancing the overall franchise value of these groups.

Reduced risk weights on NBFC lending to operational infra projects

Measure: The RBI has proposed lowering risk weights for NBFC lending to operational, high-quality infrastructure projects.

View: With provisioning norms for project finance already eased, the proposed reduction in risk weights can materially lower capital costs for NBFCs engaged in infrastructure lending. This will enhance their ability to fund viable projects at more competitive rates, supporting stronger growth in the infra pipeline. A decline in borrowing costs is thus likely as the benefits of lower risk weights are passed on. However, the effectiveness of this measure will depend on a clear definition of 'high-quality' projects and robust ongoing monitoring to mitigate potential slippages.

Enhanced limit for loan against shares for banks

Measure: The limit for lending against shares has been raised from INR2m to INR10m per individual, while the limit for IPO financing has been increased from INR1m to INR2.5m.

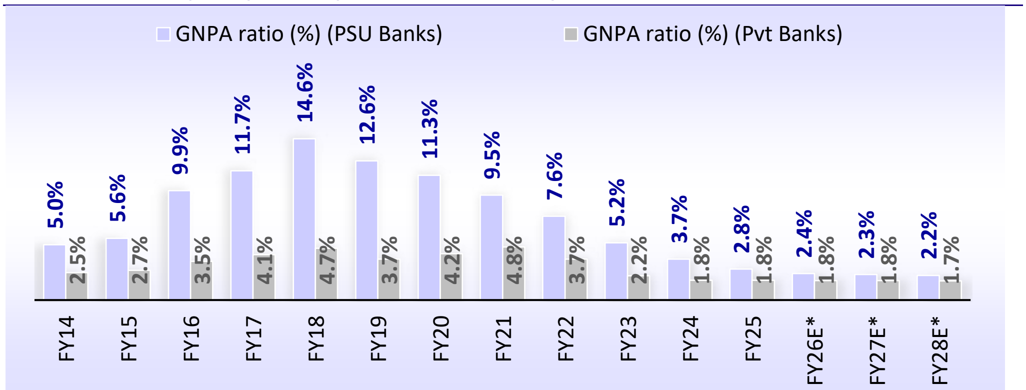
View: This measure is a clear step toward deepening market-based intermediation and widening retail and corporate access to capital market financing. As the circular specifically mentions "banks," the benefits appear skewed in their favor, potentially giving them a competitive edge over NBFCs. Consequently, players such as Bajaj Finance and Aditya Birla Capital may face incremental competition as banks leverage this regulatory support.

View

After a series of supportive regulatory measures over the past few quarters under the new governor, the RBI has once again announced a leash of measures to further ease the operational flexibility of the banking system. The much-needed regulatory clarity on NBFCs having overlapping business with banks in the same group will ensure more efficient capital deployment, sharper customer segmentation and growth strategy, thereby enhancing the overall franchise value of these groups. The transition to ECL framework from Apr'27 will provide adequate time to the banking system, while robust asset quality performance in recent years will limit the actual provisioning impact. The reduction in risk-weights on MSMEs and residential real estate reflects the robust asset quality trends and will support healthy growth at a time when the focus is on driving consumption in the economy. The measures clearly reflect regulatory pragmatism, balancing growth with prudent risk management. **We maintain our positive view on the sector, with ICICIBC, HDFCB, SBIN and AUBANK as our preferred picks.**

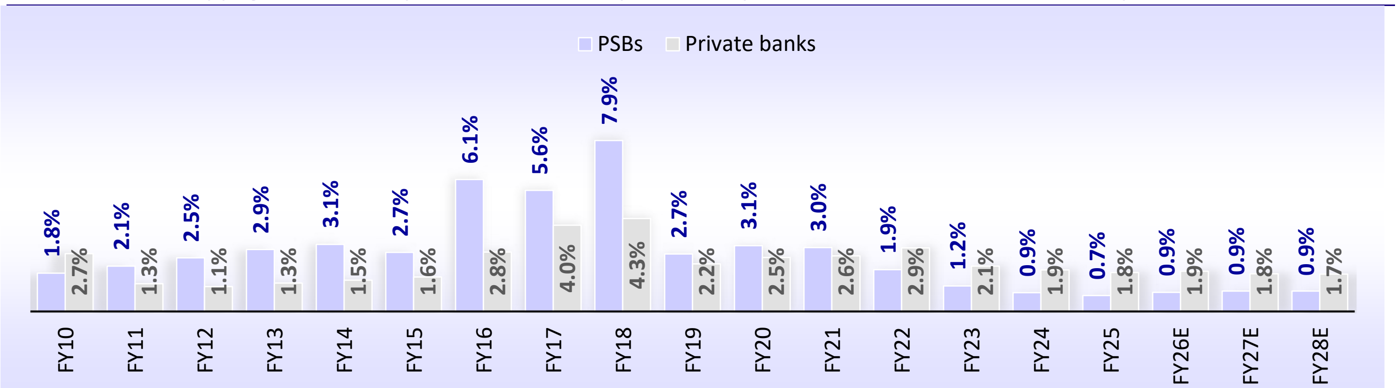
Story in charts

Exhibit 1: Asset quality has improved considerably across both PSU and Pvt banks



*based on MOFSL coverage estimates, Source: MOFSL, RBI

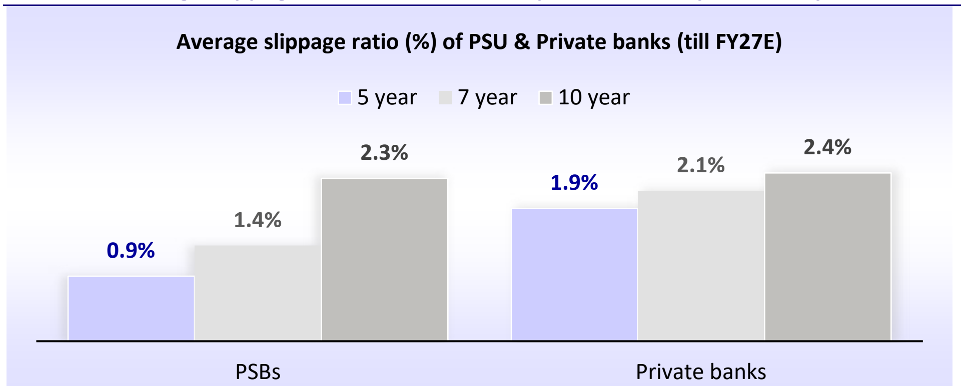
Exhibit 2: PSBs' slippage rate has improved considerably in recent years; remains better than that of private banks



Source: MOFSL, RBI

Exhibit 3: Average slippage ratio for PSBs has improved steadily over the years

Slippage rate for PSU banks has improved consistently, which will help them limit the provisioning drag arising from the migration to the ECL framework.



based on our coverage banks, Source: MOFSL, RBI

Exhibit 4: Trend in slippage rate across major PSBs in our coverage

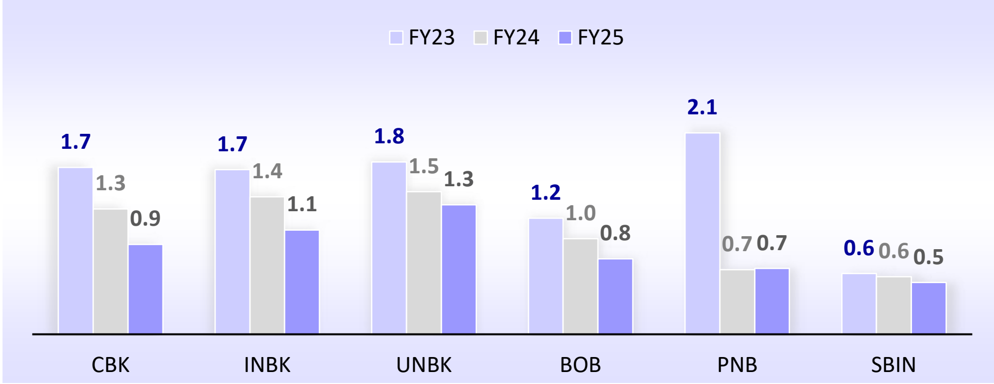


Exhibit 5: Slippage rate for private banks remains higher than that of PSBs

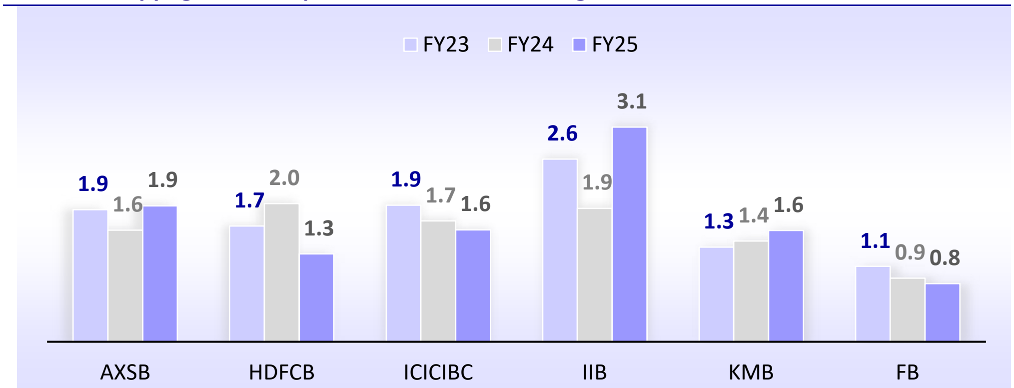
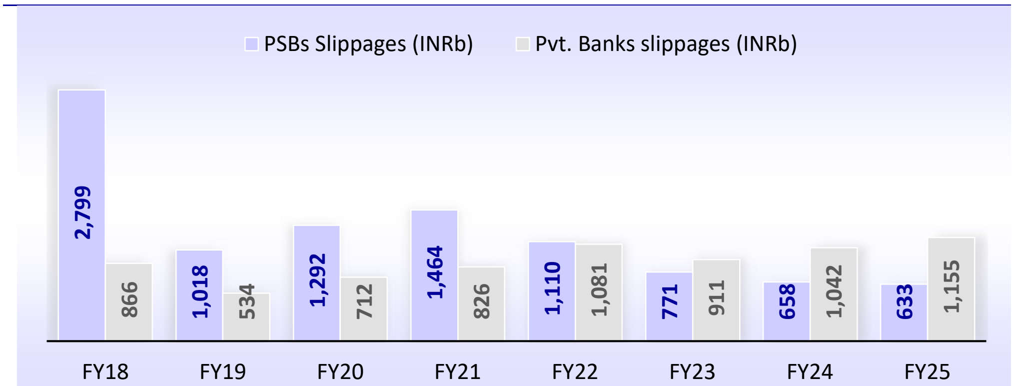


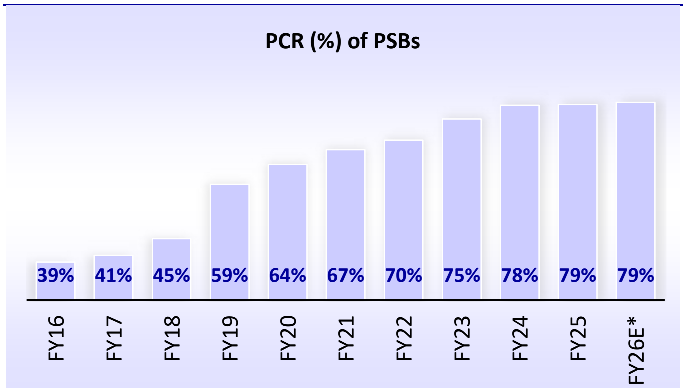
Exhibit 6: Trend in absolute slippages for PSBs and Private Banks

Slippages for PSBs have improved notably, whereas private banks' slippages have increased over FY18-25



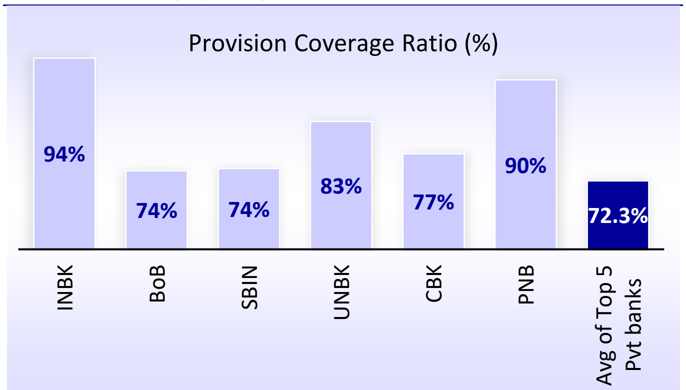
*of MOFSL coverage universe Source: MOFSL, Company

Exhibit 7: Provision coverage ratio for PSBs has improved sharply over the years to ~79% in FY25



*of MOFSL coverage universe, Source: MOFSL, Company

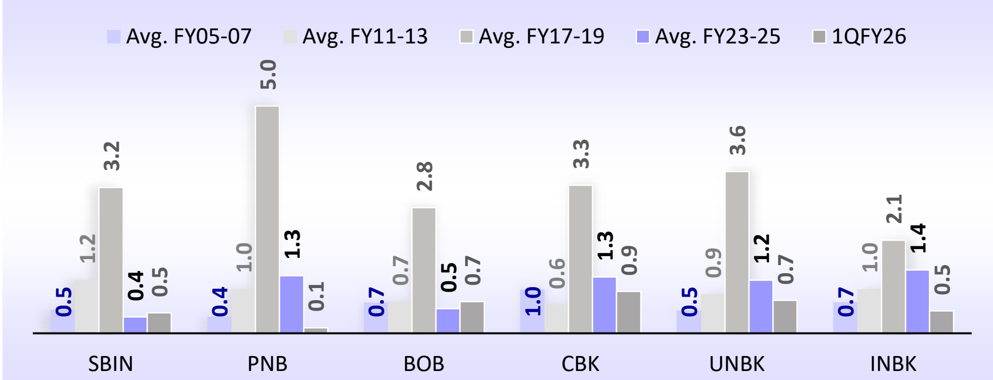
Exhibit 8: Top 6 PSBs' PCR vs. average of top 5 private banks – Most PSBs enjoy a higher PCR



Source: MOFSL, Company

Average credit cost for PSBs was ~3% during FY17-19, which has now improved significantly to 40-50bp

Exhibit 9: PSBs: Credit cost has improved significantly from the highs of FY17-19



Source: MOFSL, Company

SMA book remains benign for most PSBs at ~15-50bp, signaling limited incremental stress and providing visibility on stable asset quality going forward

Exhibit 10: SMA mix across banks as of 1QFY26

SMA (bp of loans)	SMA 0	SMA 1	SMA 2
BOB	NA	40bp	
CBK	13bp	4bp	63bp
INBK	NA	20bp	78bp
PNB	NA	NA	15bp
SBIN	NA	7bp	5bp
UNBK	17bp	8bp	29bp

Source: MOFSL, Company

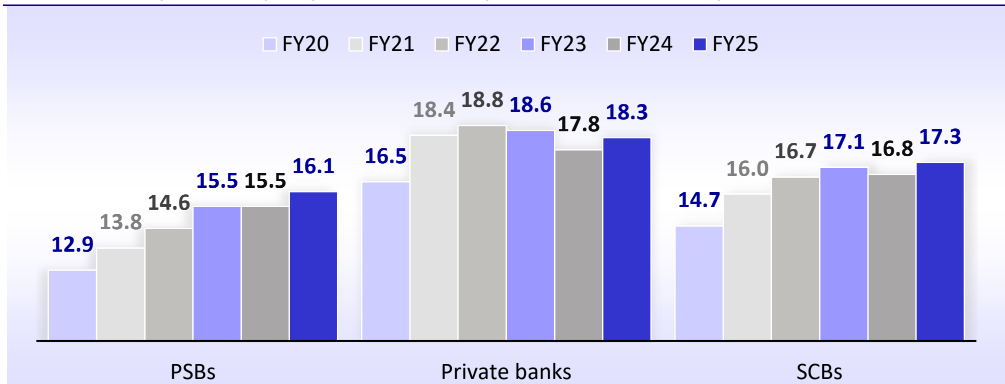
Exhibit 11: Capital positions of PSBs have also improved; PSBs are well positioned to absorb any ECL transition cost

PSBs	CET-I (%)				Tier-1 (%)				CRAR (%)			
	FY20	FY23	FY25	1QFY26	FY20	FY23	FY25	1QFY26	FY20	FY23	FY25	1QFY26
SBIN	9.8	10.3	10.8	11.1	11.0	12.1	12.1	12.5	13.1	14.7	14.3	14.6
BoB	9.4	12.2	13.8	14.1	10.7	14.0	14.8	15.2	13.3	16.2	17.2	17.6
CBK	9.4	11.6	12.0	12.3	10.1	13.8	14.4	14.6	13.7	16.7	16.3	16.5
INBK	11.8	12.9	15.4	15.3	12.1	13.5	15.9	15.7	14.1	16.5	17.9	17.8
PNB	11.0	11.2	12.4	13.0	12.2	12.7	14.1	14.6	14.5	15.5	17.1	17.5
UNBK	9.4	12.4	15.0	15.3	10.8	13.9	16.2	16.6	12.8	16.0	18.0	18.3

Source: Company, MOFSL

Healthy capital ratios for the banks make them resilient to absorb any ECL-related provisions

Exhibit 12: Capital adequacy ratios have improved for PSUs and private banks



Source: MOFSL, Company

Exhibit 13: BFSI Valuation summary

Val summary	Rating	EPS (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)		P/ABV (x)	
		FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Private Banks													
ICICIBC*	Buy	73.9	84.2	2.3	2.3	17.0	16.7	14.6	12.8	2.9	2.5	2.4	2.1
HDFCB*	Buy	47.0	56.3	1.8	1.9	13.7	14.8	17.2	14.4	2.7	2.4	2.4	2.1
AXSB*	Neutral	80.5	101.3	1.5	1.6	13.1	14.6	12.4	9.8	1.7	1.5	1.6	1.4
BANDHAN	Neutral	16.4	22.8	1.3	1.6	10.6	13.9	9.9	7.1	1.0	0.9	1.1	1.0
KMB*	Buy	70.9	83.9	1.9	2.0	11.7	12.8	17.3	14.7	3.2	2.8	2.1	1.8
IIB	Neutral	40.6	57.1	0.6	0.7	4.8	6.4	18.1	12.9	0.9	0.8	0.9	0.8
FB	Buy	15.9	20.3	1.0	1.2	11.1	12.7	12.1	9.5	1.3	1.1	1.4	1.2
DCBB	Buy	22.7	31.7	0.8	1.0	12.5	15.5	5.6	4.0	0.7	0.6	0.7	0.6
IDFCFB	Neutral	2.8	5.3	0.6	1.0	5.3	9.3	24.7	13.1	1.3	1.2	1.3	1.2
EQUITASB	Buy	0.4	6.2	0.1	1.1	0.8	11.5	132.7	9.3	1.1	1.0	1.2	1.1
AUBANK	Buy	35.6	48.1	1.5	1.7	14.5	16.8	20.6	15.2	2.8	2.4	2.9	2.4
RBK	Buy	17.1	31.3	0.7	1.1	6.5	11.4	16.3	8.9	1.1	1.0	1.1	1.0
PSU Banks													
SBIN*	Buy	77.1	87.0	1.0	1.0	15.8	15.3	8.2	7.3	1.6	1.4	1.2	1.1
PNB	Buy	13.5	18.0	0.8	1.0	12.4	14.8	8.4	6.3	1.0	0.9	1.0	0.9
BOB	Neutral	36.2	41.7	1.0	1.0	14.2	14.9	7.2	6.2	1.0	0.9	1.0	0.9
CBK	Buy	20.7	22.1	1.1	1.0	18.9	18.2	6.0	5.6	1.0	0.9	1.1	1.0
UNBK	Neutral	21.7	24.7	1.1	1.1	14.6	14.8	6.4	5.6	0.9	0.8	0.9	0.8
INBK	Buy	87.9	94.9	1.3	1.3	17.7	16.9	8.5	7.9	1.4	1.2	1.4	1.2
Payments & Fintech													
SBI Cards	Neutral	27.8	37.9	3.8	4.6	17.8	21.0	31.5	23.1	5.1	4.2	5.3	4.3
		EPS (INR)		**PAT (INRb)**		**RoA (%)**		**RoE (%)**		**P/E (x)**		**P/Sales (x)**	
One 97 Comm.	Neutral	6.1	14.8	6.4	12.7	2.8	5.0	4.2	8.1	183.8	76.0	8.8	7.5
NBFC (lending)		**EPS (INR)**		**Credit cost (%)**		**RoA (%)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
Housing Finance													
LIC Housing Fin	Neutral	96.7	103.7	0.2	0.2	1.6	1.6	13.9	13.4	5.8	5.4	0.8	0.7
PNB Housing	Buy	88.6	102.1	-0.2	0.2	2.5	2.5	12.8	13.2	9.8	8.5	1.2	1.1
Bajaj Housing	Neutral	3.0	3.8	0.2	0.2	2.2	2.3	11.9	13.2	36.2	28.9	4.1	3.6
AAVAS Financiers	Neutral	82.5	100.5	0.2	0.1	3.2	3.4	13.9	14.7	19.8	16.3	2.6	2.2
Home First Fin.	Buy	51.2	64.6	0.3	0.3	3.9	4.0	15.6	14.6	23.8	18.8	2.9	2.6
Can Fin Homes	Neutral	71.1	77.5	0.1	0.1	2.2	2.1	17.4	16.5	10.7	9.8	1.7	1.5
Repco Home Fin	Neutral	69.4	73.1	0.0	0.2	2.8	2.7	12.3	11.6	5.2	4.9	0.6	0.5
Vehicle Finance													
Chola. Inv & Fin.	Buy	62.1	78.7	1.5	1.4	2.4	2.6	19.6	19.8	25.9	20.5	4.5	3.7
M & M Financial	Buy	19.1	24.8	1.6	1.4	1.9	2.2	11.9	13.3	14.4	11.1	1.6	1.4
Shriram Finance	Buy	49.9	59.9	1.9	2.0	3.0	3.2	15.6	16.4	12.4	10.3	1.8	1.6
IndoStar Capital	Buy	51.2	19.8	5.1	1.1	6.5	2.2	17.2	5.3	4.8	12.5	0.7	0.6
Gold Finance													
Muthoot Finance	Neutral	195.3	213.7	0.3	0.3	5.6	5.2	24.7	22.3	15.8	14.4	3.5	2.9
Manappuram Finance	Neutral	10.7	19.5	2.8	1.3	2.0	3.5	7.1	11.5	26.1	14.4	1.7	1.5
Microfinance													
CreditAccess	Buy	52.6	108.3	5.7	2.9	2.8	5.0	11.4	20.0	25.7	12.5	2.8	2.3
Fusion Finance	Buy	0.0	20.8	5.4	3.0	0.0	4.3	0.0	14.0	-	9.2	1.5	1.1
Spandana Sphoorty	Neutral	-83.1	30.1	10.2	2.5	-8.3	3.2	-27.7	11.1	-3.0	8.3	1.0	0.8
NBFC-lending	**Rating**	**EPS (INR)**		**Credit cost (%)**		**RoA (%)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
		FY26E	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**
Diversified													
Bajaj Finance	Neutral	33.0	42.4	1.7	1.7	4.0	4.1	19.5	21.0	30.2	23.6	5.4	4.5
Poonawalla Fincorp	Buy	9.6	22.4	2.0	1.7	1.8	2.8	8.3	16.1	52.0	22.2	3.9	3.3
Aditya Birla Cap	Buy	15.0	19.1			0.0	0.0	12.2	13.9	19.4	15.3	2.3	2.0
L&T Finance	Buy	12.5	16.5	2.2	2.1	2.4	2.7	11.6	13.9	20.0	15.1	2.2	2.0
Piramal Enterp.	Neutral	63.7	105.4	1.7	1.4	1.4	1.9	5.2	8.1	17.7	10.7	0.9	0.8
MAS Financial	Buy	20.1	25.9	1.2	1.3	2.8	2.9	13.5	15.2	15.0	11.6	1.9	1.7
IIFL Finance	Buy	38.8	55.0	2.2	1.7	2.5	3.0	12.5	15.6	11.6	8.2	1.4	1.2
HDB Financial	Neutral	31.8	42.5	2.3	2.0	2.2	2.5	14.3	15.5	23.6	17.6	3.0	2.5

Power Financiers													
PFC	Buy	59.4	61.1	-0.1	0.2	3.3	3.0	20.0	18.1	6.9	6.7	1.3	1.1
REC	Buy	68.4	72.9	-0.1	0.2	2.8	2.6	21.4	19.6	5.5	5.1	1.1	0.9
MSME													
Five-Star Business	Buy	38.6	46.5	1.2	0.7	7.1	7.0	16.6	17.0	13.9	11.5	2.1	1.8

Non-lending		**EPS (INR)**		**VNB Margins (%)**		**RoEV (%)**		**P/E (x)**		**P/EVOP**		**P/EV (x)**	
		FY26E	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**	**FY26E**	**FY27E**
Life Insurance													
HDFC Life Insur.	Buy	7.3	8.4	26.3	25.6	20.1	16.7	103.7	90.3	18.1	15.2	3.5	3.0
ICICI Pru Life	Buy	9.9	11.5	24.2	24.5	12.8	13.0	60.3	51.7	31.4	27.3	1.6	1.4
SBI Life Insurance	Buy	24.8	26.6	27.8	28.5	13.7	13.1	72.2	67.4	13.6	11.6	2.1	1.8
Max Financial	Neutral	11.9	14.1	24.5	25.5	19.2	19.4	132.1	112.1	14.5	11.9	2.3	1.9
Life Insurance Corp.	Buy	64.1	76.1	16.8	17.6	24.9	6.8	14.0	11.8	8.2	6.7	0.8	0.7
General Insurance		**EPS (INR)**		**Claims Ratio (%)**		**Combined Ratio (%)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
Star Health	Buy	13.3	17.8	69.5	69.0	100	99	10.5	12.6	33.7	25.1	3.4	3.0
Niva Bupa Health	Buy	0.6	1.8	66.2	64.4	103	99	3.4	8.1	127.2	45.2	3.8	3.5
ICICI Lombard	Buy	61.9	71.4	70.0	69.8	102	101	19.8	19.6	30.5	26.5	5.6	4.8
Broking and Exchanges		**EPS (INR)**		**EBITDA margins (%)**		**PAT (INRb)**		**RoE (%)**		**P/E (x)**		**P/BV (x)**	
Angel One	Buy	91.0	130.7	32.4	38.4	8	12	14.0	18.0	23.4	16.3	2.9	2.6
BSE	Neutral	52.7	56.7	65.3	64.3	21	23	35.3	29.4	38.7	36.0	13.7	10.6
MCX	Neutral	174.5	208.8	65.9	67.1	9	11	45.0	49.0	44.7	37.3	19.2	17.4
Wealth Management													
Anand Rathi Wealth	Neutral	45.7	60.1	44.6	47.2	4	5	46.1	42.5	61.9	47.0	24.2	17.1
Nuvama Wealth	Buy	297.0	357.9	60.6	61.3	11	13	28.4	30.1	21.2	17.6	5.6	4.9
360 ONE WAM	Buy	31.3	36.2	47.6	48.6	13	16	16.6	16.7	32.7	28.2	5.0	4.2
Prudent Corp.	Neutral	53.4	67.3	22.6	23.1	2	3	28.9	28.3	48.3	38.3	61.7	48.3
Intermediaries													
Cams Services	Buy	99.0	116.3	45.3	46.3	5	6	39.9	39.9	38.0	32.3	14.0	12.0
KFin Technologies	Neutral	20.8	26.5	42.2	45.2	4	5	26.3	29.6	50.5	39.8	12.6	11.0
CDSL	Neutral	22.6	28.5	53.3	52.7	5	6	25.3	28.3	64.5	51.2	15.5	13.7
AMCs		**EPS (INR)**		**MF Yields (Bps)**		**PAT (INRb)**		**RoE (%)**		**P/E (x)**		**P/AUM**	
Aditya Birla AMC	Buy	37.4	41.2	41.9	40.9	10.8	11.9	27.1	26.6	21.2	19.2	189.8	164.6
HDFC AMC	Buy	132.6	152.6	46.1	45.1	28.3	32.6	33.4	35.2	41.7	36.3	627.5	538.9
Nippon Life AMC	Buy	24.0	27.2	37.9	36.6	15.1	17.1	35.6	39.6	36.2	31.9	132.0	110.1
UTI AMC	Buy	69.1	79.9	33.4	32.6	8.8	10.2	16.6	18.2	18.9	16.3	342.4	290.7

*Adjusted for subsidiaries

N O T ES

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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