# Financials: Banks

| Year | Bank credit YoY% |
|---|---|
| FY13 | 13.6 |
| FY14 | 13.9 |
| FY15 | 12.2 |
| FY16 | 10.2 |
| FY17 | 4.7 |
| FY18 | 9.4 |
| FY19 | 13.3 |
| FY20 | 6.1 |
| FY21 | 5.6 |
| FY22 | 8.6 |
| FY23 | 15.0 |
| FY24 | 16.3 |
| FY25 | 11.0 |
| FY26 | 16.1 |
| Apr'26 | 16.0 |
| May'26 | 17.7 |
| Jun'26 | 18.6 |
| Jul'26 | 19.3 |
| Aug'26 | 19.1 |

## Record FCNR(B) flows keep credit momentum healthy

**19.1% credit growth as of 31st Aug'26; system credit growth carries upside risk**

- **The RBI, in its recent fortnightly print, reported 19.1% YoY systemic credit growth, nearing its highest level in the past decade. Healthy credit momentum in the high teens has sustained in FY27'YTD, driven by broad-based demand and a pickup in deposit mobilization via FCNR(B) deposits.**
- **Growth was led by wholesale lending, with banks exercising better pricing power with corporates, even as retail growth remains robust in the mid-teens.**
- **Deposit growth picked up meaningfully from 12-13% in 1QFY27 to 17.8% YoY as of 31st Aug'26. FCNR (B) Deposits flows came in at USD127b, significantly higher than expectations, boosting deposit growth as of 31st Aug'26 and likely supporting credit growth going forward.**
- **Incentives on overseas borrowings and ECBs have also led multiple banks to raise borrowings overseas at attractive pricing, thus attracting foreign inflows, reducing borrowing costs for banks, and improving systemic liquidity.**
- **NIMs are expected to remain under pressure in the near term due to limited spread on the overseas-leveraged portion of FCNR(B) deposits. However, deployment of these deposits should drive incremental earnings, boosting net interest income (NII) and earnings growth.**
- **PSBs are expected to see a neutral-to-marginally negative impact on margins, with a large part of FCNR(B) flows expected to be utilizeds to retire high-cost borrowings. Private banks are expected to see a more pronounced negative impact on NIMs in the near term, owing to a higher leveraged portion and a larger quantum of deposit mobilization.**
- **As highlighted in our recent sector update, we currently project a 14.3% FY27 growth for our banking coverage universe, with PSBs expected to grow at 13.4% YoY and private banks at 15.3% YoY. However, there is an upside risk of 100-150bp to our estimates, with credit growth expected to reach 15.5-16% in FY27.**
- **We expect the banking sector's earnings to rebound with ~15% CAGR over FY26-28, fueled by ~15% CAGR in NII. Private banks, with an anticipated earnings CAGR of ~20%, are likely to outperform PSU banks, which are expected to deliver an earnings CAGR of ~11%. Our top ideas are ICICIBC, SBIN, KMB, and AUBANK.**

## Strong credit trajectory sustaining; momentum to continue

- According to the latest fortnightly print as of 31th Aug'26, credit growth surged further to 19.2% YoY, sustaining decadal-high levels (adjusting for the impact of the HDFC Bank and HDFC Ltd merger in FY23-24).
- This credit growth has been further supported by better-than-expected deposit mobilization and enhanced systemic liquidity on account of bumper FCNR(B) deposits of USD127b.
- Overall, we expect growth momentum to continue for a large part of CY26, before gradually moderating to mid-teens toward the end of FY27, owing to a higher base effect. We have currently guided for 14.2% FY27 growth for our banking universe (slightly lower due to our recent reduction in HDFC Bank's growth estimates). We envisage an upside risk of 100-150bp to our system credit growth estimates if macroeconomic variables (crude, bond yields, currency, and inflation) remain favorable.

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## Deposit mobilization gaining pace with FCNR(B) flows; system CD eases to 80.3%

- Deposit growth at 17.8% YoY has picked up from the 12-13% range in 1QFY27, driven by USD127b of FCNR(B) deposit inflows. The LDR ratio has declined from 82.7% in May'26 to 80.3% in Aug'26. FCNR(B) deposit flows account for ~4.4% of aggregate system deposits. Further, banks are increasingly opting to raise lower-cost overseas borrowings, with the hedge cost being borne by the RBI. These flows should temporarily ease the pressure on deposit mobilization and help keep funding costs under control.
- ICICIBC has mobilized USD17.88b (INR1,702b) of FCNR (B) deposits, capturing a 14% market share of the total FCNR (B) inflows. SBIN has mobilized USD9b a few days prior to the close and is expected to beat its USD10b guidance. RBK has mobilized USD3.4b (26% of its deposit base as of 30th Jun'26), capturing a 2.7% share, better than its deposit market share of ~0.5%. IDFCB garnered USD3.6b with 73% of FCNR(B) flows facilitated by the bank itself.

## Wholesale and services driving credit; retail and agri growth healthy

- The credit growth trends demonstrate broad-based expansion, with wholesale lending and services growth well supported by the retail and agri sectors. Industry credit growth stood at 22% as of Jul'26, with services and retail sectors growing at 21% and 17%, respectively. Within the retail segment, growth was driven by vehicle finance (19% YoY), while growth in the credit card segment remained muted.
- There has been a meaningful increase in industry credit from mid-single digits in 1HFY26 to 22%, driven by higher working capital requirements among large and mid-sized corporates/MSMEs. AAA corporate bond yields have remained afloat around 7.5% over the last 3-6 months, even as 10-year G-Sec rates have softened from 7.1% to 6.9%, thereby aiding banks in maintaining pricing discipline. Bank credit to NBFCs has also surged rapidly (over 30%) over the past few months.

## NIMs to have a negative bias in near term; PSBs to show greater resilience

NIMs are expected to have a negative bias for private banks in the near term, with current growth being led by a pickup in wholesale and MSME credit, while growth in unsecured and high-yield segments remains calibrated. Funding costs are also likely to be adversely impacted by higher FCNR(B) flows, given minimal spreads on the overseas leveraged book. PSBs are expected to see a neutral impact on NIMs, with FCNR(B) deposit flows likely to replace bulk deposits. While we estimate a negative bias on NIMs in the near term (mainly for private banks), we remain constructive on the medium-term outlook, supported by a potential easing in borrowing costs and deployment of FCNR(B) deposits. We have built in ~15% NII CAGR across our banking coverage for FY26-FY28.

## Credit growth estimates carry an upside risk; private banks to outpace PSBs

While we have currently guided for 14.3% FY27 growth for our banking coverage universe, there is an upside risk of 100-150bp (15.5-16%) if the current growth momentum continues. PSBs have been gaining incremental credit market share over private banks for two consecutive years. However, going forward, we estimate private banks' growth to recover, with the segment likely to outpace PSBs. This will

be led by higher participation of private banks in corporate credit, business banking, and MSME lending, along with some recovery in unsecured credit. PSBs are expected to grow at 13.4% YoY and private banks at 15.3% YoY in our coverage universe.

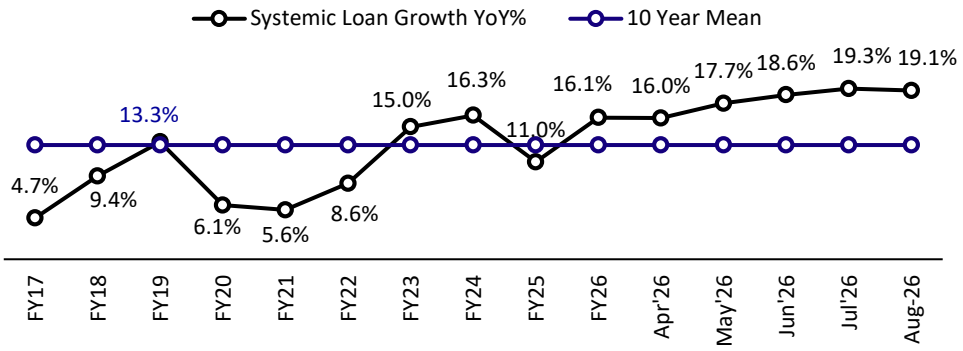
## Prefer ICICIBC, SBIN, KMB, and AUBANK

- We expect credit growth to sustain at mid-to-high teen levels in the near term, supported by recent relief measures from the RBI, increased foreign flows, and continued RBI support for short-term and durable liquidity.
- Large private banks are likely to attract higher FCNR(B) flows, given their ability to raise a larger proportion of FCNR (B) deposits, backed by leverage, and raise lower-cost overseas borrowings. Any possible rate hikes in the near future could also benefit large private banks more, given the higher proportion of their loans linked to EBLR.
- While we have currently guided for 14.3% FY27 growth for our banking coverage universe, with PSBs expected to grow at 15.3% YoY and private banks at 13.4% YoY, there is an upside risk to our estimates with the current growth trends.
- We expect the banking sector's earnings to rebound with ~15% CAGR over FY26-28, fueled by ~15% CAGR in NII. Private banks, with an anticipated earnings CAGR of ~20%, are likely to outperform PSU banks, which are expected to deliver an earnings CAGR of ~11%. **Our top ideas are ICICIBC, KMB, SBIN, and AUBANK.**

## Story in charts

Credit growth has maintained healthy momentum at mid-to-high teens over the last few months and is now nearing 10-year high levels.

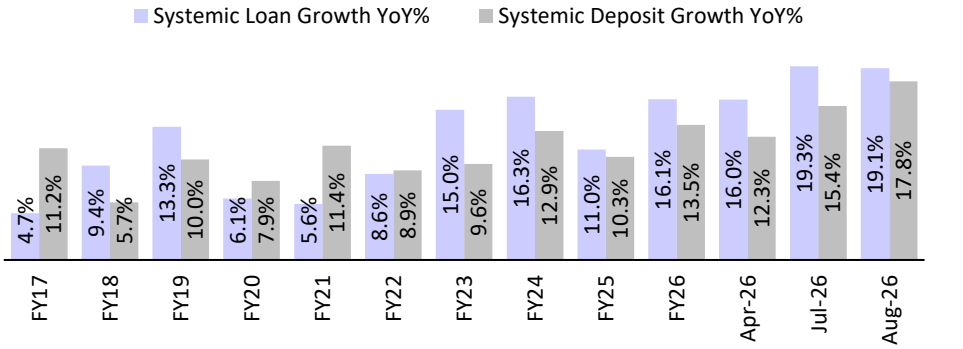
**Exhibit 1: Systemic credit growth sustaining at a 10-year high, well above the mean**




Source: RBI, MOFSL, Note: FY24 excludes the HDFC Bank and HDFC Ltd. merger

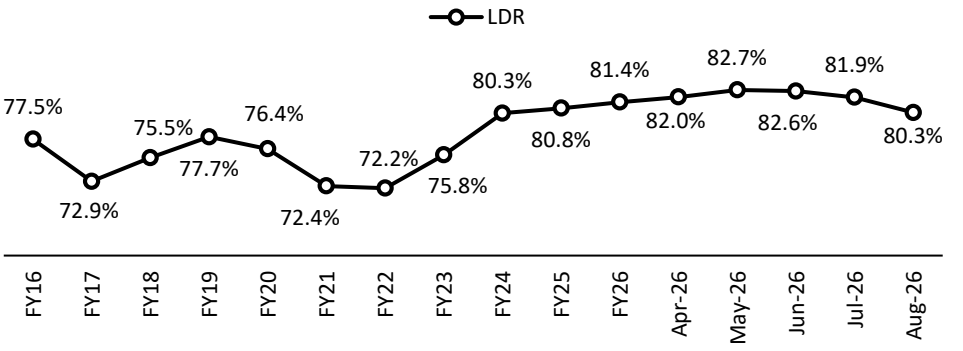
Deposit growth has moved from the 12-13% range to 17.1% YoY, aided by bumper FCNR(B) flows.

**Exhibit 2: Deposit growth has gained momentum with strong FCNR(B) flows**




Source: RBI, MOFSL, Note: FY24 excludes the HDFC Bank and HDFC Ltd. merger

**Exhibit 3: LDR ratio declined to 80.3% from its peak of 82.7% in May'26**




Source: RBI, MOFSL

Banks with a higher % of leveraged FCNR(B) deposits via their own branches are likely to see a more adverse impact on NIMs in the near term.

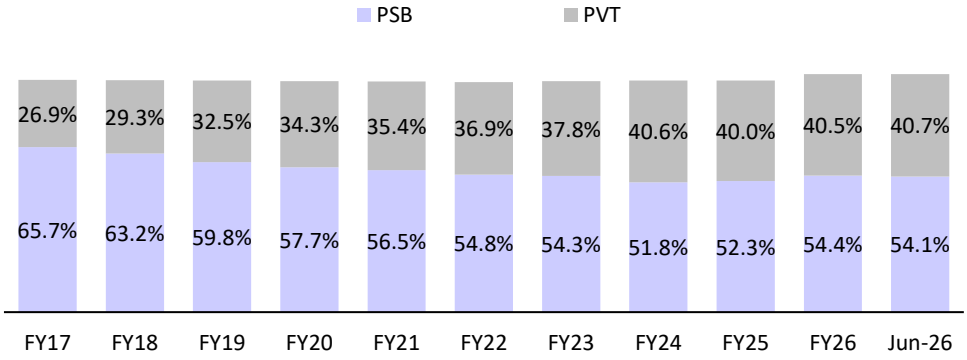
**Exhibit 4: FCNR(B) flows garnered by banks**

| Banks | FCNR(B) flows (USD bn) | Market share of FCNR(B) mobilised | Deposit market share as on 30-Jun-26 | As a % of Deposits as on 30-Jun-26 | Loans provided by Bank itself | Loans provided by Bank/ FCNR flows |
|---|---|---|---|---|---|---|
| ICICIBC | 17.9 | 14.1% | 6.9% | 9% | 9.0 | 50% |
| RBK | 3.4 | 2.7% | 0.5% | 26% | 1.1 | 32% |
| EQUITAS | 0.1 | 0.1% | 0.2% | 2% | | |
| IDFCB | 3.6 | 2.8% | 1.2% | 11% | 2.6 | 73% |
| CBK | 5.8 | 4.6% | 6.1% | 3% | | |
| INBK | 2.4 | 1.9% | 3.2% | 3% | | |
| **Total industry** | **127.23** | | | | | |

Source: Company, MOFSL

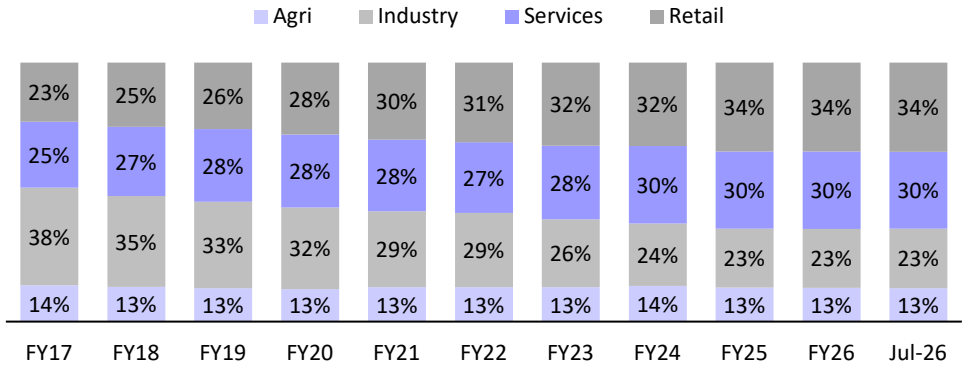
PSBs have gained 57% of incremental market share for two consecutive years; however, private banks gained market share in 1QFY27.

**Exhibit 5: PVT banks gained market share in 1QFY27, reversing the two-year trend**




Source: RBI, MOFSL

**Exhibit 6: Retail and services continue to drive incremental loan growth even as industry growth picks up**



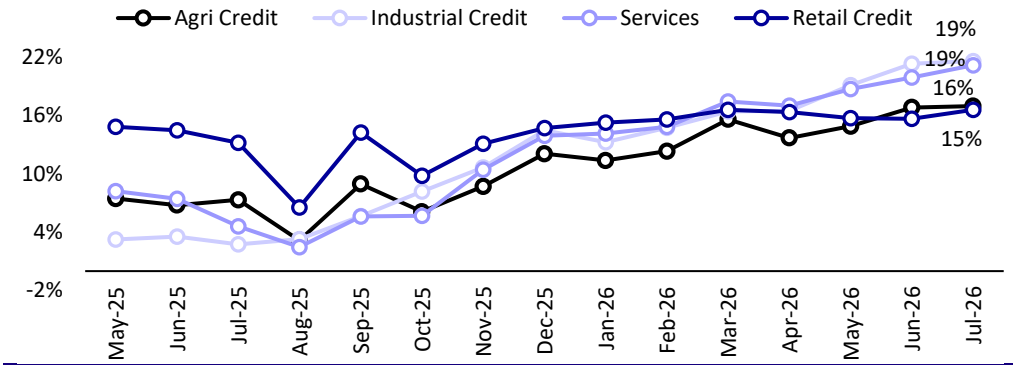

Source: RBI, MOFSL

**Exhibit 7: Growth trends across major categories – Pick up in industrial and services credit over the last few months**

| Growth YoY (%) | Jul-25 | Aug-25 | Sep-25 | Oct-25 | Nov-25 | Dec-25 | Jan-26 | Feb-26 | Mar-26 | Apr-26 | May-26 | June-26 | July-16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agri Credit | 7 | 3 | 9 | 6 | 9 | 12 | 11 | 12 | 16 | 14 | 15 | 17 | 17 |
| Industrial Credit | 3 | 3 | 6 | 8 | 11 | 14 | 13 | 15 | 16 | 16 | 19 | 21 | 22 |
| Services Credit | 5 | 2 | 6 | 6 | 10 | 14 | 14 | 15 | 17 | 17 | 19 | 20 | 21 |
| Retail Credit | 13 | 7 | 14 | 10 | 13 | 15 | 15 | 16 | 17 | 16 | 16 | 16 | 17 |

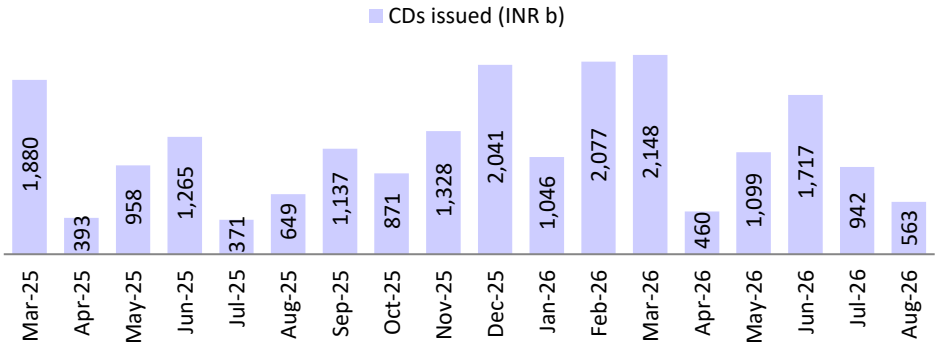
Source: RBI, MOFSL

**Exhibit 8: Within retail, vehicle finance has been a growth driver, while credit card growth continues to lag**




Source: RBI, MOFSL

**Exhibit 9: CD issuances have declined after Jun'26 with higher FCNR(B) flows**




Source: RBI, MOFSL

**Exhibit 10: Corporate bond yields remained elevated**

| Instrument | Aug-26 | May-26 | Delta 3 m | Feb-26 | Delta 6 m |
|---|---|---|---|---|---|
| AAA ( 1 year) | 7.33 | 7.88 | -0.55 | 7.53 | -0.20 |
| AAA ( 3 year) | 7.53 | 7.76 | -0.23 | 7.31 | 0.22 |
| AAA ( 5 year) | 7.53 | 8 | -0.47 | 7.5 | 0.03 |
| AA (3 year) | 8.26 | 8.59 | -0.33 | 8.28 | -0.02 |
| BBB minus (3 year) | 11.84 | 12.2 | -0.36 | 11.91 | -0.07 |

Source: RBI, MOFSL

**Exhibit 11: MOFSL banking coverage: Upside risk of ~100-1500bp to systemic credit growth estimate of 14.3%**

| Advances (INRb) | Loan book | | | | YoY | YoY | YoY | YoY |
|---|---|---|---|---|---|---|---|---|
| | FY25 | FY26 | FY27E | FY28E | FY25 | FY26 | FY27E | FY28E |
| **Pvt banks** | | | | | | | | |
| AXSB | 10,408 | 12,336 | 14,371 | 16,685 | 7.8 | 18.5 | 16.5 | 16.1 |
| BANDHAN | 1,320 | 1,501 | 1,717 | 1,994 | 9.0 | 13.7 | 14.4 | 16.1 |
| DCBB | 510 | 600 | 715 | 852 | 24.7 | 17.6 | 19.1 | 19.2 |
| HDFCB | 26,196 | 29,372 | 32,661 | 36,777 | 5.4 | 12.1 | 11.2 | 12.6 |
| ICICIBC | 13,418 | 15,539 | 18,414 | 21,581 | 13.3 | 15.8 | 18.5 | 17.2 |
| IDFCFB | 2,331 | 2,804 | 3,370 | 4,038 | 19.8 | 20.3 | 20.2 | 19.8 |
| IIB | 3,450 | 3,159 | 3,585 | 4,130 | 0.5 | -8.4 | 13.5 | 15.2 |
| KMB | 4,269 | 4,960 | 5,788 | 6,720 | 13.5 | 16.2 | 16.7 | 16.1 |
| FB | 2,348 | 2,646 | 3,088 | 3,597 | 12.1 | 12.7 | 16.7 | 16.5 |
| RBK | 926 | 1,142 | 1,388 | 1,707 | 10.3 | 23.3 | 21.5 | 23.0 |
| AUBANK | 1,071 | 1,343 | 1,674 | 2,085 | 46.4 | 25.4 | 24.7 | 24.5 |
| EQUITASB | 362 | 428 | 508 | 606 | 16.9 | 18.1 | 18.8 | 19.4 |
| **Pvt Banks YoY (%)** | | | | | **9.1** | **13.8** | **15.1** | **15.5** |
| **PSU Banks** | | | | | | | | |
| BOB | 12,096 | 14,091 | 16,035 | 18,136 | 13.5 | 16.5 | 13.8 | 13.1 |
| CBK | 10,492 | 11,815 | 13,811 | 15,551 | 12.6 | 12.6 | 13.2 | 12.6 |
| INBK | 5,711 | 6,549 | 7,433 | 8,370 | 10.9 | 14.7 | 13.5 | 12.6 |
| PNB | 10,775 | 12,253 | 13,846 | 15,577 | 15.3 | 13.7 | 13.0 | 12.5 |
| SBIN | 41,633 | 48,779 | 55,852 | 63,392 | 12.4 | 17.2 | 14.5 | 13.5 |
| UNBK | 9,535 | 10,533 | 11,828 | 13,177 | 9.5 | 10.5 | 12.3 | 11.4 |
| **PSU Banks YoY (%)** | | | | | **12.5** | **15.3** | **13.8** | **13.0** |
| **Total Banks YoY (%)** | | | | | **11.0** | **14.7** | **14.3** | **14.0** |

Source: Company, MOFSL

**Exhibit 12: Banks: Valuation matrix**

| Val summary | Rating | CMP (INR) | Mkt. Cap (INRb) | TP (INR) | Upside (%) | RoA (%) | | | RoE (%) | | | P/E (x) | | | P/ABV (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | FY26 | FY27E | FY28E | FY26 | FY27E | FY28E | FY26 | FY27E | FY28E | FY26 | FY27E | FY28E |
| **Private Banks** | | | | | | | | | | | | | | | | | |
| ICICIBC* | Buy | 1,379 | 9,930 | 1,750 | 27 | 2.2 | 2.3 | 2.3 | 16.1 | 16.8 | 16.8 | 16.4 | 13.2 | 11.4 | 2.6 | 2.1 | 1.8 |
| HDFCB* | Buy | 708 | 10,689 | 925 | 31 | 1.8 | 1.7 | 1.8 | 14.2 | 13.6 | 14.0 | 11.8 | 11.2 | 9.8 | 1.6 | 1.5 | 1.4 |
| AXSB* | Neutral | 1,248 | 3,916 | 1,500 | 20 | 1.4 | 1.5 | 1.6 | 12.7 | 14.0 | 15.3 | 14.1 | 11.4 | 9.1 | 1.8 | 1.6 | 1.4 |
| BANDHAN | Neutral | 177 | 280 | 225 | 27 | 0.6 | 1.0 | 1.4 | 4.9 | 9.0 | 12.5 | 21.3 | 12.2 | 8.2 | 1.1 | 1.1 | 1.0 |
| KMB* | Buy | 419 | 4,145 | 470 | 12 | 1.9 | 2.0 | 2.1 | 11.1 | 12.6 | 14.0 | 19.1 | 15.3 | 12.7 | 2.0 | 1.8 | 1.6 |
| IIB | Neutral | 978 | 775 | 1,125 | 15 | 0.2 | 0.7 | 1.0 | 1.4 | 5.7 | 9.2 | 85.6 | 19.9 | 11.8 | 1.2 | 1.2 | 1.1 |
| FB | Buy | 344 | 855 | 400 | 16 | 1.1 | 1.3 | 1.3 | 11.4 | 12.1 | 12.8 | 21.1 | 17.0 | 14.4 | 2.3 | 2.0 | 1.8 |
| DCBB | Buy | 226 | 73 | 235 | 4 | 0.9 | 1.0 | 1.1 | 12.7 | 15.2 | 16.8 | 9.8 | 7.4 | 5.9 | 1.2 | 1.1 | 0.9 |
| IDFCFB | Neutral | 86 | 745 | 90 | 4 | 0.4 | 1.0 | 1.1 | 3.9 | 8.9 | 11.3 | 41.3 | 17.0 | 12.4 | 1.6 | 1.5 | 1.4 |
| EQUITASB | Buy | 73 | 83 | 90 | 23 | 0.2 | 1.2 | 1.4 | 1.7 | 12.2 | 15.1 | 81.3 | 10.8 | 7.9 | 1.4 | 1.3 | 1.1 |
| AUBANK | Buy | 1,058 | 795 | 1,275 | 21 | 1.5 | 1.7 | 1.8 | 14.4 | 17.3 | 18.8 | 30.5 | 21.3 | 16.5 | 4.2 | 3.5 | 2.9 |
| RBK | Buy | 413 | 253 | 425 | 3 | 0.5 | 1.1 | 1.5 | 5.2 | 7.5 | 8.0 | 29.3 | 28.4 | 18.0 | 1.5 | 1.5 | 1.4 |
| **PSU Banks** | | | | | | | | | | | | | | | | | |
| SBIN* | Buy | 997 | 9,273 | 1,370 | 37 | 1.1 | 1.1 | 1.1 | 17.3 | 15.9 | 15.8 | 7.6 | 7.0 | 6.2 | 1.2 | 1.1 | 0.9 |
| PNB* | Buy | 117 | 1,343 | 135 | 16 | 0.9 | 1.1 | 1.1 | 13.3 | 15.4 | 15.3 | 8.0 | 6.1 | 5.5 | 0.9 | 0.8 | 0.7 |
| BOB | Neutral | 238 | 1,232 | 275 | 16 | 1.1 | 0.8 | 1.0 | 14.7 | 12.2 | 14.4 | 6.2 | 6.8 | 5.3 | 0.9 | 0.9 | 0.8 |
| CBK | Buy | 124 | 1,127 | 160 | 29 | 1.1 | 1.0 | 1.0 | 19.1 | 17.9 | 19.0 | 6.0 | 5.6 | 4.9 | 1.0 | 0.9 | 0.8 |
| UNBK | Neutral | 178 | 1,380 | 190 | 7 | 1.2 | 1.3 | 1.3 | 16.3 | 16.2 | 15.3 | 7.6 | 6.4 | 5.9 | 1.2 | 1.0 | 0.9 |
| INBK | Buy | 853 | 1,158 | 1,025 | 20 | 1.3 | 1.3 | 1.3 | 18.1 | 18.2 | 18.0 | 9.7 | 8.3 | 7.3 | 1.6 | 1.4 | 1.2 |
| **Payments & Fintech** | | | | | | | | | | | | | | | | | |
| SBI Cards | Neutral | 656 | 625 | 700 | 7 | 3.3 | 4.2 | 4.4 | 14.7 | 17.4 | 18.0 | 27.8 | 21.0 | 17.2 | 3.9 | 3.4 | 2.9 |
| | | | | | | PAT (INRb) | | | RoA (%) | | | RoE (%) | | | P/Sales (x) | | |
| One 97 Comm. | Neutral | 1,806 | 1,156 | 1,475 | -18 | 5.1 | 10.2 | 19.2 | 3.3 | 4.2 | 7.4 | 4.8 | 6.3 | 11.3 | 13.7 | 11.0 | 8.8 |

*Adjusted for subsidiaries, Source: Company, MOFSL

**Investment in securities market are subject to market risks. Read all the related documents carefully before investing.**

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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