ANANDRATHI

India I Equities

BFSI

Sector Thematic

29 June 2026

Positive Momentum Continues

With accelerating credit growth, stable asset quality and return ratios

Sensex: 76,728

Nifty: 23,946

Banking sector continues to show healthy trends with accelerating credit growth, stable asset quality and return ratios. System credit growth continued its ninth consecutive month of acceleration with 17.7% growth in May-26, with the PSBs outpacing private banks for the seventh straight quarter. While deposit growth is accelerating, new FCNR deposit rules should further boost it by 150-200bps. Though NIM fell in 4QFY26, chances of a rate hike in CY26 signals stable to improving NIM in FY27e. Asset quality improved in 4QFY26 both on y/y and q/q basis. Slippages can rise due El Nino, crude prices, sluggish job growth etc. but the banks' balance is resilient to absorb any asset quality shock given high provisioning cover (>80%) and capital ratios. We expect 14-15% growth/RoE trend to continue for the sector. Notably, valuations appear to be reasonable given these trends.

Credit growth should sustain 14-15%: Credit growth accelerated to ~17.7% y/y in May-26 from 9.5% in Jun-25. PSBs continued to outgrow private banks, led by market share gain in retail and MSME. While deposit growth improved to ~12.2% in May-26, it lagged credit growth. We expect new FCNR deposit rules to boost deposit growth by 150-200bps, which should lead to 14-15% credit growth in FY27e. Industrial credit could be new demand driver given several govt policies to boost manufacturing in India. The PSBs should grow in line if not higher vs. private banks given lower LDRs (ex-international book) and closing gap on deposit growth vs. private banks.

Stable to improving NIM: Calculated system NIM fell ~5bps q/q in Q4FY26, as loan yields declined following 25bps repo cut in Dec-25. The PSBs bore the brunt with ~6bps q/q impact vs. private banks (~3bps q/q impact). Regional banks were the outliers with ~24bps q/q NIM improvement, led by higher share of gold loans. CoF continued to moderate with marginal WADTDR correcting ~78bps since Feb-25, signalling meaningful headroom for further easing into FY27 and providing incremental NIM support. Further, there is higher probability of rate hike in CY26, which can improve the NIM.

Asset quality remains healthy: Gross slippage ratio improved by ~9bps q/q and ~35bps y/y to ~0.97% in Q4FY26. The PSBs remained best-in-class at sub-1% gross slippages, near-zero net slippages. The regional banks saw sharp improvement. Large private banks also saw improvement (higher agri led stress over last quarters), while new-age private banks continued to exhibit elevated stress (2-4% slippages). We expect higher slippages in FY27/28e, as El Nino, crude prices and higher tariffs and muted white collar job growth could put some pressure on asset quality. We expect the PSBs to continue to outperform on asset quality, aided by a superior loan-mix.

Inexpensive valuations; PSBs' valuation discount to shrink further: Sector valuations at 1.5x (trailing consl.) looks reasonable given 14-15% RoE/growth. We expect the PSBs to outperform private banks on growth and RoE front, narrowing down valuation discount to private banks.

Top Picks: SBI, BoB, UBI, Indian Bank, Axis Bank, ICICI Bank, Federal Bank, DCB and J&K Bank.

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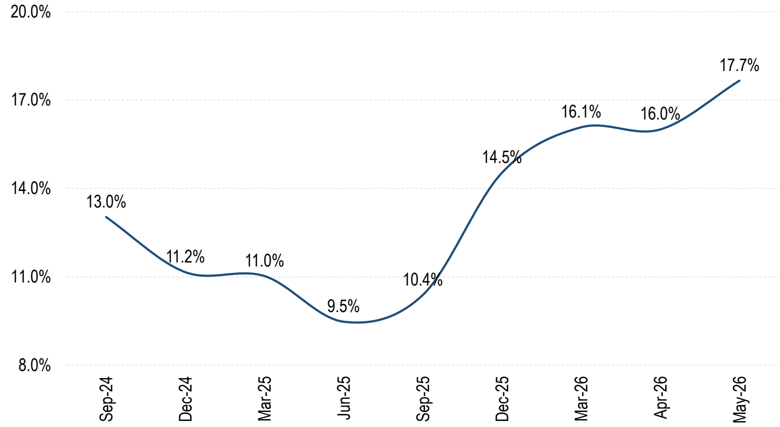
Credit growth to sustain at 14-15%

A. Acceleration in credit growth

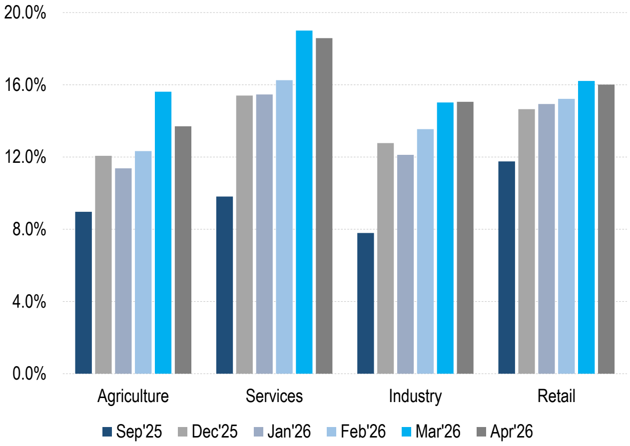
Credit growth acceleration, which started from Sep-25 has further gained momentum with 17.7% y/y credit growth in May-26. While the credit growth has been broad-based, industrial credit has shown material uptick and momentum in recent quarters.

Fig 1 – System credit growth momentum sustained



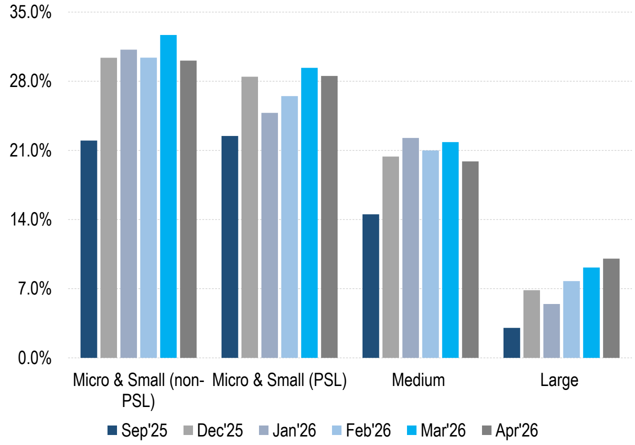
Source: RBI, Anand Rathi Research

Fig 2 – Industry credit, MSME driving incremental uptick



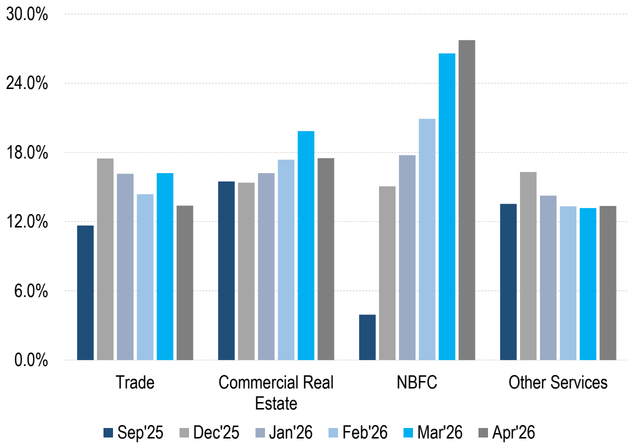
Source: RBI, Anand Rathi Research

Fig 3 – Broad-based pick-up is seen across industry credit



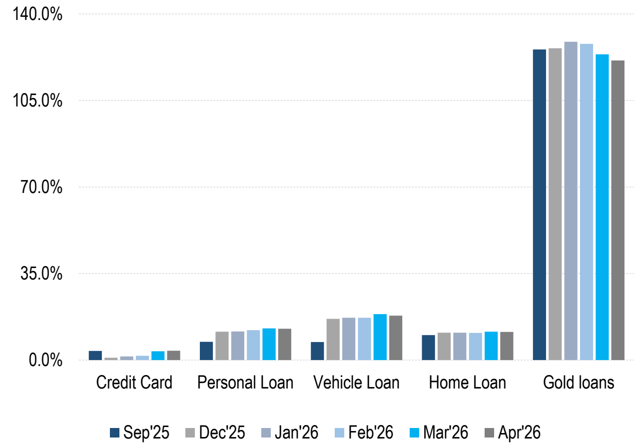
Source: RBI, Anand Rathi Research

Fig 4 – NBFC/Trade/CRE continue mid-to-high teen growth



Source: RBI, Anand Rathi Research

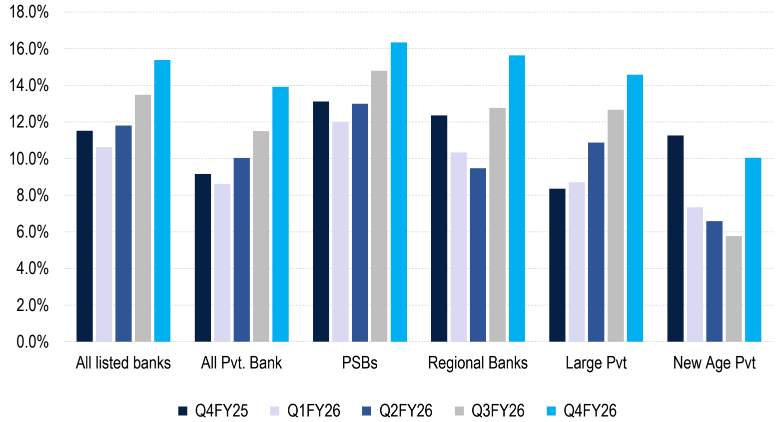
Fig 5 – Gold and vehicle loan drive retail credit growth



Source: RBI, Anand Rathi Research

PSBs continue to grow faster; gaining market share across segments: The PSBs continue to grow faster than private banks for 7th consecutive quarter in 4QFY26 with 16.3% y/y credit growth (~243bps higher than private banks).

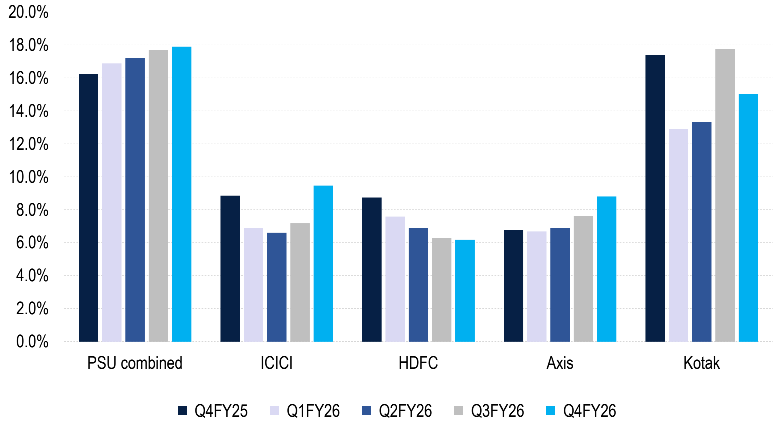
Fig 6 – PSBs outperform private banks for 7th consecutive quarter



Source: Company; Anand Rathi Research

PSBs consolidate market share in retail: The PSBs continued to gain market share in retail segment outgrowing ICICI Bank, HDFC Bank and Axis Bank for the 7th consecutive quarter. Their retail loan growth remained strong at ~17.9% y/y in Q4FY26. In contrast, retail growth of ICICI Bank, HDFC Bank and Axis Bank remained in single digit for the 5th consecutive quarter, partly reflecting relatively higher competitiveness by the PSBs in retail segment.

Fig 7 – PSB retail push continues to weigh on private banks' loan growth

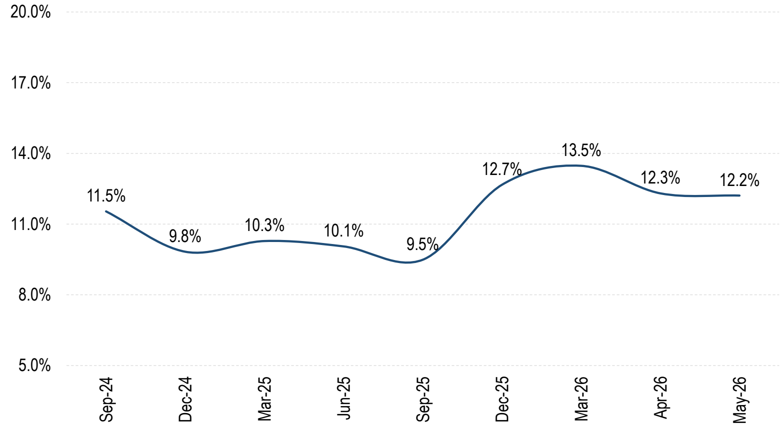


Source: Company, Anand Rathi Research

B. Deposit growth to pickup

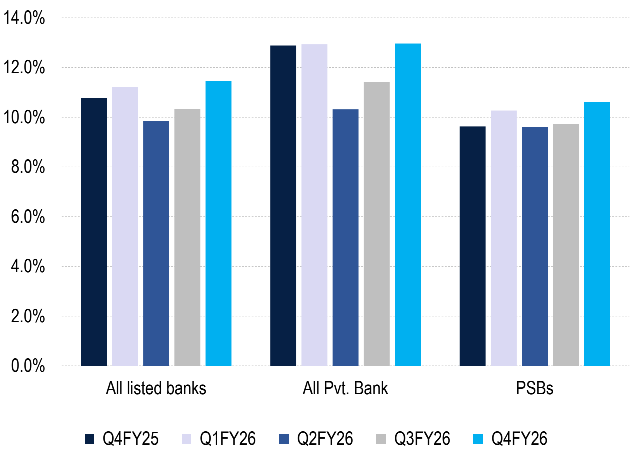
Uptick in deposit growth: Despite lagging to loan growth, deposit growth has been accelerating in the recent quarters with growth accelerating sharply in H2FY26, indicating gradual improvement in funding scenario and franchise traction.

Fig 8 – Deposit growth continued to lag credit growth



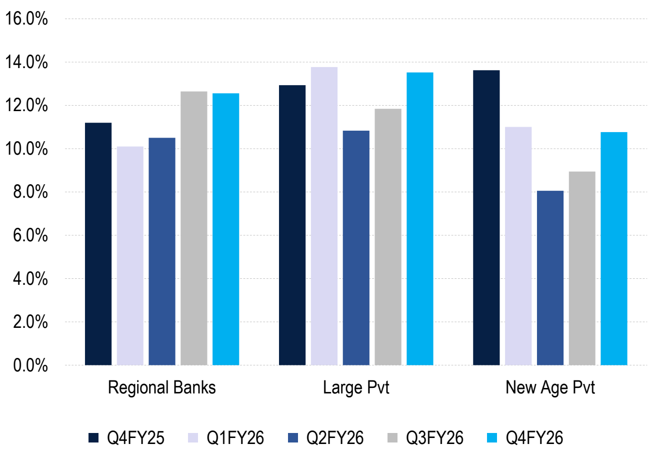
Source: RBI, Anand Rathi Research

Fig 9 – Deposit growth remains stronger for private banks



Source: Company, Anand Rathi Research

Fig 10 – large private banks lead growth within private banks



Source: Company, Anand Rathi Research

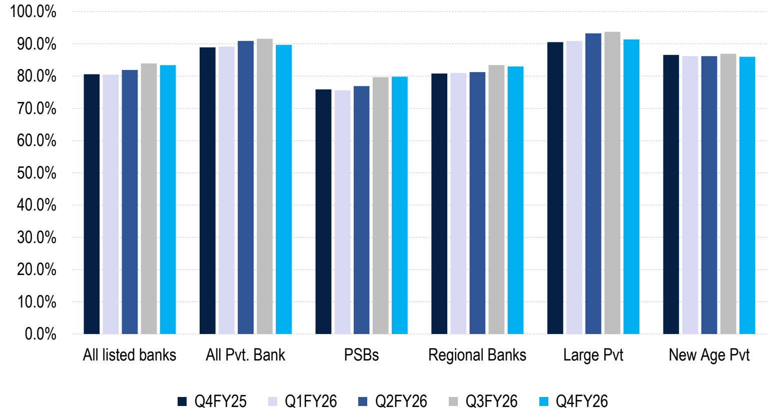
New FCNR Deposits Rule to Boost Deposit Growth: The RBI's recently announced twin forex swap facilities cover FCNR(B) deposits. Under the FCNR(B) facility, the RBI would bear hedging cost for FCNR (B) deposits of 3–5-year maturity raised till 30th Sept-26 along with exemption on CRR/SLR requirements on such deposits. This enables banks to make FCNR(B) deposits attractive by offering rates up to ~6–7.1%. *Various estimates suggest aggregate deposit flows in the range of US$40-60bn. This should boost deposit growth by ~1.5-2%. Moreover, CRR/SLR exemption on new FCNR(B)/NRE deposits mean incremental CD ratio could be higher on such deposits.*

C. PSBs to grow in-line with private banks

We believe the PSBs should at least grow in line with private banks if not higher on following grounds.

PSBs' LDR remains meaningfully lower vs. private banks: Despite recent uptick, the PSBs' LDR remains significantly lower than private banks, providing greater headroom for incremental loan growth. Notably, the PSBs' reported LDR include international book, implying even lower domestic LDRs (e.g., SBI: ~82% calculated vs. ~73.1% domestic), indicating significant BS capacity to support credit growth. *Thus, we continue to build in higher loan growth for the PSBs vs. private banks over FY27-28e.*

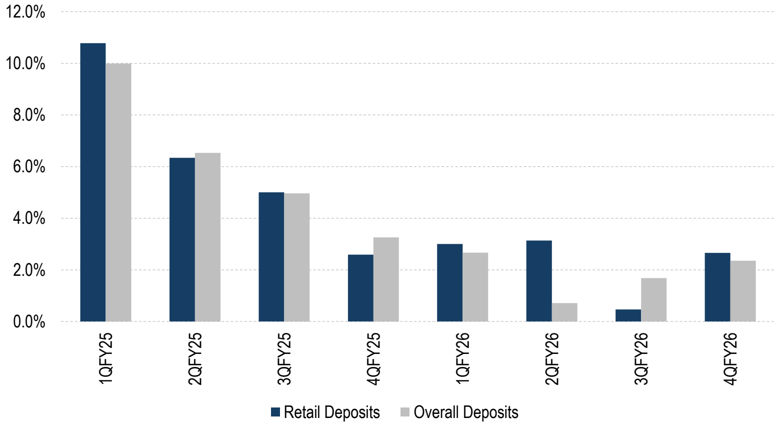
Fig 11 – LDR for PSBs is significantly lower than the private banks



Source: Company; Anand Rathi Research

PSBs closing deposit growth gap vs. private banks: The differential in deposit growth between private banks and PSBs has compressed sharply — from ~1,000bps in Q1FY25 to ~240bps in Q4FY26 on overall deposits, and from ~1,080bps to ~270bps on retail deposits over the same period. *This steady convergence reflects improving liability franchise traction at PSBs and supports our view of sustained PSB outperformance on loan growth.*

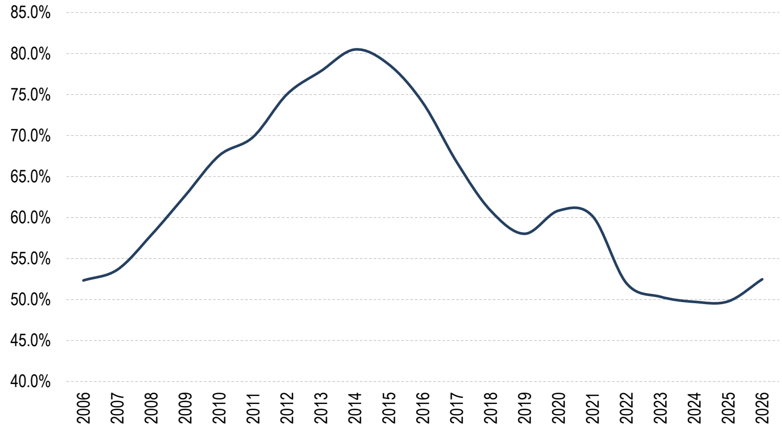
Fig 12 – Deposits gap (Private banks v/s PSBs)



Source: Company; Anand Rathi Research

Industrial credit to drive demand: Industrial credit (~21% of total bank credit) has picked up meaningfully, with y/y growth accelerating from ~7% in Apr-25 to ~15% in Apr-26. The segment was a key driver of banking credit over FY04–14, compounding at >20% CAGR. However, it clocked a modest 4% CAGR over FY14–25, as Indian corporates underwent an extended deleveraging cycle — during which industrial credit as a percent of industrial GDP compressed from ~79% to ~50%. *With the government promoting manufacturing in India through subsidy and credit schemes, we believe, industrial credit could be new growth driver for Indian banks.*

Fig 13 – Industrial credit to GDP remains at 2006 levels

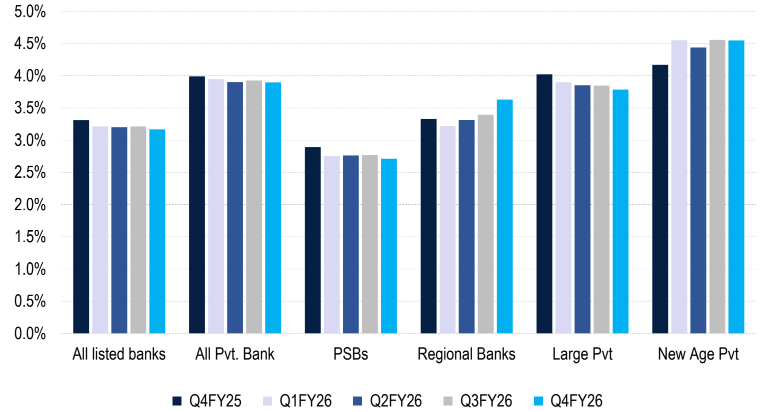


Source: RBI, Anand Rathi Research

Stable to improving NIM trajectory

Calculated margin of the system declined ~5bps q/q in Q4FY26, largely on account of sharper yield compression following 25bps repo cut in Dec-25. The PSBs saw a relatively steeper decline of ~6bps q/q vs. ~3bps for private banks. Regional banks were outliers, with ~24bps q/q improvement in NIM, aided by higher share of gold loans driving loan yields up.

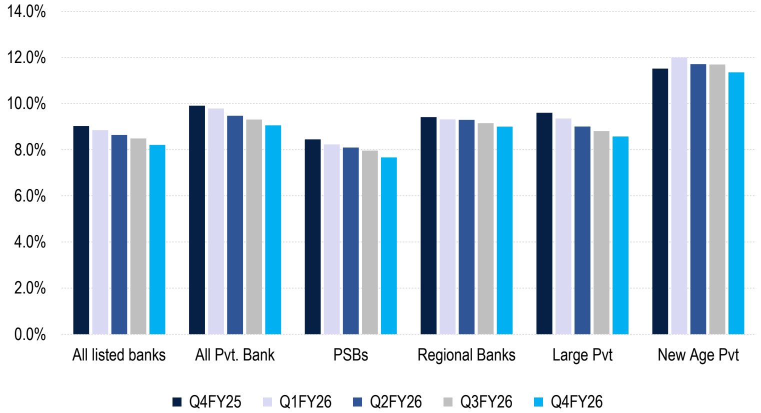
Fig 14 – NIM for system down 5bps q/q in Q4FY26 on account of 25bps rate cut



Source: Company; Anand Rathi Research

25bps rate cut impacts yields: Following 25bps cut in policy rate in Dec-25, yields on advances remained under pressure across the system, with calculated yields declining by ~28bps q/q. The impact was relatively lower for the private banks (-25bps q/q) vs. PSBs (-29bps q/q).

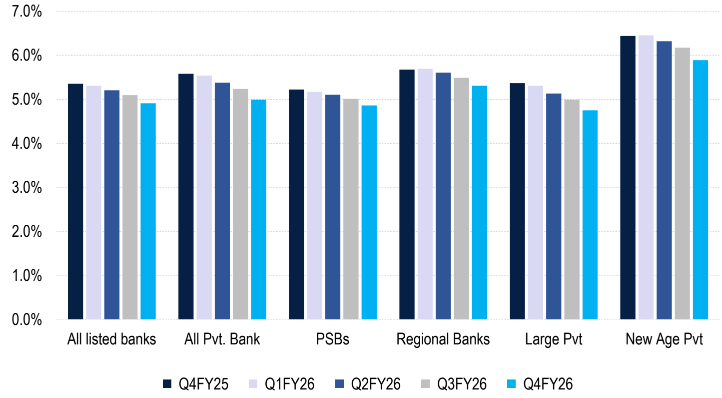
Fig 15 – Calculated yield on advances for system fell 28bps q/q in Q4FY26



Source: Company; Anand Rathi Research

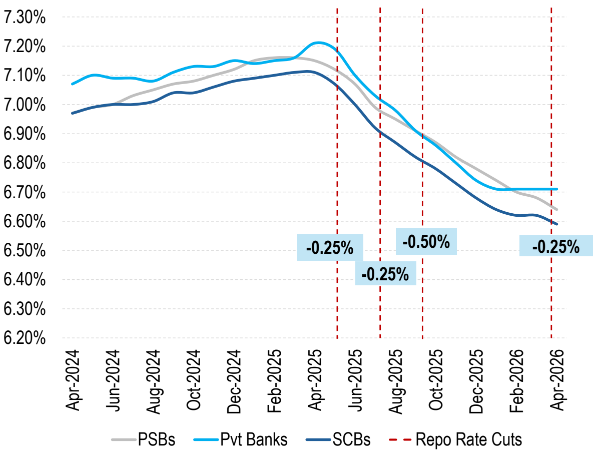
Continued moderation in CoF: Calculated CoF declined ~18bps q/q for the system in Q4FY26, driven by downward repricing of TDs. The moderation was more pronounced for private banks (down ~24bps q/q), while the PSBs saw a relatively lower decline of ~15bps q/q. Since the first rate cut in Feb-25, WADTDR (outstanding) of the SCBs declined by ~51bps (PSBs: ~52bps; Private Banks: ~45bps). Marginal WADTDR has corrected more sharply (SCBs: ~78bps; PSBs: ~82bps; Private Banks: ~76bps). *The wider gap between marginal and outstanding deposit rates signals meaningful headroom for CoF to ease further in the coming quarters, lending incremental support to NIM.*

Fig 16 – Calculated CoF for system declines 18bps q/q in Q4FY26



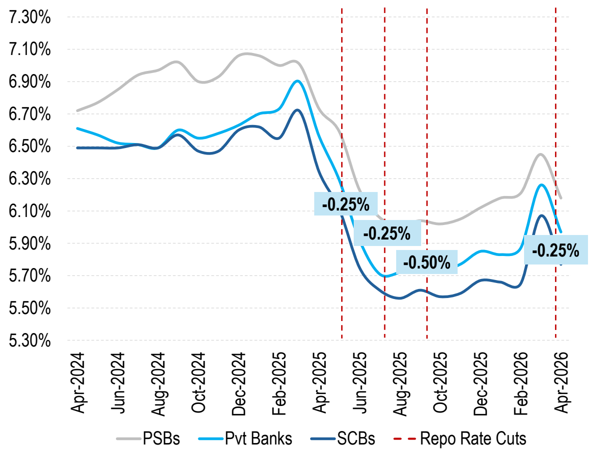
Source: Company, Anand Rathi Research

Fig 17 – WADTDR o/s down 51bps since Feb-25



Source: RBI, Company, Anand Rathi Research

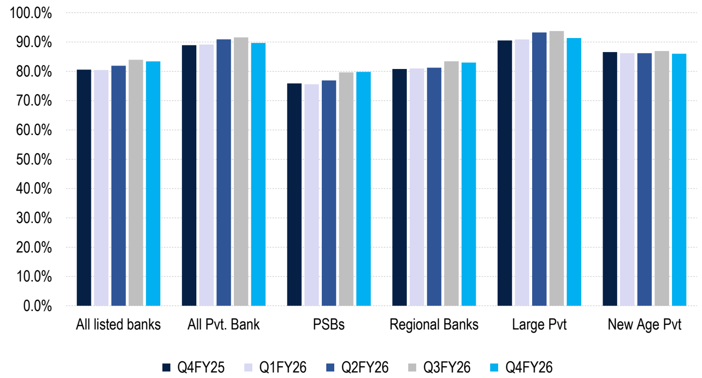
Fig 18 – Marginal WADTDR down 78bps since Feb-25



Source: RBI, Company, Anand Rathi Research

Policy Rates – Remain key driver of NIM trajectory: With expectations of central banks in the western world rising rates and deprecating INR, probability of hike in repo rate by the RBI this year is higher in our view, which we believe should support NIM of the Indian banks. The PSBs remain relatively better placed, given lower LDRs vs. private banks, providing greater cushion to absorb margin compression (all else equal). *Further, a gradual shift in mix towards higher-yielding retail loans should provide incremental support to NIM. In contrast, the private banks continue to face a sharper trade-off between loan growth and NIMs, amid stiff competition from the PSBs.*

Fig 19 – LDR for PSUs much lower than private banks

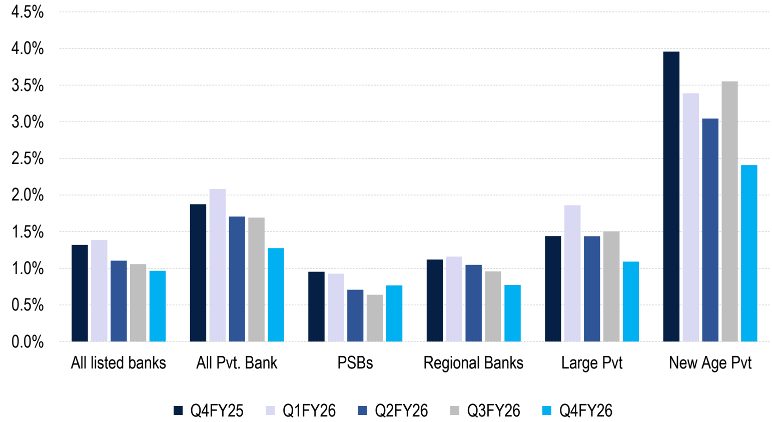


Source: Company, Anand Rathi Research

Asset quality remains benign, PSBs remain best-in-class

Gross Slippages Continue to Decline: Gross slippage ratio of the system improved by ~9bps q/q and ~35bps y/y to ~0.97% in Q4FY26, indicating continued asset quality improvement across sectors. H2FY26 was better than both H1FY26 and H2FY25.

Fig 20 – Gross slippage ratio continues to moderate across sector



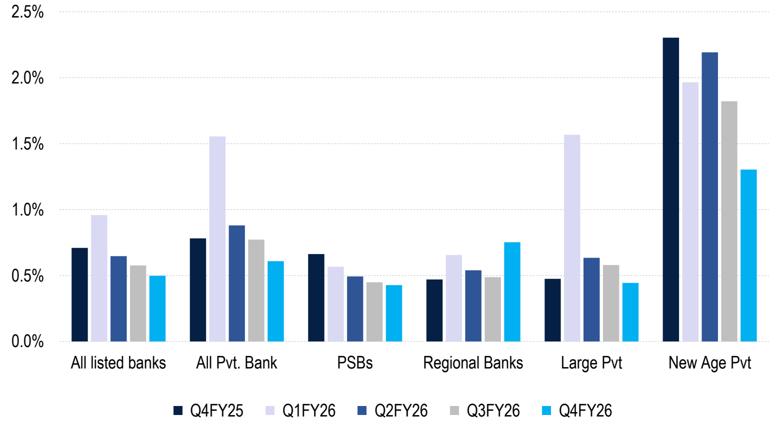
Source: Company, Anand Rathi Research

Fig 21 – GNPA continues to moderate led by lower slippages and decent recoveries

GNPA (%)	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026
All listed banks	2.3	2.3	2.1	2.0	1.8
All private banks	1.8	1.9	1.7	1.6	1.5
PSBs	2.7	2.6	2.4	2.2	2.0
Regional banks	2.2	2.2	2.1	2.0	1.6
Large private banks	1.5	1.6	1.5	1.4	1.3
New-age private banks	2.7	2.9	2.8	2.5	2.3

Source: Company; Anand Rathi Research

Fig 22 – Credit cost continues to decline, driven by lower net slippages



Source: Company, Anand Rathi Research

The PSBs remained best-in-class with the lowest gross slippages amongst the cohort and near-zero net slippages. Regional banks rank the next with sharp improvement in slippages, despite relatively faster balance sheet growth. GNPA ratios continue to improve q/q and y/y, while credit cost remains benign at ~50bps (down 8bps q/q).

However, the banks used strong profitability to create provisioning buffers in Q4FY26 i.e., Union Bank (Rs7bn), Axis Bank (Rs20bn), Yes Bank (Rs3.4bn), Bank of Maharashtra (Rs2bn), Federal Bank (Rs4.6bn), Indian Bank (Rs3.1bn), KVB (Rs1.6bn) and Bank of Baroda (Rs15bn) – reinforcing the system's resilience against any potential future stress.

PSBs have Better Loan Mix for Stable Asset Quality: The PSBs have been able to deliver better asset quality vs. private banks owing to their loan-mix. They have higher share of corporate loans where low corporate leverage and healthy P&L have helped them on asset quality front. Moreover, the PSBs' retail loans are more skewed towards salaried loans, where the asset quality has been stable. On other hand, as the private banks are slightly higher on risk curve on retail loans (visible in terms of differences in loan yields), they have seen more slippages vs. the PSBs.

PSBs to continue to outperform private banks on asset quality front: Nonetheless, higher US tariffs, oil shock due to West Asia crisis and possibility of impact of AI on white-collar jobs are the emerging risks on asset quality of the Indian banks, which are difficult to quantify at this stage. However, based on recent trends for Indian financiers and our discussions with lenders, these risks are unlikely to materialise meaningfully in CY26.

Overall, we believe the PSBs would continue to outperform the private banks on asset quality front due to improved loan-mix and better-quality retail loans. This was visible in post-COVID asset quality trends, where the PSBs did better than the private banks on asset quality front.

ECL – Much ado about nothing: We believe the street's concerns around ECL-led provisioning hit for Indian banks are overstated. The banks carry provisioning similar or higher vs. the NBFCs. The bank borrowers are structurally superior in credit quality to NBFC borrowers, given banks' more stringent underwriting norms, collateral requirements and regulatory oversight. *Consequently, there is no analytical basis for ECL requirements of banks to exceed those observed at NBFCs.*

Our calculations suggest most banks will face no meaningful P&L impact from the migration to ECL methodology — incremental provisions are largely absorbable within existing buffers, particularly for the large private banks that already carry contingent provisions. *We view the Stage 2 pool sizing and the LGD calibration as the two key swing factors to monitor; any structural deterioration in SMA-2 flows or a broad downgrade of performing retail/MSME portfolios into Stage 2 could cause this estimate to drift meaningfully higher.*

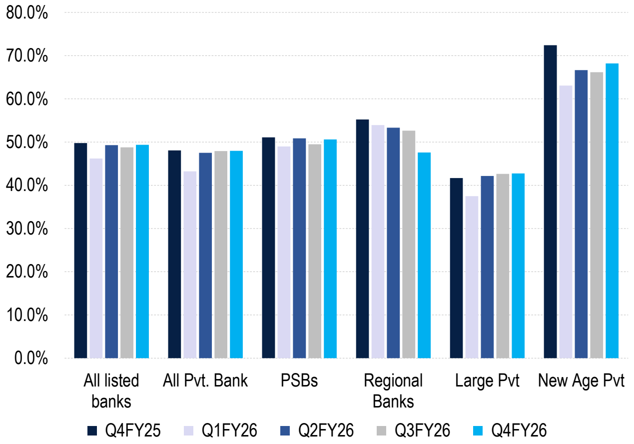
Controlled opex to aid efficiency improvement

Operating expenses across the banking sector remained broadly controlled in Q4FY26, aided by moderation in employee cost owing to actuarial adjustments and higher discounting rates for pension and retiral benefits. Most banks reported a sequential decline in employee expenses, benefiting from AS-15 related provisioning and ongoing cost optimisation initiatives.

C/I ratio for the sector rose ~60bps q/q due to slower topline growth, largely impacted by weaker treasury income, although the ratio improved by ~39bps on y/y basis. Regional banks continued to outperform on efficiency, reporting a sharp ~504bps sequential decline in C/I ratio, while private banks saw only a marginal uptick of ~5bps.

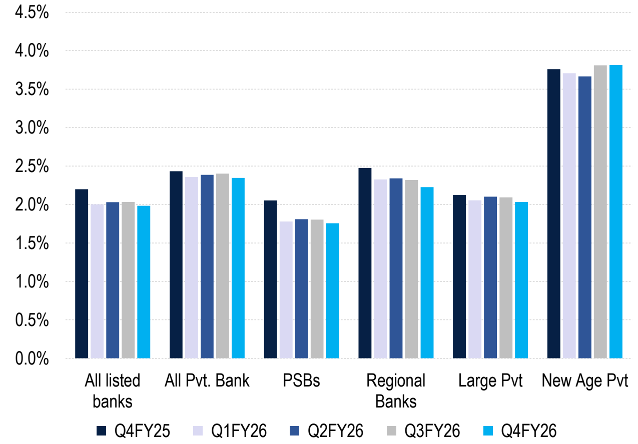
Overall, operating efficiency trends remained healthy, supported by stable controllable cost, normalisation in employee provisioning and improving business scale.

Fig 23 –C/I rose on back of lower NIM and non-int inc



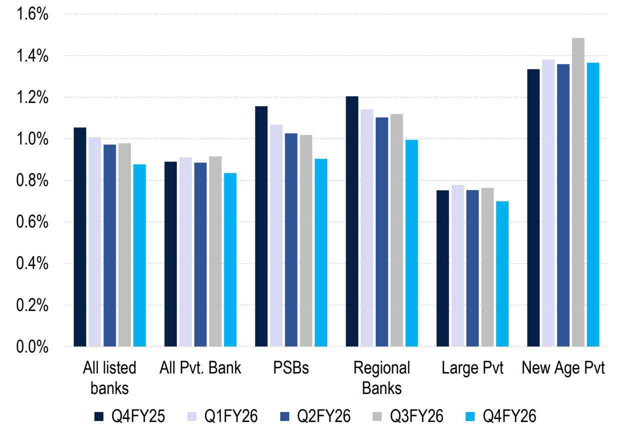
Source: Company, Anand Rathi Research

Fig 24 – Opex/assets improved due by lower employee cost



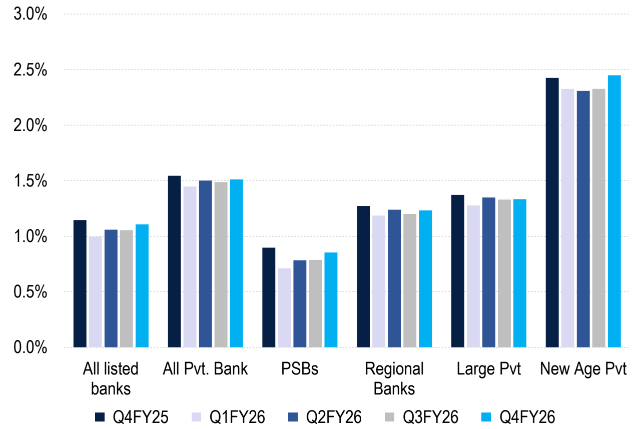
Source: Company, Anand Rathi Research

Fig 25 – Emp/assets improved on back of higher disc rates



Source: Company, Anand Rathi Research

Fig 26 – Other opex/assets increased due to seasonality



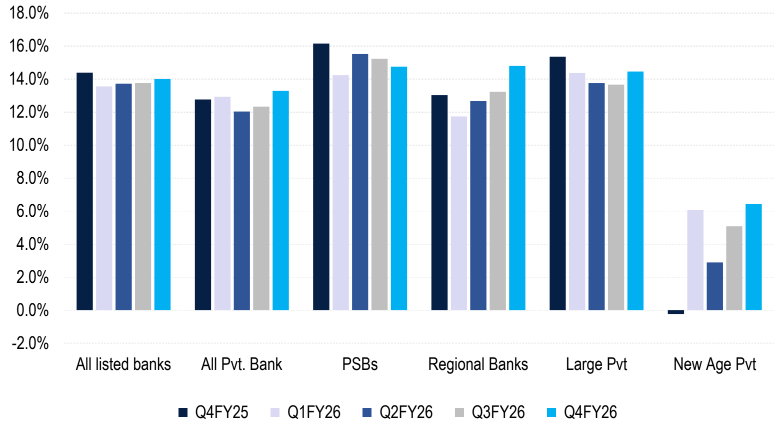
Source: Company, Anand Rathi Research

Healthy return ratios, valuations reasonable

Return ratios remained healthy in Q4FY26, with system RoA remaining stable at ~1.3% (up 1bps y/y and up 1bps q/q), while RoE improved 25bps q/q (down 39bps y/y) to ~14%. At 14.7%, RoE of the PSBs remained higher than private banks owing to healthy operating performance and lower credit cost.

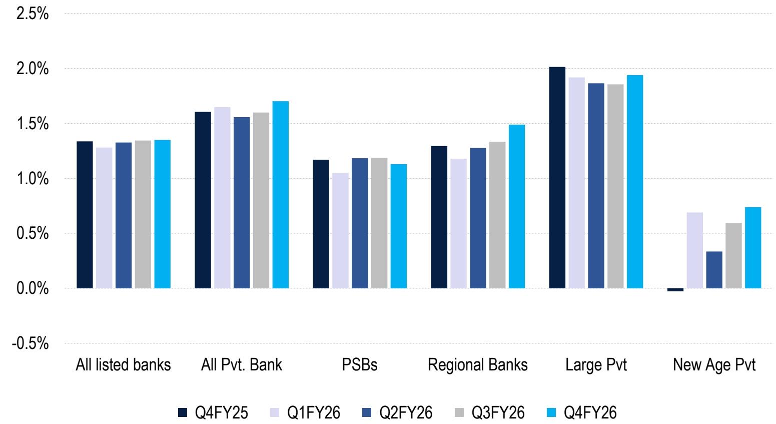
Amongst the cohorts, regional banks have outperformed with sharp improvement in RoE to 14.8% (up 177bps y/y and 157bps q/q), driven by improvement in margins and opex.

Fig 27 – RoE for PSBs continue to outperform private banks for 7th quarter in row



Source: Company, Anand Rathi Research

Fig 28 – Regional banks has been the sharpest improvement in RoAs



Source: Company, Anand Rathi Research

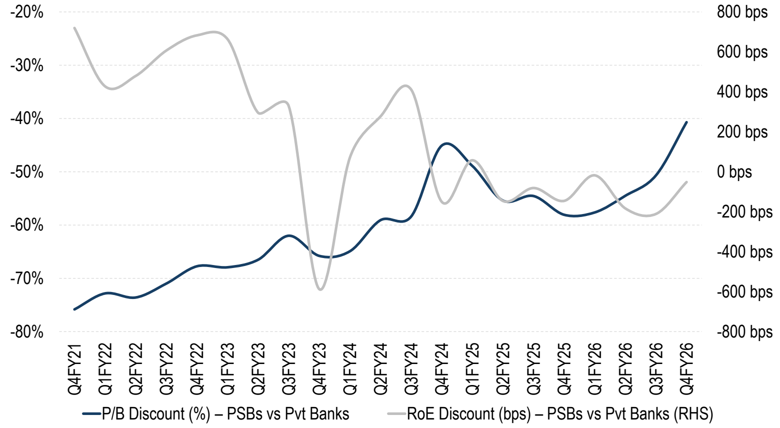
Further scope for rerating of PSBs: Pick-up in credit growth and healthy operating performance driven by sharp improvement in asset quality led to meaningful re-rating of the PSBs, significantly narrowing the valuation premium vs. private banks. The valuation gap has come down from ~76% in Q4FY21 to ~41% in Q4FY26.

The PSBs have seen a higher RoE trajectory (~15% as of Q4FY26), aided by lower credit cost, controlled opex and steady NIM, which has translated into sustained P/B expansion.

While the large private banks continue to command a premium, aided by stronger franchise quality and earnings consistency, the valuation differential has compressed materially, as the PSBs exhibit improved capital efficiency and strengthened balance sheets.

With the PSBs sustaining superior operating performance, we expect their valuation gap vs. private banks to narrow further, driven by continued RoE convergence, stable asset quality and improving investor confidence in earnings stability.

Fig 29 – PSBs still trade at significant discount while RoEs remain superior



**Trailing consl. P/B*
**Large Pvt Banks includes HDFCB, ICICIBC, AXSB, KMB and Large PSBs SBIN, BOB, CBK, PNB, UNBK*
Source: Company, Anand Rathi Research

Fig 30 – Comparative Valuation

Banks	Rating	CMP	TP	P/B			P/E			RoA			RoE		
		(Rs)	(Rs)	FY26	FY27e	FY28e	FY26	FY27e	FY28e	FY26	FY27e	FY28e	FY26	FY27e	FY28e
Large Private Banks															
ICICI	BUY	1,388	1,716	2.4	2.1	1.9	19.8	18.2	16.3	2.2	2.2	2.1	15.9	15.2	15.0
Axis	BUY	1,357	1,610	1.8	1.6	1.4	17.2	14.0	11.5	1.4	1.5	1.6	12.7	13.7	14.4
HDFC	BUY	799	967	1.9	1.8	1.6	16.5	15.7	13.8	1.8	1.7	1.7	14.0	13.3	13.7
Kotak Mahindra	HOLD	396	434	2.0	1.8	1.6	28.1	25.9	22.8	1.9	1.8	1.8	11.1	10.7	10.9
PSBs															
SBI	BUY	1036	1,301	1.4	1.2	1.1	12.0	11.5	10.0	1.1	1.0	1.0	16.2	14.4	14.7
Indian	BUY	815	1,051	1.4	1.2	1.1	9.0	8.7	8.4	1.3	1.2	1.1	16.5	15.1	13.9
Bank of Baroda	BUY	273	329	0.9	0.8	0.7	7.1	6.5	5.8	1.1	1.0	1.0	13.8	13.4	13.5
Union Bank	BUY	175	208	1.0	0.9	0.8	7.1	7.6	7.1	1.2	1.1	1.0	15.5	12.9	12.5
Jammu & Kashmir	BUY	160	198	1.0	0.9	0.8	7.4	7.0	6.2	1.3	1.2	1.2	15.2	14.0	13.6
Mid-cap Private Banks															
DCB	BUY	188	272	0.9	0.8	0.7	8.3	6.6	5.5	0.9	1.0	1.0	12.0	13.2	14.0
Yes	SELL	25	19	1.5	1.4	1.3	22.7	20.7	16.9	0.8	0.8	0.9	7.0	7.2	8.2
Bandhan	SELL	202	140	1.3	1.2	1.1	26.6	14.9	10.3	0.6	1.0	1.3	4.9	8.2	10.9
Regional Banks															
Karur Vysya	BUY	299	376	2.0	1.8	1.5	11.5	11.2	10.1	2.0	1.7	1.7	19.3	16.8	16.1
City Union	BUY	202	355	1.4	1.7	1.5	11.3	13.3	11.3	1.5	1.5	1.5	13.2	13.6	13.8
Federal	BUY	324	349	1.9	1.7	1.5	19.4	16.5	13.2	1.1	1.2	1.3	11.4	11.9	13.2
Karnataka	BUY	268	330	0.8	0.7	0.7	7.8	7.6	7.0	1.0	1.0	1.0	10.4	9.6	9.7
South Indian	BUY	46	59	1.1	0.9	0.8	8.2	7.4	6.6	1.1	1.1	1.1	13.5	13.3	13.3

Source: Company, Anand Rathi Research

Investment Thesis

Fig 31 – Investment Thesis

Banks	Rating	TP (Rs)	Loan CAGR (%) - FY26-28e	Average RoE (%) - FY26-28e	Key Investment Thesis
Large Private Banks					
ICICI Bank	BUY	1,716	14.9	15.1	▪ We expect loan growth to sustain at ~15%, driven by broad-based recovery in mortgages, gold loans and business banking with improvement in asset quality, supporting sustainable RoE >15%. ▪ We prefer ICICI Bank over HDFC Bank given stronger balance sheet flexibility and better ability to manage growth vs margin trade-off.
Axis Bank	BUY	1,610	15.5	14.0	▪ Loan growth is expected to sustain ~200bps above the industry, with stable NIM and moderating credit cost driving ~100-200bps in RoE over the medium-term. ▪ We prefer Axis Bank over HDFC Bank and ICICI Bank given valuation discount with superior growth and improvement in RoE trajectory.
HDFC Bank	BUY	967	13.0	7.0	▪ Sustainability of current NIM remains uncertain if deposit growth needs to accelerate materially faster than loans. ▪ ICICI Bank remains better positioned in terms of growth, margin and BS flexibility.
Kotak Mahindra Bank	HOLD	434	16.0	10.8	▪ Higher growth is likely to come at the cost of lower NIM/fee income and/or higher opex, keeping RoE capped at ~11-12%. ▪ Valuation premium does not reflect 200-300bps gap in RoE vs. peers.
PSU Banks					
State Bank of India	BUY	1,301	14.0	14.6	▪ Asset quality trend is expected to remain stronger than peers due to better customer mix and underwriting discipline. ▪ RoE similar/better than large private bank, with credit growth expected ~50-100bps above the system.
Indian Bank	BUY	1,051	13.0	14.5	▪ Core PPoP/RoA remain superior among the PSBs, aided by strong NIM and fee income. ▪ Conservative underwriting and processes should keep asset quality healthy.
Bank of Baroda	BUY	329	13.5	13.4	▪ Credit growth is expected to remain in line with system, aided by non-corporate segments. ▪ Stable NIM, strong fee income and moderate credit cost should aid healthy earnings with RoA/RoE seen at ~1 /14%.
Union Bank of India	BUY	208	12.0	12.7	▪ Credit growth is likely to pick up from current levels, led by MSME and retail. ▪ RoE is expected to remain ~13%, driven by stable margin, controlled opex and moderate credit cost.
J&K Bank	BUY	198	16.0	13.8	▪ Highest CASA among peers, supporting structurally lower cost of funds. ▪ Stable NIM, improving fee income, controlled operating expenses and moderate credit cost are expected to support the bank in sustaining healthy profitability, with RoA/RoE projected at ~1.2/14% over FY27-28e.
Mid Cap Private Banks					
DCB	BUY	272	18.0	13.6	▪ Credit growth is expected to sustain ~300-400bps above system. ▪ Improved margin, better fees income and moderate opex are expected to drive ~200-300bps sustainable improvement in RoEs.
Yes	SELL	19	12.6	7.7	▪ RoE is likely to remain in single digit given weak margin profile and elevated cost structure. ▪ Retail slippage run rate continues to remain above 2.5% over the last 12 quarters, which remains concerning as it constitutes ~46% of loan-mix.
Bandhan	SELL	140	12.5	9.6	▪ Asset quality stress in housing book indicates pressure beyond the EEB segment. ▪ Diversification beyond EEB book would keep pressure on NIM/opex.
Regional Banks					
Karur Vysya Bank	BUY	376	16.7	16.4	▪ Credit growth to sustain ~200-300bps above system, driven by steady traction in core retail and commercial segments. ▪ The bank is expected to generate >16% RoE (the highest amongst regional banks).
City Union Bank	BUY	355	18.0	13.7	▪ Credit growth is expected to remain 300-400bps higher than system, driven by improved processes. ▪ Stable operating performance and healthy asset quality would result in 1.5/14% RoA/RoE.
Federal Bank	BUY	349	16.5	12.5	▪ NIM expansion to be driven by continuous improvement in quality and cost of liabilities and loan mix change towards higher-yielding products. ▪ Improved margin, better fees income and moderate provisions are expected to drive 150-200bps expansion in RoE over the next two years.
Karnataka Bank	BUY	330	13.5	9.6	▪ It has the lowest CoF among regional peers, providing structural funding advantage. ▪ Improvement in core PPoP to be driven by better margin and fees income.
South Indian	BUY	59	14.7	13.3	▪ Legacy stress is largely recognised with incremental slippages normalising. ▪ Focus now shifting towards profitability improvement and operating efficiency.

Source: Company, Anand Rathi Research

Change in Estimates

Fig 32 – NII – Change in Estimates

(Rs m)	FY27e			FY28e		
	New Estimates	Old Estimates	Change (%)	New Estimates	Old Estimates	Change (%)
J&K Bank	66,311	66,536	(0.3)	77,305	76,318	1.3

Source: Company, Anand Rathi Research

Fig 33 – PPoP – Change in Estimates

(Rs m)	FY27e			FY28e		
	New Estimates	Old Estimates	Change (%)	New Estimates	Old Estimates	Change (%)
J&K Bank	37,910	37,086	2.2	45,897	44,028	4.2

Source: Company, Anand Rathi Research

Fig 34 – PAT – Change in Estimates

(Rs m)	FY27e			FY28e		
	New Estimates	Old Estimates	Change (%)	New Estimates	Old Estimates	Change (%)
J&K Bank	25,165	24,576	2.4	28,159	25,654	9.8

Source: Company, Anand Rathi Research

Glossary

Fig 35 – Bank Classification (listed universal banks)

All Pvt. Bank (19)	PSB (14)	Regional Bank (8)	Large Pvt (4)	New Age Pvt (7)
AU SFB	BoB	City Union	Axis	AU SFB
Axis	BoI	CSB	HDFC	Bandhan
Bandhan	BoM	Dhanlaxmi	ICICI	DCB
City Union	Canara	Federal	Kotak Mahindra	IDFC First
CSB	Central	Karnataka		IndusInd
DCB	IDBI	KVB		RBL
Dhanlaxmi	Indian	SIB		Yes
Federal	IOB	TMB		
HDFC	JnK			
ICICI	Pn&Sd			
IDFC First	PNB			
IndusInd	SBI			
Karnataka	UCO			
Karur Vysya	Union			
Kotak Mahindra				
RBL				
South Indian				
TMB				
Yes				

Source: Anand Rathi Research

Appendix

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