

# Deposits key to pvt banks' growth

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**L**arge private sector banks that announced results in the past one week have sailed through the December quarter (Q3FY23) with ease. And why not? Strong systemic credit growth coupled with lower cost of funds has come as a shot in the arm for the sector.

Accordingly, net interest margin (NIM) of Axis Bank, ICICI Bank and Kotak Mahindra Bank were at a high in Q3. Axis announced its results on Monday post-market hours and clocked 30 basis points (bps) sequential expansion in NIM. One basis point is 0.01%. Net interest income rose 32% year-on-year (y-o-y) and loan growth was broad-based, up 15% y-o-y.

Even so, the Axis stock fell on Tuesday by more than 2%. "Overall credit growth was moderate at 15% y-o-y and 4% q-o-q versus peers' (>20% y-o-y), mainly due to sluggish growth in the retail book at 17% y-o-y and 1% q-o-q, in turn, dragged by the mortgage and card book," said analysts from Emkay Global Financial Services in a report on 23 January.

Also, it's worth noting that shares of



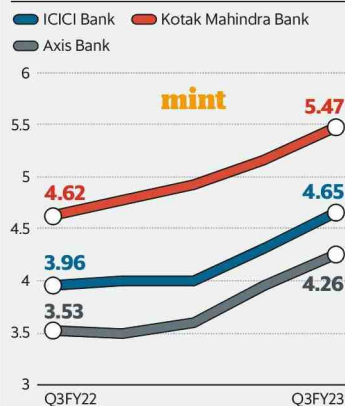
Axis have run up quite a bit and, therefore, expectations are high as well. In the past one year, the stock has risen by 29%.

ICICI Bank and Kotak Mahindra Bank announced their respective Q3 results over the weekend, faring well on crucial parameters.

## In spotlight

Sustained expansion in net interest margin was a key highlight of Q3FY23 earnings of large private sector lenders.

Net interest margin (in %)



Source: Company presentation

SATISH KUMAR/MINT

"All the three banks (ICICI, Axis and Kotak) have seen a sharp sequential margin expansion in the range of 30-35 bps in Q3. Another common theme was rising dependence on non-retail deposits. Also, all three franchises are clocking close to their all-time high return on assets, driven by a benign

credit cycle," said Krishnan ASV, senior vice president, institutional research, HDFC Securities Ltd.

But with cost of funds rising, lagged re-pricing of deposits, NIM for the sector may come under pressure. The Axis management expects a large portion of the NIM expansion to sustain, despite rising deposit rates. Here, it helps that the Citi portfolio acquisition is likely to be NIM and return on equity accretive.

Hereon, the pace of deposit mobilization to service the rise in systemic credit growth needs closer tracking. In Q3, the three banks saw moderate deposit growth in the range of 10-12% y-o-y. Further, the asset quality of these banks was in good stead in Q3 with healthy provision buffers, thus, aiding the sector's profitability outlook. For instance, Axis Bank's provision coverage ratio was at 81%.

On the flipside, operating expenses are heading northward. Axis saw its operating expense rise 8% y-o-y. Considering the expenses incurred on franchise building and other digital expan-

sion initiatives, for ICICI Bank and Kotak Bank, the increase was much sharper at 16% and 30% y-o-y, respectively.

Besides the common risk of rising cost of funds, there are some bank-specific risks. Axis Bank investors must track the trend in retail slippages, which have been inching up over the past four quarters, said Krishnan.

Coming to Kotak Mahindra Bank, the stock has been a laggard and is down by nearly 4% in the past year. The impending change in managing directorship in January 2024 is an overhang for the stock. Accordingly, investors will closely follow news flow on this front.

Meanwhile, a sharp rise in Axis's shares has helped narrow the valuation gap with ICICI Bank, which gained 9% in the past year. Even so, broadly, the Street is optimistic on the ICICI Bank stock, although deposit growth needs tracking. All said, the near-term headwind of re-pricing of deposit rates should keep large upsides at bay for the three stocks.

## WANING BENEFITS

**ICICI,** Axis and Kotak saw a sharp sequential margin expansion of 30-35 bps in Q3.

**NEAR-term** headwind of re-pricing of deposit rates should keep a check on margins.