

Banks

Theme Report

June 15, 2026

Coverage Universe

Name of the Company	Rating	CMP (INR)	TP (INR)
Axis Bank	BUY	1,356	1,600
Bank of Baroda	Accumulate	275	290
Canara Bank	Accumulate	132	150
City Union Bank	BUY	202	310
DCB Bank	BUY	180	155
Federal Bank	Accumulate	316	300
HDFC Bank	Buy	772	1,100
ICICI Bank	Buy	1,341	1,825
IndusInd Bank	Accumulate	917	960
Karur Vysya Bank	BUY	289	345
Kotak Mahindra Bank	BUY	403	480
State Bank of India	Buy	1,017	1,200
Union Bank of India	Accumulate	170	200

Large private banks to benefit from rising interest rates

Quick Pointers

- Indicators point to falling liquidity, rising CPI and repo hike
- Higher corporate/MSME share to affect PSBs/MidCs
- Rate hike to benefit PVBs due to higher retail/EBLR exposure

RBI could hike the repo rate in Oct'26 as CPI, which is rising, may firm up to ~6% in Q3FY27. Tight liquidity over Dec'25 to May'26 led to increase in bulk TD rates by 60-144bps. As G-Sec to NDTL ratio for system fell to 27% in Mar'26 (H2'25: 30%), RBI has limited headroom to shore up liquidity. While the FCNR scheme may cushion interest rates, system loan growth may decline to 12-13% YoY in Mar'27 from 15-16% in Mar'26. In a tighter credit cycle exposed to growth/asset quality shocks, PSBs/MidCs are more vulnerable due to higher corporate/MSME share (47%/30%), while PVBs are resilient due to higher retail mix (47%). Over FY24 to FY26 end, PSBs/MidCs under our coverage have re-rated by 10-15%/35-50%, while PVBs have de-rated by 8-30%. We expect PVBs to outperform PSBs/MidCs given higher EBLR/unsecured share and better ability to garner deposits. Among PVBs, we like ICICIBK/KMB, and in PSBs, we pick SBI.

Liquidity utilized to protect the INR to USD: System liquidity is volatile since Sep'25. OMOs totaling INR 11.5trn from Oct'24 till Mar'26 were utilized by RBI toward dollar sales of INR 8.3trn to arrest INR fall led by FII outflows. The ongoing Middle East conflict has resulted in a global oil crunch, leading to weakening of INR vs. USD, which is sucking up liquidity that fell from INR 5.5trn in mid-Apr'26 to INR 1.5trn by mid Jun'26.

Inflation inching up, could rise faster: After falling from Oct'24 to Oct'25, CPI is inching up; it rose from 0.3% in Oct'25 to 3.9% in May'26. As per RBI in its Jun'26 policy meet, baseline projections point toward CPI firming up to the upper tolerance level of 6% in Q3FY27. This forecast is subject to upside risks due to global supply chain disruptions, commodity price shocks and uncertainty about monsoon and El Niño conditions.

Repo hike may affect FY27 loan growth: Given the likely inflation trajectory, RBI could hike the repo rate in its Oct'26 policy meet. Due to fall in system liquidity and expected repo hikes, PVBs have raised bulk deposit rates. As G-Sec to NDTL ratio declined from 31% in Sep'23 to 27% in Mar'26, there is limited headroom to shore up liquidity. Hence, system credit growth may contract to 12-13% YoY in Mar'27 from 15-16% YoY in Mar'26.

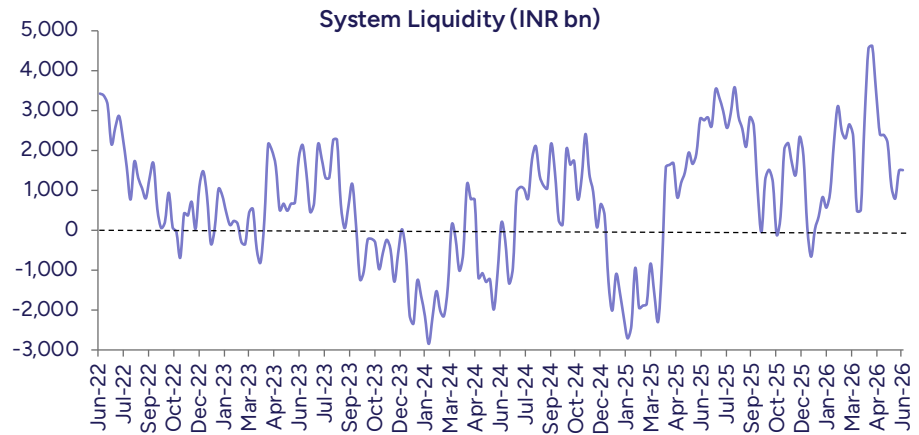
PSBs/MidCs more exposed to system shocks: From Mar'14 to Mar'26, corporate/MSME loan growth has been more volatile, suggesting greater vulnerability to system shocks. In contrast, retail/agri loans have been more resilient, given they haven't seen negative growth due to housing and agri-gold respectively. In the upcoming rising interest rate cycle, MSME /agri would be more exposed to asset quality risk.

Large PVBs would be more resilient: We would prefer banks having a higher retail credit exposure and a strong balance sheet. MidCs are exposed to maximum asset quality risk due to highest MSME/agri share (30%/17%), while PSBs are exposed to growth risk as corporate & MSME make up for 58%. PVBs are least exposed to growth and asset quality risks given their highest retail exposure is 47%, while agri share is lowest at 5.9%.

System liquidity reducing from mid-Apr'26

System liquidity has been volatile since Sep'25. Despite regular OMOs by RBI, liquidity shrunk in Sep-Oct'25 and Dec'25-Jan'26. The infused liquidity was mainly utilized to arrest rupee depreciation post Jul'25 (85-92/US\$). From Oct'24 till Mar'26, OMOs conducted by RBI have totaled INR 11.5trn, while equivalent rupee value of dollar sales by RBI is INR 8.3trn.

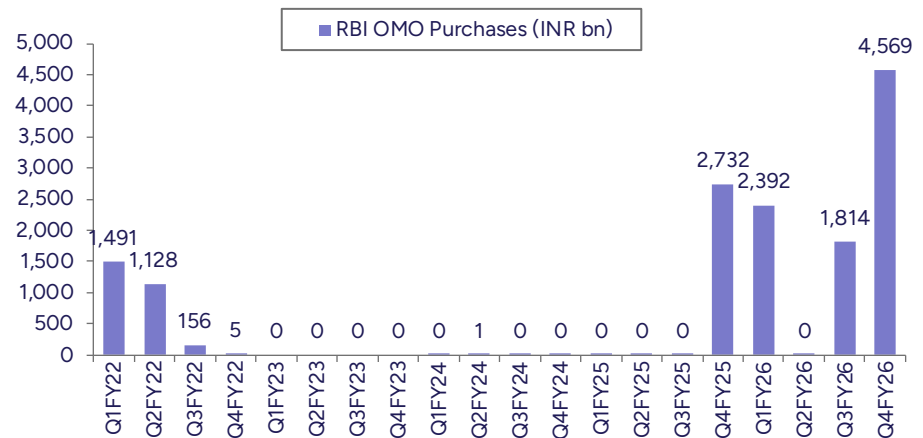
Exhibit 1 : System liquidity (weekly avg.) declines post Apr'26



Source: RBI, PL

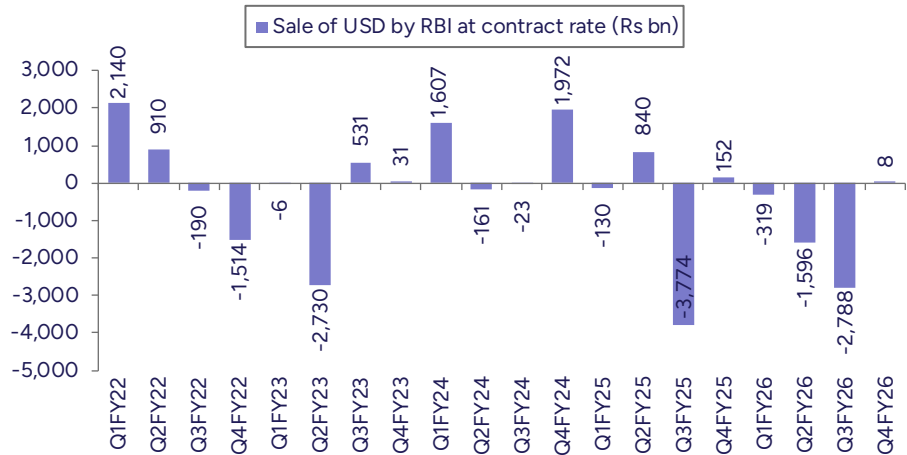
Post announcement of the new India-US trade deal in Feb'26, the rupee had appreciated to 90-91/US\$, which, coupled with OMOs, provided some respite to system liquidity. Appreciation of the rupee and consistent OMOs led to liquidity reverting to positive levels; it rose from -INR666bn in Dec'25 to INR2.5-3.0trn in Feb'26. However, the global oil crises, triggered by the Middle East conflict, has been a drag on our currency and is sucking up liquidity, as India is a net oil consumer. Hence, liquidity, which touched a high of INR5.5trn in the 2nd week of Apr'26, declined to INR 1.5trn in Jun'26.

Exhibit 2 : G-Sec purchase over last 15 months by Gol totals INR 11.5trn



Source: RBI, PL

Exhibit 3 : USD sales by RBI to support INR at INR 8.3trn from Q3FY25 to Q4FY26

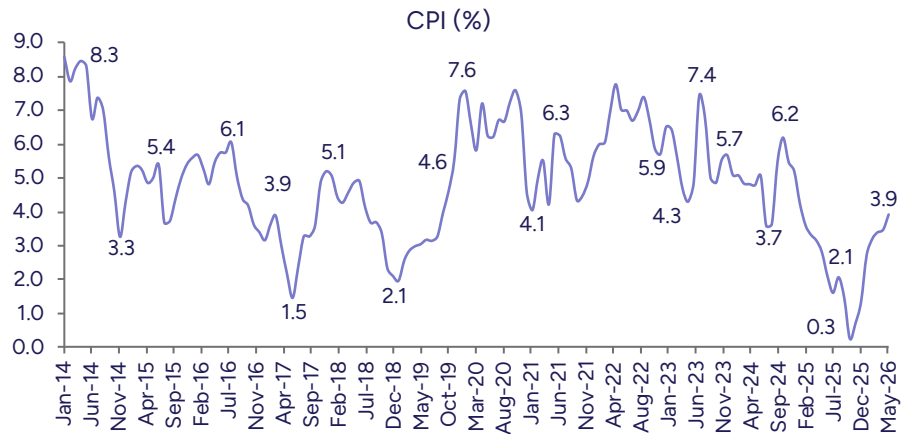


Source: RBI, PL

Inflation inching up, could rise faster than anticipated

After consistently declining from Oct'24 to Oct'25, inflation has started to inch up, due to normalization and geopolitical shocks. CPI increased from 0.3% in Oct'25 to 3.9% in May'26. As per the RBI Governor's commentary during the Jun'26 policy meet, baseline projections point toward CPI firming up toward the upper tolerance level in Q3FY27. MPC noted that there are risks to baseline assessment of inflation and growth due to uncertainty about the duration and intensity of the conflict, magnitude of its spillover effects, and of supply chain restoration.

Exhibit 4 : Inflation inching up after 15 months of consistent decline



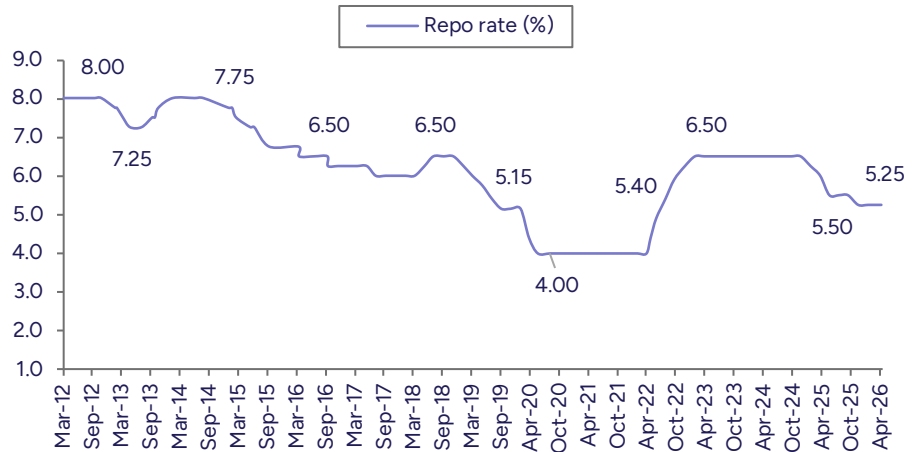
Source: RBI, PL

Additionally, food outlook remains uncertain on account of the sub-normal southwest monsoon forecast and El Niño. International crude oil prices (Indian basket) averaged around US\$110/barrel during Apr-May'26, and indications are that average oil prices for 2026-27 would be substantially higher than what were assumed during the last policy statement.

The partial pass-through of high global crude oil prices to domestic pump prices of petrol and diesel has started since May'26. Prices of several inputs such as commercial LPG, industrial raw materials, chemicals, base metals, rubber, and plastic products, among others, have risen. These could exert upward pressure on CPI inflation in the coming months as firms pass on higher input costs.

Considering all these factors, CPI inflation for FY27 is projected to be at 5.1% with Q1 at 4.2%, Q2 at 5.1%, Q3 at 5.9%, and Q4 at 5.4%. These forecasts are subject to upside risks due to global supply chain disruptions, commodity price shocks, uncertainty about the south-west monsoon, and El Niño conditions. Given that inflation could rise faster than expected, RBI could mull over a rate hike that could be sooner.

Exhibit 5 : Previous repo hike of 250bps to 6.5% post Apr'22; we expect a hike in H2FY27 of 100bps



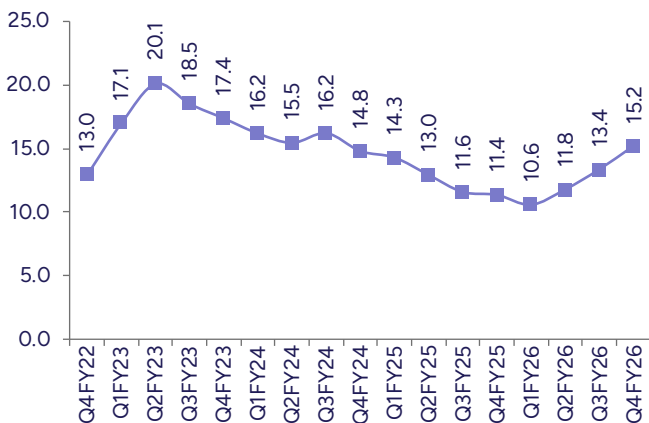
Source: RBI, PL

Repo rate hike imminent; loan growth could contract

After slowing down from 14.3% YoY in Jun'24 to 10.6% in Jun'25, credit growth for domestic banks bounced back to 15.2% in Mar'26, led by the (1) GST reforms in Sep'25, (2) festive season in Q3FY26, and (3) growth supportive measures by RBI, like rationalization of NBFC weights, repo rate cuts, CRR cut and liquidity infusion.

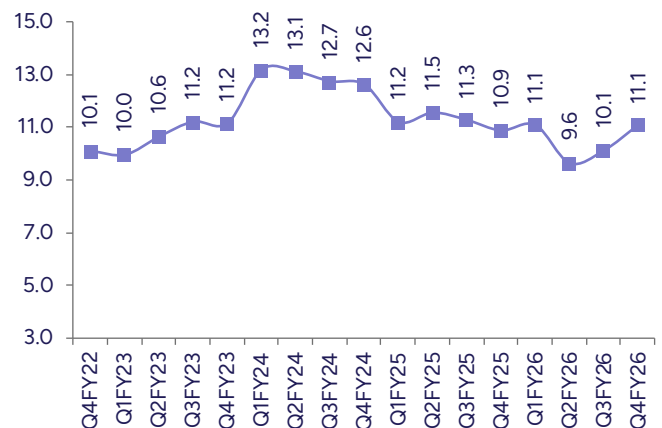
Due to the prolonged Middle East conflict, partly leading to inflation inching up and with further upside risks, RBI is likely to raise the repo rate in the near term from 5.25%. As per the RBI Governor's commentary, CPI inflation is expected to reach ~6% in Q3FY26; hence, we could see rate hikes totaling 100bps in H2FY27 beginning Oct'26. However, if inflation increases at a faster pace, rate hikes could be preponed.

Exhibit 6 : Domestic banks' loan growth up from 10.6% to 15.2% (%)



Source: Company, PL

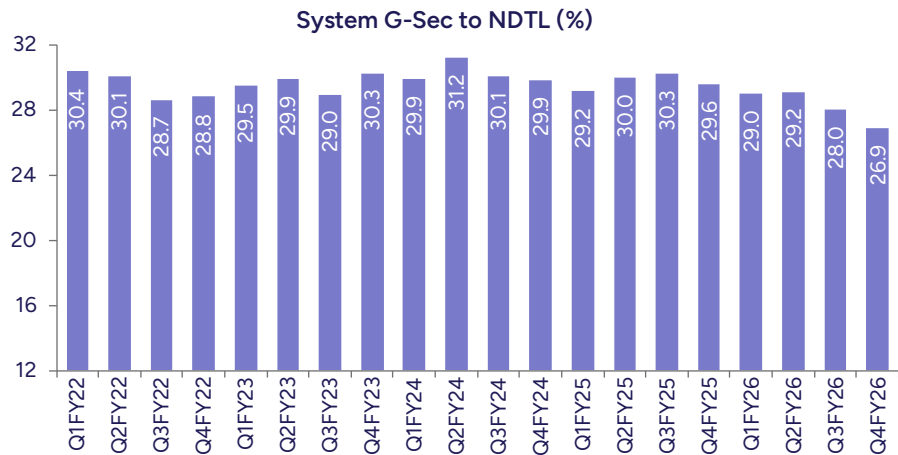
Exhibit 7 : Deposit growth at 11%, yet to pick up meaningfully (%)



Source: Company, PL

With benign asset quality cycle leading to low credit costs, credit growth is being funded by a combination of liquidity utilization and profits. From H2FY25 to Mar'26, G-Sec to NDTL ratio for the system declined from 30% to 27%, while cash to NDTL ratio fell from 5.7% to 3.3%. SLR requirement for banks is 18% of NDTL, while LCR would require an additional ~6%, taking the total to a floor of 24-25% of NDTL.

Exhibit 8 : G-Sec to NDTL ratio has declined from 30% in H2'25 to 27% in Mar'26

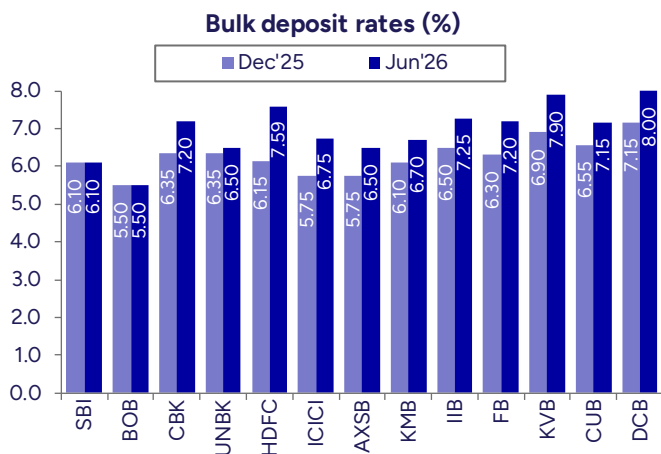


Source: RBI, PL

With inflation inching up to 3.9% in May'26, and likely to further increase due to the Middle East conflict and risk of El Niño, RBI would have limited headroom to consistently infuse liquidity (contrary to the recent past). Due to inflation risk, RBI has not announced any OMOs post Mar'26. As liquidity tightens and moves to the negative zone, system funding rates would start inching up, which may eventually increase deposit cost for banks.

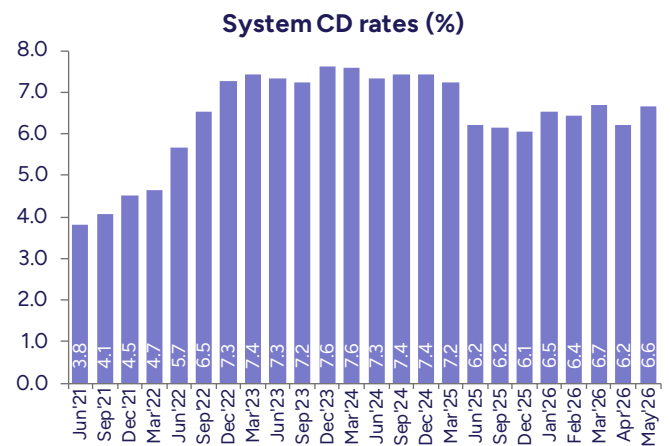
In fact, banks, especially PVBs, have already started raising wholesale deposit rates, due to a fall in system liquidity and in anticipation of repo rate hikes. Since repo rate hikes are imminent and given the limited leeway to shore up liquidity, we expect system credit growth to contract to 12-13% YoY in FY27 from 15-16% in FY26.

Exhibit 9 : PVBs hike bulk deposit rates by 60-145bps



Source: Company, PL

Exhibit 10 : CD rates holding up at 6.5-6.7% (respite in Feb'26/Apr'26)



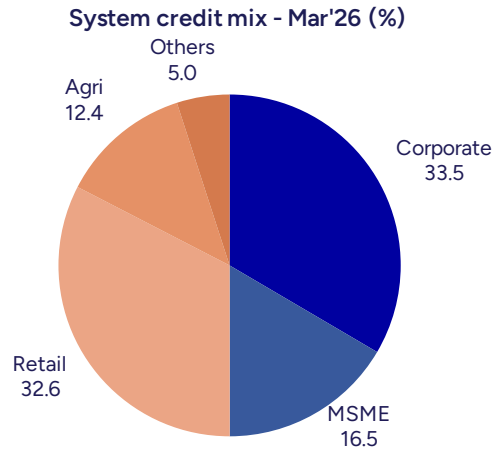
Source: RBI, PL

To propel loan growth, RBI had cut repo rate by 125bps till Dec'25 while shoring up system liquidity with CRR cut of 100bps and continuous OMOs. Credit growth has been achieved via liquidity utilization, which resulted in higher LDR in Q4FY26. As a result, LDR for domestic banks increased from 80% in Q4FY25 to 83.5% in Q4FY26, while incremental LDR jumped from 84% to 111%.

PSBs/MidCs more exposed to systemic shocks

Non-food credit as of Mar'26 was INR 213trn. Its composition is: corporate - 33.5%, MSME - 16.5%, retail - 32.6%, agri - 12.4%, and others - 5.0%. Growth bounced back to 15.4% YoY for corporate loans (8.8% a year ago), while SME grew 21% (13.7%); retail, 15.7% (10.7%); and agri, 15.9% (10.9%). Hence, the growth recovery has been sharper for corporate/MSME loans compared to retail/agri.

Exhibit 11 : Corporate/retail share in credit for system at 33-34%; MSME/agri at 16.5%/12.4%



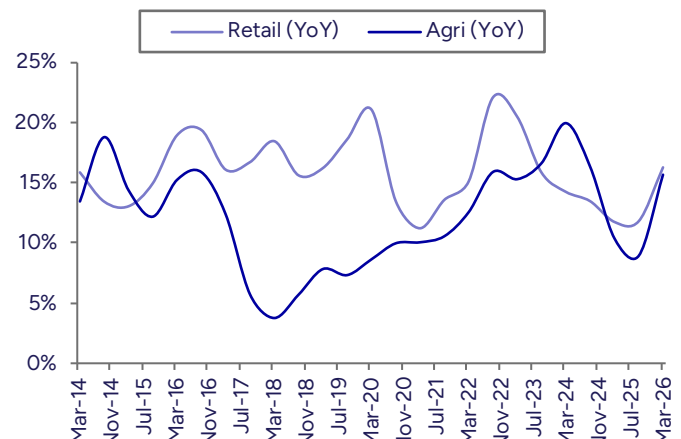
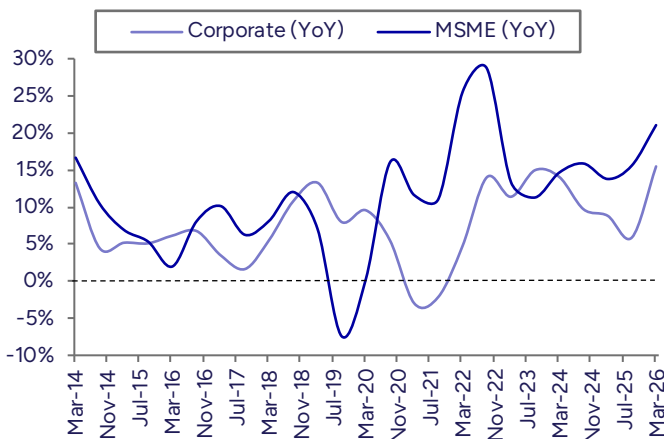
Source: RBI, PL

Over Mar'14 to Mar'26, corporate and MSME loan growth has been more volatile, suggesting greater vulnerability to system shocks, while retail/agri loan growth has been resilient given they haven't witnessed negative growth. Also, agri growth has structurally improved due to strong growth in agri-gold loans.

Hence, in the upcoming credit cycle, which would be characterized by repo rate hikes, we would prefer banks having a higher retail credit exposure, but with a strong balance sheet.

Exhibit 12 : Corporate/MSME more susceptible to system shocks

Exhibit 13 : Retail segment more resilient across cycles



Source: RBI, PL

Source: RBI, PL

Interaction with senior bankers suggests that the impact of the conflict would be more severe on MSME vs. corporate, as corporate balance sheets have been significantly stronger resulting in benign asset quality. Hence, while the corporate segment could see lower growth, impact on MSME would be more pronounced, i.e., both growth and asset quality would be affected. Also, while agri credit growth has remained resilient, the El Niño impact may slightly affect growth as well as asset quality.

Exhibit 14 : MSME – The most vulnerable segment

Loan mix (%)	Growth risk	Asset quality risk
Corporate	High	Low
MSME	High	High
Retail	Low	Low
Agri	Medium	Medium

Source: Company, PL

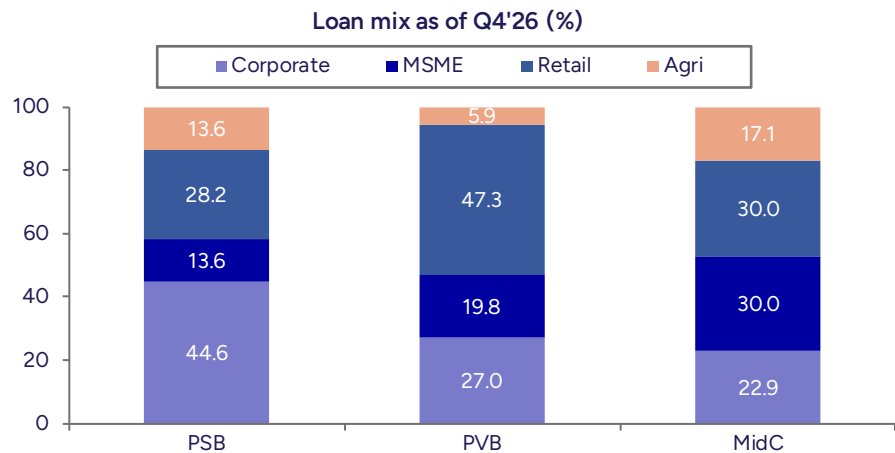
Exhibit 15 : Weighted score for PVBs highest at 62

	PSBs	PVBs	MidCs
Corporate	22	14	11
MSME	0	0	0
Retail	28	47	30
Agri	3	1	4
Weighted score	54	62	46

Source: Company, PL

Analysis of the loan mix between PSU banks (PSBs), private banks (PVBs) and mid-cap banks (MidCs) shows that PSBs and MidCs have a higher share of corporate and MSME, respectively. We have built a scoring matrix for PVBs, PSBs and MidCs, which is shown above. MidCs are exposed to maximum asset quality risk due to their highest MSME/agri share, while PSBs are exposed to growth risks due to higher corporate/agri share. Hence, PVB score is the highest at 62, followed by 54 for PSBs and 46 for MidCs.

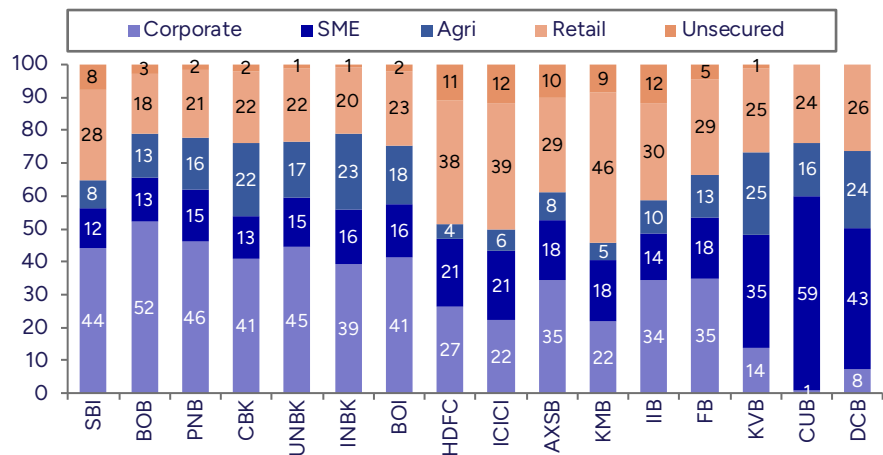
Exhibit 16 : Corporate share of PSBs at 45%, while retail share of PVBs at 47%



Source: Company, PL

PSBs are most exposed to growth risks as corporate and MSME make up for 58% of loans, while MidCs are exposed most to asset quality risks given that MSME and agri make up for 47%. PVBs have the lowest exposure to growth and asset quality risks given their retail exposure is 47%, while agri share is lowest at 5.9%.

Exhibit 17 : Loan mix as of Q4FY26 suggests that KMB/ICICIB have the highest retail share



Source: Company, PL

Exhibit 18 : Growth moderating in the MSME space owing to the Middle East conflict

Lender type POS change

Figure 10

Lender Type	Dec-24 to Mar-25 QoQ Change	Dec-25 to Mar-26 QoQ Change	Mar-25 to Apr-25 MoM Change	Mar-26 to Apr-26 MoM Change
PSU Banks	3.5%	-0.2%	-1.8%	-1.1%
Pvt Banks	16.4%	5.3%	-1.1%	0.4%
NBFCs	6.4%	-1.6%	4.9%	3.2%
Others	6.8%	3.2%	4.9%	4.5%

MSMEx Spotlight – April 2026 Data

Source: CRIF High Mark

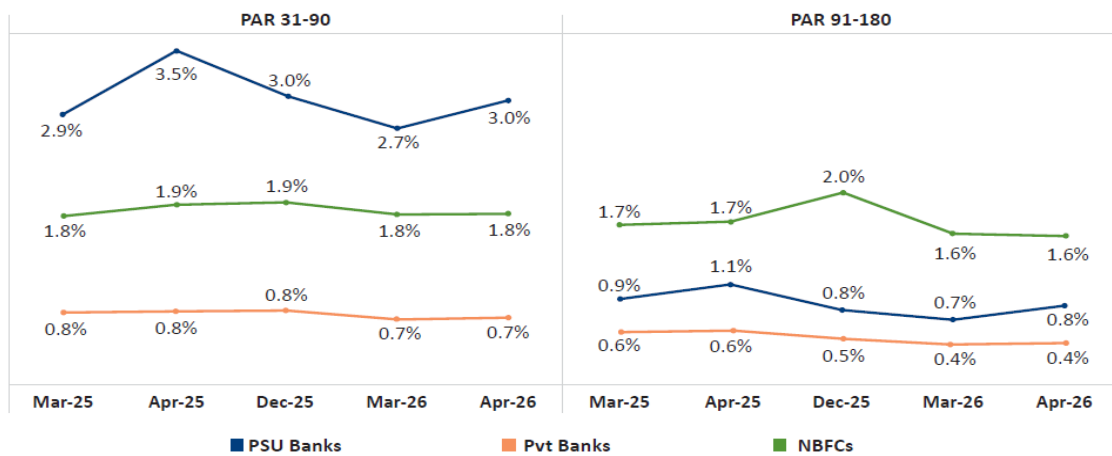
Although MSME exposure is higher in case of PVBs at 20% compared to 13.6% for PSBs, as per the credit bureau CRIF Highmark, early signs indicate asset quality strain in MSME loans for PSBs due to the on-going Middle East conflict. For PVBs, delinquent pool remains stable.

In its latest report, the bureau has pointed to moderation in MSME growth with slight increase in stress, especially for PSBs. Early delinquency is inching up in specific segments between Mar'26 and Apr'26. For micro borrowers, PAR 91-180 has risen from 1.1% to 1.4%, and for PSB, PAR 31-90, from 2.7% to 3.0%.

Exhibit 19 : PSBs see slight asset quality strain in MSME loans; PAR portfolio resilient for PVBs

Delinquency by lender type - MSMEx

Figure 17



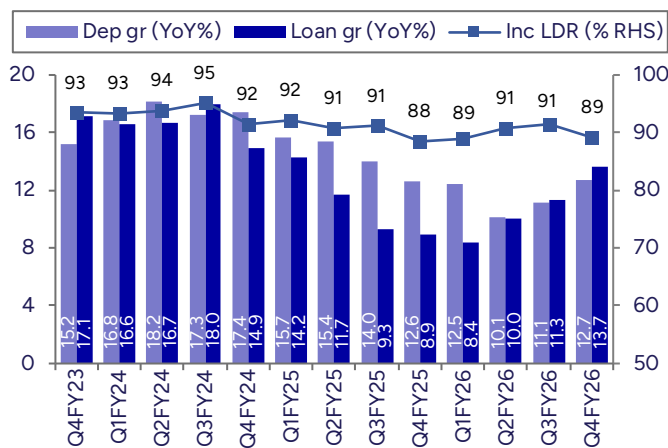
Source: CRIF High Mark

Growth/NIM dynamics superior for PVBs compared to PSBs

Loan-deposit growth dynamics have played out differently for PVBs and PSBs. LDR has remained steady over the last 1.5 years for PVBs between 88-91% while loan growth has seen a U-shaped trajectory (mainly due to HDFC merger). It is pertinent to note that, broadly, PVB deposit growth has been higher than loan growth post Mar'23 and incremental LDR has been under control, not surpassing 91% over the past 4 years.

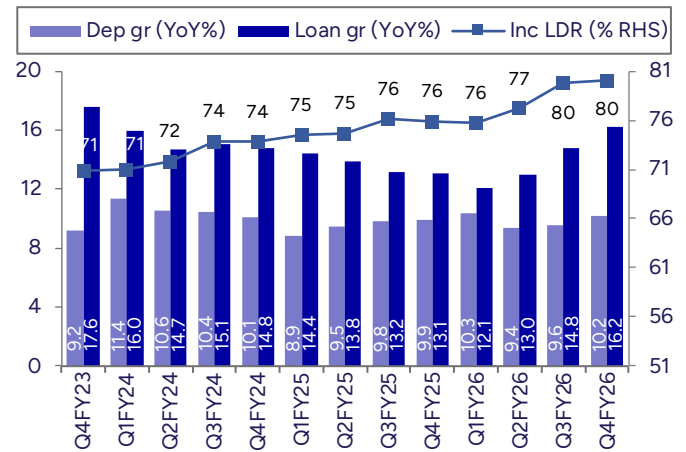
For PSBs, while LDR increased from 74% in Q4FY24 to 80% in Q4FY26 as loan growth increased but deposit growth remained steady. Hence, incremental LDR for PSBs has materially exceeded that of PVBs. For PSBs, loan accretion has consistently exceeded deposit growth due to low LDR and surplus liquidity. This resulted in higher incremental LDR (annual) – it jumped to 121% in Q4FY26 from 87% a year ago.

Exhibit 20 : Deposit growth higher/equal to loans for PVBs



Source: Company, PL

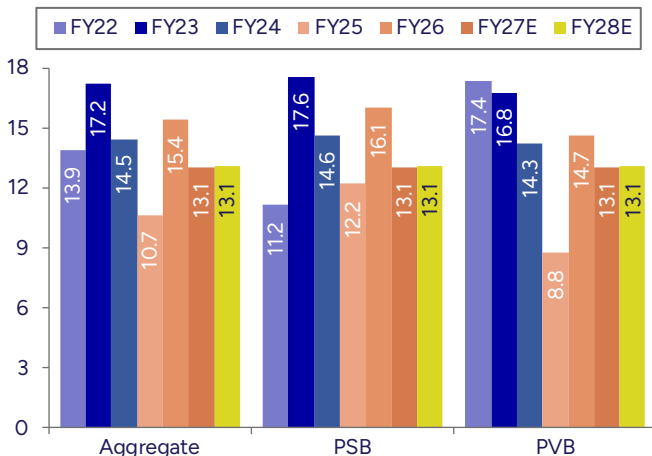
Exhibit 21 : Loan growth higher than deposits for PSBs



Source: Company, PL

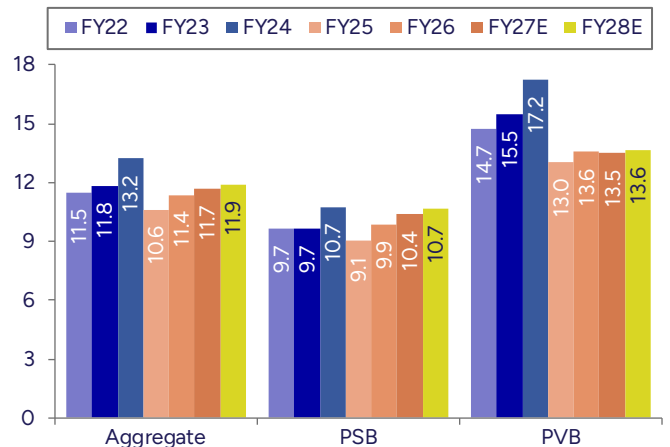
In FY27 credit growth may decelerate, and the gap between PVBs and PSBs could wane over FY26-28E as (1) inflation would increase, while corporate/MSME growth would start to moderate; and (2) G-Sec reserves have reduced for the system and PSBs with significant increase in LDR. In a tighter credit environment, we expect a flight to quality, and hence, investors might prefer superior quality banks.

Exhibit 22 : Credit growth gap between PVBs & PSBs to be bridged



Source: Company, PL

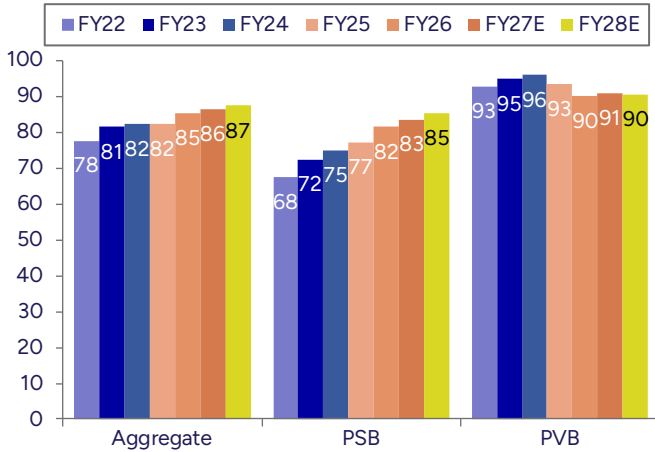
Exhibit 23 : Deposit growth of PVBs to be higher than PSBs



Source: Company, PL

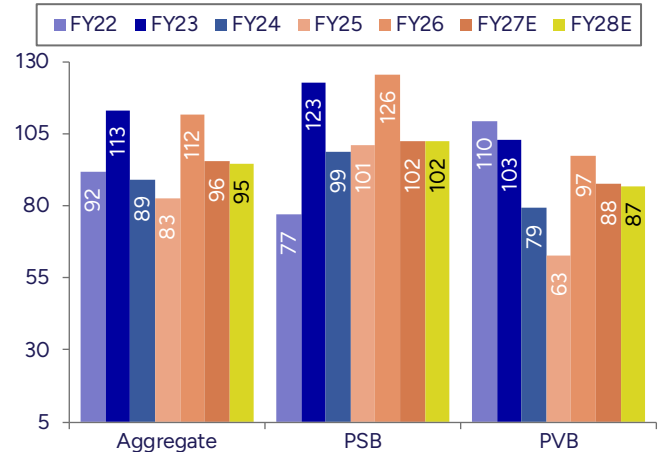
As seen above, for our coverage banks, credit growth gap between PVBs and PSBs that widened in FY25 and FY26, but we expect the gap to be bridged over FY26-28E, with both PVBs and PSBs likely to report 13% CAGR in loan growth. However, deposit growth for PVBs would continue to remain superior at ~13.5% compared to 10-11% in case of PSBs. As a result, while LDR would be range bound for PVBs at 90-91%, it is likely to consistently inch up from 82% to 85%.

Exhibit 24 : LDR (%) to increase over FY26-28E for PSBs



Source: Company, PL

Exhibit 25 : Incremental LDR (%) for PSBs may normalize



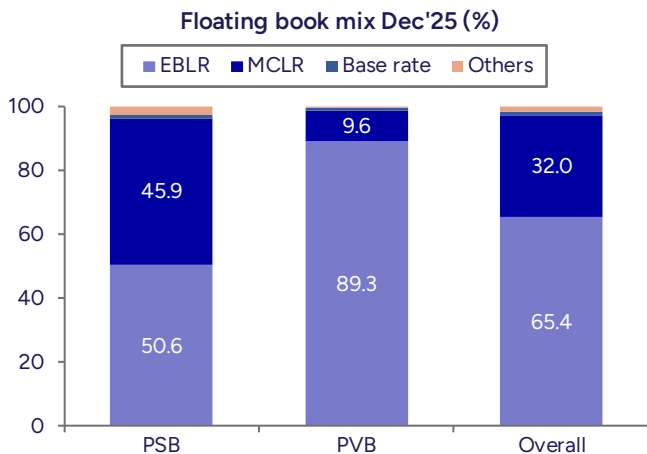
Source: Company, PL

Given that a repo rate hike is imminent, NIM trajectory could be better for PVBs compared to PSBs, owing to higher EBLR exposure in case of PVBs, preference for profitability over growth, and deposit crunch, which may force PSBs to rely on wholesale funding. In the previous rate hike cycle too, i.e. post Mar'22, PVBs (excl. HDFCB, due to merger) saw a higher NIM expansion vs. PSBs.

While we have factored in NIM improvement of 11bps for PVBs and 5bps for PSB over FY26-28E. Higher MCLR exposure for PSBs could be a drag as slower deposit repricing would delay increase in loan yields, and loan growth may be funded with bulk deposits, which may increase the funding cost.

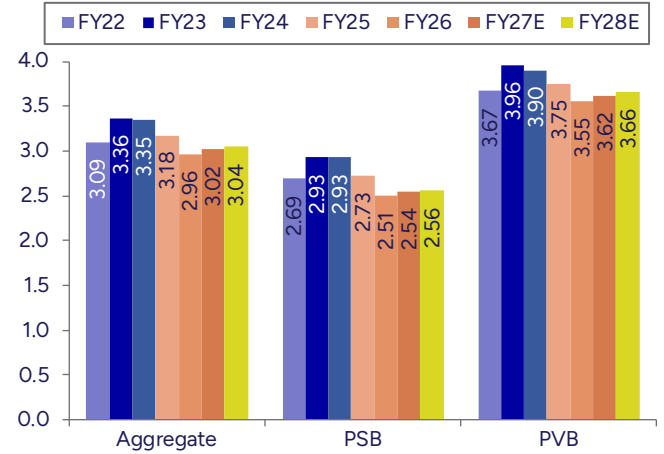
In the backdrop of the Middle East conflict, there are minor upside risks to our provision estimates, especially for MidCs and PSBs given higher MSME exposure in case of MidC while for PSB, a tighter credit environment would coincide with ECL transition.

Exhibit 26 : EBLR share higher for PVBs at 89% vs. 51% for PSBs



Source: RBI, PL

Exhibit 27 : Expect better NIM movement for PVBs over FY26-28E



Source: Company, PL

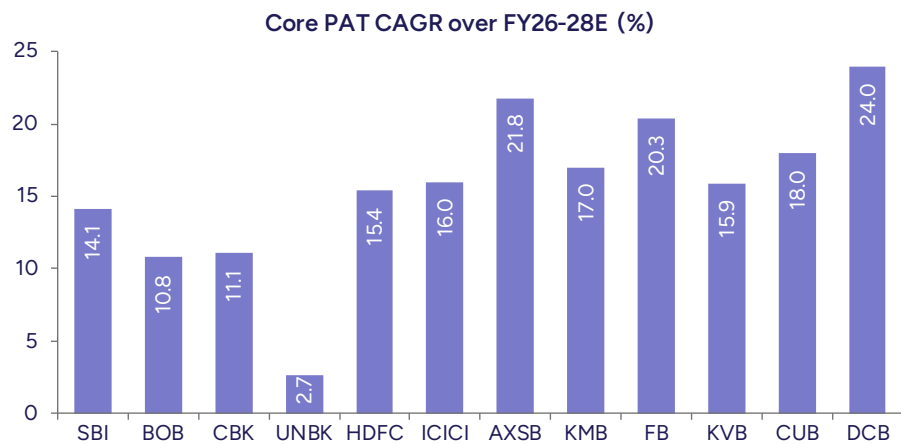
Our preferred banks in the upcoming credit cycle

From FY24 till date, PSBs and MidCs under our coverage have re-rated by 10-15% and 35-50%, respectively, while PVBs have de-rated by 8-30%. PSBs/MidCs have performed better due to superior growth, margins and asset quality. However, we expect this trajectory to reverse in the upcoming tighter credit environment, i.e., we expect PVBs to outperform PSBs/MidCs. Over FY26-28E, we foresee similar growth for PVBs and PSBs due to moderation in credit accretion for PSBs. If PSBs target higher-than-estimated credit growth, it may be at the cost of margins, which may affect NII/NIM. While the FCNR scheme may provide a breather to interest rates, PVBs and SBI would benefit more from the FCNR scheme due to their reach and nimbleness.

Given the impact of the Middle East conflict and assuming credit growth would hinge on deposits in FY27, loan accretion may moderate and focus would shift back to NIM from growth. PVBs have proved to have a stronger deposit garnering ability vs PSBs (except SBI). We would prefer banks that (1) are comfortable on LCR/LDR, (2) have strong capital adequacy (3) can grow faster than system and (4) may see a better core PAT CAGR.

We prefer large PVBs over PSBs (except SBI) from a 1-2 year perspective, given more unsecured share should bode well from a NIM standpoint in a tighter credit environment. We prefer ICICIB and KMB among our coverage universe. Among PSBs, SBI should do well due to its (1) superior earnings quality, (2) ability to grow faster than the system, and (2) solid deposit franchise.

Exhibit 28 : Core PAT CAGR better for PVBs compared to PSBs



Source: Company, PL

Exhibit 29 : Important metrics and valuation for our coverage banks

Ratios & valuation	Loan growth (%)		NIM (%)		Provisions (bps)		Core RoA (%)		Core RoE (%)		P/ABV (x)	
	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
SBI	14.0	14.0	2.66	2.68	40	40	0.87	0.89	13.5	13.6	1.3	1.1
BOB	13.0	13.0	2.46	2.46	53	53	0.72	0.72	10.7	11.0	0.9	0.9
CBK	12.0	12.0	2.18	2.20	67	65	0.67	0.68	11.8	11.8	1.0	0.9
UNBK	10.0	10.0	2.55	2.56	48	48	0.91	0.89	11.6	11.0	1.0	0.9
HDFCB	12.1	12.1	3.39	3.44	45	45	1.70	1.74	13.5	13.9	1.7	1.5
ICICIBC	14.0	14.0	4.11	4.15	43	43	2.07	2.14	15.7	16.0	2.1	1.8
AXSB	13.0	13.0	3.41	3.45	70	67	1.46	1.51	13.6	13.8	1.7	1.4
KMB	15.0	15.0	4.21	4.21	65	62	1.81	1.85	10.8	11.3	1.7	1.5
FB	13.0	13.0	3.04	3.09	48	48	1.10	1.17	11.2	11.2	1.8	1.6
KVB	15.0	15.0	3.85	3.85	68	62	1.63	1.63	15.6	15.3	1.7	1.5
CUB	15.0	15.0	3.85	3.85	68	62	1.63	1.63	15.6	15.3	1.7	1.5
DCBB	17.0	17.0	3.10	3.10	53	53	0.78	0.83	11.0	12.0	0.9	0.8

Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (INR)	Share Price (INR)
1	Axis Bank	BUY	1600	1366
2	Bank of Baroda	Accumulate	290	264
3	Canara Bank	Accumulate	150	129
4	Canara Robeco Asset Management Company	Hold	280	268
5	City Union Bank	BUY	310	276
6	DCB Bank	BUY	155	182.49
7	Federal Bank	Accumulate	300	285
8	HDFC Asset Management Company	Buy	3000	2662
9	HDFC Bank	Buy	1100	800
10	ICICI Bank	Buy	1825	1347
11	ICICI Prudential Asset Management Company	Buy	3585	3354
12	IndusInd Bank	Accumulate	960	848
13	Karur Vysya Bank	BUY	345	314
14	Kotak Mahindra Bank	BUY	480	389
15	Nippon Life India Asset Management	BUY	1050	990
16	Prudent Corporate Advisory Services	Accumulate	2875	2830
17	State Bank of India	Buy	1200	1019
18	Union Bank of India	Accumulate	200	180
19	UTI Asset Management Company	Hold	975	925

PL's Recommendation Nomenclature (Absolute Performance)

BUY	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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