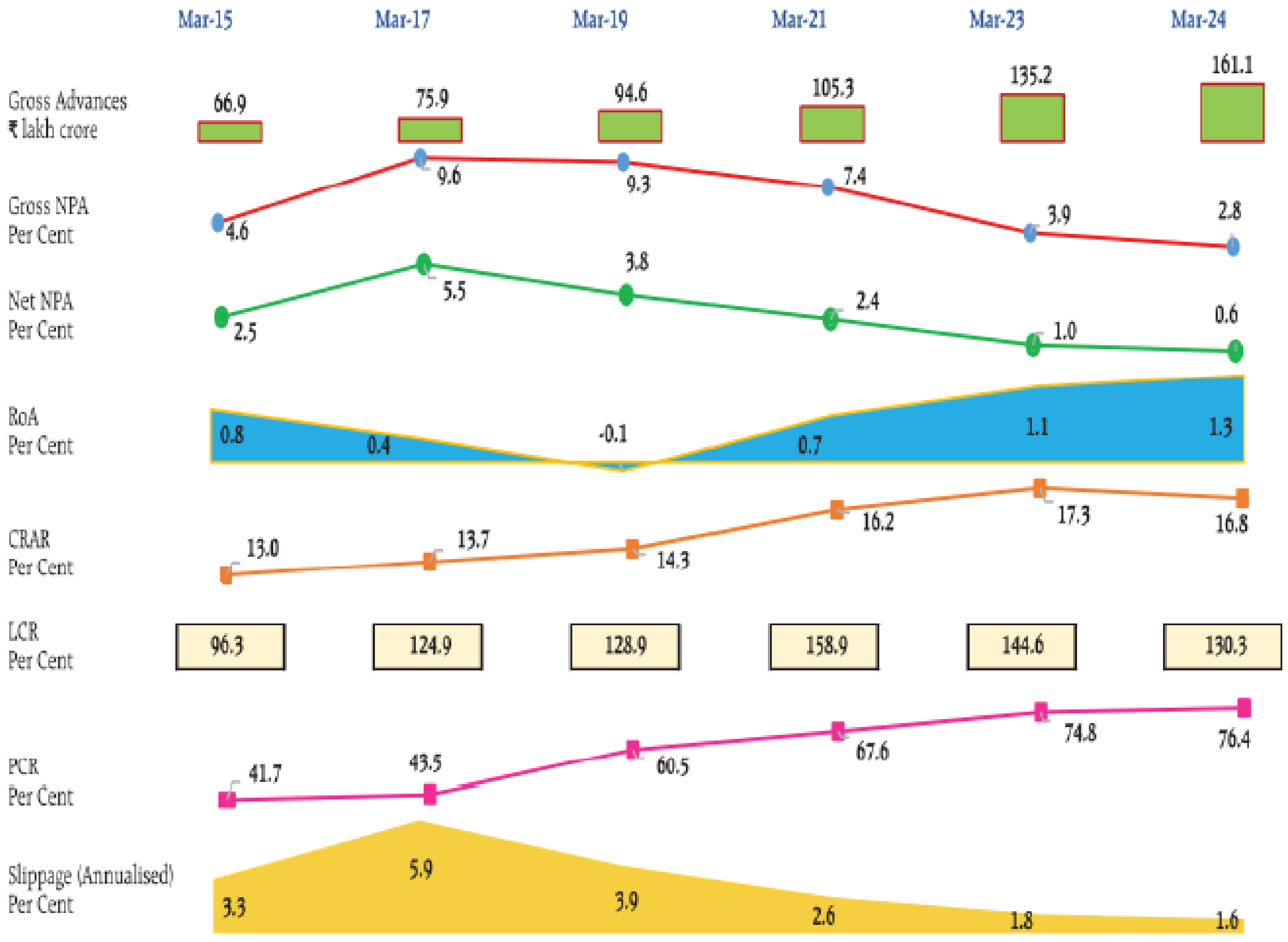
Banking Sector well poised for Strong Growth ahead

CHART of the WEEK

ADITYA BIRLA CAPITAL
MUTUAL FUNDS



- Post pandemic, Banks' balance sheets has improved on almost all counts. A multi-year low of non-performing asset ratio (NPA), higher provisioning, improved capital adequacy, better liquidity, lower slippages, and robust earnings.
- Corporate slippage has been negligible & quality has improved in the last few years while recovery momentum has remained robust.
- **We expect private sector banks to report healthy ROAs and ROEs in the 16-18% range over the next couple of years.**
- We expect higher credit demand owing to factors such as pickup in manufacturing, government spending and credit demand from real estate and infrastructure sectors.
- Rising deposit costs has led to compression in the sector's interest margins over the last 18 months. Expectations of a rate cut in H2FY25 could lead to easing margin pressure.
- **Private banks have underperformed the broader index as well as PSU bank Index by a wide margin in the last couple of years and thus valuations are now very compelling.** Accordingly, ABSL funds are well positioned to capitalize on these opportunities.

Dt – 01.07.2024. Source: ABSLAMC Internal Research, RBI Financial Stability Report, June 2024. ROA – Return on Asset, ROE – Return on Equity. LCR – Liquidity coverage ratio, CRAR -Capital to Risk (Weighted) Asset sRatio, PCR -Provisioning Coverage Ratio