SECTOR PRISM

PRIVATE BANKS: ROOM FOR MARGIN RECOVERY

Lending momentum and improving loan quality support our overweight view

Private banks' credit momentum and improving asset quality support the earnings outlook. NIM recovery may be the next catalyst as surplus liquidity is deployed and loan yields reprice.

CREDIT GROWTH

19.6%

YoY in Q2FY27, versus **18.8% for public banks** in the same review. Credit expansion supports income, subject to funding costs.

Selected private banks

GROSS NPA RATIO

1.80% to 1.61%

June to September 2026. Improving asset quality may help moderate credit costs.

Average of 11 private banks

REPO RATE

5.50%

RBI repo rate after the 25 bps October hike. Loan and deposit repricing together determine the NIM impact.

October 2026 policy decision

FII EQUITY OUTFLOWS

US$30.4 billion

Record FII equity outflows in CY2026 YTD. Financial services saw US$13.2 billion of outflows, the sharpest across sectors.

1 January to 31 October 2026

System credit grew 19.5% versus deposit growth of 16.9% YoY at 31 October 2026.
Deposit competition remains relevant to the pace of margin recovery.

MARGIN RECOVERY: FROM FUNDING DRAG TO EARNINGS SUPPORT

NIM reflects net interest income relative to average interest earning assets.
Loan yields and funding costs determine margins, while credit costs affect earnings through provisions.

Q2FY27: TEMPORARY FUNDING DRAG

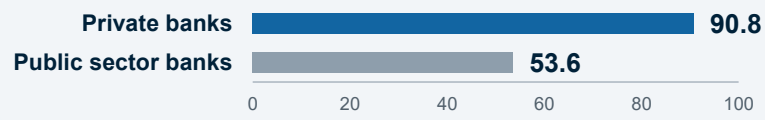
Larger private banks in the review saw NIM fall 10 to 22 bps QoQ. FCNR(B) funding costs preceded deployment into loans, creating a temporary liquidity drag.

Q4FY27: SCOPE FOR RECOVERY

Deployment of FCNR(B) liquidity and higher loan yields may support NIM. Q3FY27 may remain under pressure, with improvement possible from Q4FY27.

WHY PRIVATE BANKS MAY REPRICE FASTER

EBLR-linked share of outstanding floating rate rupee loans (%)



Source: RBI Monetary Policy Report, October 2026.

Rates rise: Faster loan repricing may support NIM if deposit costs adjust later.

Rates fall: Loan yields may reprice first, pressuring NIM. Deposit repricing can provide relief with a lag.

SECTOR OUTLOOK

PRIVATE BANKS

View: Overweight

We prefer Private Banks due to (1) a better Asset-Quality mix, (2) better net interest margins, (3) a rising interest rate scenario, (4) higher credit growth in the economy, (5) reasonable valuations, and (6) the potential to benefit from a reversal in FII flows.

ABBREVIATIONS

NIM	Net Interest Margin	**NPA**	Non Performing Asset
FCNR(B)	Foreign Currency Non Resident (Bank)	**EBLR**	External Benchmark Lending Rate
FII	Foreign Institutional Investor	**FPI**	Foreign Portfolio Investor

As pe latest data available. Data as on 23rd November 2026. Sources: RBI, NSDL, SBI Research, Internal Analysis.

Notes: Credit growth uses the source's bank groups. Gross NPA ratios are an average of 11 private banks and may reflect loan growth and write offs.
FII data covers January to October; financial services includes more than banks. November flows recovered.
Margin recovery is a conditional forecast. Sector outlook reflects internal assessment.

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Name of Mutual Fund: Bajaj Finserv Mutual Fund. Registration number: MF/078/23/04

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

BAJAJ ASSET MANAGEMENT LIMITED (Formerly known as Bajaj Finserv Asset Management Limited)