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Equity Investment Analysis of Indian Banks: A Comparative Study of HDFC Bank, State Bank of India, ICICI Bank, Axis Bank and Kotak Mahindra Bank

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ABSTRACT

This study evaluates the relative investment attractiveness of five major Indian banks: HDFC Bank, State Bank of India (SBI), ICICI Bank, Axis Bank and Kotak Mahindra Bank. The analysis combines a macroeconomic perspective with company-level financial statement analysis and banking-specific performance measures. Audited financial statements, annual reports, investor disclosures and regulatory material were used to examine performance across FY2024–FY2026. The principal indicators considered were Return on Equity (ROE), Net Interest Margin (NIM), Capital Adequacy Ratio (CAR), Gross Non-Performing Asset (GNPA) ratio and selected balance-sheet and cash-flow measures. The study also considers the influence of the interest-rate environment and asset-quality cycle on bank profitability. Prior research indicates that profitability and banking soundness are closely associated with capital adequacy, asset quality, operating efficiency and interest margins [1, 2, 3]. Evidence specific to India also suggests that NIM is shaped by bank-level variables such as CASA deposits, capitalisation and operating costs, together with macroeconomic conditions [4]. The present analysis finds meaningful differences across the selected banks despite an improvement in asset quality across the group. ICICI Bank emerges as the strongest overall performer because its profitability, NIM and asset-quality indicators are comparatively balanced. SBI records the highest ROE in the internship dataset when the reported FY2026 figures are used, although its leverage and lower NIM require contextual interpretation. Kotak Mahindra Bank has the strongest capital position but weaker returns, while HDFC Bank reflects the effects of post-merger normalisation. Axis Bank shows the greatest concentration of adverse movements across profitability, liquidity, NIM and capital indicators. The findings support a differentiated rather than uniform investment view of large Indian banks.

Keywords: Equity Research, Indian Banking Sector, Ratio Analysis, Return on Equity, Net Interest Margin, Capital Adequacy, Non-Performing Assets, Investment Analysis

1. Introduction

The Indian banking sector occupies a central position in financial intermediation and remains closely linked to monetary policy, credit conditions and the broader investment cycle. For an equity investor, however, sector-level growth does not by itself establish the attractiveness of an individual bank. Differences in deposit composition, lending mix, capitalisation, asset quality and operating efficiency can produce materially different outcomes among institutions exposed to broadly similar macroeconomic conditions.

This study examines five large listed banks, namely HDFC Bank, State Bank of India, ICICI Bank, Axis Bank and Kotak Mahindra Bank. The selection permits comparison across ownership structures while retaining a relatively comparable group of large, liquid institutions with extensive public disclosures. The analysis is derived from the internship project conducted at Prasuta Ventures Private Limited between 18 May 2026 and 17 July 2026, where the broader objective was to develop an investment decision-oriented equity research framework. □filecite□turn0file1□L51-L67□

The research adopts a combined top-down and bottom-up perspective. The top-down component considers the macroeconomic and regulatory setting, particularly the transmission of monetary policy into bank margins and credit conditions. The bottom-up component evaluates financial statements and banking-specific ratios. This combination is important because an observed movement in NIM, ROE or asset quality may reflect both institution-specific decisions and changes in the operating environment.

2. Literature Review

Existing literature on Indian banking performance has generally relied on ratio analysis, CAMEL-based frameworks and comparative assessment across ownership groups. The literature is useful for the present study because it establishes that bank performance cannot be adequately represented by a single profitability measure.

Gupta and Verma examined private-sector banks using the CAMEL framework and composite ranking, demonstrating the usefulness of capital adequacy, asset quality, management efficiency, earnings and liquidity as a combined basis for performance assessment [1]. Makkar and Singh extended comparative analysis to Indian commercial banks and similarly treated financial performance as a multidimensional construct rather than a single profitability outcome [2].

Sahota and Dhiman compared scheduled commercial banks with different ownership structures using a ratio-based CAMEL framework and statistical testing. Their findings indicate that ownership and business structure can influence observed performance, while also showing that individual ratios may not differ significantly across every dimension [3]. This supports the present study's decision to compare SBI with four private-sector banks while interpreting the ratios jointly rather than mechanically.

The importance of NIM receives additional support from Barik and Raje, who examined 42 Indian banks over 25 quarters and found that capital adequacy, CASA composition, operating costs and loan-book size were important determinants of net interest margins. Their analysis also identified macroeconomic influences, including economic growth and the policy rate [4]. This is directly relevant to the present study because the internship analysis links margin compression to the interest-rate environment rather than treating NIM as a purely bank-specific variable.

More recent comparative work continues to support multidimensional assessment. Othman, Nagina and Samdrup evaluated public and private banks using the CAMEL framework and composite ranking, reporting differences across capital adequacy, asset quality, management quality, earnings and liquidity [5]. Lathwal and Kumar, using panel regression for Indian public-sector banks, reported a positive relationship between capital adequacy and profitability and an adverse relationship between NPAs and profitability [6].

The literature therefore suggests a clear analytical direction: profitability should be read alongside capital adequacy, asset quality and margins. The present study contributes an applied comparison of five large Indian banks over FY2024–FY2026 and combines these indicators with financial-statement analysis, cash-flow review and a practical investment-ranking framework.

3. Research Gap

A substantial part of the existing Indian banking literature evaluates either ownership-group performance or broad CAMEL dimensions over historical periods. Less attention is given to an investment-oriented comparison that combines recent financial-statement trends, banking-specific ratios, macroeconomic interpretation and a practical ranking across a fixed peer group.

The present study addresses this gap at an applied level. It does not attempt to develop a new econometric model. Instead, it standardises the interpretation of a selected set of ratios across five large banks and places the results within the interest-rate, asset-quality and capital context. The approach is particularly relevant where one-year results contain exceptional or transitional effects, because multi-year trends can provide a more stable basis for interpretation.

4. Objectives of the Study

- To examine the macroeconomic environment influencing the Indian banking sector and its implications for bank profitability.
- To analyse the financial statements of HDFC Bank, SBI, ICICI Bank, Axis Bank and Kotak Mahindra Bank.
- To compare the selected banks using ROE, NIM, CAR and GNPA, supported by balance-sheet and cash-flow indicators.
- To identify differences in financial strength and investment attractiveness and develop a comparative ranking.

5. Research Methodology

5.1 Research Design

The study is descriptive and comparative in design. Secondary data were used throughout. The principal data sources identified in the internship report were audited annual reports, exchange filings, Reserve Bank of India publications and databases, MoSPI data, the Economic Survey, NSE/BSE market information and SEBI publications. □filecite□turn0file1□L216-L225□

5.2 Sample and Scope

The sample comprises five scheduled commercial banks: HDFC Bank, State Bank of India, ICICI Bank, Axis Bank and Kotak Mahindra Bank. The scope excludes NBFCs, housing finance companies, small finance banks, payments banks, cooperative banks, insurance companies and foreign banks. The selection provides both public- and private-sector representation and focuses on institutions with substantial public disclosures.

5.3 Analytical Framework

Table 1: Core Analytical Indicators

Indicator	Formula / Basis	Interpretation
ROE	Net Profit ÷ Total Equity	Return generated on shareholders' capital.
NIM	Net Interest Income ÷ Average Interest-Earning Assets	Core spread profitability of the banking business.
CAR	Regulatory Capital ÷ Risk-Weighted Assets	Capital buffer available against risk-weighted exposures.
GNPA Ratio	Gross NPAs ÷ Gross Advances	Indicator of deterioration in the loan portfolio.
Cash Conversion Ratio	Operating Cash Flow ÷ Net Profit	Relationship between reported profit and operating cash generation.

The internship report also calculated corporate-style measures such as Current Ratio, Debt-to-Equity, Equity Ratio, Working Capital and Asset Turnover. Because such measures were designed primarily for non-financial companies, they are treated as supplementary indicators rather than as the principal basis of banking health. The banking-specific measures receive greater analytical weight.

5.4 Analytical Procedure

The analysis was organised in four layers: financial performance, balance-sheet analysis, cash-flow analysis and banking-specific ratios. The resulting dataset was consolidated into dashboards to permit simultaneous comparison of banks, years and metrics.

For the investment assessment, the ratios were interpreted jointly. No single ratio was treated as sufficient for a recommendation. Particular attention was paid to consistency across profitability, margin, capital adequacy and asset quality, as well as to exceptional or transitional factors that might distort a single-year observation.

6. Results and Discussion

6.1 Profitability and Return on Equity

Table 2: Return on Equity of Selected Banks, FY2026

Bank	FY2026 ROE	Interpretation
HDFC Bank	13.62%	Moderate return; post-merger balance-sheet normalisation remains relevant.
SBI	14.54%	Strong return, but leverage and business mix require contextual interpretation.
ICICI Bank	16.08%	Highest in the study dataset; supported by strong margin and asset quality.
Axis Bank	12.43%	Below peers and consistent with weaker margin and profit momentum.
Kotak Mahindra Bank	10.65%	Lowest return, partly reflecting a more conservatively capitalised balance sheet.

ICICI Bank records the highest ROE in the comparative dataset at 16.08%. The report attributes this performance to the combination of strong profitability, NIM and improving asset quality rather than excessive leverage. SBI follows with 14.54%, although its higher leverage means that the return

should be interpreted differently from ICICI's. HDFC Bank's 13.62% reflects the post-merger adjustment in its capital and balance-sheet structure. Axis Bank and Kotak Mahindra Bank record lower ROEs of 12.43% and 10.65%, respectively. [filecite turn0file1 L607-L637](#)

6.2 Net Interest Margin

Table 3: Net Interest Margin of Selected Banks, FY2026

Bank	FY2026 NIM	Interpretive Observation
Kotak Mahindra Bank	4.60%	Highest margin, but the three-year trend indicates compression.
ICICI Bank	4.32%	High margin combined with strong ROE and asset-quality improvement.
Axis Bank	3.69%	Declining margin adds to broader concerns about performance.
HDFC Bank	3.40%	Lower margin in a post-merger normalisation phase.
SBI	2.91%	Lowest margin, consistent with scale and business-mix characteristics.

Kotak Mahindra Bank records the highest FY2026 NIM at 4.60%, followed by ICICI Bank at 4.32%. The higher margin at Kotak does not translate into the highest ROE because its capitalisation is comparatively strong and its NIM has declined over the three-year period. ICICI's combination of a high NIM and the highest ROE is therefore more informative than NIM alone. Axis Bank's 3.69% margin and SBI's 2.91% margin are interpreted in relation to their business models and other indicators. The direction of NIM is particularly important because prior research finds that Indian bank margins respond to capitalisation, CASA composition, operating costs and macroeconomic conditions [4].

6.3 Asset Quality

Table 4: Gross NPA Trend, FY2024–FY2026

Bank	FY2024 GNPA	FY2025 GNPA	FY2026 GNPA	Change FY24–FY26
HDFC Bank	Not consistently disclosed in dataset	Not consistently disclosed in dataset	1.15%	Improved / stabilised
SBI	2.24%	1.82%	1.49%	-0.75 pp
ICICI Bank	2.16%	1.67%	1.40%	-0.76 pp
Axis Bank	1.43%	1.28%	1.23%	-0.20 pp
Kotak Mahindra Bank	1.39%	1.42%	1.20%	-0.19 pp

Asset quality improved or remained stable across the selected group. SBI and ICICI recorded the largest reported reductions in GNPA over the three-year period, while Axis and Kotak started from lower levels and therefore had less scope for improvement. The source report notes that some absolute NPA amounts were back-derived from disclosed ratios where the corresponding absolute figure was not separately available. Those observations should therefore be interpreted with appropriate caution. [filecite turn0file1 L851-L860](#)

The sector-wide improvement is important for investment interpretation. Lower GNPA ratios reduce the immediate pressure associated with provisioning and credit losses, although asset quality should still be monitored through the credit cycle. Recent empirical literature similarly reports an adverse relationship between NPAs and bank profitability, reinforcing the relevance of asset quality in investment assessment [6].

6.4 Capital Adequacy

Table 5: Capital Adequacy Ratio of Selected Banks, FY2026

Bank	FY2026 CAR	Interpretation
HDFC Bank	19.70%	Strong capital buffer.
ICICI Bank	17.18%	Mid-range capitalisation with strong profitability.
Axis Bank	16.42%	Adequate but declining relative to its earlier level.

Bank	FY2026 CAR	Interpretation
SBI	15.40%	Lowest among the five, consistent with higher structural leverage.
Kotak Mahindra Bank	22.40%	Highest capital cushion, supporting balance-sheet safety.

Kotak Mahindra Bank has the highest CAR at 22.40%, which provides substantial loss-absorption capacity but also helps explain why its ROE is comparatively low. HDFC Bank and ICICI Bank also maintain substantial capital buffers. Axis Bank's decline in CAR is noteworthy because it occurs alongside pressure in NIM and liquidity indicators. SBI records the lowest CAR in the selected group, although the report still characterises the position as safe and improving. The trade-off between capital conservation and shareholder returns therefore needs to be recognised when comparing banks.

6.5 Integrated Investment Assessment

Table 6: Comparative Investment Ranking

Rank	Bank	Classification	Principal Basis
1	ICICI Bank	Buy	Strongest combination of ROE, NIM and asset quality.
2	HDFC Bank	Watchlist-to-Buy	Strong cash generation and improving post-merger trajectory.
3	Kotak Mahindra Bank	Watchlist-to-Buy	Highest CAR and strong NIM, but lower ROE and margin compression.
4	SBI	Buy	Highest ROE in the broader FY2026 internship dataset and strong asset-quality improvement.
5	Axis Bank	Watchlist	Weakening pattern across profitability, liquidity, NIM and CAR.

The ranking indicates that investment attractiveness cannot be inferred from profitability alone. ICICI Bank is placed first because its performance is comparatively balanced across the principal dimensions. SBI combines strong ROE with improving asset quality but carries a different risk-return profile because of its higher leverage. HDFC Bank and Kotak Mahindra Bank are treated as watchlist-to-buy candidates because their strengths are offset by transition or margin-related considerations. Axis Bank remains a watchlist candidate because adverse movements appear across several indicators simultaneously. □filecite□tum0file1□L781-L832□

7. Findings

- ICICI Bank presents the strongest overall performance profile in the selected peer group, particularly when ROE, NIM and asset quality are considered together.
- SBI's profitability is stronger than a simple comparison of margin or leverage would suggest; its asset-quality improvement is a significant positive factor.
- Kotak Mahindra Bank provides the strongest capital cushion but its lower ROE and declining NIM reduce the attractiveness of the stock as a purely profitability-driven investment.
- HDFC Bank's ratios should be interpreted in light of the structural effects of the HDFC Ltd merger and subsequent balance-sheet normalisation.
- Axis Bank is the most cautionary case because pressure is visible across several indicators rather than being confined to one measure.
- GNPA ratios improved across the selected banks, indicating a generally healthier asset-quality environment during the study period.

8. Conclusion

The comparative evidence indicates that the five banks should not be treated as interchangeable exposures to the Indian banking sector. Their financial profiles differ in the balance between profitability, capital strength, margin resilience and asset quality. The overall sector appears fundamentally sound in the period examined, particularly because GNPA ratios improved and capital levels remained substantial.

ICICI Bank provides the most balanced investment case in the present dataset. Its relatively high ROE and NIM are accompanied by improving asset quality, which reduces the need to explain profitability through leverage or exceptional events. SBI remains attractive from a value and recovery perspective, although its structural leverage and lower NIM warrant closer monitoring. HDFC Bank's position is better understood as a transition story following the merger, while Kotak's high capitalisation provides safety at the cost of lower returns. Axis Bank requires greater evidence of sustained recovery before a stronger investment classification is justified.

The study also demonstrates the usefulness of combining macroeconomic interpretation with bottom-up ratio analysis. A change in the policy-rate environment can affect bank margins broadly, but the magnitude and persistence of that effect depend on each bank's deposit franchise, asset mix, capital position and operating structure. Consequently, investment decisions are better supported by multi-year comparative analysis than by a single headline financial result.

9. Limitations of the Study

Several limitations should be recognised. First, the study is based entirely on secondary data and does not incorporate management interviews or primary surveys. Second, some ratio components, particularly NIM, CAR and selected GNPA amounts, were derived from disclosed bank ratios or back-derived where direct absolute figures were unavailable. Third, the use of standalone and consolidated figures may create minor comparability differences where banks disclose headline measures on different bases.

HDFC Bank's merger with HDFC Ltd also limits clean year-on-year comparability. Corporate-style ratios such as Current Ratio and Debt-to-Equity are less conceptually direct for banks than for industrial companies and are therefore supplementary. Finally, no DCF, Dividend Discount Model or Residual Income valuation was undertaken; the investment ranking is relative and ratio-based rather than an estimate of intrinsic value. These limitations are consistent with those identified in the underlying internship report. [filecite turn0file1 L781-L892](#)

10. Recommendations

For an investment-research process, ICICI Bank and SBI may be retained as the principal names for further evaluation, while HDFC Bank and Kotak Mahindra Bank warrant structured monitoring against their respective normalisation and margin indicators. Axis Bank should be reviewed for evidence that the recent weakening across several measures has reversed rather than merely stabilised.

The ranking should be updated quarterly rather than relying solely on annual observations. The source report specifically recommends monitoring the five-bank ratio set as new results are released because one-off items can materially affect a single year's numbers. Future research could also expand the sample to include additional public-sector and small-finance banks, introduce a formal intrinsic-valuation model, and develop a quantitative repo-rate sensitivity model.

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