

# Banks

India

Sector View: **Attractive** NIFTY-50: **22,125**

February 28, 2025

## Growth slows, led by private banks

The RBI's recent data (3QFY25) on housing loan growth (~12% yoy) puts public banks at ~15% yoy growth and private banks at 8% yoy growth. We see lenders growing their loans against portfolio faster than housing loans. A combination of pricing, weaker demand and deposit constraints with select large private banks probably explains the slower growth rather than any specific concerns on asset quality, in our view.

### A tad weaker on growth; public banks growing faster than private banks

The RBI's recent data on housing loans shows the following: (1) Loan growth of 12% yoy was led by ~6% volume growth and ~5% yoy growth in average ticket size (see Exhibit 1). This is the second quarter with a normalized base, as the numbers prior had the impact of the merger of HDFC Ltd with HDFC Bank. (2) Key trends—the share of public and private banks is similar at ~50% (see Exhibit 2). However, we have seen a slowdown compared to prior-period performance for private banks (~8% yoy growth), as compared to public banks (~15% yoy growth). (3) ~80% of the housing loans are in the Rs1-10 mn ticket size by value (see Exhibits 3-5), with faster growth in higher ticket-size loans. (4) The top 7 states contribute ~70% of the overall housing loans, with Maharashtra contributing 30% of the overall loans (see Exhibit 9). Overall, there are stable trends on most operating metrics.

### Slowdown is not worrisome as asset quality trends are stable

Discussions with industry players suggest the following. (1) The demand for LAP is better than that of housing loans. (2) Within housing loans, the demand is still healthy for larger ticket-size mortgages (>Rs7.5 mn), while lower ticket-size loans have much lower growth. (3) The demand for LAP loans is higher and across ticket sizes, as compared to that for housing loans. The end-use demand is still being driven by business requirements. (4) Public banks are far more aggressive in housing loans (across ticket sizes and competing in the borrower segment of private banks). There has been some tightening of credit filters, although this portfolio has generally been less worrisome. There are still no signs of asset quality concerns from lenders. Overall, we are still less worried about the portfolio performance from an asset quality perspective. We would want to believe that the slowdown in housing loan growth by private banks is being led by the individual choices of a few large private banks. Challenges on deposit growth and pricing of housing loans for the deposits mobilized probably explain this behavior. With the transmission of the recent rate cut and no change in deposit rates, there would be some struggle in growth in the short term.

### Drivers of housing loan growth still look comfortable

We look at the housing loan market from three broad perspectives to measure affordability. Housing loan interest rates are turning favorable. Income levels are still holding up reasonably well when we look at the tax collection data. While there is a sharper appreciation in a few areas, overall housing prices still look comfortable. The skewness in loan growth toward larger ticket-size loans builds a bit of risk on growth rather than asset quality, in our view.

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**The merger of HDFC Ltd with HDFC Bank has resulted in a sharp loan growth in the housing portfolio of banks**

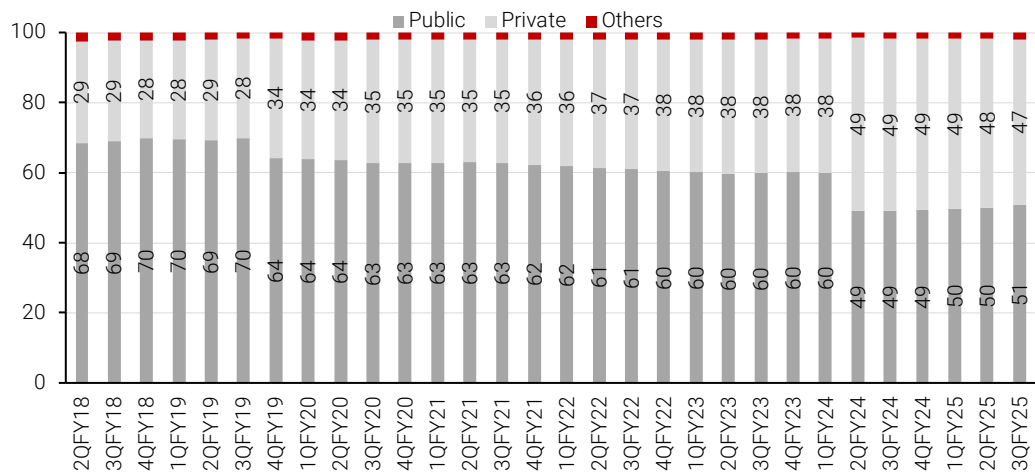
**Exhibit 1: Break-up of housing loans for public and private banks, March fiscal year-ends, 3QFY19-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**Public banks and private banks have a similar market share at ~50%**

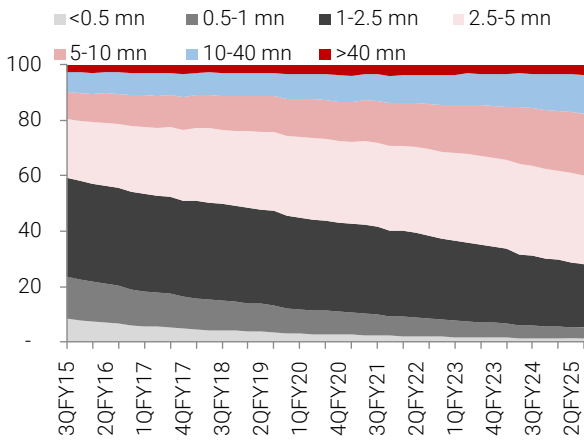
**Exhibit 2: Break-up of housing loans, March fiscal year-ends, 2QFY18-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**~60% of loans outstanding is in the Rs1-5 mn ticket size and 20% is in the Rs5-10 mn ticket size**

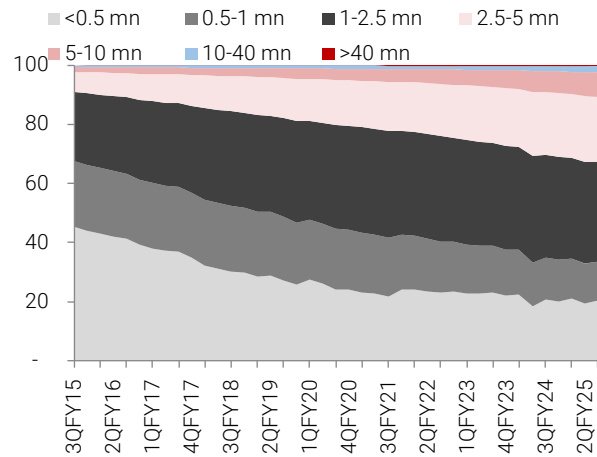
**Exhibit 3: Break-up of loans outstanding by ticket size, March fiscal year-ends, 3QFY15-2QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**90% of loans (number) are up to Rs5 mn ticket size; Rs5-10 mn ticket loans are ~6% of total loans issued**

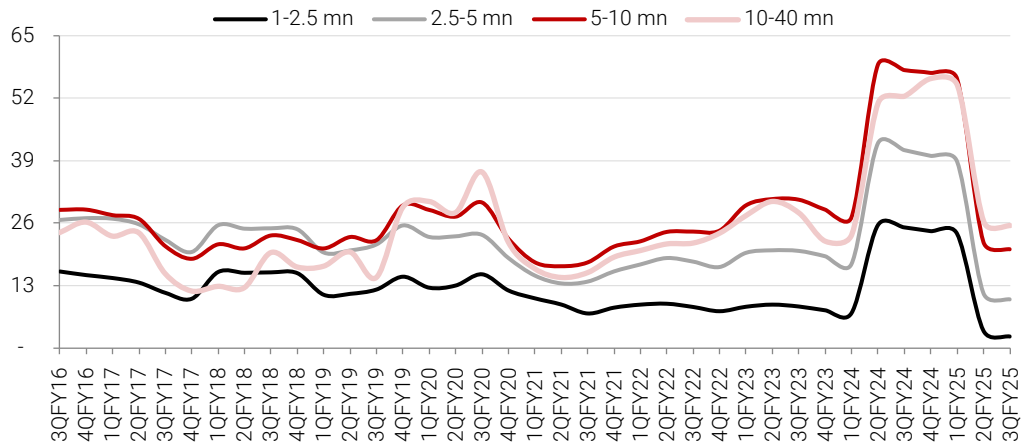
**Exhibit 4: Break-up of loans accounts by ticket size, March fiscal year-ends, 3QFY15-2QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**Loan growth slowdown is a lot stronger in the larger ticket-size loans (Rs10-40 mn)**

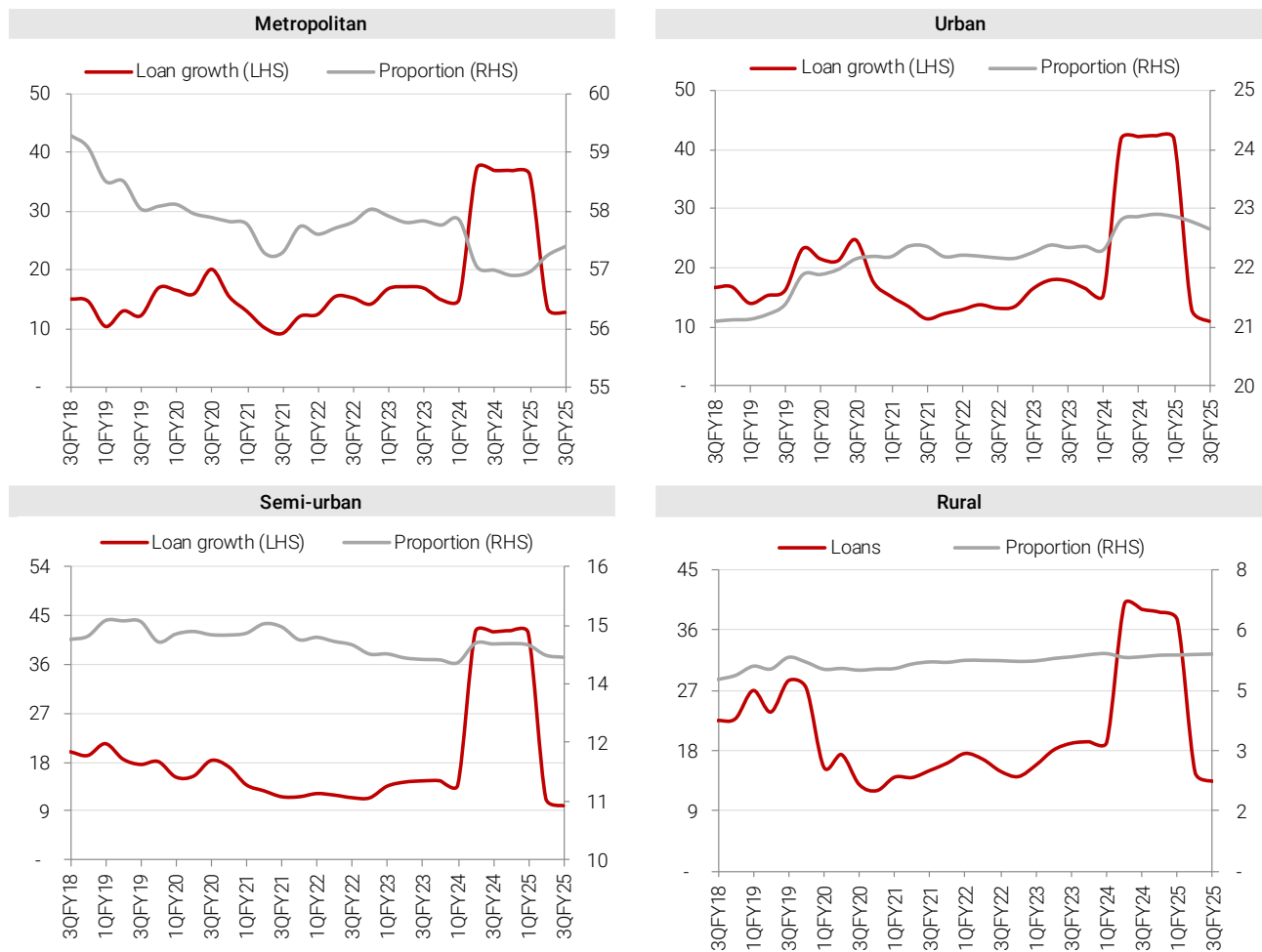
**Exhibit 5: Break-up of housing loan growth by ticket size, March fiscal year-ends, 3QFY16-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**Stable trends across regions on housing loan growth**

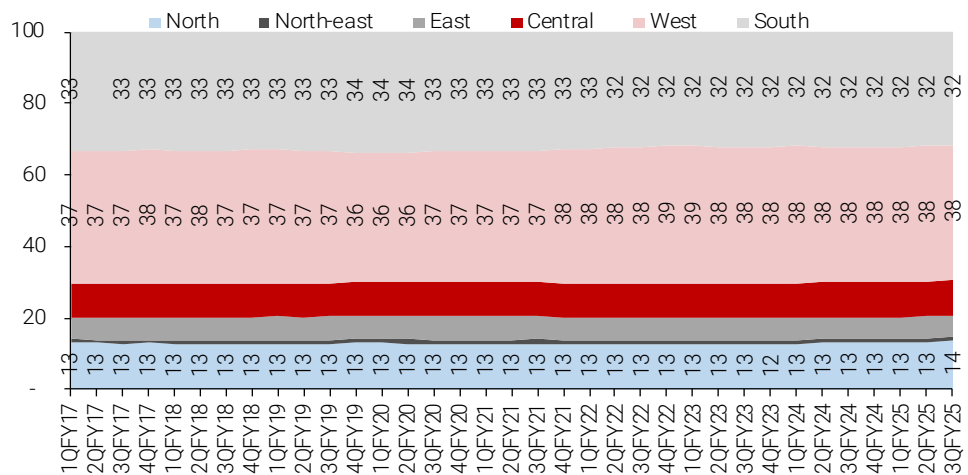
**Exhibit 6: Loan growth across regions in housing loans, March fiscal year-ends, 3QFY18-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**West contributes ~40% of the housing loan portfolio while South contributes ~30% of loans**

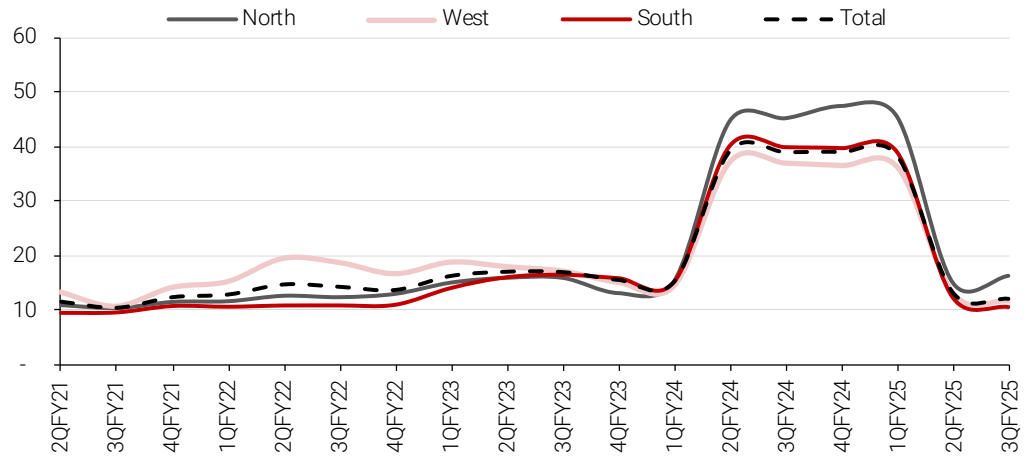
**Exhibit 7: Break-up of housing loans across regions, March fiscal year-ends, 1QFY17-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**Slowdown seen in the western regions in the past few quarters**

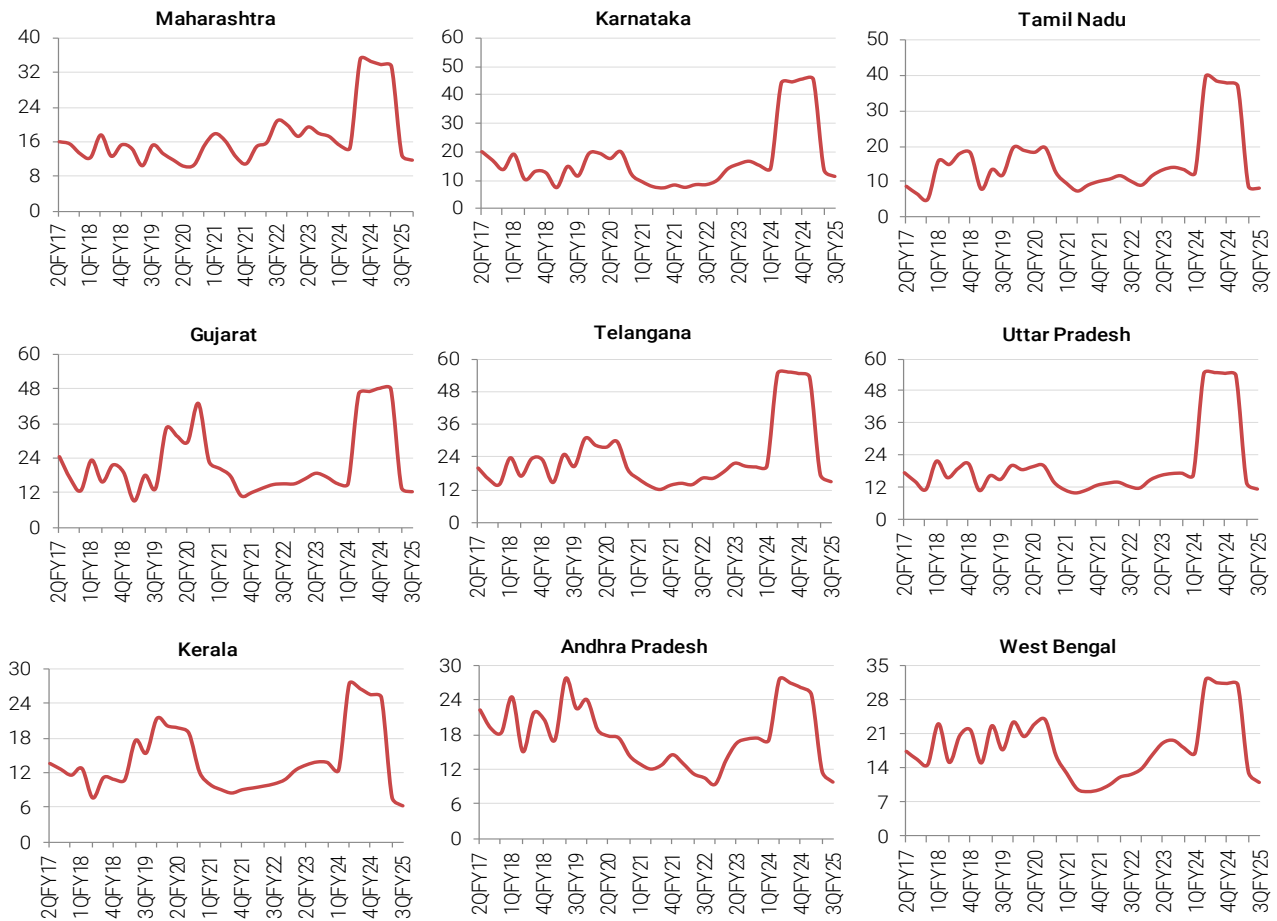
**Exhibit 8: Break-up of housing loans across regions, March fiscal year-ends, 2QFY21-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

**The top 7 states, which contribute 70% of the housing loan portfolio, have seen a mixed performance on growth**

**Exhibit 9: Break-up of housing loan growth across states, March fiscal year-ends, 2QFY17-3QFY25 (%)**



Source: RBI, Kotak Institutional Equities

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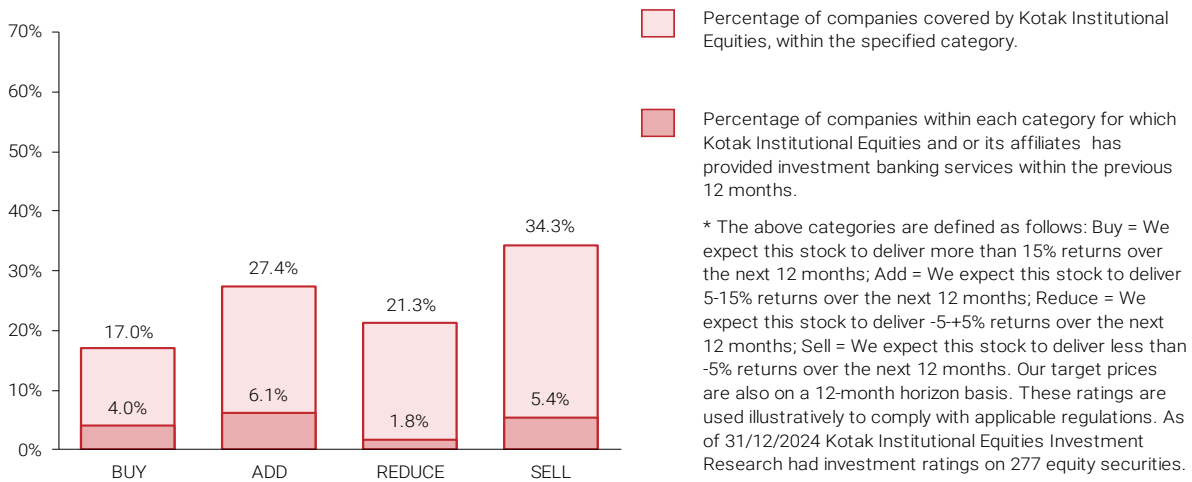
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