Banks

India

Sector View: **Attractive** NIFTY-50**: 22,821** **June 06, 2024**

Stable performance across metrics on loan growth

The key takeaways from the RBI's release on loans: (1) Loan growth is holding up at ~20% (higher due to the merger of HDFC Ltd with HDFC Bank), which would be weighing down on the various growth metrics until 2QFY25. (2) Private banks are growing faster than public banks. (3) Household demand for loans is holding up relatively well. The intent to lend is still holding up, as there is negligible stress on the balance sheet of all banks. (4) Corporate capex-led demand appears to be quite limited.

Stable trends reported by banks in 4QFY24

The latest release (4QFY24) from the RBI on segmental information shows: (1) Loan growth was at ~20% yoy, with nearly similar performance across (metro, urban, semi-urban and rural) markets (Exhibits 1 and 5). (2) Private banks are growing faster, but primarily due to the reported data, including the merged entity of HDFC Ltd and HDFC Bank. Public banks are showing stable trends at 13-14% yoy. (3) Ticket size growth (Exhibit 3) shows a slowdown in the large ticket size loans (Rs1 bn and above), which could be explained by the slowdown in lending to NBFCs (Exhibit 13). (4) Growth in the household sector appears to be comfortable, but the government sector has seen a sharp slowdown (Exhibits 7 and 8). Long-term loans, which is driving demand, appears to be driven by retail loans (5) Private and public banks have a relatively more granular portfolio than what we have seen in the previous corporate cycle (Exhibits 10, 11 and 12).

Granular portfolio, with less visibility of a capex cycle-driven loan demand

When we look at the various metrics—ticket size, type of loans (working capital or term loan), sectors, type of banks and state-wise distribution of growth—the underlying trends broadly suggest that the growth that we are seeing is much more broad-based. We have highlighted that the impact of higher interest rates on loan demand remains weak, and the intent to lend and ability to repay remains a driving force of loan growth. The intent of lenders (across players such as public, private or SFBs) is still positive. MSME is an area of focus, largely led by improvement in tools such as ability to monitor or origination. The data also suggests that the corporate capex cycle-led demand for loans remains weak. The strong flow of credit possibly explains the lower delinquency levels across lenders—this trend is likely to continue, with the only risk coming from deposit mobilization. On deposits, while the situation is not worrisome, the gap between loans and deposit growth needs to converge.

Keeping a favorable outlook on asset quality for the near term

Credit growth in this leg of the cycle is only marginally ahead of nominal growth, and we are not yet seeing any signs of excessive growth in any segment (even unsecured loans have been slowing down across players). The net NPL ratio is at an all-time low and we shall change our views on credit costs, if there is any unforeseen development. Most early warning indicators that we are able to monitor does not suggest any stress in the portfolio currently.

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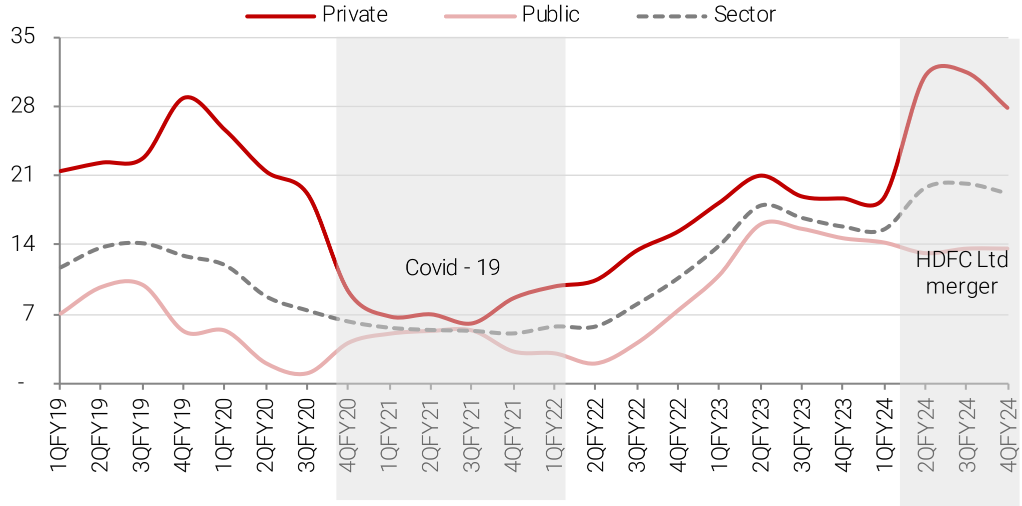
Loan growth trends slowing down for private banks, while stable for public banks

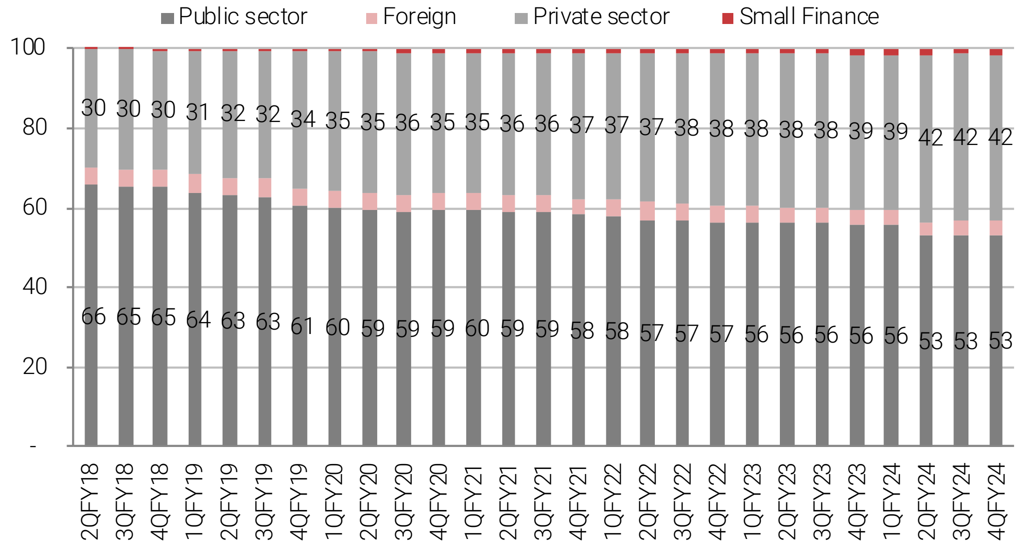
Exhibit 1: Loan growth for banks, March fiscal year-ends, 1QFY19-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

Broadly stable trends in recent quarters after the merger of HDFC Ltd with HDFC Bank

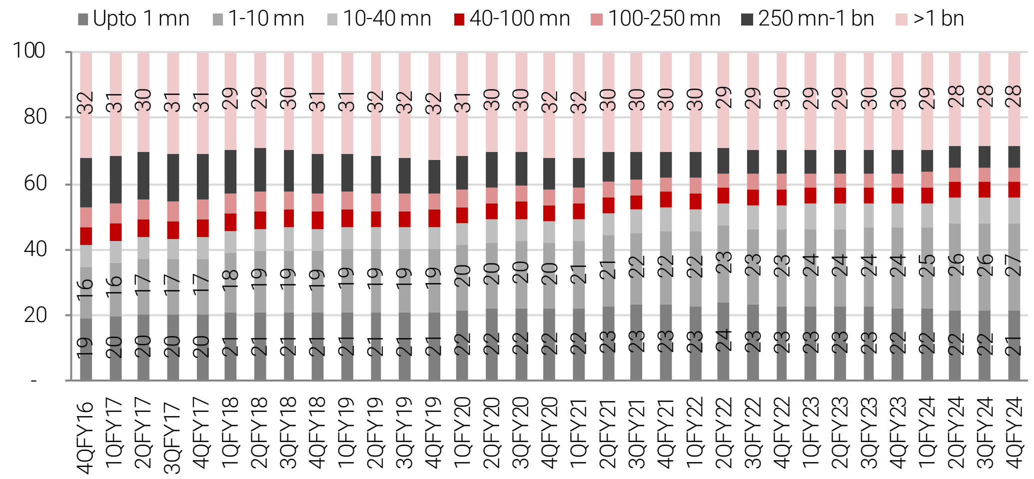
Exhibit 2: Market share of loans between banks, March fiscal year-ends, 2QFY18-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

Growth is much more balanced across ticket sizes in recent quarters

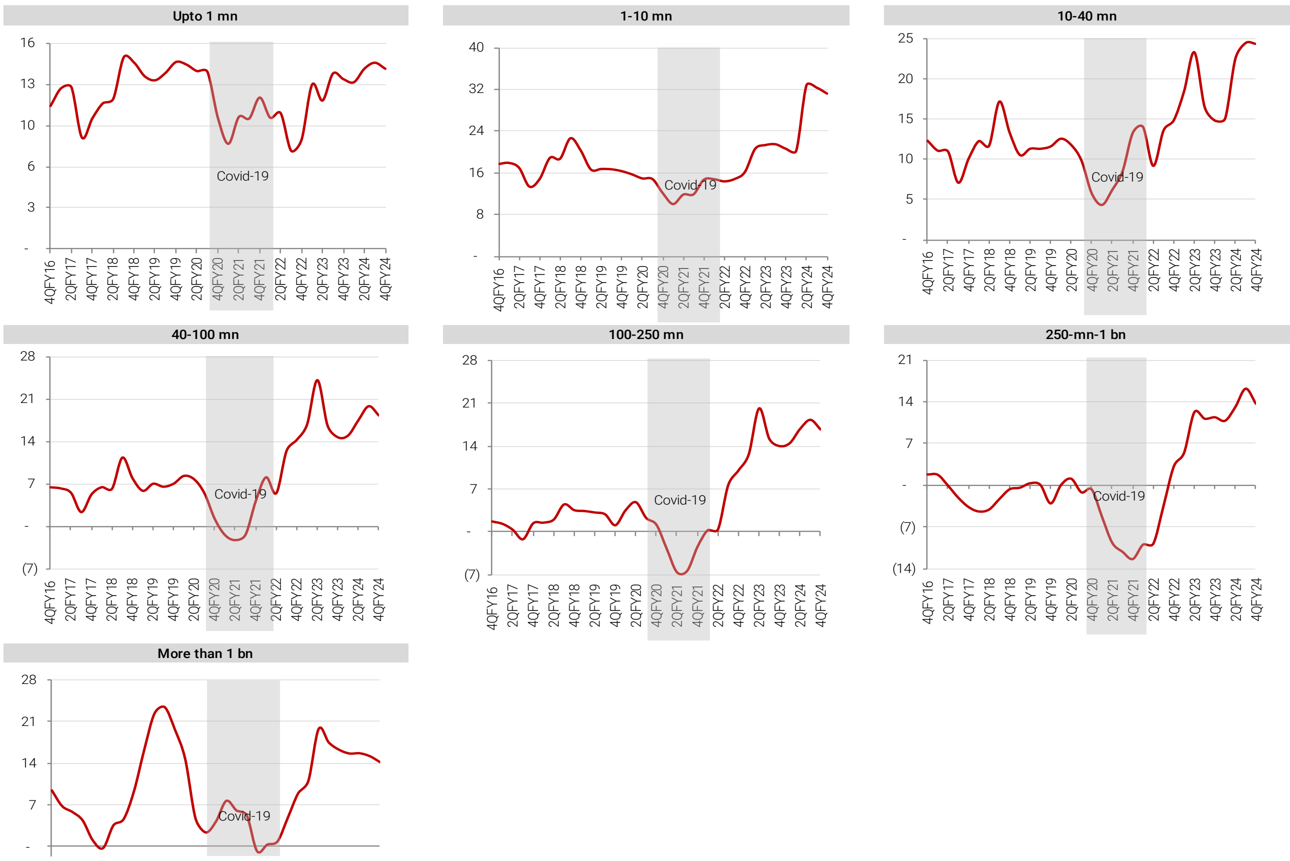
Exhibit 3: Breakup of loans based on ticket size, March fiscal year-ends, 4QFY16-2-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

Growth is still stronger in the smaller ticket size loans, though the data is a bit noisy after the merger

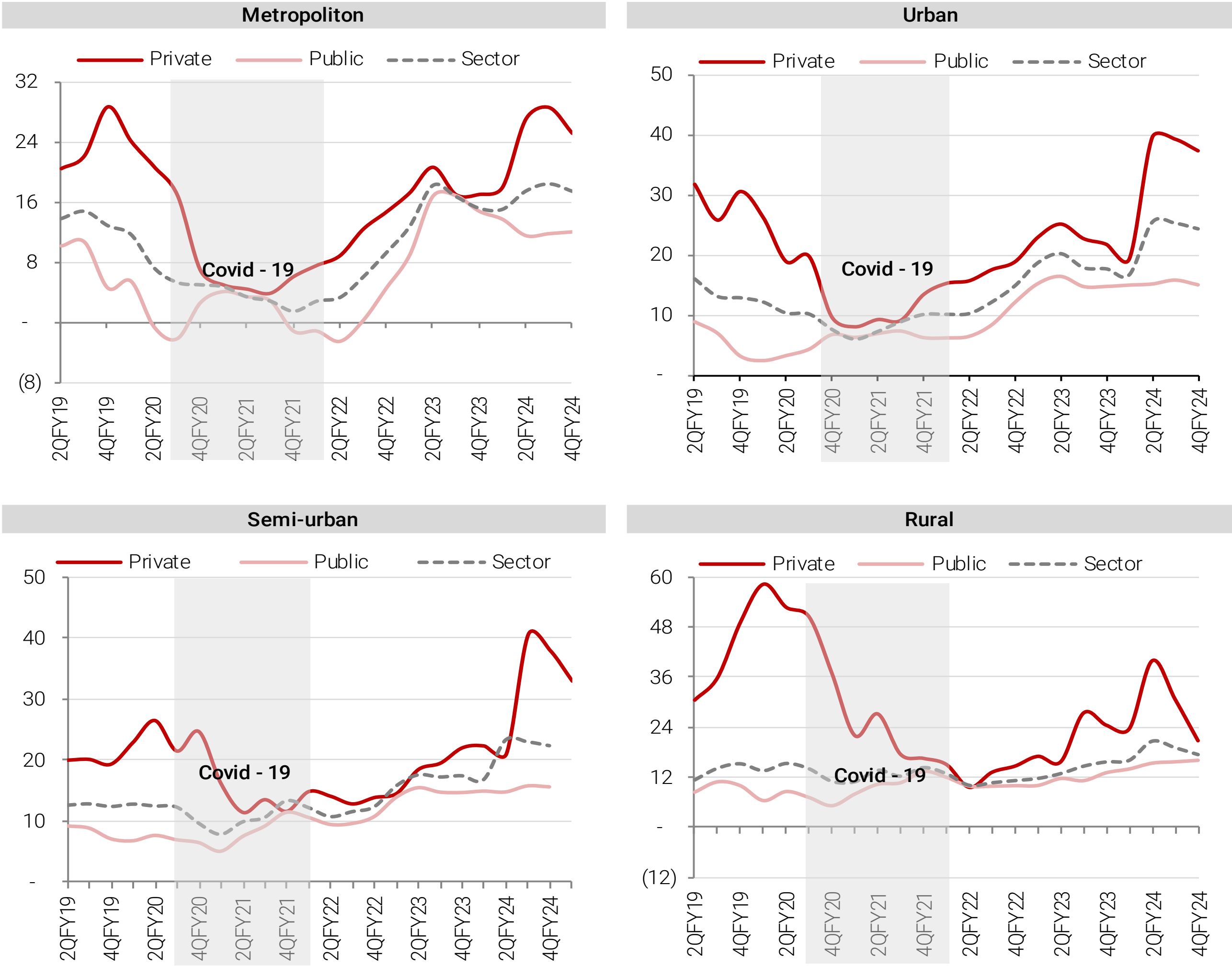
Exhibit 4: Breakup of loan growth by ticket size, March fiscal year-ends, 4QFY16-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

There is moderation in loan growth across regions for private banks, but relatively stable for public banks

Exhibit 5: Breakup of loan growth based on regions, March fiscal year-ends, 2QFY19-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

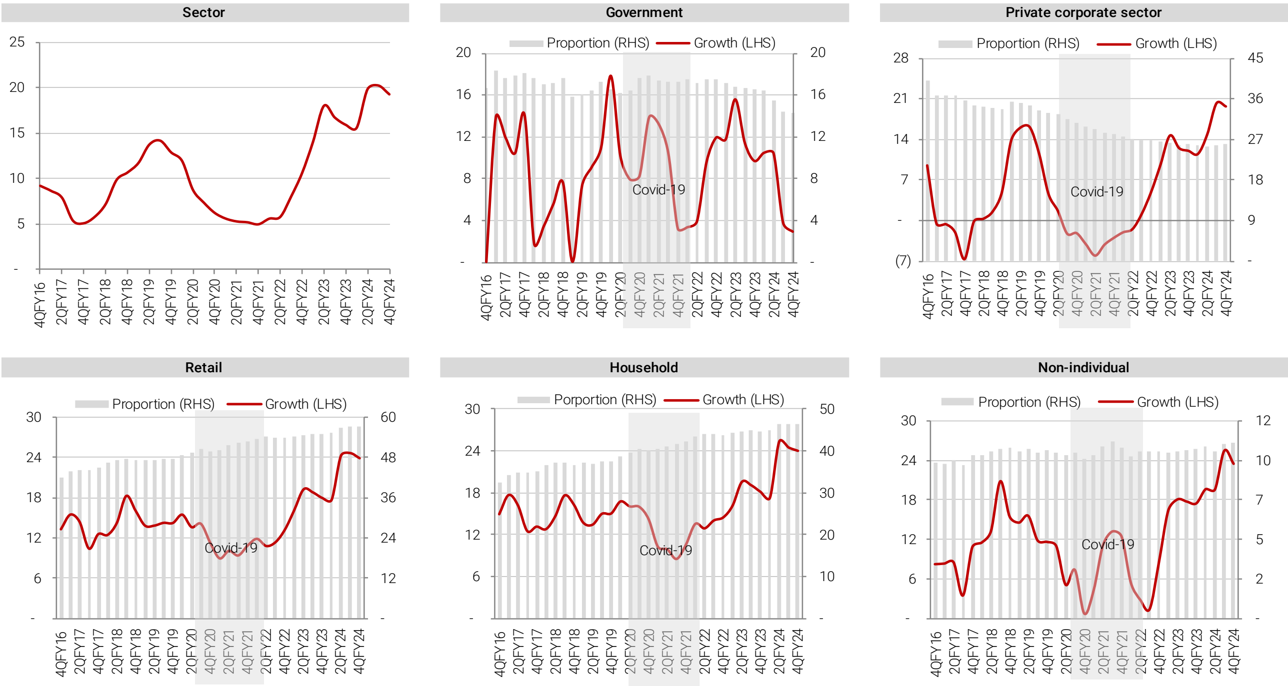
Metropolitan and urban centers dominate India's loan portfolio; loan mix has a higher concentration for private banks in metro regions

Exhibit 6: Breakup of loan book based on regions, March fiscal year-ends, 1QFY18-4QFY24 (%)

Source: RBI, Kotak Institutional Equities

Slowdown is mostly visible in the government sector, while private, retail, household and self-employed are still closer to peak levels

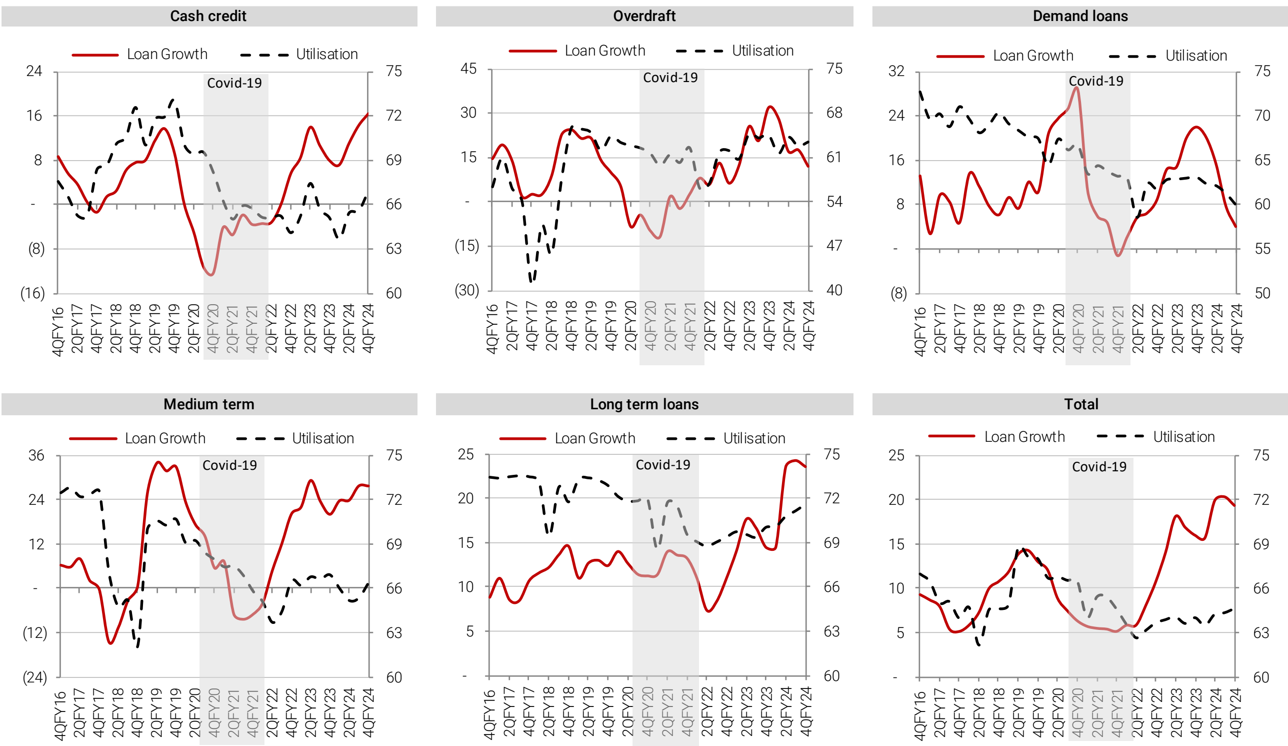
Exhibit 7: Breakup of loan growth by sector, March fiscal year-ends, 4QFY15-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

No signs of slowdown in medium- and long-term loans, but relatively weak on overdraft and demand loans

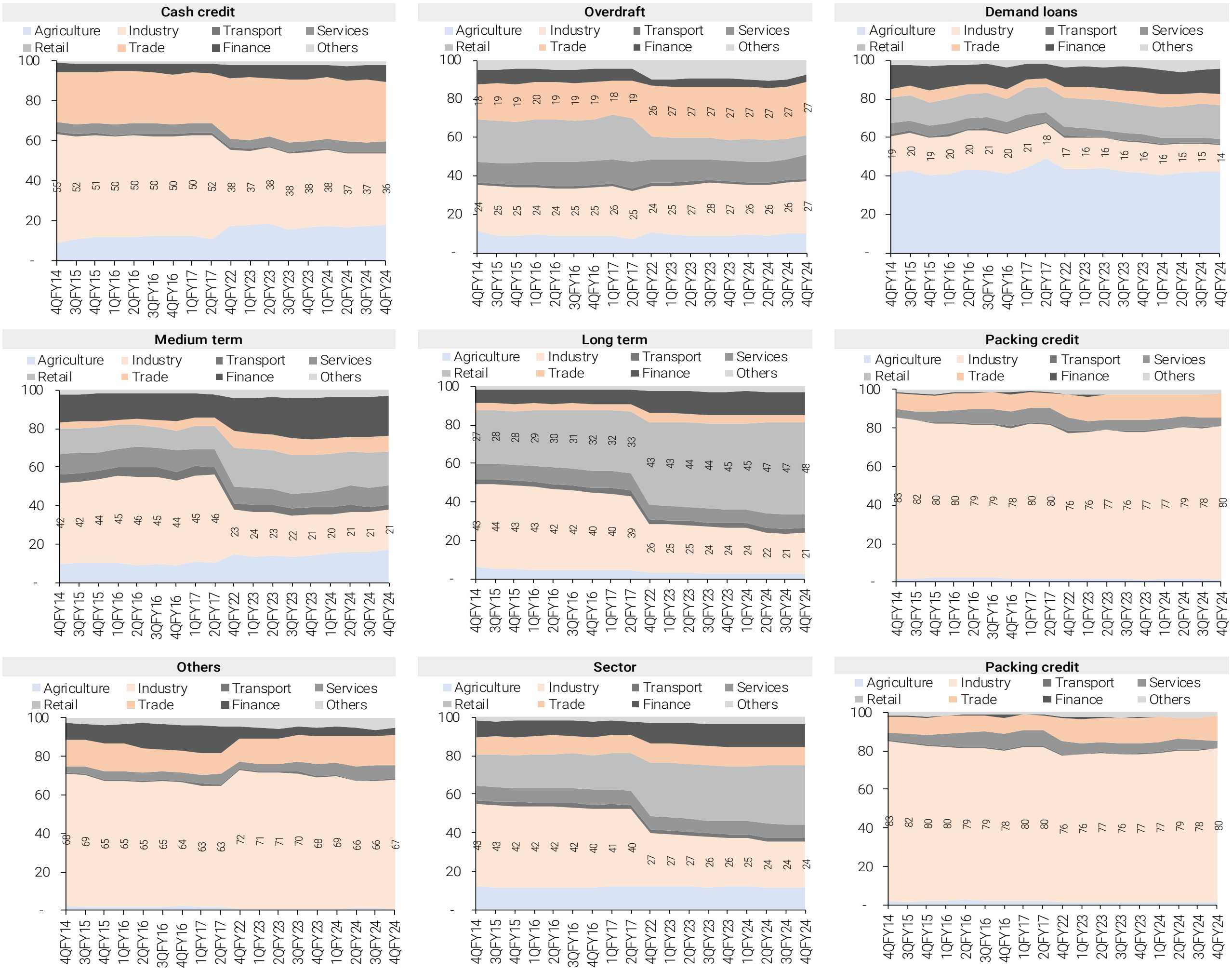
Exhibit 8: Breakup of credit by nature of loan utilization, March fiscal year-ends, 4QFY15-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

The banking sector is largely underwriting mid-size ticket loans, with most large ticket loans from the financial (NBFC) sector

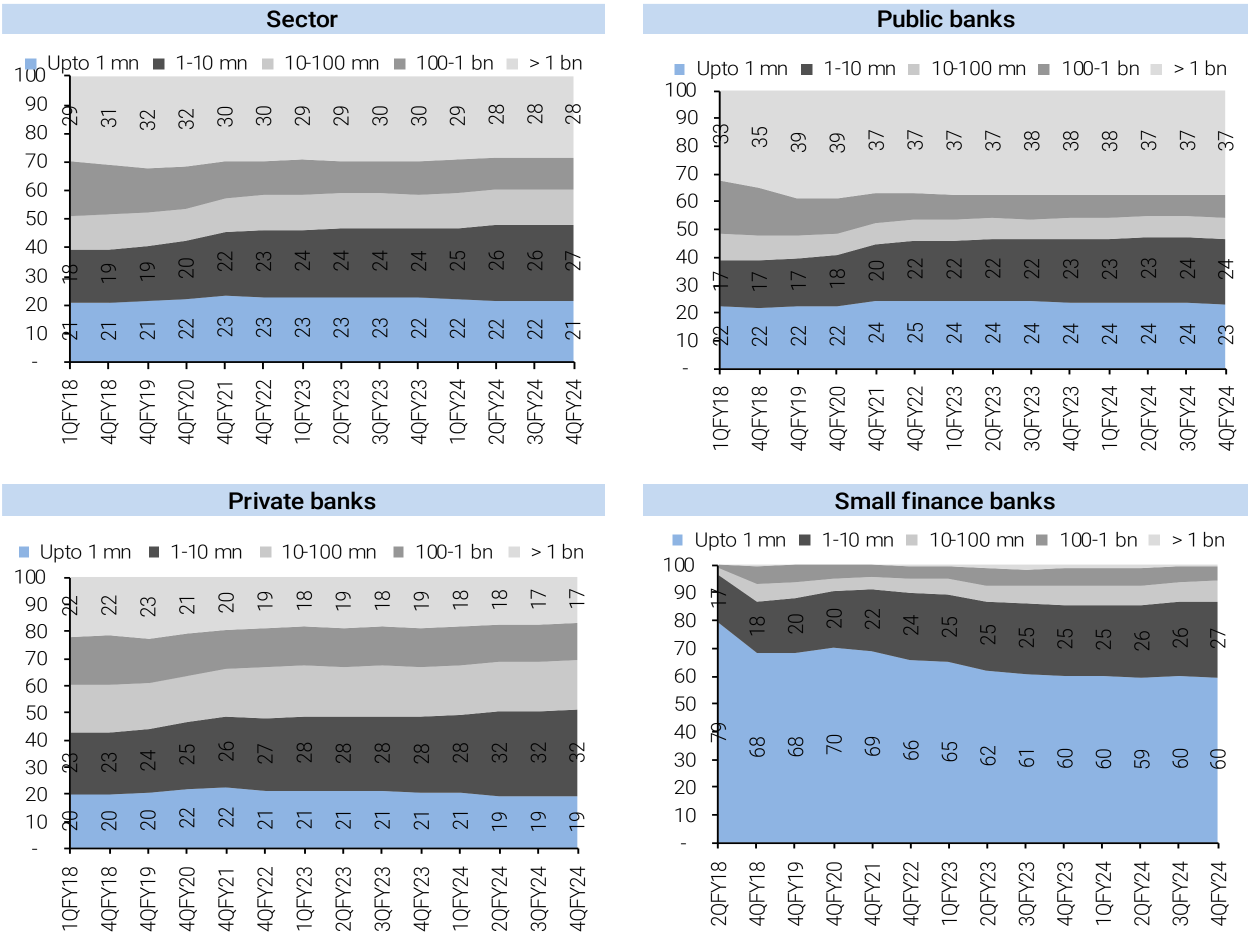
Exhibit 9: Breakup of loans by ticket size across sectors, March fiscal year-ends



Source: RBI, Kotak Institutional Equities

Adjusted for merger, growth is largely balanced across ticket size, with similar performance across banks in recent quarters

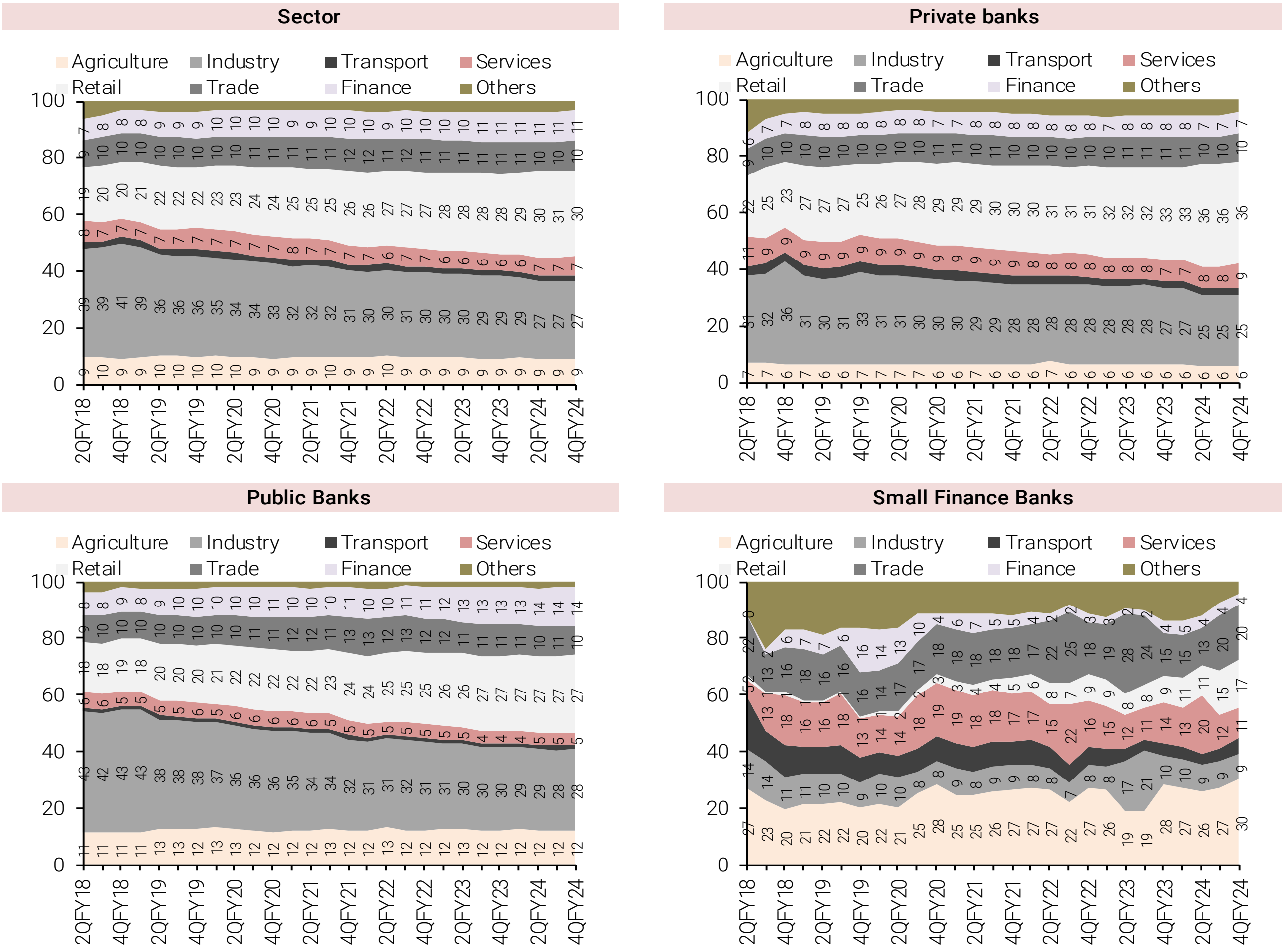
Exhibit 10: Breakup of loans across ticket size by ownership, March fiscal year-ends, 1QFY18-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

The loan portfolio is broadly similar with a greater share of retail loans in this cycle

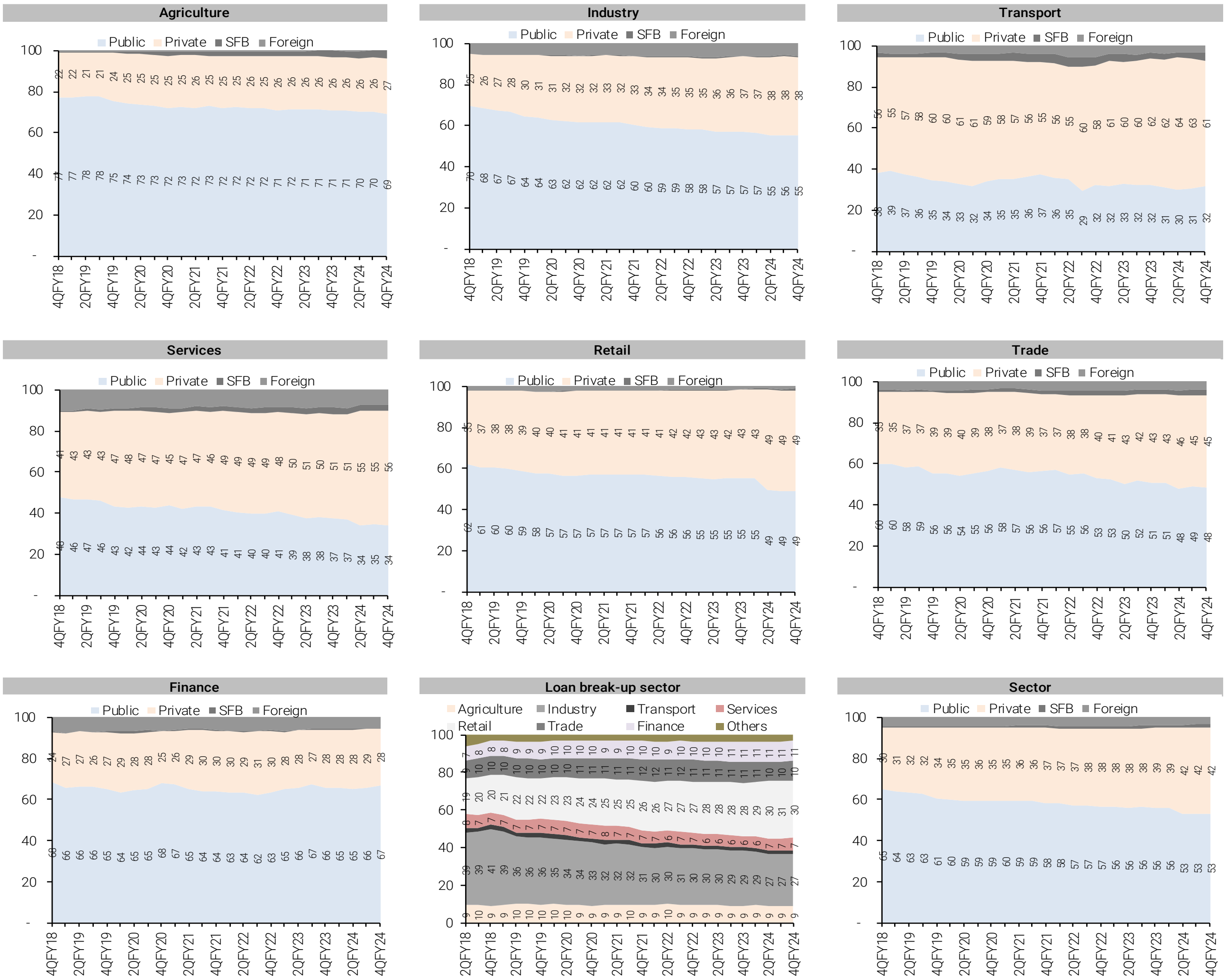
Exhibit 11: Breakup of loan growth based on sector, March fiscal year-ends, 2019-24 (%)



Source: RBI, Kotak Institutional Equities

Private banks have a higher market share of the retail and services sectors as compared with public banks

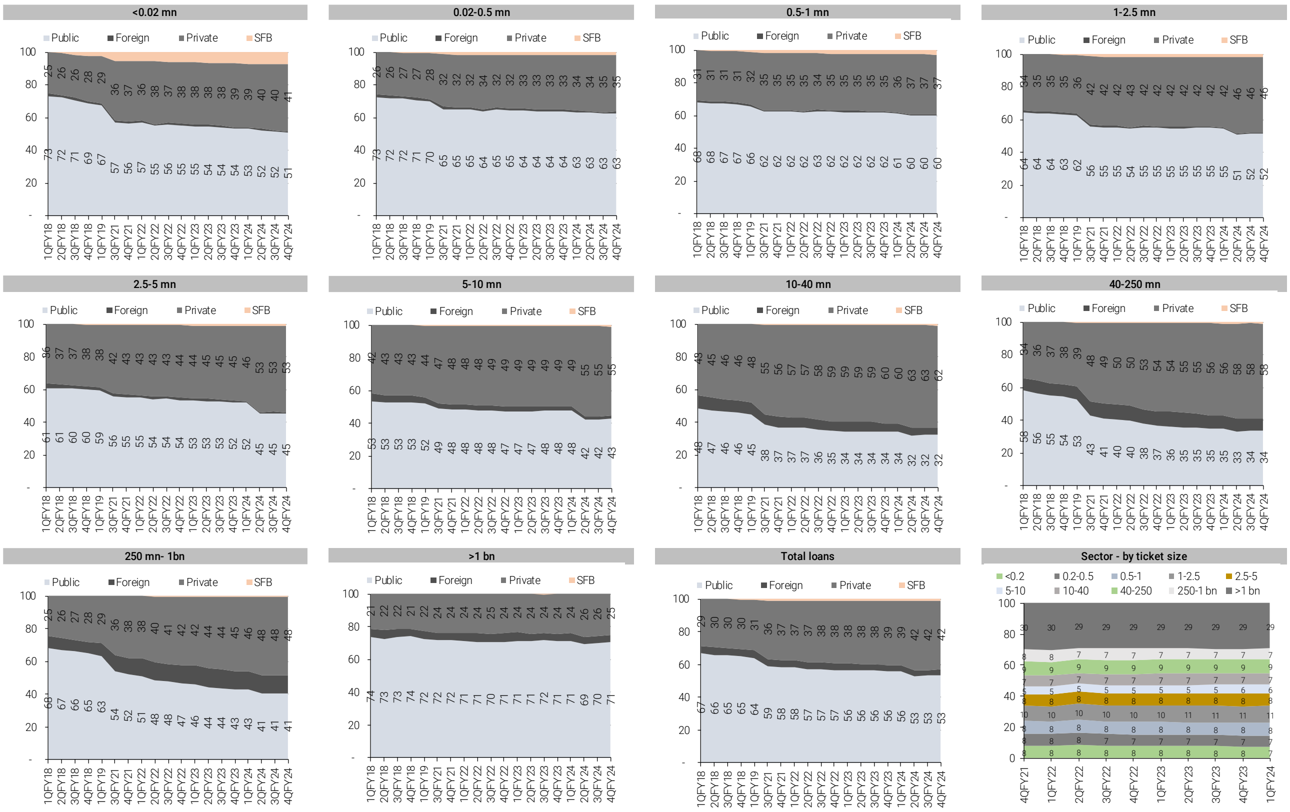
Exhibit 12: Market share of loans between banks across sectors, March fiscal year-ends, 2019-24 (%)



Source: RBI, Kotak Institutional Equities

This cycle has seen faster growth in the Rs1 mn-Rs1 bn ticket size loans as compared with the last cycle

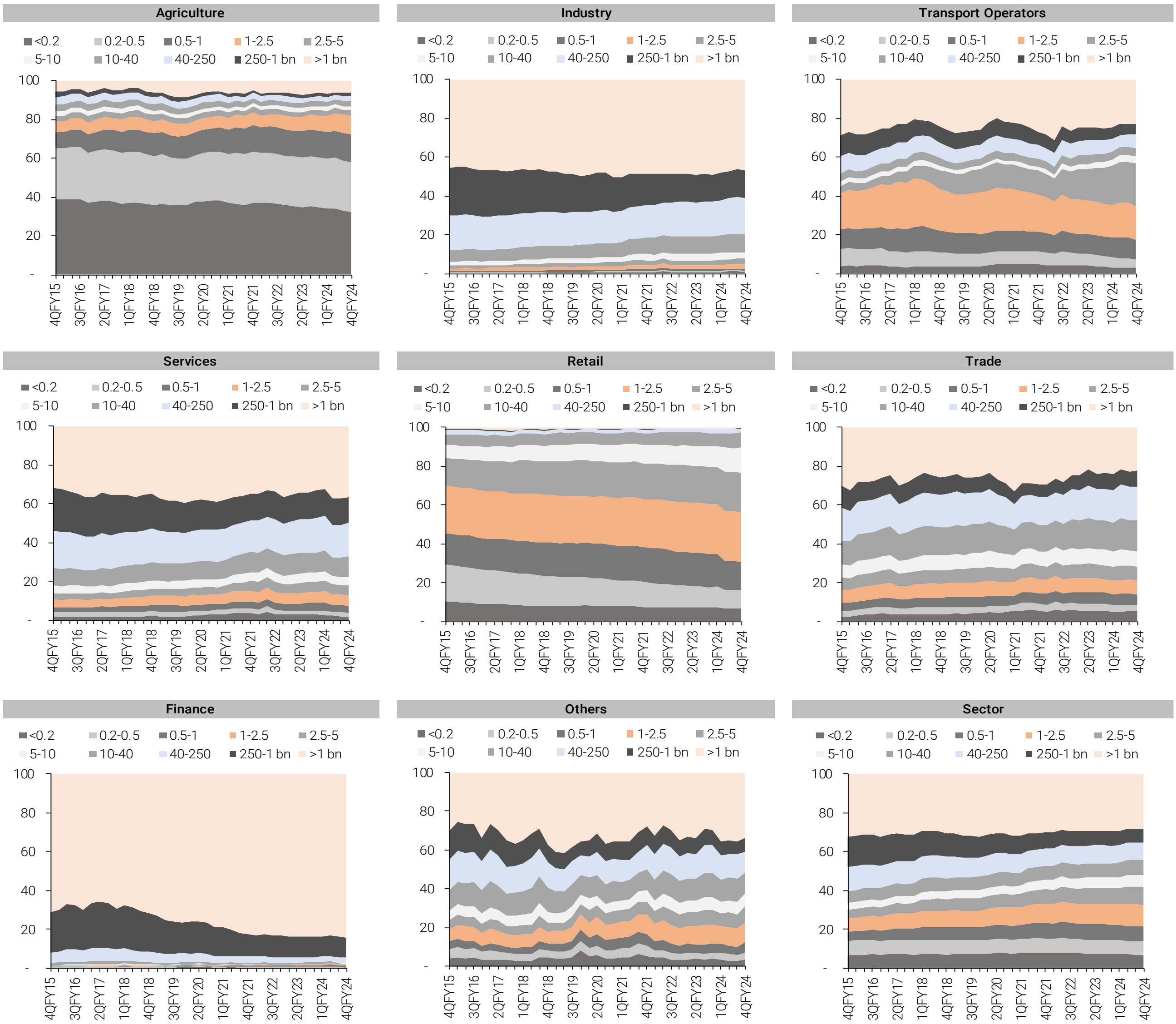
Exhibit 13: Break-up of loans by interest rates for various ticket size, March fiscal year-ends, 4QFY21-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

We are not building too much of concentration risk across portfolios, barring the financial sector (lending to NBFCs)

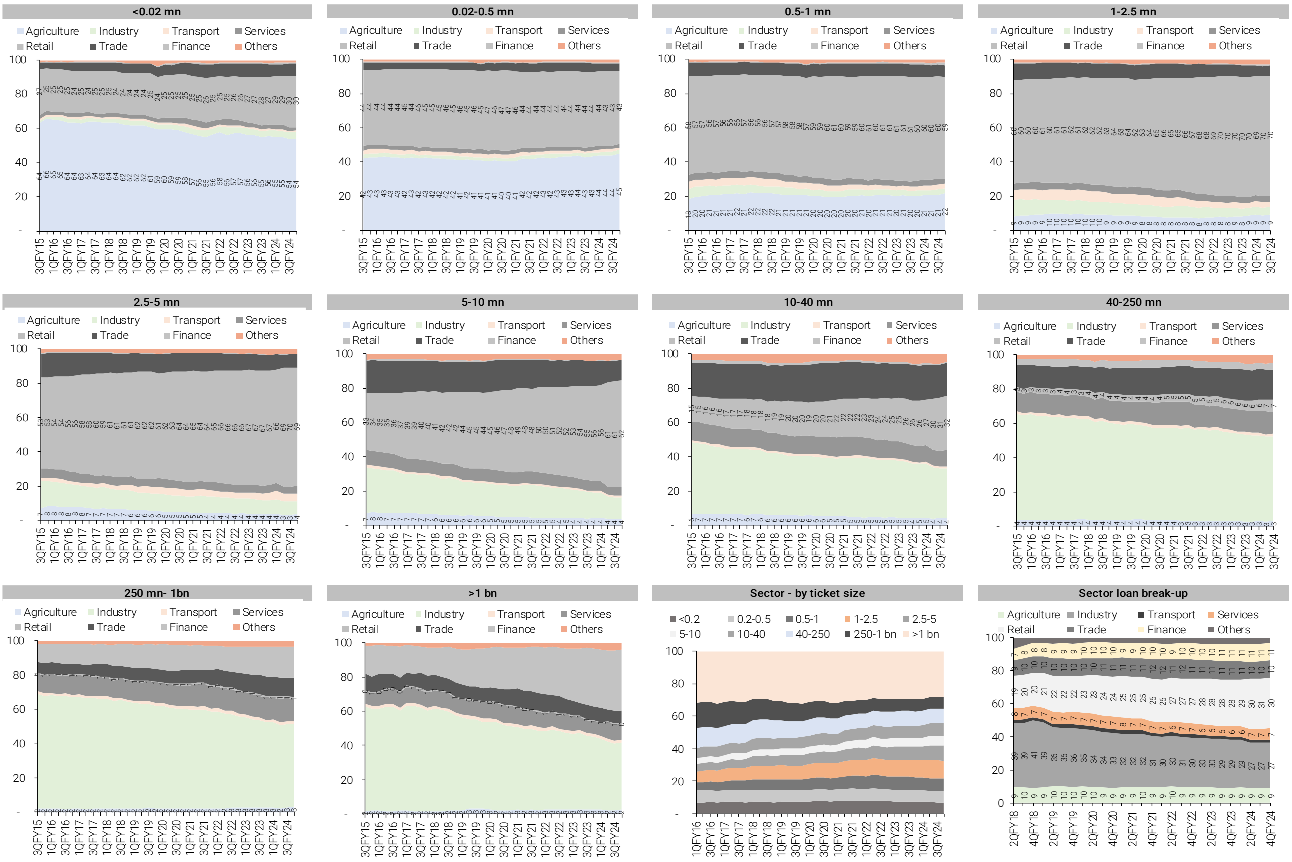
Exhibit 14: Breakup of loans by interest rates for various ticket sizes, March fiscal year-ends, 4QFY21-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

Strong growth in retail and SME has allowed for better portfolio mix in this cycle

Exhibit 15: Breakup of composition of loans across ticket sizes, March fiscal year-ends, 3QFY15-4QFY24 (%)



Source: RBI, Kotak Institutional Equities

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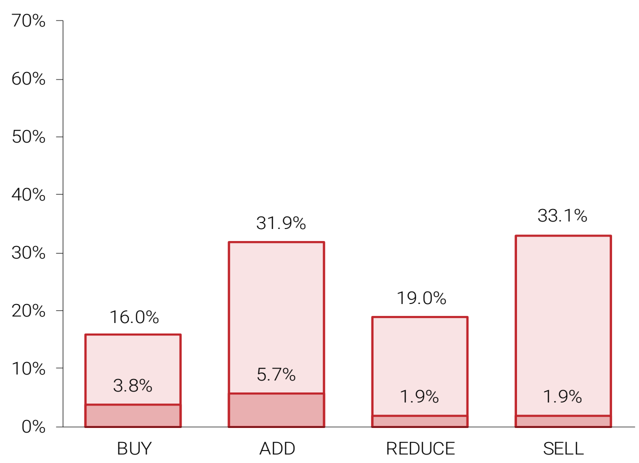

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Source: Kotak Institutional Equities

As of March 31, 2024

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