Banks
India

Sector View: **Attractive** NIFTY-50**: 26,032** **December 03, 2025**

Arresting growth slowdown trends

The key takeaways from the RBI's release on loans: (1) loan growth reversed its slowdown and grew marginally better at ~10% yoy; (2) growth for public banks was 12% yoy, while it was 9% yoy for private banks; (3) loan demand from the corporate sector continues, while housing loan growth, the largest within the retail segment, is still relatively soft in middle-income segments. We see lenders looking at a more optimistic performance from hereon.

Negligible changes to broader trends on the nature of underlying demand

The latest release (2QFY26) from the RBI on segmental information shows: (1) loan growth of 10% yoy, with public banks at 12% yoy and private banks at 9% (Exhibit 1); (2) a market share reversal, with private banks losing share to public banks (Exhibit 2); (3) a slowdown in ticket-size growth (Exhibit 3) in the mid-tier ticket-size loans (>Rs250 mn ticket size); (4) growth slowdown in the household sector (Exhibits 7 and 8) and across products (demand, overdraft and cash credit); and (5) private banks and public banks have a relatively more granular portfolio than what we have seen in the previous corporate cycle (Exhibits 10, 11 and 12).

Disbursements have picked up across segments

Our recent conversations with lenders suggest that there has been an improvement in disbursements across products, although the strength of this recovery is still yet to be tested. The balance sheets of lenders look comfortable, as much of the risk that came on the disbursements made after Covid is probably behind us. The duration of these riskier loans (personal loans) is fairly small, and we have over two years of data that the risk manifested mostly in the smaller ticket-size loans, and banks had a much lower impact than initially feared. Lenders had tightened their credit filters as a precautionary measure, implying that growth has slowed, but the newer cohorts that would incrementally have a larger share of the overall loan portfolio carry much lower risk than where it was prior to FY2023. This gives headroom for lenders to take higher risk either from a product or customer segment perspective. Unlike the previous few quarters, we seem to be seeing fewer signs of concern led by tariffs, as MSME lending remains healthy, driven by public and private banks. Credit growth to large corporates is still weak, as there is negligible demand for credit for the current capital expenditure being undertaken.

Tailwinds on cost of funds could meet with competitive pressures

We enter into a favorable environment on NIM with the cost of funds declining faster than any decline in lending yields. However, similar cost of funds, higher leverage in public banks, negligible slippages resulting in lower credit costs, and well-funded balance sheets from a CAR perspective imply that public banks can build a similar loan portfolio at lower yields and yet deliver similar RoEs. Defending market share in liabilities implies headroom to cut deposit rates is lower across players. This is likely to soften the narrative on NIM expansion.

Full sector coverage on KINSITE

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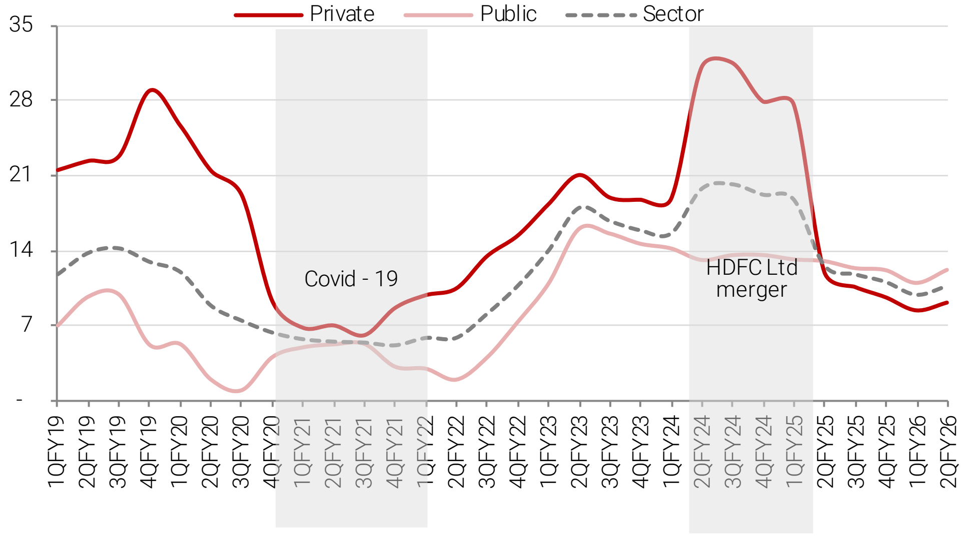
Loan growth has slowed to ~10% yoy; public banks are growing faster than private banks

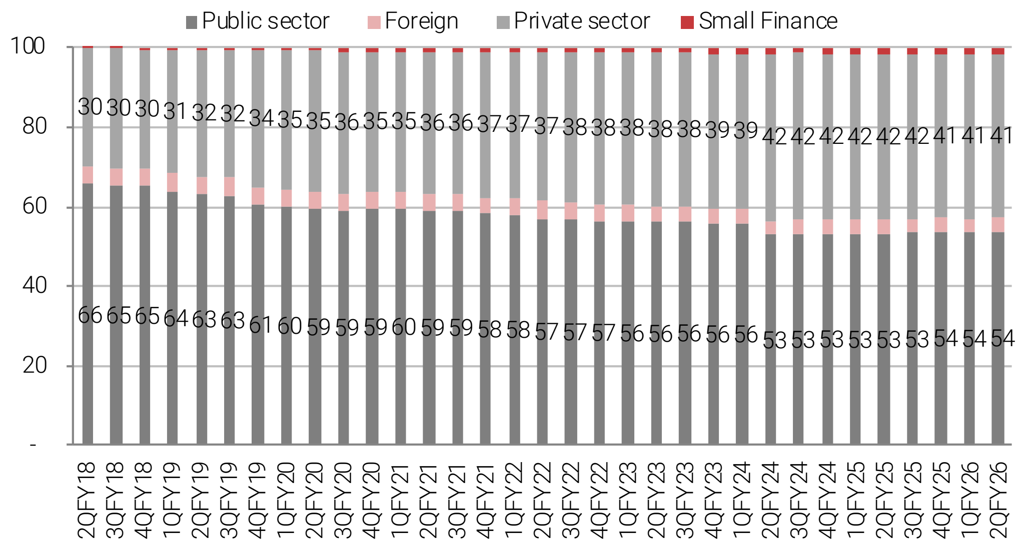
Exhibit 1: Loan growth for banks, March fiscal year-ends, 2019-26 (%)



Source: RBI, Kotak Institutional Equities

FY2025 saw public banks gaining marginal increase after a long period of decline

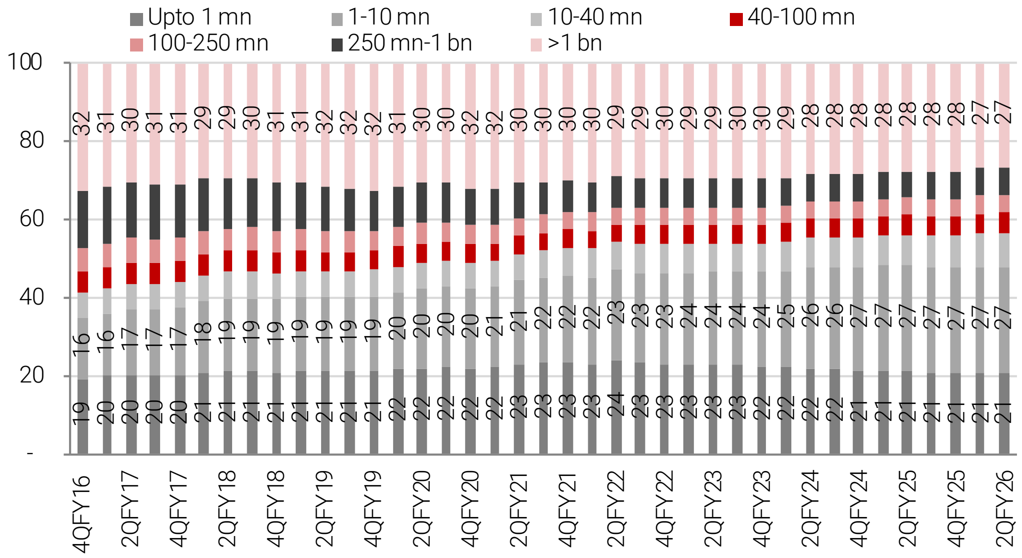
Exhibit 2: Market share of loans between banks, March fiscal year-ends, 2018-26 (%)



Source: RBI, Kotak Institutional Equities

Growth is much more balanced across ticket sizes in recent quarters

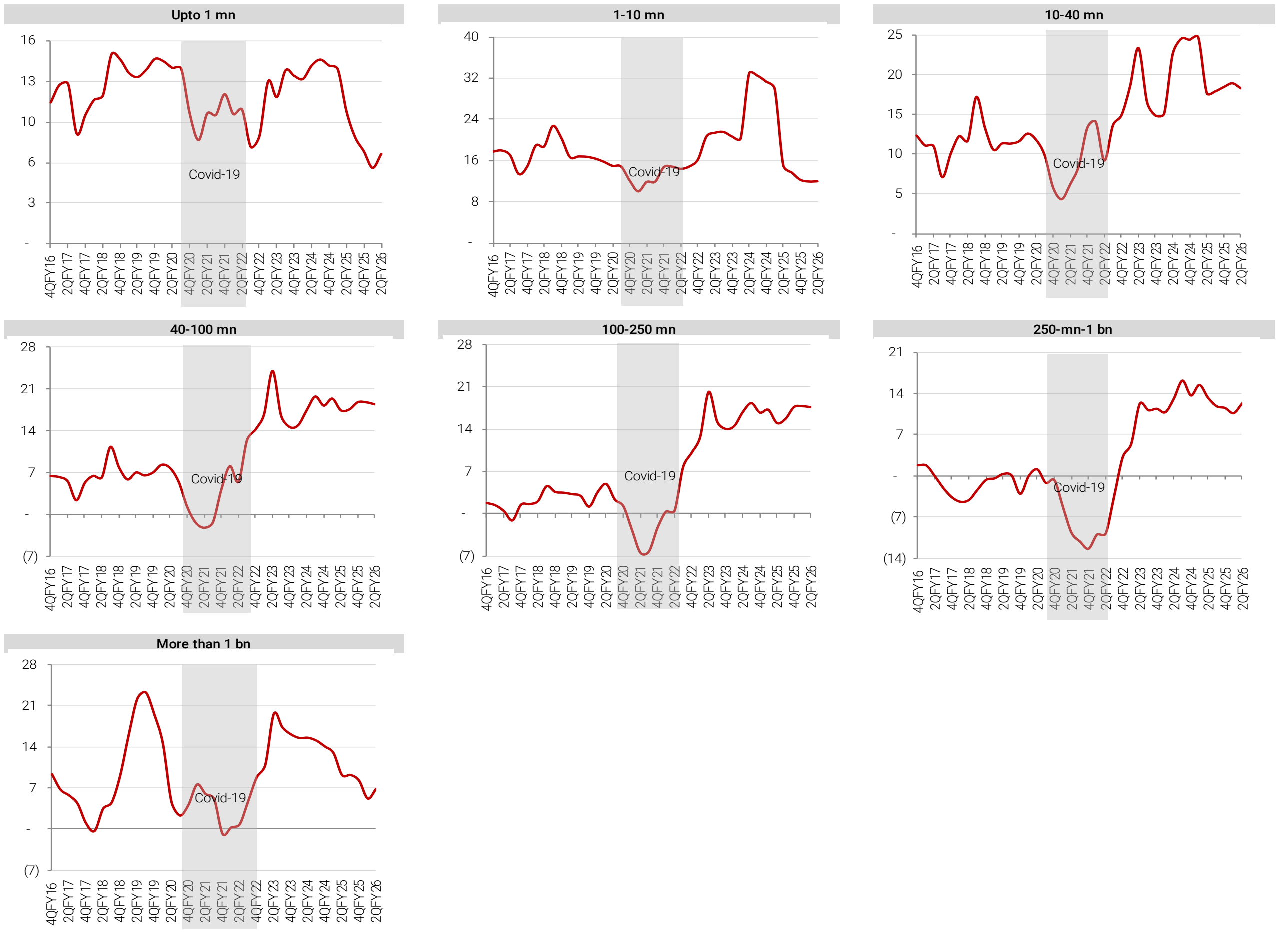
Exhibit 3: Breakdown of loans based on ticket-size, March fiscal year-ends, 2016-26 (%)



Source: RBI, Kotak Institutional Equities

Growth has declined in smaller ticket-size loans in the past two quarters

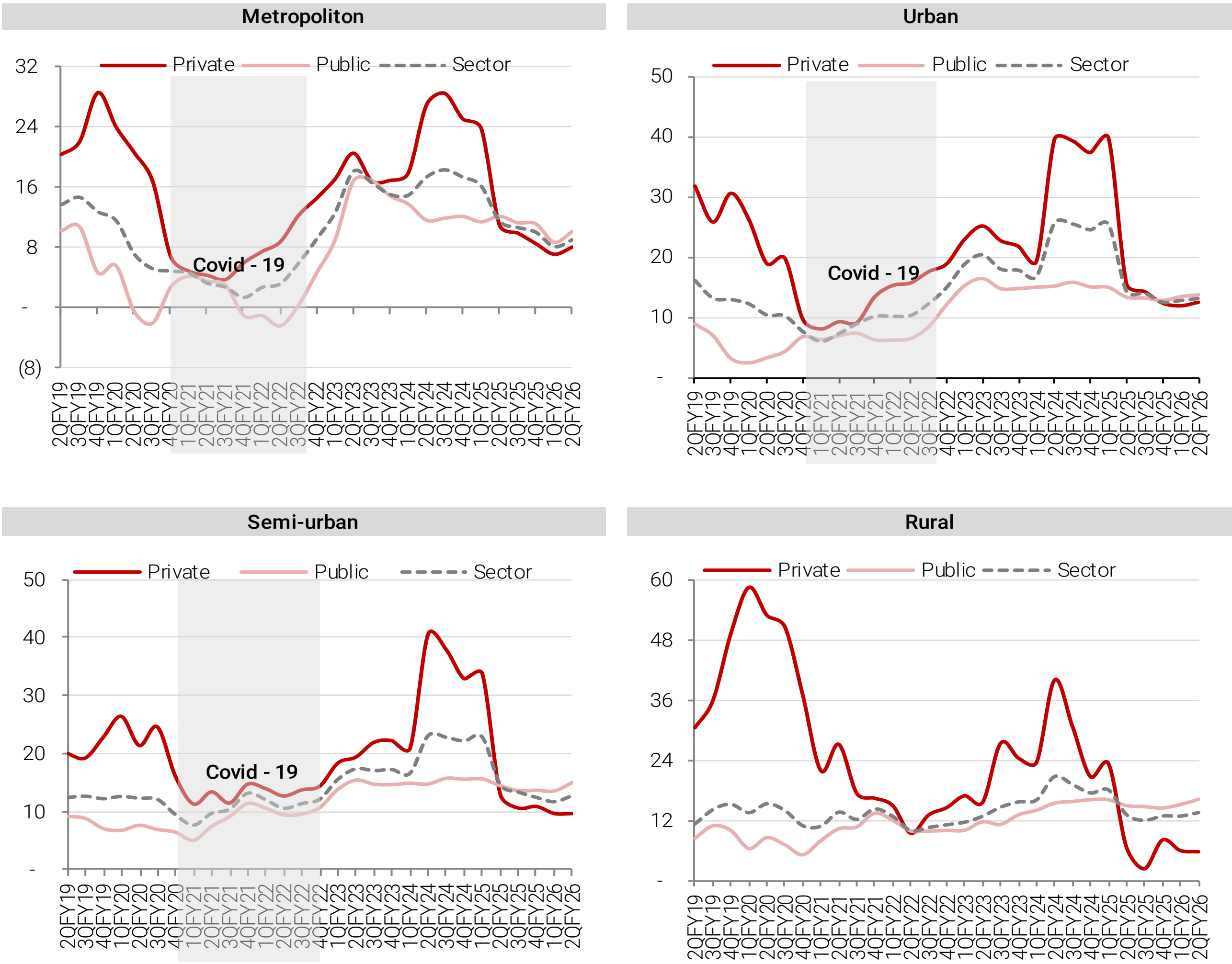
Exhibit 4: Breakdown of loan growth by ticket size, March fiscal year-ends, 2016-26 (%)



Source: RBI, Kotak Institutional Equities

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

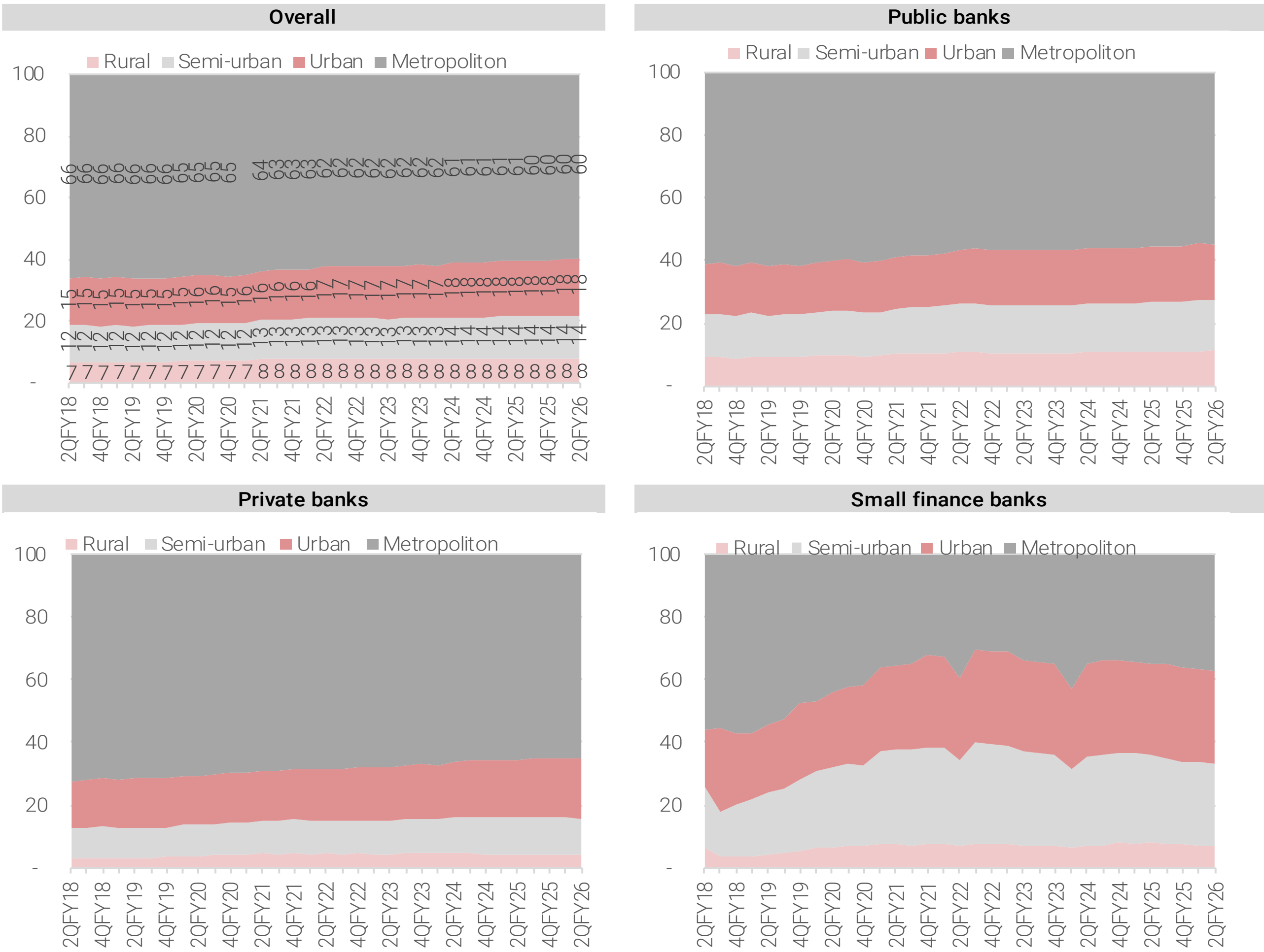
Exhibit 5: Breakdown of loan growth based on regions, March fiscal year-ends, 2019-26 (%)



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: Breakdown of loan book based on regions, March fiscal year-ends, 2018-26 (%)



Source: RBI, Kotak Institutional Equities

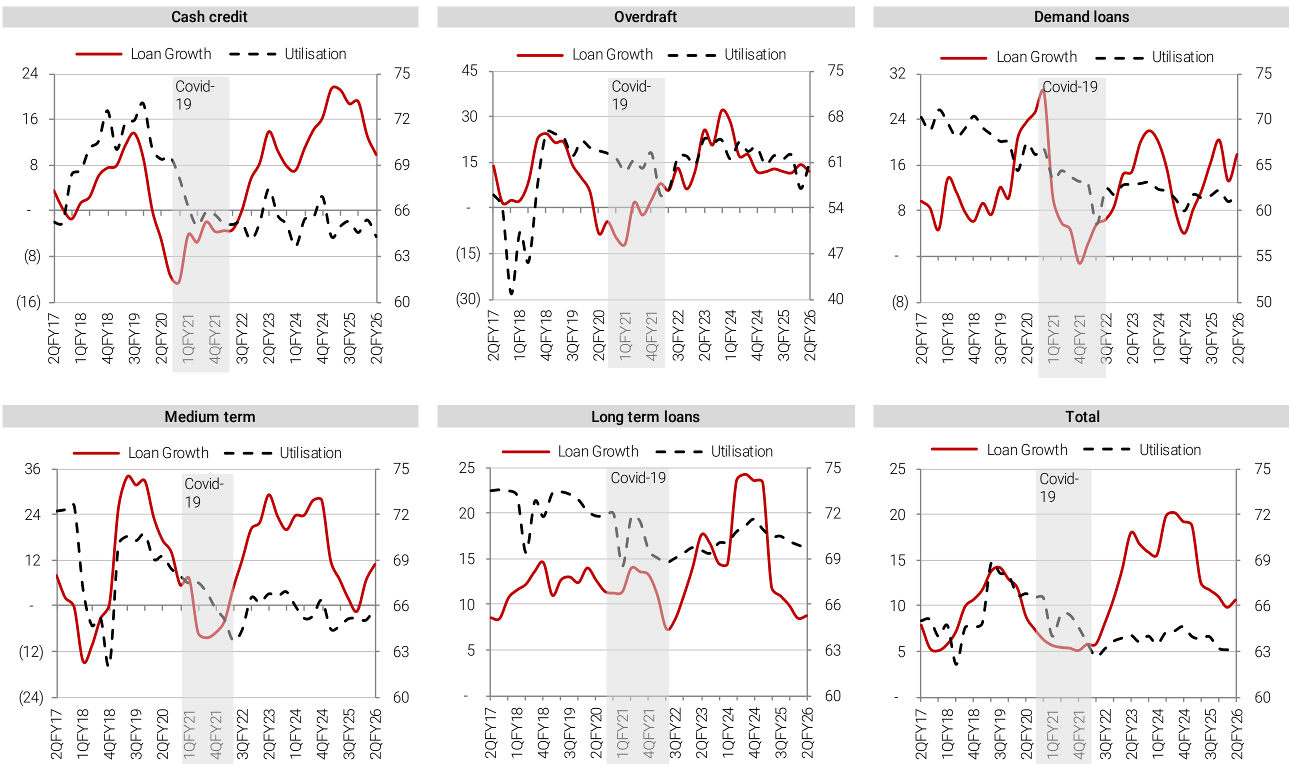
With the base of the merger behind, slowdown visible in most sub-segments

Exhibit 7: Breakdown of loan growth by sector, March fiscal year-ends, 2017-26 (%)

Source: RBI, Kotak Institutional Equities

After normalization of merger, there is slowdown in long-term loans; short-term loan demand is also showing signs of decline

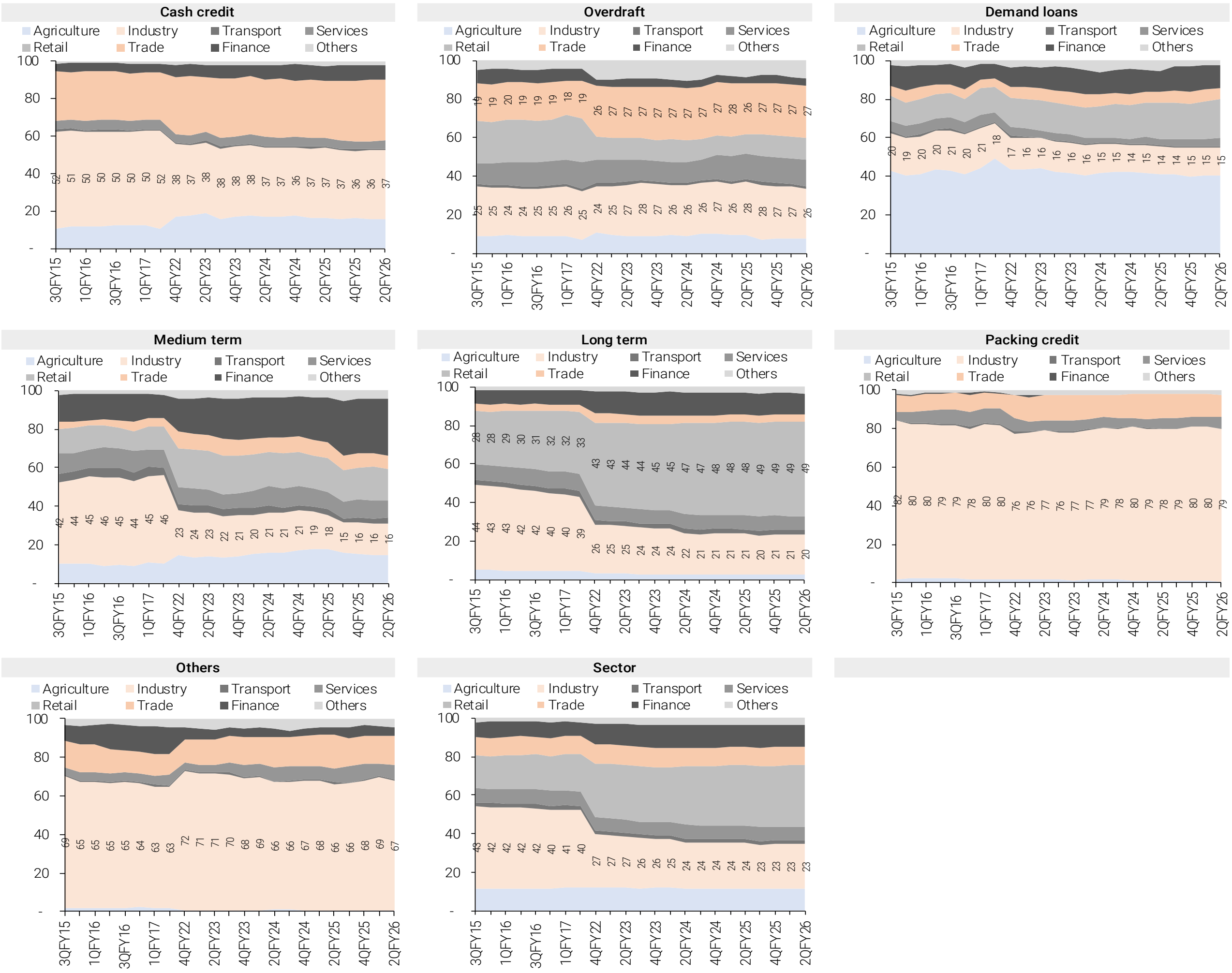
Exhibit 8: Breakdown of credit by nature of loan utilization, March fiscal year-ends, 2017-26 (%)



Source: RBI, Kotak Institutional Equities

Long-term demand is mostly from NBFCs, which too has been slowing down

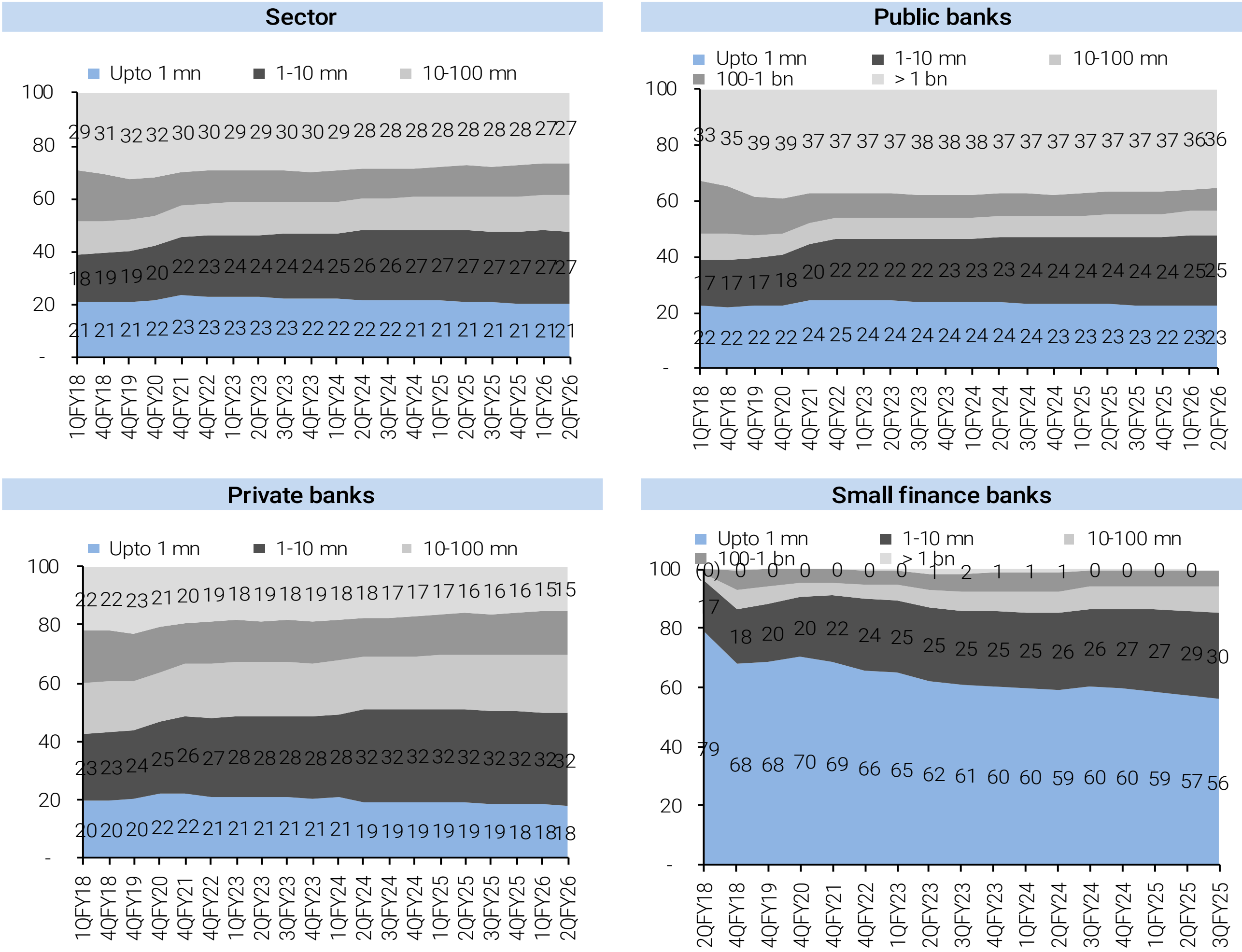
Exhibit 9: Breakdown of loans by ticket size across sectors, March fiscal year-ends, 2015-26 (%)



Source: RBI, Kotak Institutional Equities

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

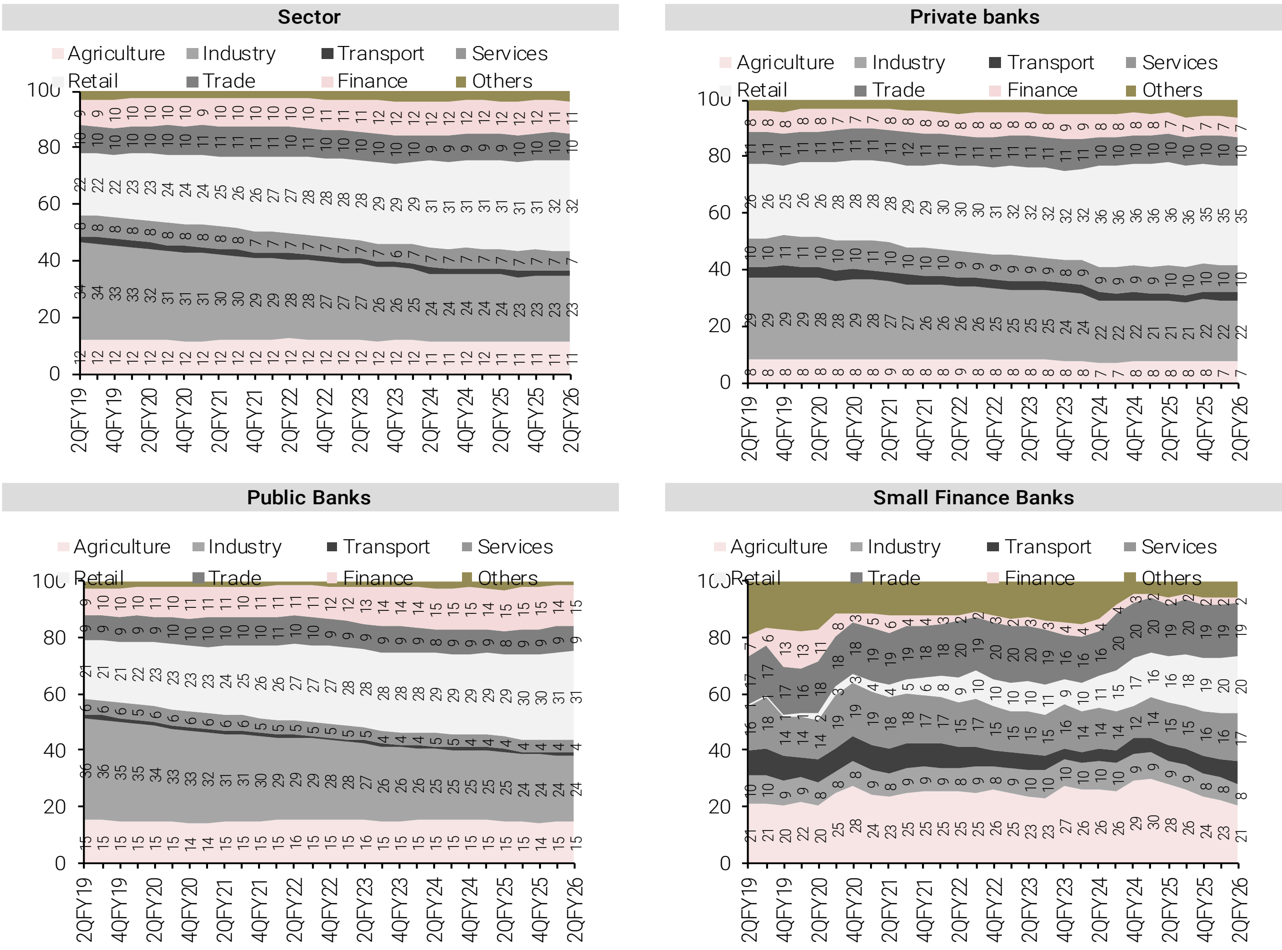
Exhibit 10: Breakdown of loans across ticket sizes by ownership, March fiscal year-ends, 2018-26 (%)



Source: RBI, Kotak Institutional Equities

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

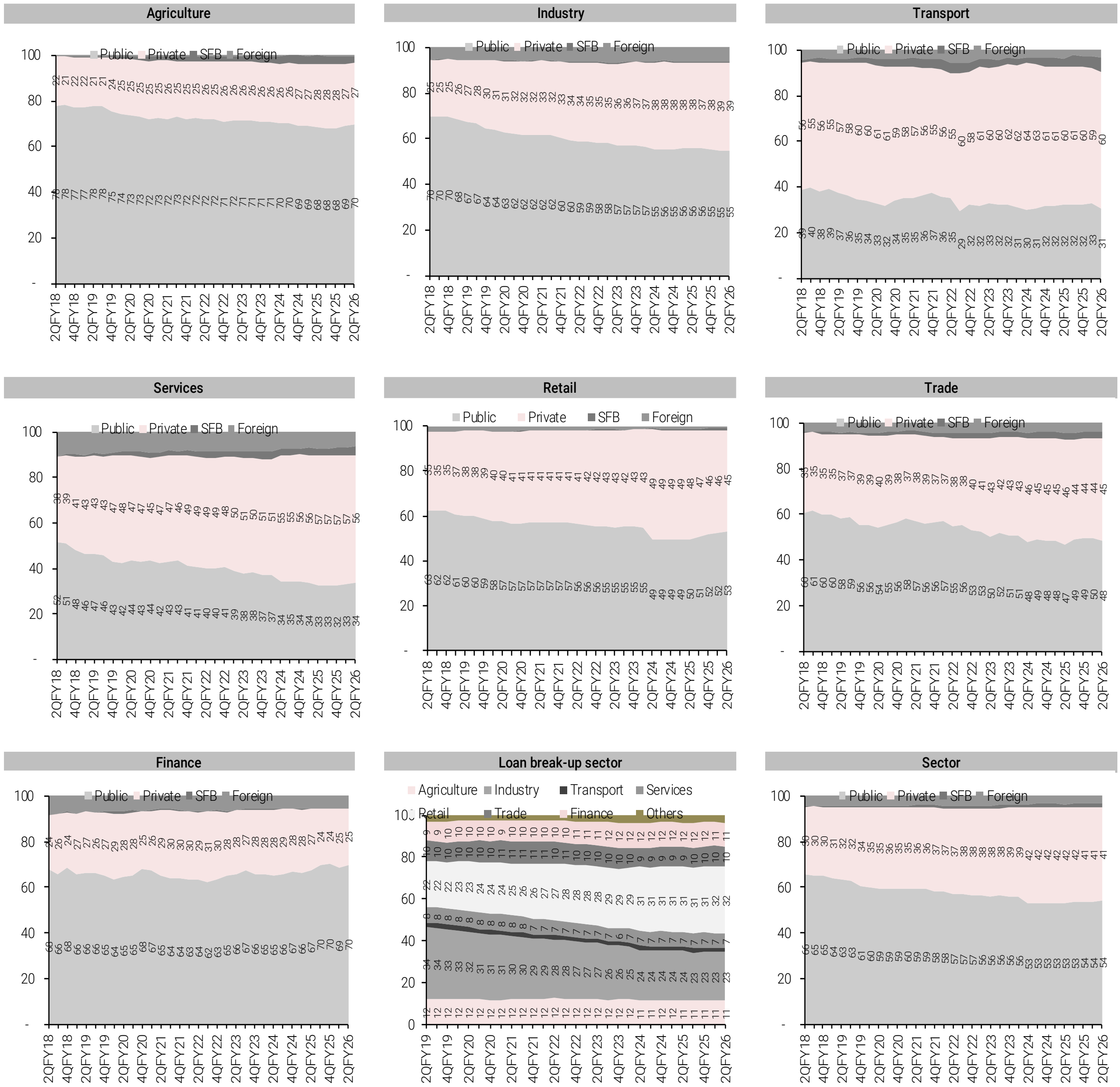
Exhibit 11: Breakdown of loan growth based on sector, March fiscal year-ends, 2019-25 (%)



Source: RBI, Kotak Institutional Equities

Private banks have a higher market share of retail and services sector compared to public banks

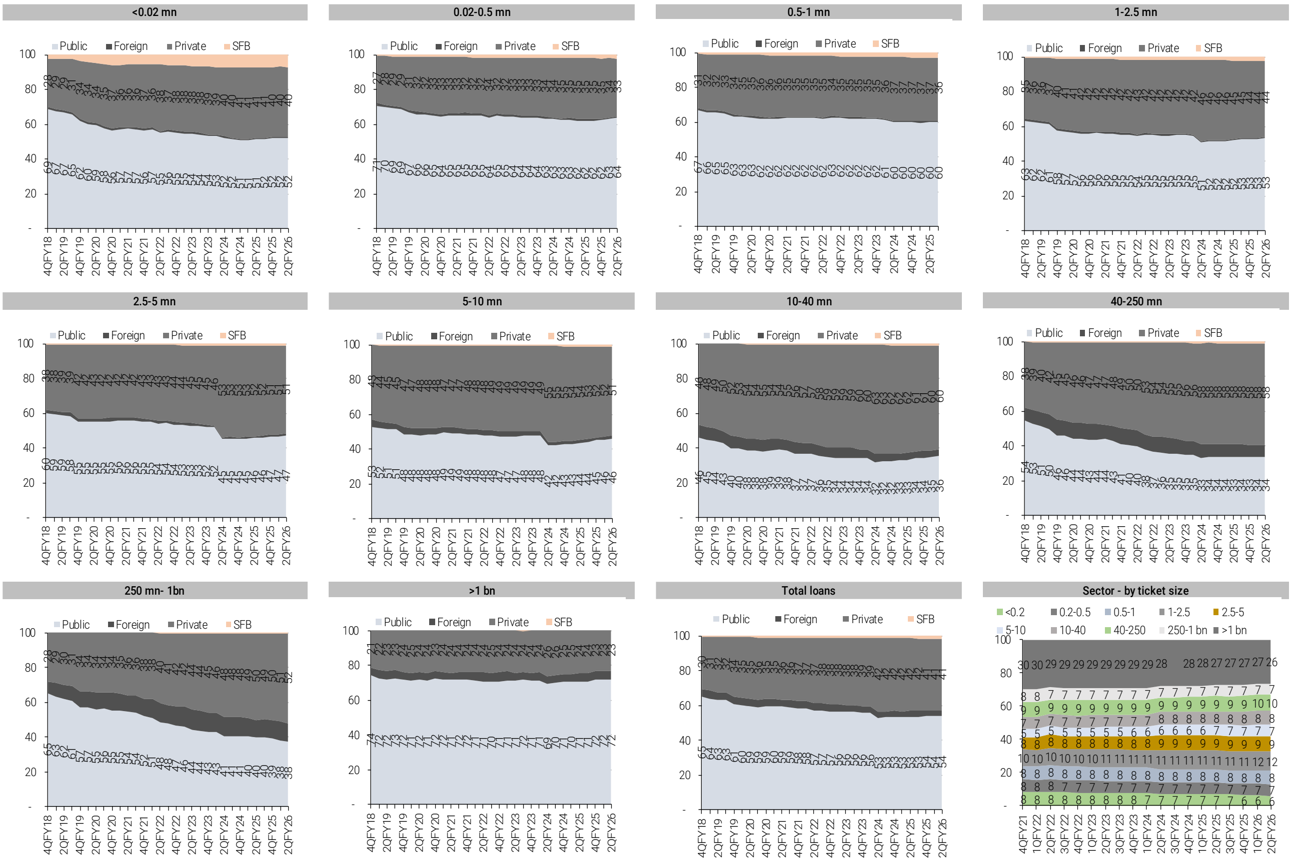
Exhibit 12: Market share of loans between banks across sectors, March fiscal year-ends, 2018-26 (%)



Source: RBI, Kotak Institutional Equities

This cycle has seen faster growth in the Rs1 mn-Rs1 bn ticket sizes compared to the last cycle

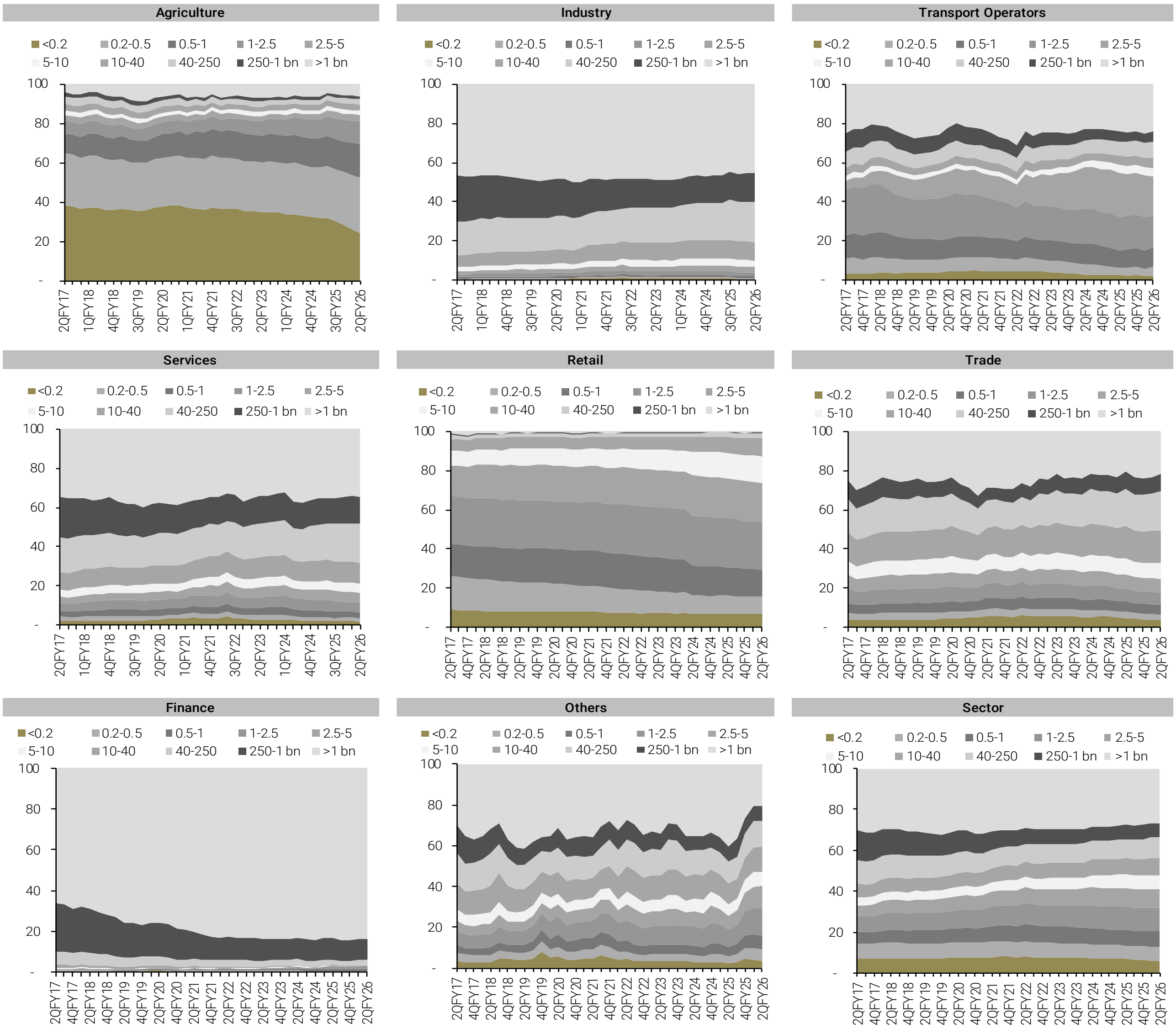
Exhibit 13: Breakdown of market share of loans by ticket sizes across different banks, March fiscal year-ends, 2018-26 (%)



Source: RBI, Kotak Institutional Equities

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

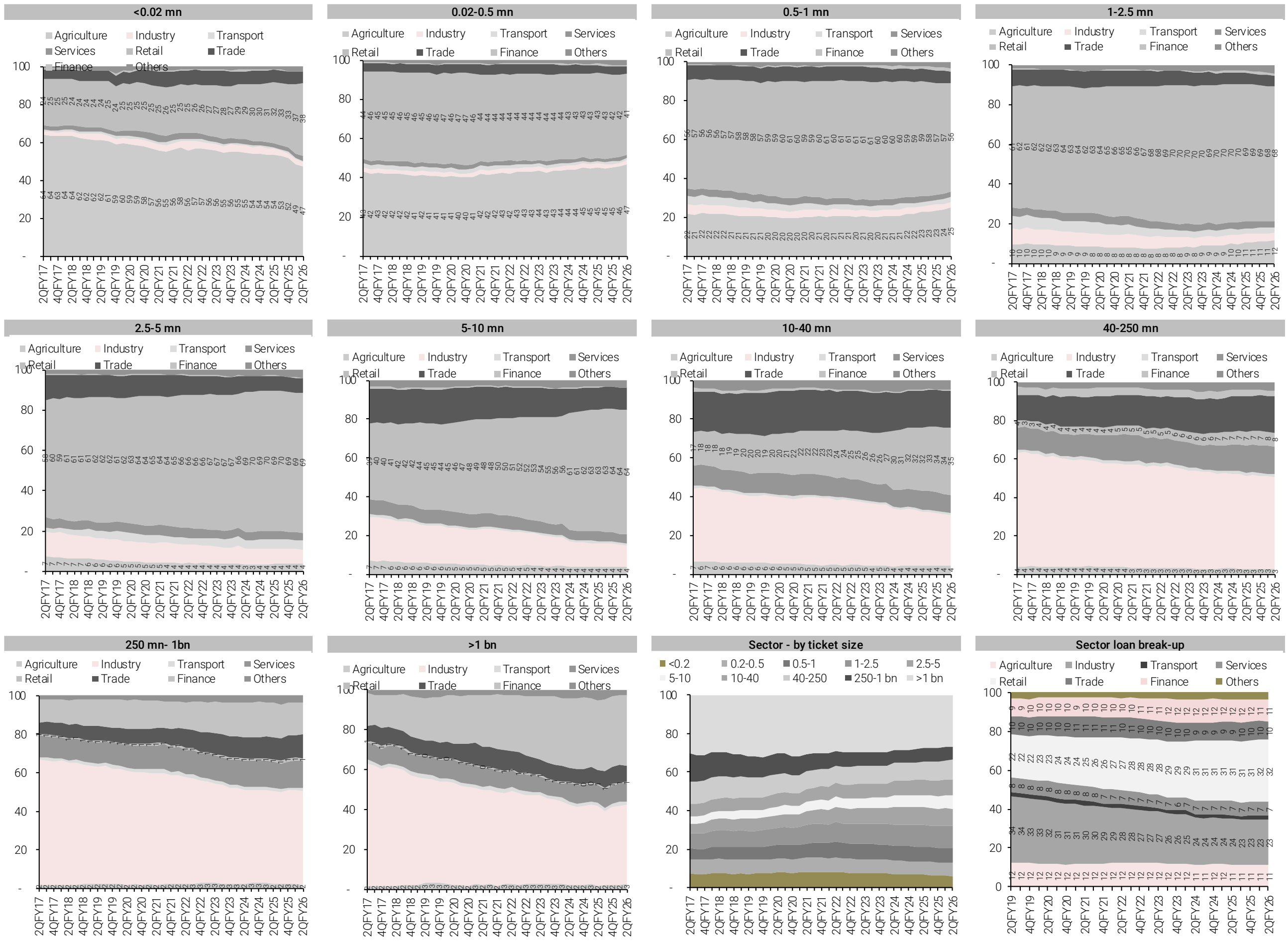
Exhibit 14: Breakdown of loans by various ticket size across sectors, March fiscal year-ends, 2017-26 (%)



Source: RBI, Kotak Institutional Equities

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

Exhibit 15: Breakdown of composition of loans across ticket size, March fiscal year-ends, 2017-26 (%)



Source: RBI, Kotak Institutional Equities

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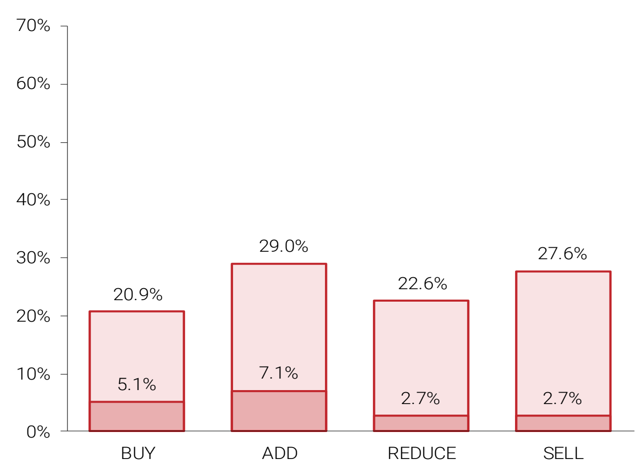

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Source: Kotak Institutional Equities

As of September 30, 2025

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