

# Financials: Banks

	PSBs Market share (in %)	Credit market share change of PSBs (in %)
FY11	80.8	-0.3
FY12	80.1	-0.7
FY13	79.4	-0.6
<b>3-year mkt shr loss</b>		<b>-1.6</b>
FY14	79.0	-0.4
FY15	77.5	-1.5
FY16	73.9	-3.6
<b>3-year mkt shr loss</b>		<b>-5.6</b>
FY17	71.0	-2.9
FY18	68.3	-2.6
FY19	64.8	-3.6
<b>3-year mkt shr loss</b>		<b>-9.1</b>
FY20	62.7	-2.1
FY21	61.5	-1.2
FY22	59.8	-1.7
<b>3-year mkt shr loss</b>		<b>-5.0</b>
FY23	58.9	-0.8
FY24	58.3	-0.6
FY25	58.7	+0.4
<b>3-year mkt shr loss</b>		<b>-1.1</b>

## Credit market share: Are PSBs making a comeback?

**Gap between retail and system growth has reduced to its lowest in past 10 years**

India's banking landscape over the past two decades have witnessed Private Banks steadily gaining credit market share. This was led by aggressive network expansion, strong underwriting and a distinct thrust on retail lending with superior customer service by Private Banks. PSBs on the other hand faced issues centered around asset quality, weak capitalization levels, merger linked challenges and slower adoption of digital banking which hampered their business productivity.

However, recent balance sheet repair and improving profitability levels with most PSBs crossing 1% RoA mark, has supported PSB's capitalization levels and enabled them to deliver an improved growth trajectory. FY25 thus stood as the first year in past fifteen years when PSBs grew at a faster pace than Private Banks. In this note, we have covered this market share journey between Private and PSU Banks and present our thoughts on the outlook going forward.

- **Credit growth moderated to 9.8% YoY in Jul'25**, down from a 15.6% CAGR in FY22-24, driven by tight liquidity, regulatory curbs, and weak corporate demand across both retail and wholesale segments.
- **Retail growth slowed across secured and unsecured loans**, with mortgage and card growth decelerating to 9%/8.5% YoY. We expect recovery in 2HFY26, supported by festive demand and easing rates.
- **Unsecured retail stress is close to bottoming out**. Stabilizing delinquencies and risk-based pricing should support a gradual recovery from 2HFY26. We estimate MFI stress also to subside over 2HFY26 enabling modest sector growth against a sharp 14% YoY decline in FY25.
- **PSBs overtook Private Banks in FY25**, with them delivering 12% YoY growth vs. 10% for private banks. Elevated CD ratios for private banks may keep this gap tight in FY26-27 as well. **PSBs thus reversed market share loss in FY25, gaining ~40bp**, aided by HDFCB's slowdown. While not structural, we expect only a modest ~140-160bp decline in PSBs share over FY25-28 vs a sharper decline in preceding three year blocks.
- **PSBs' growth outlook remains steady rather than steep**. Despite improved fundamentals, they continue to lag in branch expansion, tech, and staffing. We expect a 10-13% loan CAGR for PSBs over FY25-28.
- **Top picks**: ICICIB, HDFCB and SBIN.

## Credit growth shows moderation across segments; expect recovery in 2H

After a strong run over FY22-24, when system loans posted a 15.6% CAGR, credit growth has since moderated to 9.8% YoY, according to the latest RBI print. The slowdown has been broad-based, affecting both retail and wholesale segments. This moderation reflects a combination of factors, such as tighter liquidity in prior quarters, regulatory curbs on unsecured retail, and muted loan demand from the corporate sector.

- **Retail growth has slowed down**, led by a moderation across both secured and unsecured segments. **We note that growth for systemic mortgage and card businesses has moderated to 9% and 8.5%, respectively vs 20% and 33% a year ago.**
- **We expect credit demand to pick up in 2HFY26**, supported by festive demand, improving liquidity, benefits from reduced interest rates, and a pick-up in consumption following lower tax rates. We, thus, estimate system growth to sustain at ~11% over FY26.

#### **Unsecured retail growth nearing bottom; AQ normalization to aid recovery**

- Unsecured retail segments like personal loans and credit card posted a 22% and 25% CAGR, respectively, over FY21-24. However, **Credit card** growth considerably slowed down to just 8.5% YoY as of May'25, due to heightened stress and moderating demand. **Personal loan** growth across key banks in our coverage has moderated from 16-43% range in FY24 to tepid 1-8% currently. **Likewise, MFI** industry has de-grown by 14% YoY in FY25 vs growth of 25% YoY in FY24 with most lenders reporting further decline in 1QFY26.
- Bank commentaries suggest that incremental delinquencies have plateaued, and are hopeful of moderation in credit cost over 2HFY26. We estimate top private banks to start showing improved traction in unsecured loans over the coming quarters. Risk-based pricing is now well embedded into overall product underwriting, and gradual improvement in margins, credit cost trajectory will further support profitability.

#### **Growth divergence between Private and PSU bank narrows**

The credit growth gap between Private banks and PSBs has narrowed significantly in recent years. While private banks consistently outpaced the system through much of the past decade, **FY23-25 marked a clear shift as PSBs regained balance sheet health, strengthened their capitalization levels, and reported a strong turnaround in sector profitability.** Over FY22-24, private banks posted an ~17% CAGR, adjusted for the HDFCB merger, though growth declined to ~10% YoY in FY25. In comparison, PSBs posted healthy credit growth of 12% in FY25. This compares to the average ~1.7%/7.7 growth differential between Private and PSBs that persisted over the FY23-25/ FY20-22.

- Given the elevated CD ratios across select large private banks, we estimate the growth differential between PSBs and Private banks to remain narrow over FY26-27.
- **Our estimates currently factor in 12-16% CAGR for large Private banks over FY25-27E vs 10-13% CAGR for PSBs.**

### PSBs' market share shows stability after years of consistent losses

PSBs' credit market share has structurally declined from ~81% in FY2000 to 57% by FY2025. **We note that during FY14-24, PSBs lost ~20% credit market share, implying an average loss of 200bp each year.** This was driven by a weak balance sheet, regulatory constraints (including PCA), and the inability to match the distribution and underwriting agility of private banks. However, over the past few years, PSBs have managed to arrest their market share erosion, cumulatively losing only ~200bp over the past three years (adjusted for HDFCB-HDFC merger). With HDFCB's loan growth slowing significantly (5% in FY25), **PSBs gained credit market share by ~40bp in FY25, for the first time in past one decade.** While this trend is temporary, we estimate controlled ~140-160bp decline in PSBs' credit market share over FY25-28.

### Is the current growth trajectory for PSBs sustainable?

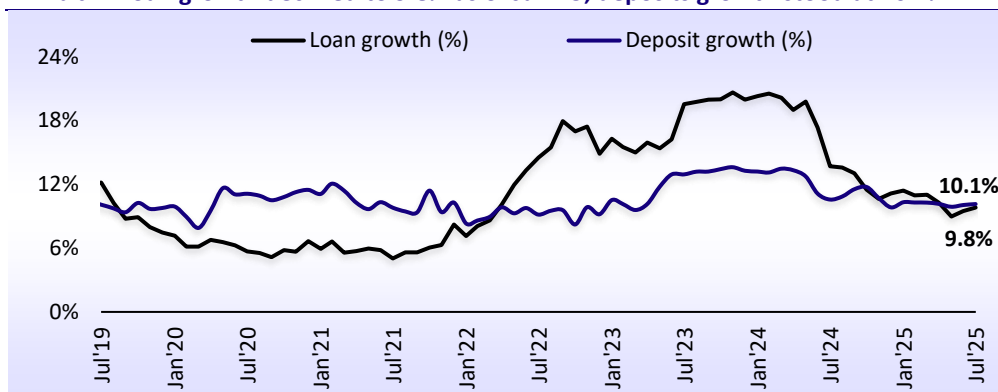
- PSBs posted 12% credit growth in FY25, outpacing private peers as well as system growth—a marked turnaround led by strong internal accruals (RoEs at 15-18%), CET-1 ratios of 10-14%, and improved underwriting (GNPAs <4% with PCR ranging between 75-94%). **However, the long-term sustainability of this growth remains unclear, as PSBs have not invested in business expansion to the same extent as private banks.**
- We note that during FY21-25, PSBs collectively added just ~267 branches vs. ~11,750 branches for private banks, while they already lag in digital adoption. While some PSBs, such as SBI and BoB, are ramping up tech spends, broader transformation continues to trail private peers. Similarly, we note that PSBs' share in total employee headcount has declined significantly to 42% from 72% in 2010 with Private Banks continuing to add employees and strengthening their distribution strength.
- We, thus, expect PSBs to continue reporting moderate growth in the medium term and factor in 10-13% loan growth over FY25-28 across our six coverage PSU banks. **While PSBs are now structurally sound, their growth runway appears steady rather than steep, reflecting stability more than scale-led acceleration.**

### Maintain preference for ICICI, HDFCB and SBI

- We maintain our view that NIMs will remain under pressure through 1H and partially into 3QFY26, driven by continued loan repricing. However, a gradual reduction in funding costs will enable margin recovery from 2H onwards, translating into healthy earnings growth over FY27E.
- Banks are increasingly focusing on building granular and stable deposit franchises to cushion margin pressures and support balance sheet resilience. Strong liability profiles are becoming a key differentiator in the current environment.
- We estimate banking sector earnings to recover from 2HFY26 with growth improving to ~19% over FY27E, marking an end to the five year earnings deceleration cycle. We estimate credit growth to sustain at ~11% for FY26E and 12.5% for FY27E.
- **Top ideas: ICICIBC, HDFCB, and SBIN.** These banks stand out due to their strong balance sheets, healthy PCR, and robust contingency buffers, capitalization levels which will enable them to better withstand the cyclical pressures.

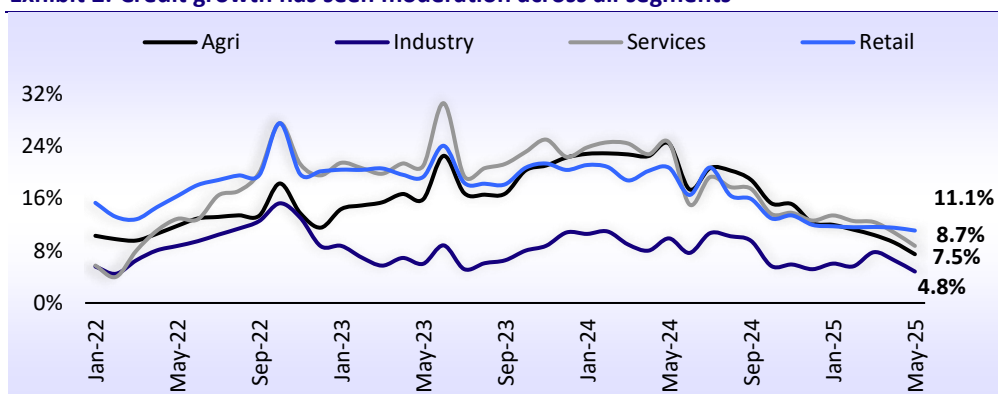
## Story in charts

**Exhibit 1: Loan growth declined to 9.8% as of Jun'25; deposits growth stood at 10.1%**



Source: MOFSL, RBI

**Exhibit 2: Credit growth has seen moderation across all segments**



Source: MOFSL, RBI

**Exhibit 3: Growth divergence between PSBs and PVBs has reduced**

	SCBs	PSBs	PVBs	Growth differential between PVBs and PSBs (in %)
FY11	21.8	21.5	23.9	2.4
FY12	17.9	16.7	22.1	5.4
FY13	15.0	14.3	18.9	4.6
<b>3-year CAGR</b>	<b>18.2</b>	<b>17.5</b>	<b>21.6</b>	<b>4.1</b>
FY14	13.7	12.9	15.9	3
FY15	9.5	7.2	17.4	10.2
FY16	9.4	4	26.5	22.5
<b>3-year CAGR</b>	<b>10.8</b>	<b>8.0</b>	<b>19.8</b>	<b>11.8</b>
FY17	5.3	1.5	17.3	15.8
FY18	10.7	6.5	20.7	14.2
FY19	12.9	6.8	25.5	18.6
<b>3-year CAGR</b>	<b>9.6</b>	<b>4.9</b>	<b>21.1</b>	<b>16.2</b>
FY20	6.3	2.5	12.2	9.7
FY21	5.3	3.2	8.5	5.4
FY22	10.7	7.4	15.3	8
<b>3-year CAGR</b>	<b>7.4</b>	<b>4.3</b>	<b>12.0</b>	<b>7.7</b>
FY23	15.8	14.6	18.7	4.1
FY24	14.8	13.6	16.5	2.9
FY25	11.5	12.2	10.5	-1.7
<b>3-year CAGR</b>	<b>14.0</b>	<b>13.5</b>	<b>15.2</b>	<b>1.7</b>

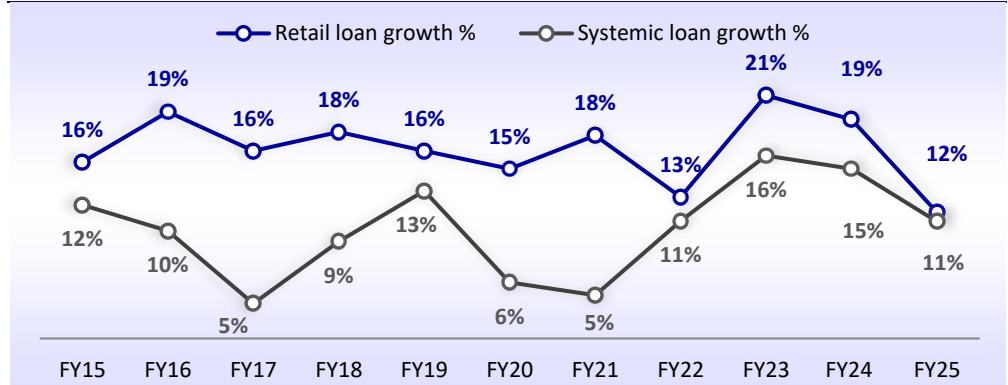
Nos adjusted for the HDFC merger, Source: MOFSL, RBI

Growth differential between PSBs and PVBs has narrowed significantly.

During FY25, PSBs in fact grew at a faster rate than Private Banks.

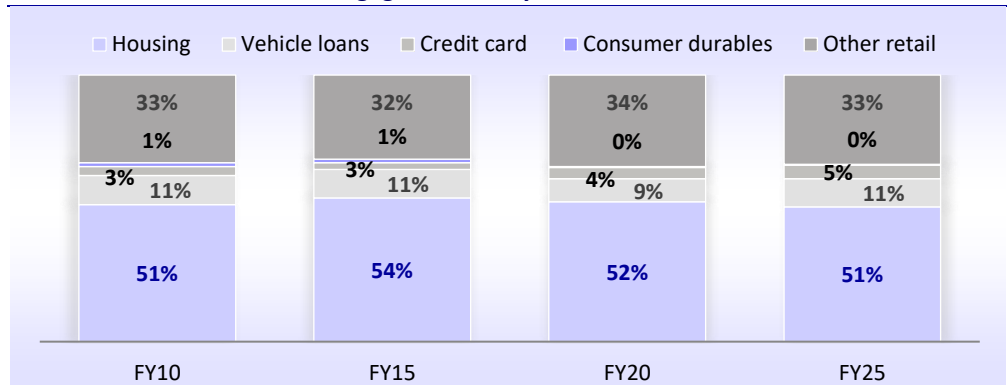
The gap between retail loan growth and systemic loan growth has reduced to its lowest with continued softness across both secured and unsecured retail segments

**Exhibit 4: Retail and system loan growth gap has reduced to its lowest level in 10 years**



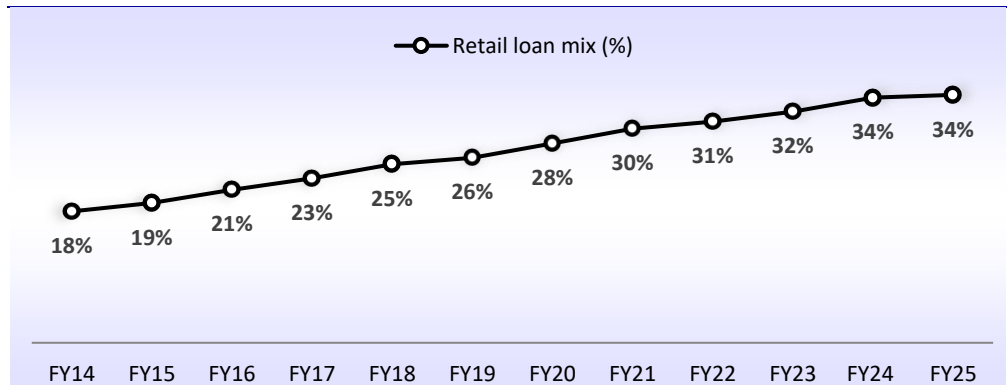
Source: MOFSL, RBI

**Exhibit 5: Retail loan mix: Mortgage mix steady at ~50%; credit card mix rose to 5%**



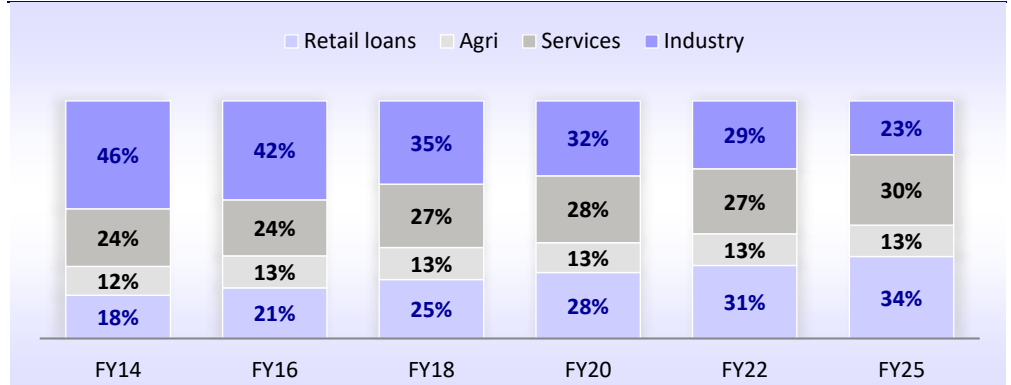
Source: MOFSL, RBI

**Exhibit 6: Retail loan mix increased to 34% in FY25 from 18% in FY14**



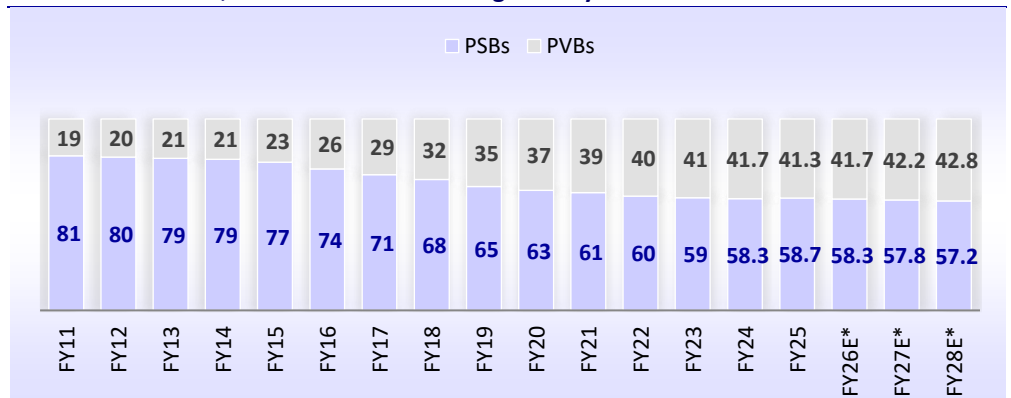
Source: MOFSL, RBI

**Exhibit 7: Systemic loan mix: Retail and Services sector composition has increased to 64%**



Source: MOFSL, RBI

**Exhibit 8: PSBs' credit market share reduced by barely ~1.1% over FY22-25 but declined ~20% over FY11-21; Estimate PSBs share to gradually decline over FY26-28E**

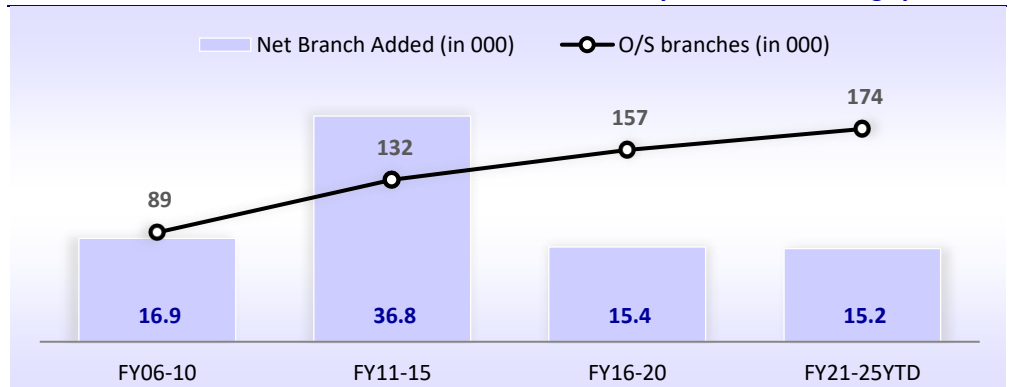


\*based on MOSL coverage, Adjusted for HDFC merger, Source: MOFSL, RBI

PSBs gained marginal share in FY25, though their aggregate credit share declined by 20% over FY11-21.

Net branch addition in period of FY16-20 & FY21-25, has more than halved from FY11-15 levels, amid consolidation due to PSBs merger

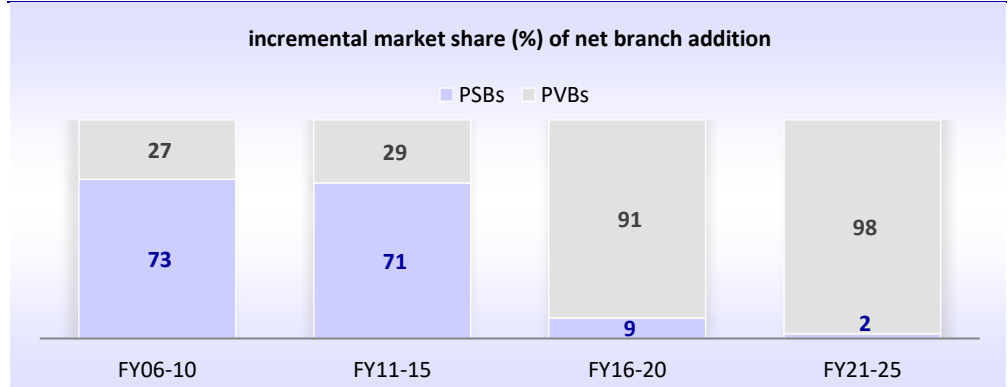
**Exhibit 9: Pace of branch additions has slowed considerably across the banking system**



Source: MOFSL, RBI

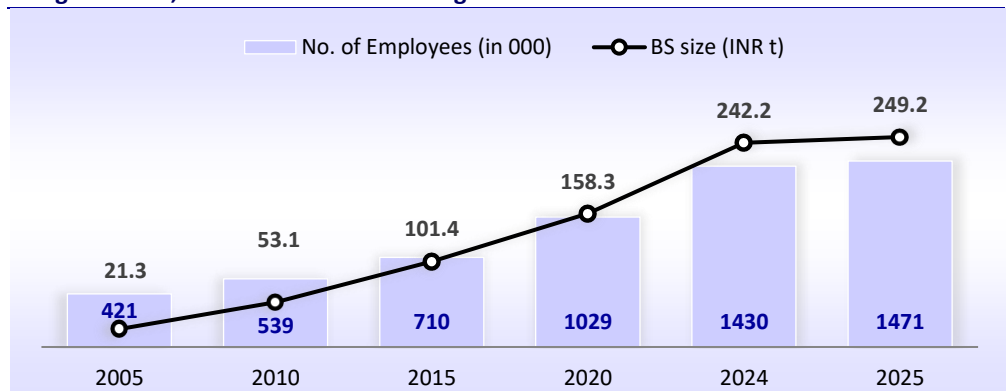
PSBs' net branch additions have reduced significantly, with FY21-25 marking a steep drop in incremental market share to just 2%.

**Exhibit 10: Net branch addition market share has tilted towards PVBs in recent years**



Source: MOFSL, RBI

**Exhibit 11: Over the past two decades, the number of employees for the banking sector has grown ~3x, while balance sheet has grown >10x**

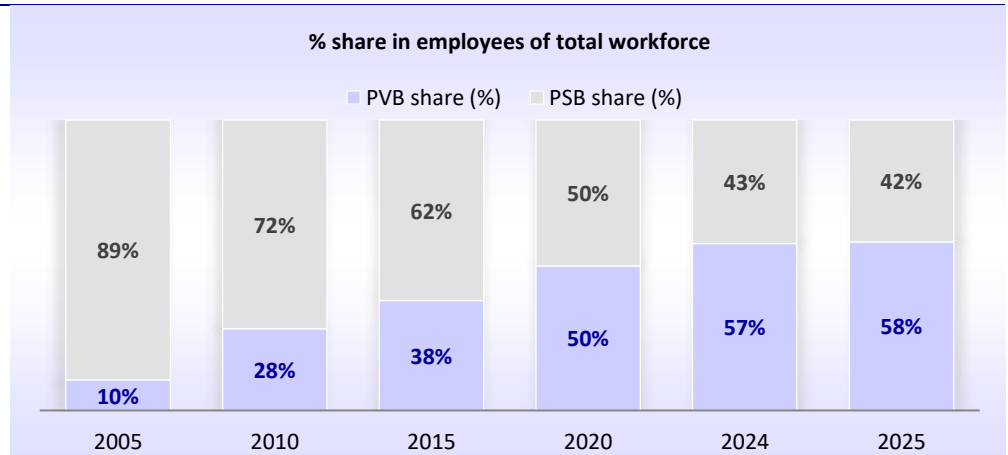


\*excl. HDFC merger

Source: MOFSL, RBI

PSBs' share of employees has declined over the past few years, while PVBs' share has increased amid rapid business expansion.

**Exhibit 12: PSBs' employee mix has declined over the years, while PVBs have gained share**



\*MOFSL coverage including Yes Bank

Source: MOFSL, Company

**Exhibit 13: Movement in advances market share of key banks**

Advances (INRb)	FY21	FY24	FY25	FY26E	FY27E	FY28E	Market Share					
							FY21	FY24	FY25	FY26E	FY27E	FY28E
Pvt banks												
Axis Bank	6,144	9,651	10,408	11,553	13,055	14,830	6.6	6.5	6.3	6.3	6.3	6.3
DCB Bank	257	409	510	619	755	923	0.3	0.3	0.3	0.3	0.4	0.4
HDFC Bank	11,328	24,849	26,196	28,999	32,624	37,191	12.2	16.7	15.9	15.8	15.7	15.8
ICICI Bank	7,337	11,844	13,418	15,350	17,775	20,708	7.9	8.0	8.1	8.3	8.6	8.8
IndusInd Bank	2,126	3,433	3,450	3,692	4,098	4,635	2.3	2.3	2.1	2.0	2.0	2.0
KMB	2,237	3,761	4,269	4,973	5,784	6,756	2.4	2.5	2.6	2.7	2.8	2.9
Yes Bank	1,669	2,278	2,462	2,757	3,171	3,615	1.8	1.5	1.5	1.5	1.5	1.5
Federal	1,319	2,094	2,348	2,694	3,146	3,697	1.4	1.4	1.4	1.5	1.5	1.6
J&K Bank	668	938	1,069	1,208	1,365	1,542	0.7	0.6	0.6	0.7	0.7	0.7
RBL Bank	586	840	926	1,053	1,212	1,413	0.6	0.6	0.6	0.6	0.6	0.6
SIB	581	781	890	1,006	1,136	1,284	0.6	0.5	0.5	0.5	0.5	0.5
IDFC First	1,006	1,946	2,331	2,809	3,379	4,069	1.1	1.3	1.4	1.5	1.6	1.7
Pvt banks Share							37.9	42.3	41.4	41.7	42.1	42.7
PSU Banks												
Bank of Baroda	7,063	10,658	12,096	13,450	15,253	17,357	7.6	7.2	7.3	7.3	7.3	7.4
Bank of India	3,657	5,631	6,262	6,920	7,646	8,449	3.9	3.8	3.8	3.8	3.7	3.6
Canara Bank	3,657	5,631	6,262	6,920	7,646	8,449	6.9	6.3	6.4	6.3	6.2	6.1
Indian Bank	6,390	9,316	10,492	11,646	12,927	14,361	3.9	3.5	3.5	3.4	3.3	3.2
PNB	3,627	5,149	5,711	6,265	6,916	7,649	7.2	6.3	6.5	6.6	6.6	6.6
SBI	6,742	9,344	10,775	12,132	13,685	15,464	26.3	24.9	25.3	25.3	25.1	24.9
Union Bank	24,495	37,040	41,633	46,504	52,224	58,752	6.3	5.9	5.8	5.7	5.6	5.4
PSU Banks							62.1	57.7	58.6	58.3	57.9	57.3

Source: Company, MOFSL

**Exhibit 14: Trend in credit growth for Private Banks and PSBs over past fifteen years**

Bank Credit (INR t)	SCBs	Growth YoY (%)	PSBs	Growth YoY (%)	PVBs	Growth YoY (%)
FY11	40.8	21.8	30.5	21.5	7.3	23.9
FY12	48.0	17.9	35.6	16.7	8.9	22.1
FY13	55.3	15.0	40.7	14.3	10.5	18.9
FY14	62.8	13.7	46.0	12.9	12.2	15.9
FY15	68.8	9.5	49.3	7.2	14.3	17.4
FY16	75.2	9.4	51.3	4.0	18.1	26.5
FY17	79.2	5.3	52.0	1.5	21.3	17.3
FY18	87.7	10.7	55.4	6.5	25.7	20.7
FY19	99.0	12.9	59.2	6.8	32.2	25.5
FY20	105.2	6.3	60.7	2.5	36.1	12.2
FY21	110.8	5.3	62.6	3.2	39.2	8.5
FY22	122.6	10.7	67.2	7.4	45.2	15.3
FY23	142.0	15.8	77.1	14.6	53.7	18.7
FY24	163.0	14.8	87.6	13.6	62.5	16.5
FY25	181.7	11.5	98.2	12.2	69.1	10.5

Nos adjusted for HDFC merger, Source: Company, MOFSL



**Exhibit 15: Banking valuation matrix**

Val summary	Rating	CMP (INR)	Mkt. Cap (INRb)	EPS (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Private Banks													
ICICIB*	Buy	1,482	10,553	72.6	84.4	2.3	2.3	17.0	17.3	16.5	14.2	3.3	2.8
HDFCB*	Buy	2,019	15,479	94.3	113.9	1.8	1.9	13.7	14.9	18.4	15.2	2.8	2.5
AXSB*	Neutral	1,068	3,313	80.5	101.3	1.5	1.6	13.1	14.6	11.6	9.2	1.7	1.5
BANDHAN	Neutral	168	271	16.4	22.8	1.3	1.6	10.6	13.9	10.3	7.4	1.1	1.0
KMB*	Buy	1,979	3,934	74.3	89.5	2.0	2.1	12.2	13.4	16.4	13.6	3.2	2.8
IIB	Neutral	799	622	40.6	57.1	0.6	0.7	4.8	6.4	19.7	14.0	0.9	0.9
FB	Buy	202	497	17.0	21.5	1.1	1.2	11.9	13.4	11.9	9.4	1.3	1.2
DCBB	Buy	135	42	24.9	33.1	0.9	1.0	13.7	16.0	5.9	4.2	0.7	0.6
IDFCB	Neutral	69	504	3.3	5.5	0.7	1.1	6.8	11.4	20.5	12.4	1.5	1.4
EQUITASB	Buy	59	67	3.2	7.8	0.6	1.3	5.9	13.7	18.8	7.6	1.1	1.0
AUBANK	Buy	741	552	35.5	48.3	1.5	1.7	15.0	18.3	20.9	15.4	3.0	2.6
RBK	Buy	267	162	17.1	31.3	0.7	1.1	6.5	11.4	15.6	8.5	1.0	0.9
PSU Banks													
SBIN*	Buy	796	7,108	78.2	86.9	1.0	1.0	15.8	15.6	7.0	6.3	1.5	1.3
PNB	Buy	105	1,211	15.4	18.4	0.9	1.0	14.0	14.9	7.8	5.7	0.9	0.8
BOB	Neutral	238	1,232	36.5	45.6	1.0	1.1	14.3	16.2	6.5	5.2	0.9	0.8
CBK	Buy	107	973	21.0	23.4	1.1	1.1	19.2	19.0	5.1	4.6	0.9	0.8
UNBK	Neutral	131	1,000	21.7	24.7	1.1	1.1	14.6	14.8	6.0	5.3	0.8	0.7
INBK	Buy	622	837	87.9	94.9	1.3	1.3	17.7	16.9	7.1	6.6	1.1	1.0
Payments & Fintech													
SBI Cards	Neutral	808	769	28	38	3.8	4.4	17.7	20.2	29.1	21.3	4.8	4.0
				EPS (INR)		RoA (%)		RoE (%)		RoE (%)		P/BV (x)	
One 97 Comm.	Neutral	1,086	691	6	15	0.6	7.5	1.9	4.3	2.6	6.4	177.6	73.5

\*Adjusted for subsidiaries

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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