

Emkay Media Roundtable

March 2024

21-3-2024

BFSI Trends - The Banking Quest for Deposit Growth

Agenda

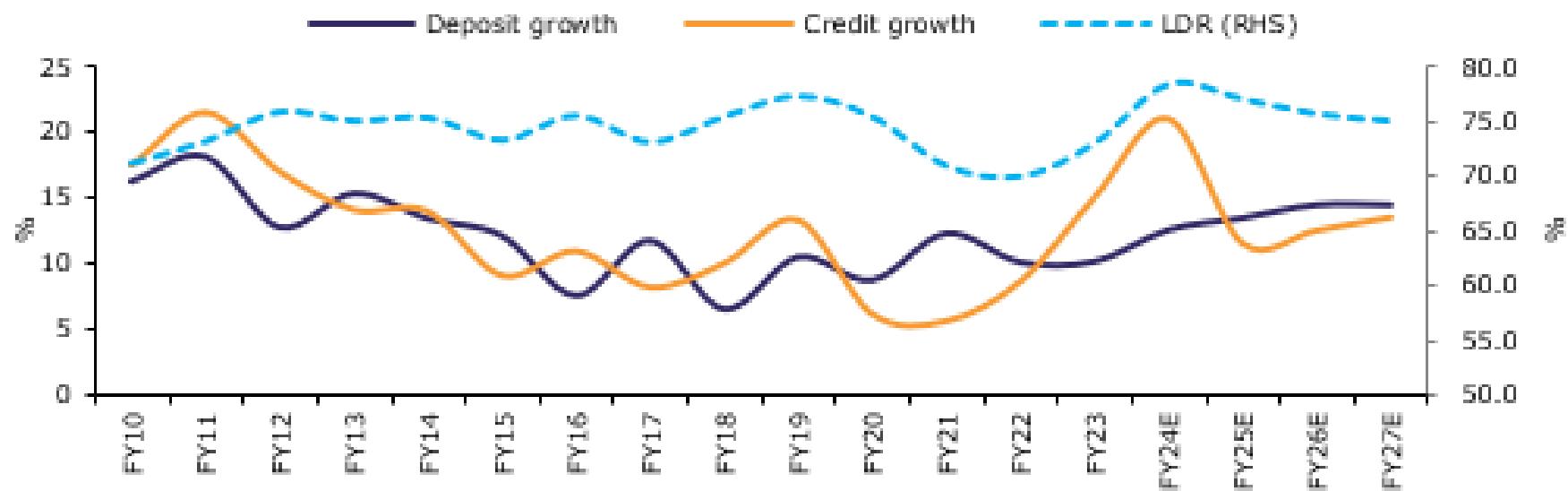
Our deposit thematic has tried to answer the near long term Credit-Deposit growth conundrum, the ensuing war for retail deposits and the strategy to win this war

- Will slower deposit growth, amid rising structural macro-micro concerns, derail the retail credit bandwagon in the long run?
- Deposit acceleration is imperative to support credit growth in the long run, but structural challenges galore!
- Inter-bank war for retail deposits is likely to intensify amidst rising dependence on retail loans, as corporate credit growth remains elusive
- What should be the strategy to survive & thrive in this retail deposit war over the next decade and who will be the winners?

Deposit and Credit growth over the years

Story in Charts

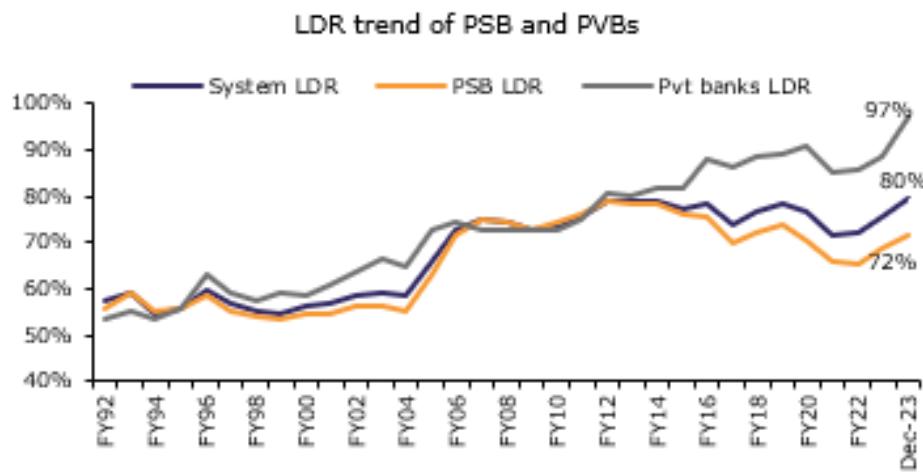
Exhibit 1: Overall credit growth to moderate amid regulatory action on unsecured loans and rising asset-quality risk, thereby easing concerns on higher LDR



Source: RBI, Emkay Research

The metrics for PVBs vs PSBs

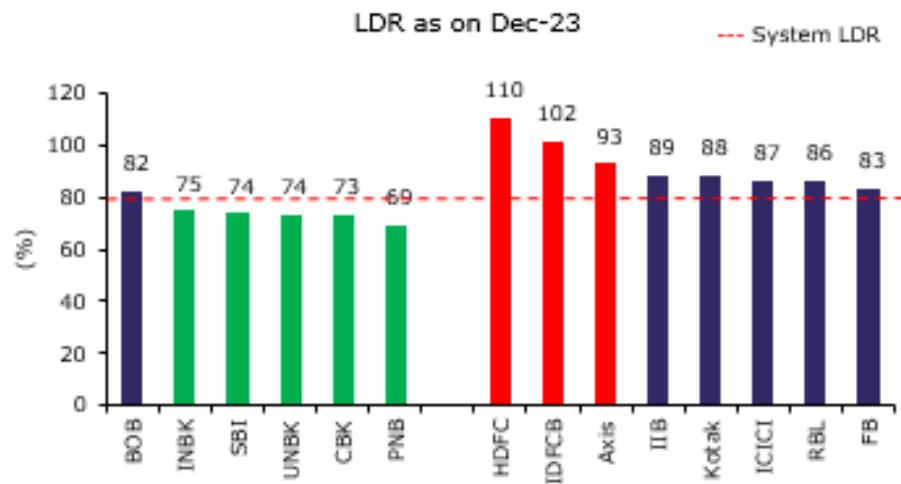
Exhibit 2: LDR for PVBs has been relatively high (incl. HDFCB), which banks need to reduce either by slowing credit growth or accelerating deposit growth, albeit at a cost



Source: RBI, Emkay Research

Note: Higher LDR for PVBs is due to eHDFCL merger

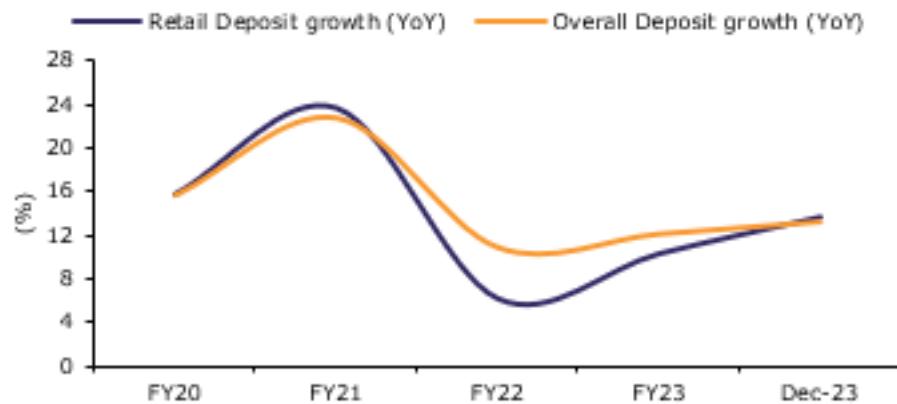
Exhibit 3: Mostly large-mid size PVBs have LDR well above optimal LDR of 75%; LDR for BOB is higher due to international exposure



Source: Company, Emkay Research

Retail Deposit growth

Exhibit 4: Retail deposit growth has been lagging overall deposit growth for the past few years but has picked up a bit as banks raised rates



Source: Company, Emkay Research

Note: Retail deposit growth is based on LCR data for top 10 banks

Exhibit 5: PVB's retail loan/deposit share is higher and, thus, poses an ALM risk in the long run

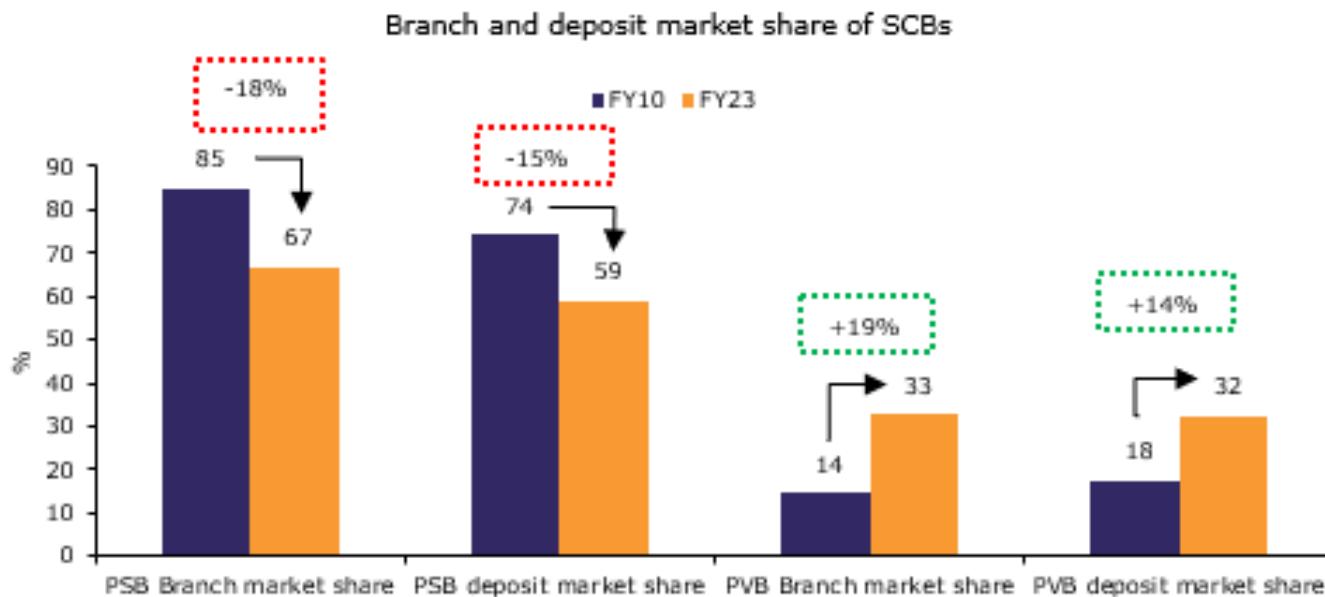


Source: Company, Emkay Research

Note: Retail deposits are as per LCR, which could differ from bank-defined retail deposits

Branches and growth

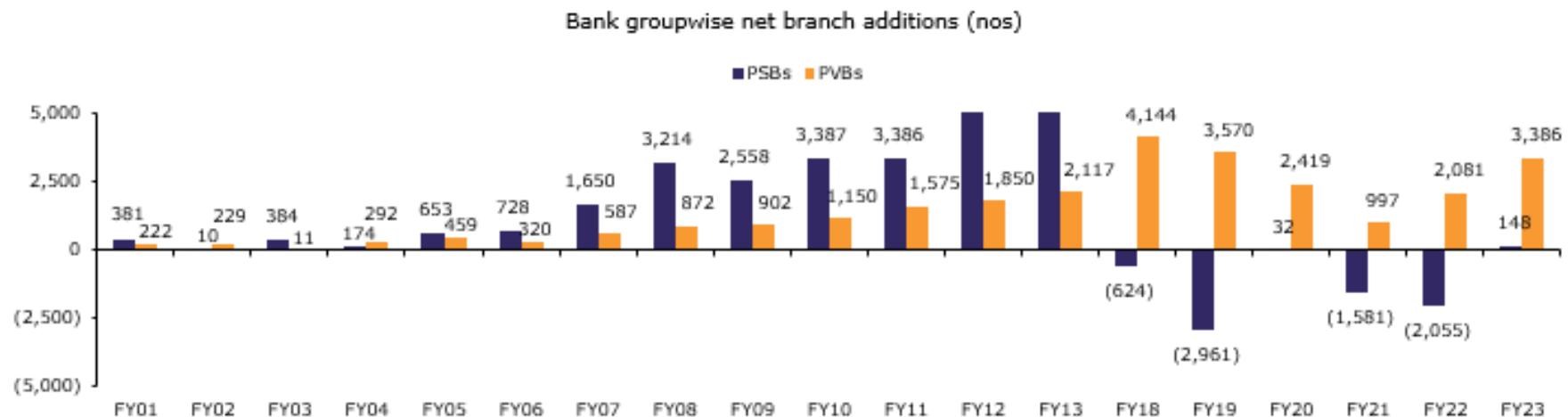
Exhibit 6: There is a strong correlation between branch expansion/contraction and deposit market share



Source: RBI, Emkay Research

Branches over the years

Exhibit 7: Unlike PSBs, PVBs have been adding branches at a faster pace; thus, we believe PVBs could be winners in the long run, as the war for retail deposits intensifies



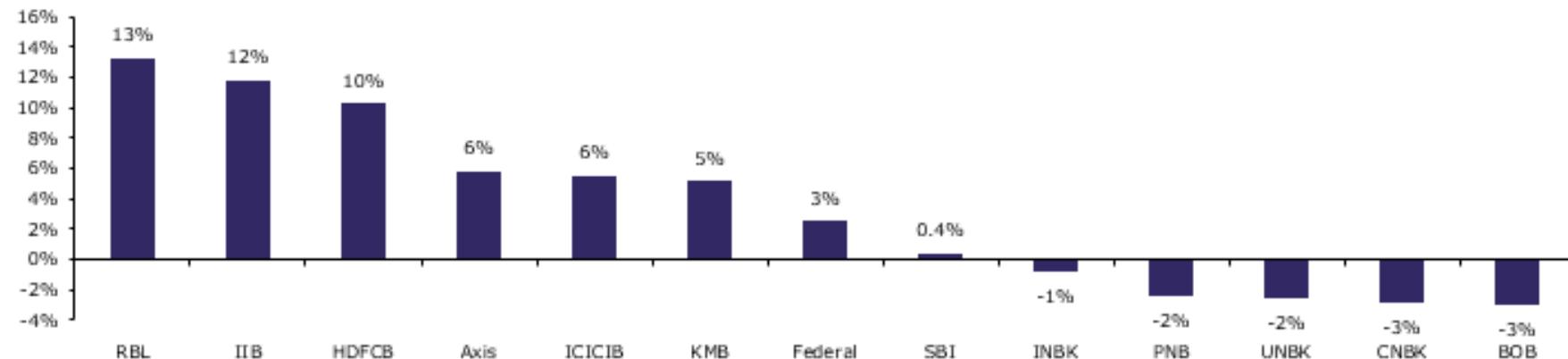
Source: RBI, Emkay Research

Note: Negative net branch addition for PSBs is mainly due to the closure of overlapping and not-so-profitable branches post-merger

Branch expansion in last 5 years

Exhibit 8: SBI has hardly added any branches in the past five years, while HDFC leads the pack among large PVBs

5-Year Branch expansion CAGR (Dec'18-Dec'23)

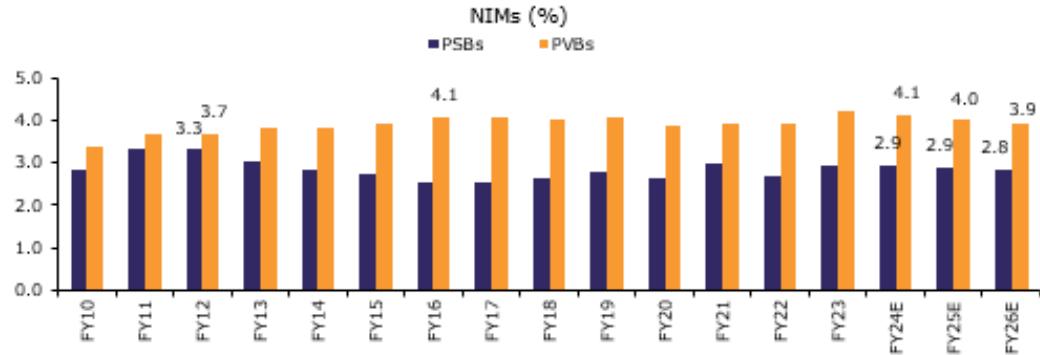


Source: Company, Emkay Research

Note: Branch growth is adjusted considering the merger impact in the base year i.e. FY18 for BOB, PNB, INBK, CNBK and UNBK

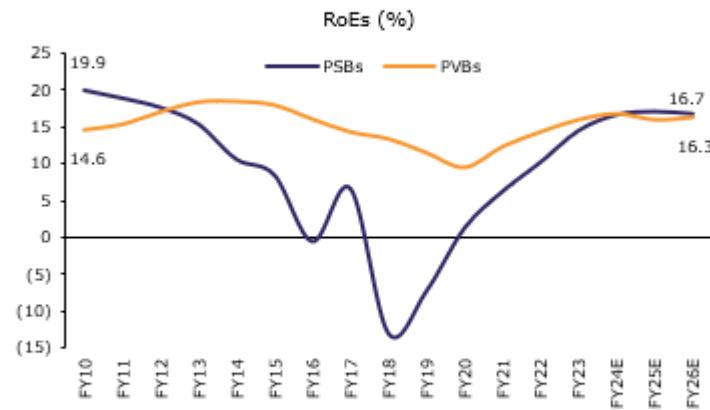
Margins

Exhibit 9: Margin moderation for PSBs will be slower vs. PVBs due to a higher share of the MCLR book



Source: Emkay Research

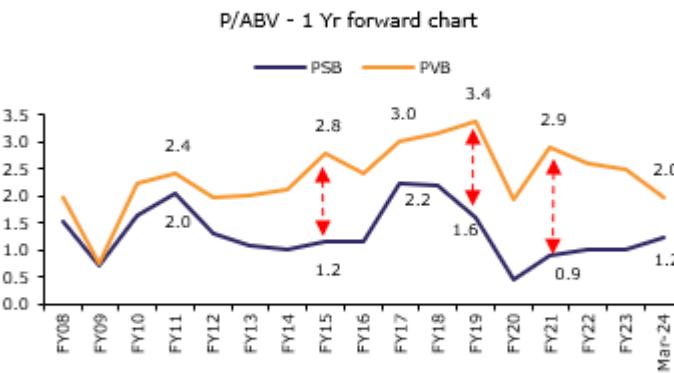
Exhibit 10: PVBs and PSBs now have nearly similar RoEs leading to re-rating



Source: Company, Emkay Research

Note: We have considered our coverage universe as a proxy for the above analysis

Exhibit 11: The valuation gap for PSBs with PVBs has moderated, reflecting improving profitability and asset quality for PSBs, exacerbated by the de-rating for HDFCB/KMB



Source: Company, Emkay Research

Note: We have considered our coverage universe as a proxy for the above analysis

Our picks and rationale

Exhibit 12: FY26E RoA/RoE for key PSBs have inched-up leading to re-rating

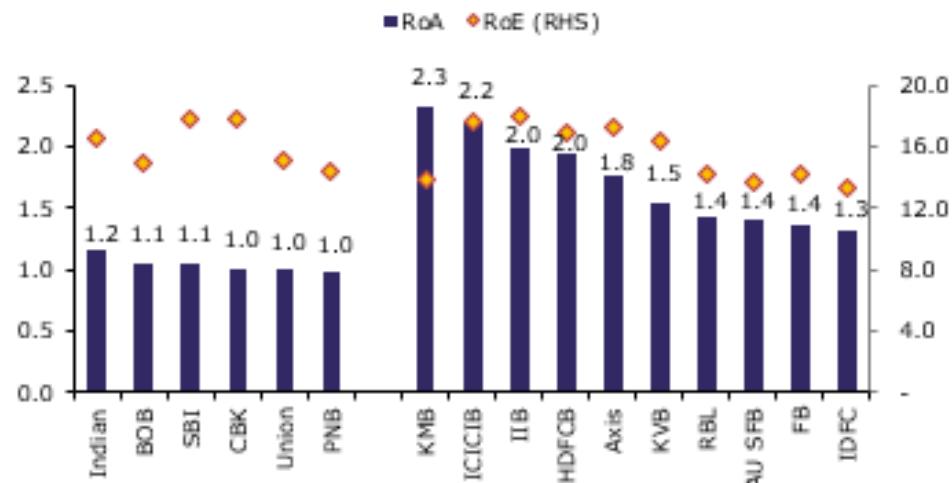
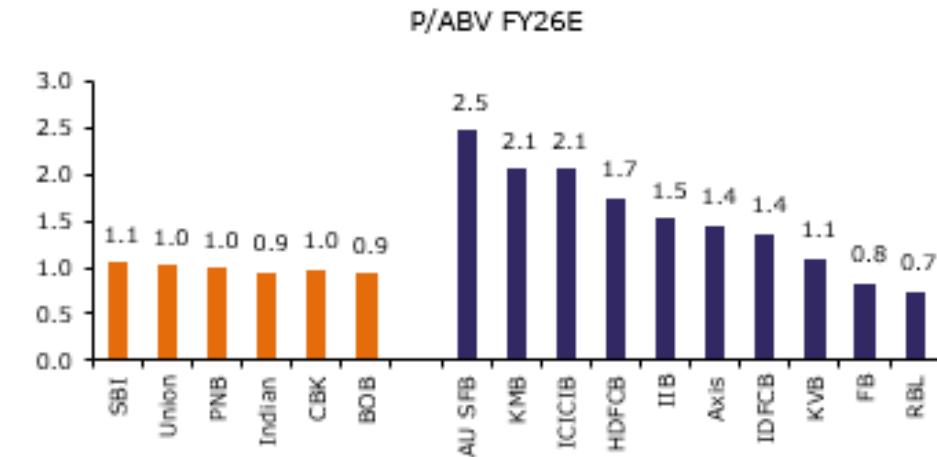


Exhibit 13: Our preferred picks among PSBs are SBI, BOB, Indian and Canara Bank, given their reasonable valuations; while among PVBs, we prefer ICICI, Axis, HDFCB and IIB



Source: Emkay Research

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QUESTIONS AND ANSWERS



