

Deposit growth still a challenge

While deposit growth has converged with loan growth at 10.7% YoY, it is still soft with incremental deposits lower YoY in the first two months of Q3FY25. Incremental LDR remains well above 100%. More importantly, incremental demand deposits are much lower YoY. While deposit accretion in Apr–Nov'24 is lower YoY, credit growth has slowed materially to 10.6% as on Nov 29, 2024 versus 16.5% in FY24.

Given continued deposit shortage and decreasing CASA, banks remain vulnerable to margin pressure. ICICI Bank, SBI and HDFC Bank continue to gain incremental market share without rate competition. ICICI Bank, SBI and HDFC Bank along with a few PSU banks appear better-placed to face the deposit challenge.

Deposit growth continues to remain a challenge

While loan and deposit growth appear to have converged at 10.7% YoY growth as of November 29, 2024, deposit deficit remains a problem for the industry. Incremental deposits in the first two months of Q3FY24 at INR977bn are much lower than incremental credit at INR2tn as well as the YoY figure of INR2.8tn for incremental deposits. The incremental LDR over Oct 4–Nov 29, 2024 was a high 216% versus 175% YoY. Demand deposits continue to stay under pressure with incremental demand deposits being negative at INR153bn versus a positive figure of INR175bn YoY, suggesting further pressure on CASA. Alternate investment options such as mutual funds have led to lower retail deposits, especially CASA.

Adverse mix to continue to pressurise CoF

The deposit mix continues to deteriorate. RBI's September data indicates CASA share is down to 39.6% from 40.2% YoY. Substantial deposits have shifted to the higher interest rate bucket during the latest monetary policy tightening cycle; term deposits bearing over 7% have risen to 68.8% from 54.7% YoY and 33.7% in FY23. With CASA staying under pressure even in Q3, marginal CoF shall rise for the sector.

Loan growth has slowed too

The big gap between deposit and loan growth started shrinking in Jun-24 with deposit and loan growth now converging. The slowdown in loan growth has been driven by tightening of risk weights on unsecured loans and NBFC credit, low wage growth, FPI and FDI outflows along with low government spend led by lower tax revenue. For Oct-24, loans to NBFCs slowed down to 6.4% YoY compared with 15.3% in FY24, PL + CC eased to 12.4% from 19.7% in FY24 while overall retail loan growth slowed to 12.9% from 17.6% in FY24. Despite slower credit growth, incremental LDR remains well above 100%.

Would rate cuts fix low growth issue?

Rate cuts are unlikely to have an immediate impact and it shall take nine–12 months for retail demand to revive after rate cuts. SBI, HDFC Bank, ICICI Bank, Federal Bank and Shriram remain our top picks.

Exhibit 1: Incremental deposits and loans

INR bn	Apr-5 - Nov-29, 2024	Apr-5 - Nov-29, 2023	Apr-5 - Nov-29, 2022	Oct 4 - Nov 29, 2024	Oct 4 - Nov 29, 2023
Incremental deposits	10,180	14,386	7,829	977	2,789
of which					
Incremental demand deposits	-161	1,144	621	-153	375
Incremental credit	9,161	19,749	11,404	2,114	4,875
Incremental CD ratio	90.0%	137.3%	145.7%	216.4%	174.8%

Source: Company, Nuvama Research

Exhibit 2: Outstanding deposits and loans

INR bn	29-Nov-24	% YoY	% FoF	% over Oct-04,2024
Total credit	1,75,092	10.6%	0.8%	1.2%
Non food credit	1,74,579	10.6%	0.8%	1.0%
Deposits	2,20,178	10.7%	0.7%	0.4%
Demand deposits	25,766	10.4%	2.4%	-0.6%
CD ratio	80%			

Source: Company, Nuvama Research

Exhibit 3: Distribution of term deposits – 78% of TDs at 7% or above versus 71% YoY

INTEREST RATE RANGE	Sep-2024		Jun-2024		Sep-2023	
	INR mn	%	INR mn	%	INR mn	%
6 % and above but less than 7 %	2,67,76,310	22.2	2,68,03,322	23.1	3,02,42,905	28.6
7 % and above but less than 8 %	7,58,99,623	62.9	7,11,04,096	61.3	5,28,67,748	50.0
Others	1,79,08,713	14.9	1,80,83,033	15.6	2,25,96,958	21.4
TOTAL	12,05,84,646	100.0	11,59,90,451	100.0	10,57,07,611	100.0

Source: Company, Nuvama Research

Exhibit 4: Peak deposit rates offered by banks

Banks	Tenor	Current	QoQ	YoY
		Rates	Rates	Rates
AU SFB	18 Months	8.00%	8.00%	7.50%
Axis Bank	15 Months to 2 Years	7.25%	7.10%	7.10%
Bandhan Bank	1 Year	8.05%	7.85%	N.A.
BoB	400 Days	7.30%	7.25%	7.25%
Canara Bank	444 Days	7.40%	7.25%	7.25%
DCB Bank	19 Months to 20 Months	8.05%	8.05%	7.75%
Federal Bank	777 Days	7.40%	N.A.	N.A.
HDFC Bank	4 Years 7 Months to 55 Months	7.40%	7.15%	7.15%
ICICI Bank	15 Months to 18 Months	7.25%	7.20%	7.10%
IDFC First	400 Days	7.90%	N.A.	N.A.
IIB	16 Months to 18 Months	7.99%	7.99%	7.50%
KMB	390 Days to less than 23 Months	7.40%	7.40%	7.20%
PNB	400 Days	7.25%	7.25%	N.A.
SBI	2 years to less than 3 years	7.25%	7.00%	7.00%
Yes Bank	18 Months	8.00%	8.00%	N.A.

Source: Company, Nuvama Research

Exhibit 5: Deposit growth (% YoY)

Banks	Q2FY25	FY24
AXSB	13.7%	12.9%
BANDHAN	27.2%	25.1%
FB	15.6%	18.3%
HDFCB	15.1%	26.4%
ICICIBC	15.7%	19.6%
IIB	14.8%	14.4%
KMB	15.1%	23.6%
YES	18.3%	22.5%
IDFC First	30.6%	38.7%
AUBANK	44.8%	25.7%
BOB	9.1%	10.2%
PNB	11.3%	6.9%
SBIN	9.1%	11.1%
UNBK	9.2%	9.3%
CBK	9.3%	11.3%
INBK	8.2%	10.8%
CUBK	8.8%	6.2%
BOI	10.1%	10.2%
RBK	20.2%	21.9%

Source: Company, Nuvama Research

Exhibit 6: LDR as on Q2FY25 (%)

Banks	Q2FY25
AXSB	92.0
BANDHAN	88.5
FB	85.6
HDFCB	99.8
ICICIBC	85.3
IIB	86.5
KMB	86.6
YES	84.8
IDFC First	97.9
AUBANK	86.5
BOB	81.6
PNB	71.4
SBIN	67.9
UNBK	84.5
CBK	77.0
INBK	77.3
CUBK	83.3
BOI	77.4
RBK	81.4

Source: Company, Nuvama Research

Exhibit 7: Valuations

Particulars	CMP	Rating	TP	P/E (x)			P/B (x)		
				FY24	FY25E	FY26E	FY24	FY25E	FY26E
Banks									
HDFC Bank	1,872	BUY	1,950	20.8	18.9	16.8	2.9	2.6	2.3
ICICI Bank	1,345	BUY	1,470	20.0	17.2	15.1	3.5	3.0	2.6
Axis Bank	1,151	BUY	1,335	13.4	12.7	11.5	2.2	1.9	1.6
KMB	1,806	REDUCE	1,615	17.4	14.8	16.1	2.6	2.1	1.9
IndusInd Bank	987	HOLD	1,290	8.6	9.7	7.6	1.2	1.1	1.0
Federal Bank	213	Buy	235	13.0	10.9	9.8	1.7	1.5	1.3
IDFC First	64	HOLD	60	15.4	18.8	13.5	1.4	1.3	1.1
AU SFB	585	REDUCE	590	25.5	19.3	15.2	3.1	2.4	2.1
Bandhan	170	HOLD	190	12.3	7.5	6.6	1.3	1.1	1.0
SBI	862	BUY	1,026	9.8	8.4	7.7	1.7	1.5	1.3
Bank of Baroda	258	BUY	277	7.5	6.8	6.4	1.2	1.1	1.0
PNB	108	REDUCE	65	7.6	8.0	7.3	1.0	0.9	0.8
NBFCs									
LICHF	626	HOLD	705	7.2	6.8	6.5	1.1	1.0	0.8
MMFS	275	HOLD	280	19.3	16.2	13.2	1.9	1.7	1.5
Muthoot	2,093	REDUCE	1,870	20.7	16.4	13.8	3.5	3.0	2.5
SBI Cards	725	REDUCE	620	28.7	32.7	25.2	5.7	4.9	4.9
FIVESTAR	649	Buy	1,010	22.7	17.2	13.5	3.7	3.1	2.6
L&T Finance	147	BUY	195	15.8	13.0	10.5	1.6	1.5	1.4
Spandana	374	BUY	520	5.3	-40.7	6.3	0.7	0.7	0.7
Shriram Finance	3,163	BUY	3,600	16.2	14.1	12.3	2.4	2.1	1.9

Source: Company, Nuvama Research

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