

Private banks laughing all way to bank

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It can't get better for private banks—every day as a new scam or fraud gets unearthed, SOE Banks are put on greater scrutiny, slowing down decision-making and losing business to their private sector peers. But as SOE bank stocks fall sharply, is it possible to surmise a rock bottom? We make a preliminary attempt here. Market share gains: Private banks have already gained market share from the worst performing SOE banks under [RBI](#)'s prompt corrective action (PCA). For the Dec quarter, average loan growth for private banks was 25% y-o-y versus 12% y-o-y for SOE banks not under PCA, and a negative 4% for

ones under PCA. This is not too surprising as the banks under PCA had to rapidly cut risk weight exposures, reduce capital consumption and control costs, etc. What makes this strain more stressful is the loss in savings deposits, where the average SA growth was 24% for private banks against near zero growth for SOE banks not under PCA and a slight negative growth for ones under PCA. Trend could accelerate: The supposed fraud in PNB and subsequent unearthing of other similar cases has created a domino effect.

Now, both the Finance Ministry & RBI seem to be tightening the noose on the SOE banks with stringent norms, e.g. (i) asking SOE banks to examine all NPAs above Rs 500 mn for frauds, or (ii) identify & resolve any operational and technical risks in the system within 15 days . We expect decision-making to slow further, resulting in further market share losses. We therefore continue to like private banks, especially those with solid asset/liability franchise along with growth options: Yes Bank, Axis Bank, ICICI Bank and HDFC Bank. SOE Banks — Is there a price? With SOE banks falling sharply, esp. PNB, we try a crude method to see at what levels have stocks bounced back post steep corrections. Price-to-book is not very helpful in a solvency risk event, usually, as until the capital infusion happens the dilution keeps on increasing with falling prices. A simpler (but crude) way is to look for store of value within bank — one of them being the treasury portfolio. In the limiting condition that the govt will absorb both the credit risk (NPL losses and frauds) and liquidity risk (bank runs or inability to pay back depositors), what remains is the G-Sec portfolio, barring the realisable value of fixed assets/land — essentially trying to find an imprecise break-up value and compare to the current market cap. More an indicative rather than a conclusive parameter, the MCap to domestic treasury book has usually bounced back — from ~20% (SBIN and BOB) and ~10% (other SOE Banks) at least on three very steep price correction zones. In all these instances, SOE Bank index (PSU Bank NIFTY) saw a greater than 10% fall within a month of the event.