

Private banks rely more on financial sector for funds

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There is a sharp increase in reliance on financial companies by private banks and small finance banks are making inroads, primarily on the wholesale side. The CASA share shift continues towards private banks with a gain of 220 bps y-o-y largely led by current accounts.

Demonetisation impact gone

After the big surge in deposits post demonetisation, we see that the impact of gradually fading away. Household deposits saw an increase of 17% y-o-y in FY16 and 27% y-o-y in FY17 while this has slowed to 9% y-o-y. The maximum slowdown is visible in northern India with 5% growth in deposits while southern India still saw a growth of 11% y-o-y led by Andhra Pradesh and Telangana.

Government deposits are growing faster in savings account deposits than current or term deposits. An interesting trend is the contribution of government deposits: (1) Overall growth was lacklustre at 1% y-o-y with current account growth of 4% y-o-y, term deposits by 2% y-o-y while savings account deposit grew at 33% y-o-y on a base of 35% reported in the previous quarter.

Government share in savings deposits is at an all-time high at 10% and private banks have made further inroads into government deposits and their share is 17% as compared 16% in FY2017. (4) Small finance banks, albeit small, have started making inroads into these deposits as well.

Private banks rely on financial companies for deposits

Given the nature of loan growth where the shift from PSU banks to private banks has been quite steep, we look at the funding side of these banks. On the face of it, it does not seem to be too impressive. The gains on CASA continue from public to private

banks but it has been quite slow.

There is 225 bps shift to private banks, the bulk of the change has come from current account while the increase in market share on savings deposits was 200 bps. The ownership data shows an increase in reliance through the finance sector (NBFCs, mutual funds, insurance etc) as these deposits grew 50% y-o-y in FY18. Government deposits increased albeit at a slower pace of 8% y-o-y, the corporate sector grew 18% and the household sector grew 12%.

Small finance banks have started to make some inroads. They too, like private banks, have increased reliance on the financial sector as it contributed 40% to their overall deposits.

Edited extracts from Kotak Institutional Equities Research.

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