

India Banking Sector Trajectory: A 15-year lens

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Banking | FIG Sector Note

May 2025

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Indian Banking: A Timeline of Transformation



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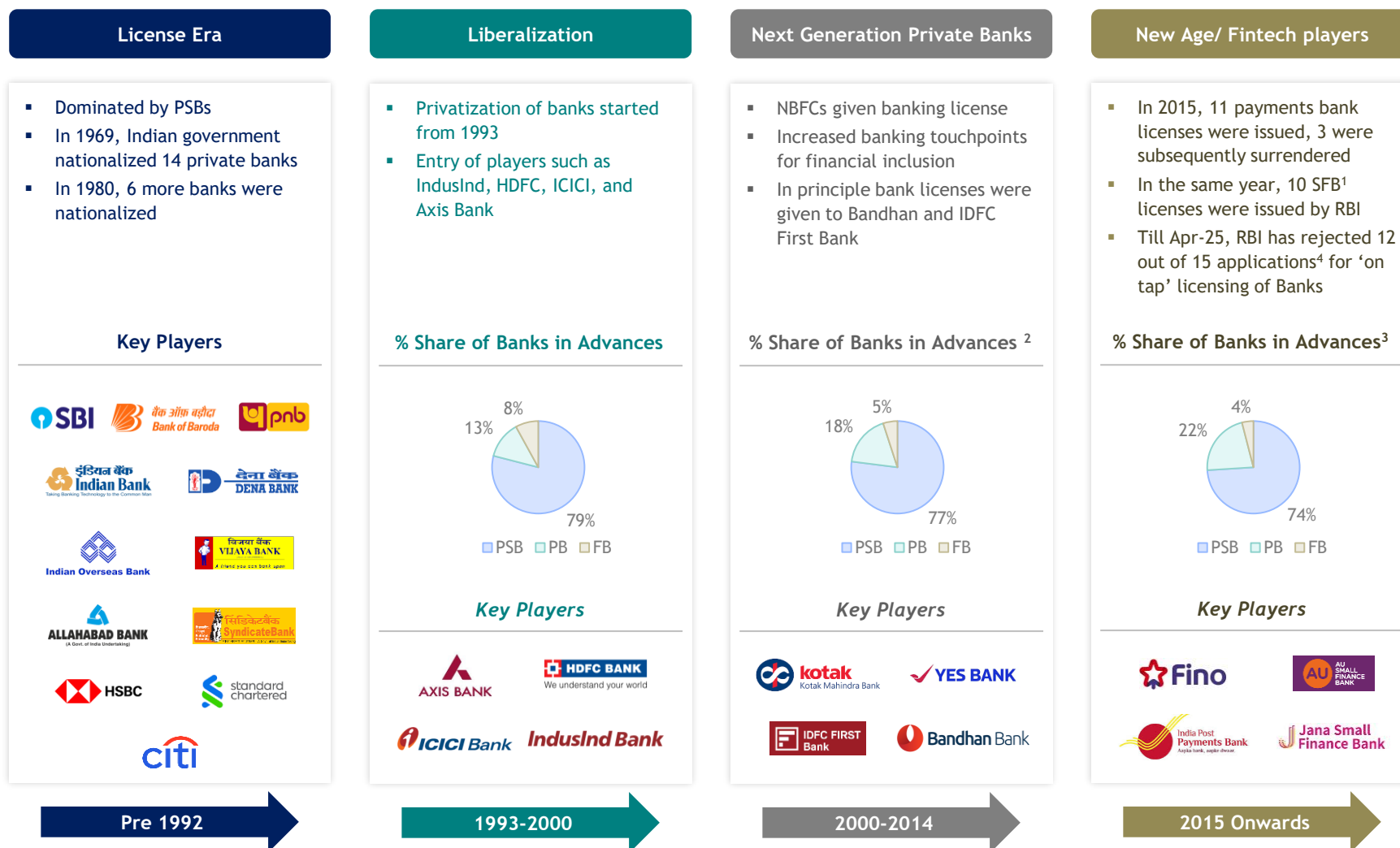
Valuations Tell the Story: Premiums, Pressure & Performance



Indian Banking: A Timeline of Transformation

Evolution Of Banking Landscape In India: From Nationalization To Privatization

Reforms and licensing tailwinds have powered the rise of agile banking ecosystem



Source: RBI; Notes: 1. PSB - Public Sector Banks, PB - Private Banks, FB - Foreign Banks, SFB - Small Finance Bank; 2. Data for FY10; 3. Data for FY15; 4. Remaining 3 applications (AU SFB application for universal bank license, VFS Capital Ltd and Fino Payments Banks applications for small finance bank license) are being examined by RBI

India's Banking Universe - Licensed Scheduled Commercial Banks (SCB)¹

A diverse mix of public, private & global players

Public Banks (PSB) - 12



Private Banks (PB) - 21²



Foreign Banks (FB) - 45



Source: RBI; Note: 1. Excluding regional rural, small finance and payments banks; 2. IDBI Bank and Nainital Bank (subsidiary of Bank of Baroda) are classified as private banks as per RBI

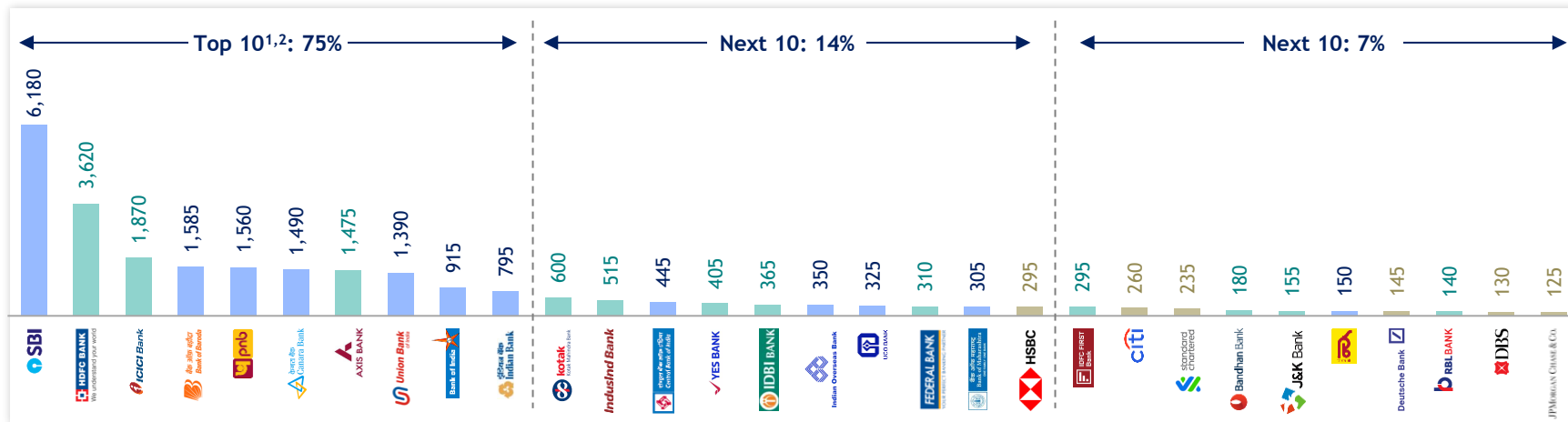


Big Picture: How Indian Banks Stack Up

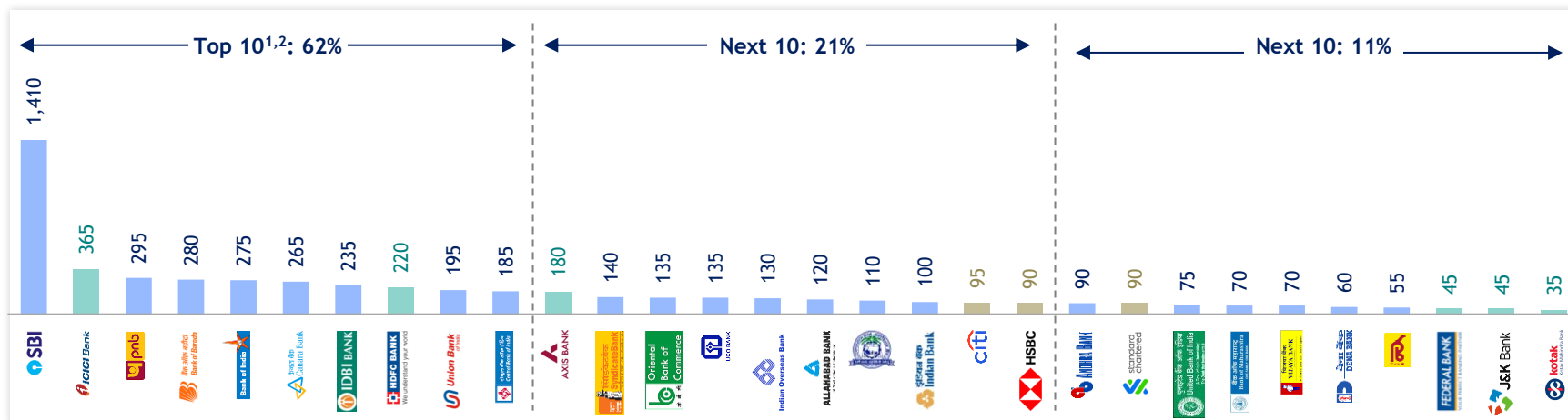
India's Banking Hierarchy: Top 30 SCBs Control the Majority of Assets

Top 10 Banks now command 75% of total assets - a sharp rise in market concentration from FY10 to FY24

Total Assets FY24 (INR '000 Cr.)



Total Assets FY10 (INR '000 Cr.)

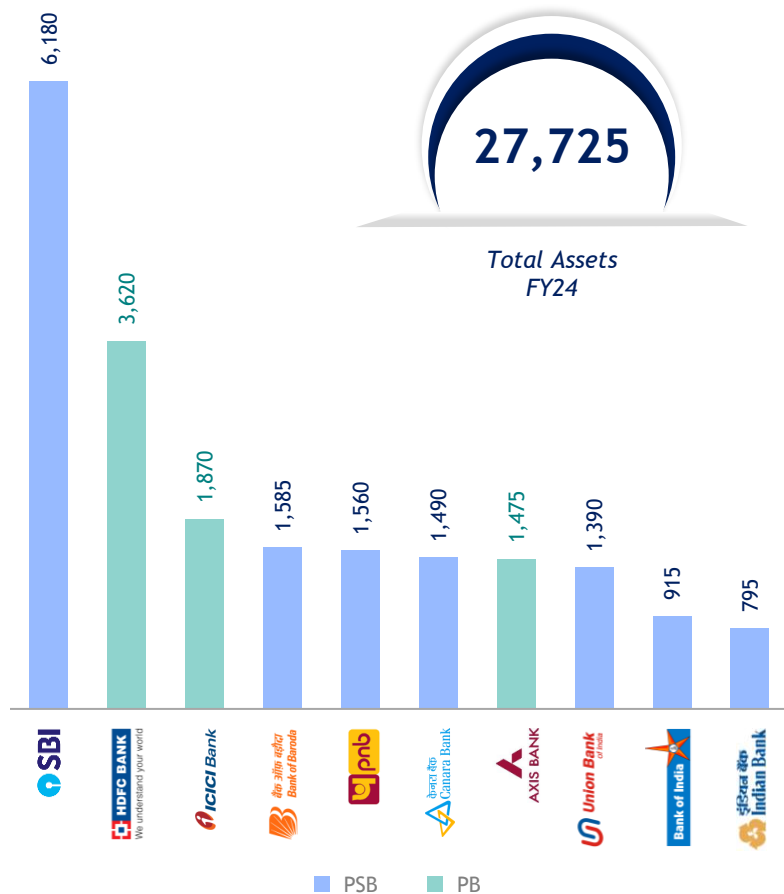


Source: RBI; Notes: 1. As a proportion of total banking assets; 2. Payments and Small Finance Banks not considered for the above ranking; 3. Citi's metrics are after including the impact of sale of its global consumer banking business to Axis Bank; 4. IDBI Bank was reclassified as a private bank by RBI from FY19 onwards

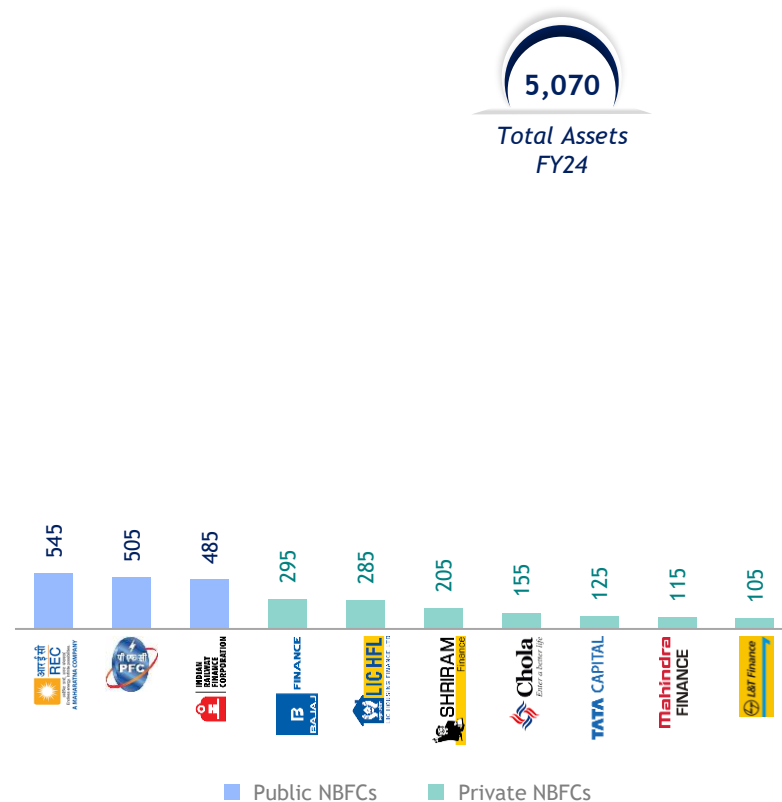
NBFCs Grow Fast, But Banks Remain the Core of India's Credit Landscape

Despite proliferation of NBFCs, banks still control over 5x the asset base - reaffirming systemic dominance

Top 10 Banks by total assets ('000 Cr.)¹



Top 10 NBFCs by total assets ('000 Cr.)²



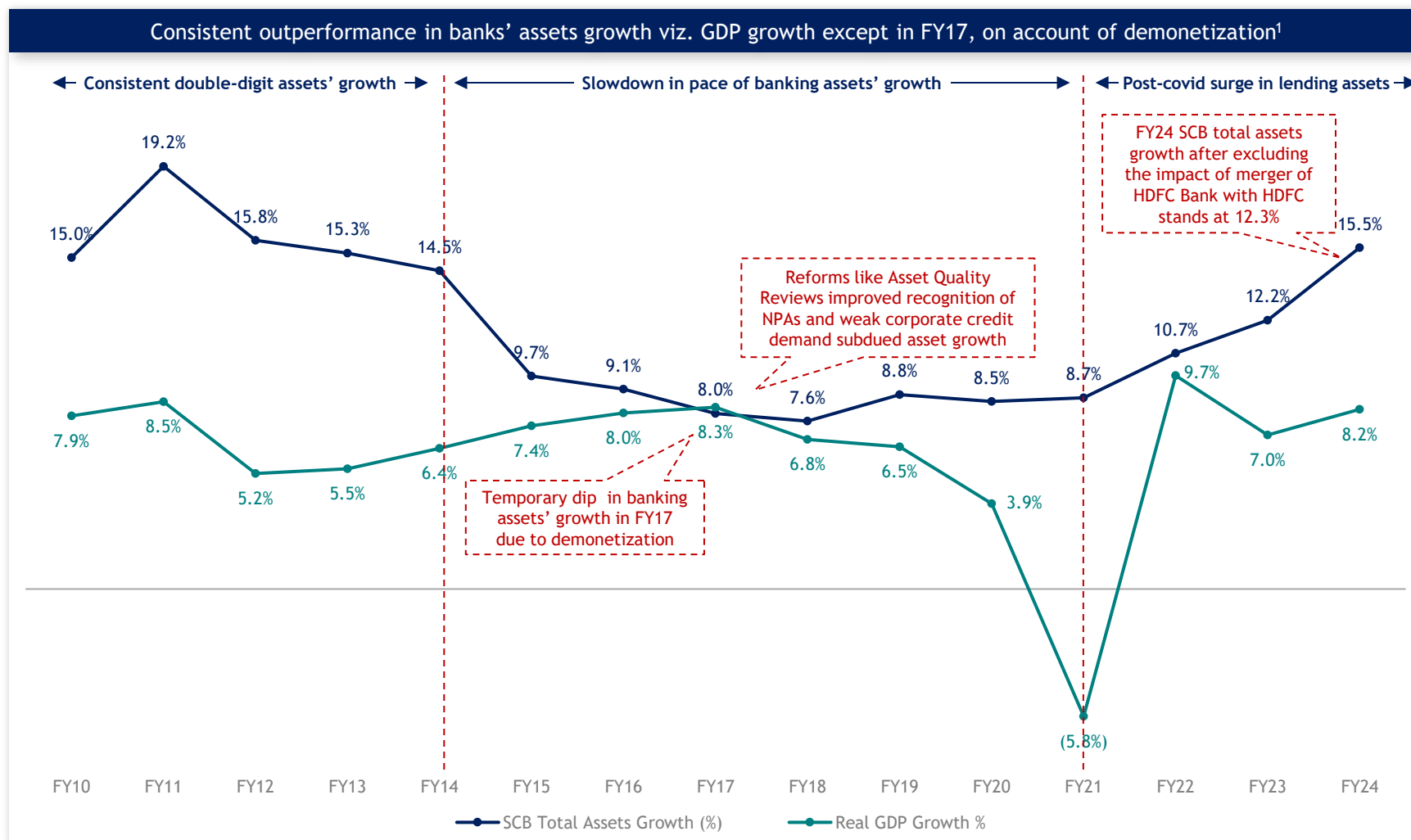
Source: RBI; Notes: 1. Total banking assets for FY24 excludes assets for small finance and payments banks; 2. Standalone numbers for assets of companies except for Tata Capital and L&T Finance; 3. Total assets of small finance and payments banks for FY24 were INR 335,284 Cr. and INR 24,668 Cr. respectively



India's Banking Engine: Scaling, Consolidating With Room To Grow

Banking Assets Have Consistently Outpaced GDP Growth

Despite short-term disruptions, banking sector assets have delivered sustained outperformance

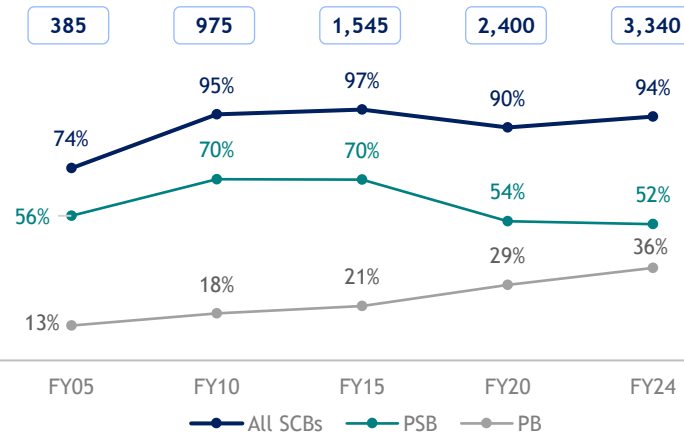


Source: Niti Aayog, RBI; Notes: 1. SCB denotes Scheduled Commercial Banks, it includes payments and small finance banks but excludes regional rural banks

Plenty of Headroom: India Lags Global Peers in Asset Penetration

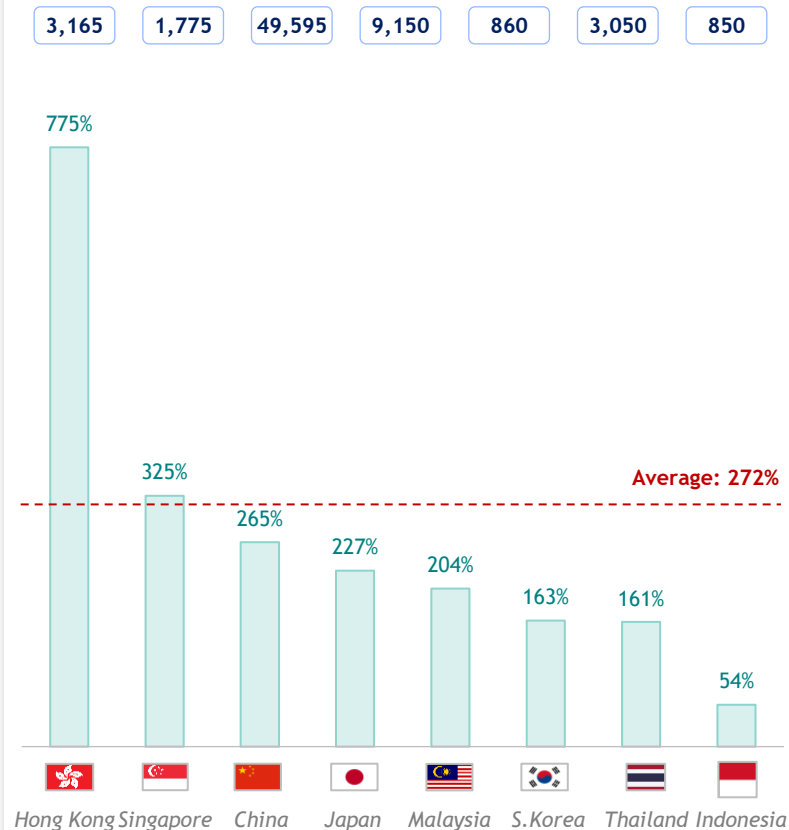
Banking assets have tripled since FY10, but India's asset-to-GDP ratio remains far below key Asian benchmarks

India - Banking Sector Total Assets to GDP %^{1,3}



Banks (FY10)	Assets to GDP%	Banks (FY24)	Assets to GDP%
SBI	22%	SBI	21%
Bank of India	6%	HDFC BANK	12%
ICICI Bank	5%	ICICI Bank	6%
Bank of Baroda	4%	Bank of Baroda	5%
PNB	4%	PNB	5%
Top 5 Banks	41%	Top 5 Banks	50%

Key Asian Countries: Banking Sector Total Assets to GDP %^{2,3}



Source: RBI, Capital IQ; Notes: 1. 1 USD = 83 INR for FY24 and average USD to INR rates taken for other respective fiscal years; 2. Data is for CY24; 3. **xx** denotes total banking sector assets in USD Bn; 4. SCBs include payments and small finance banks but exclude regional rural banks; 5. Fall in share of PSB total assets to GDP in FY20 is partly due to reclassification of IDBI as PB from FY19 onwards



Evolving Credit-Deposit Dynamics In Indian Banking

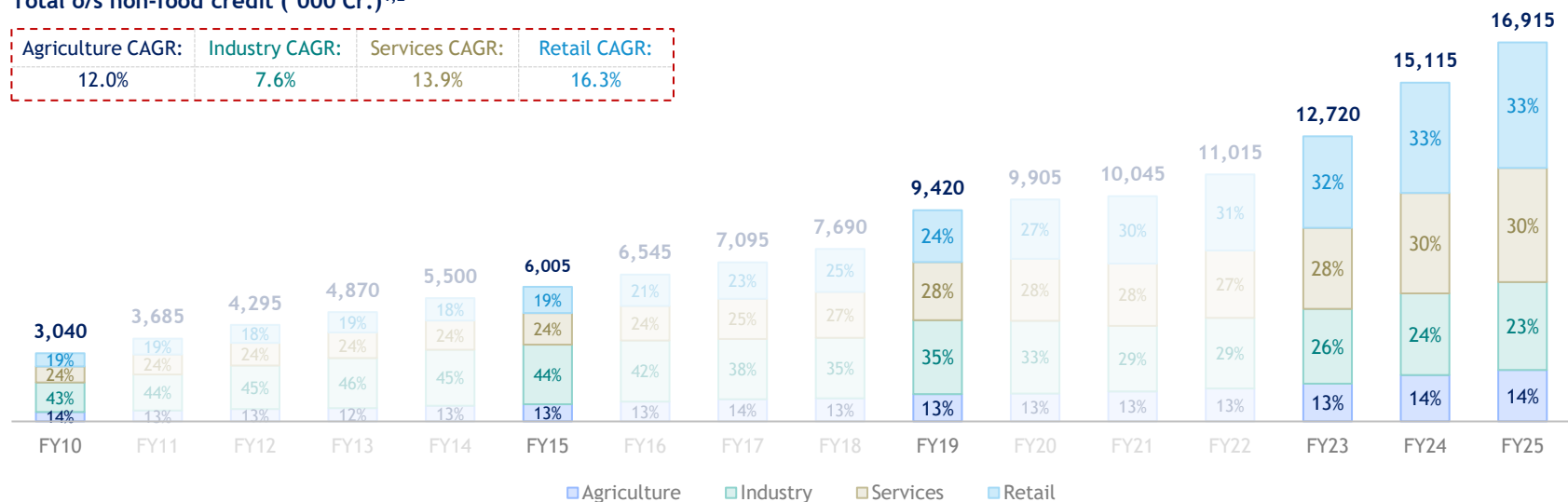
Retail Lending Emerges as the Credit Growth Engine

Corporate deleveraging and consumption-led momentum have pushed retail credit to a dominant position in banks' loan books

There has been robust growth in non-food credit over the last decade, primarily fuelled by retail credit...

Total o/s non-food credit ('000 Cr.)^{1,2}

Agriculture CAGR:	Industry CAGR:	Services CAGR:	Retail CAGR:
12.0%	7.6%	13.9%	16.3%



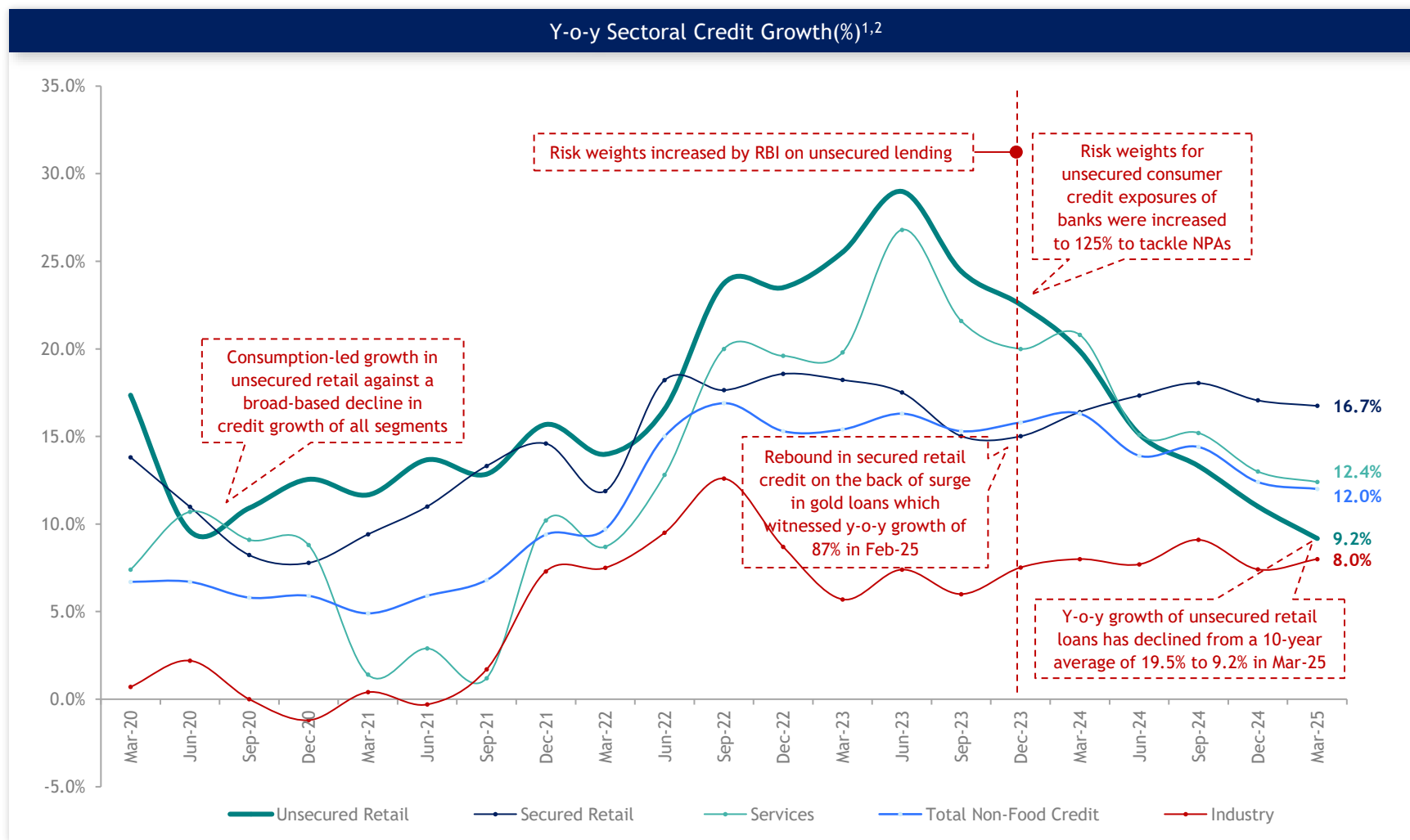
Key Trends: Evolving mix of sectoral deployment of bank credit

- Historically credit growth in India had been dominated by the corporate sector, whereas retail lending was confined to a few private sector banks
- Post-pandemic, there has been a sizable rise in retail lending due to pick-up in consumption-led loans. On the other hand, there has been a moderation in industry credit, as corporates have deleveraged their balance sheet by diversifying their borrowing profile to bonds and equity
- Debt-to-equity ratio for corporates touched a new low of ~0.7x in FY24, which is a ~34% discount to their 10-year mean, with the share of bank borrowings declining from 47% to only 33% of corporates' total borrowings
- Besides margin-accretive retail assets, MSME sub-segment of industry credit is another sweet spot for banks

Source: RBI, CMIE, Redseer; Notes: 1. Total o/s non-food credit excludes the impact of merger of HDFC Bank with HDFC in July-23; 2. Data for FY25 is as of 21st March, 2025

Unsecured Lending Pulls Back After Regulatory Red Flags

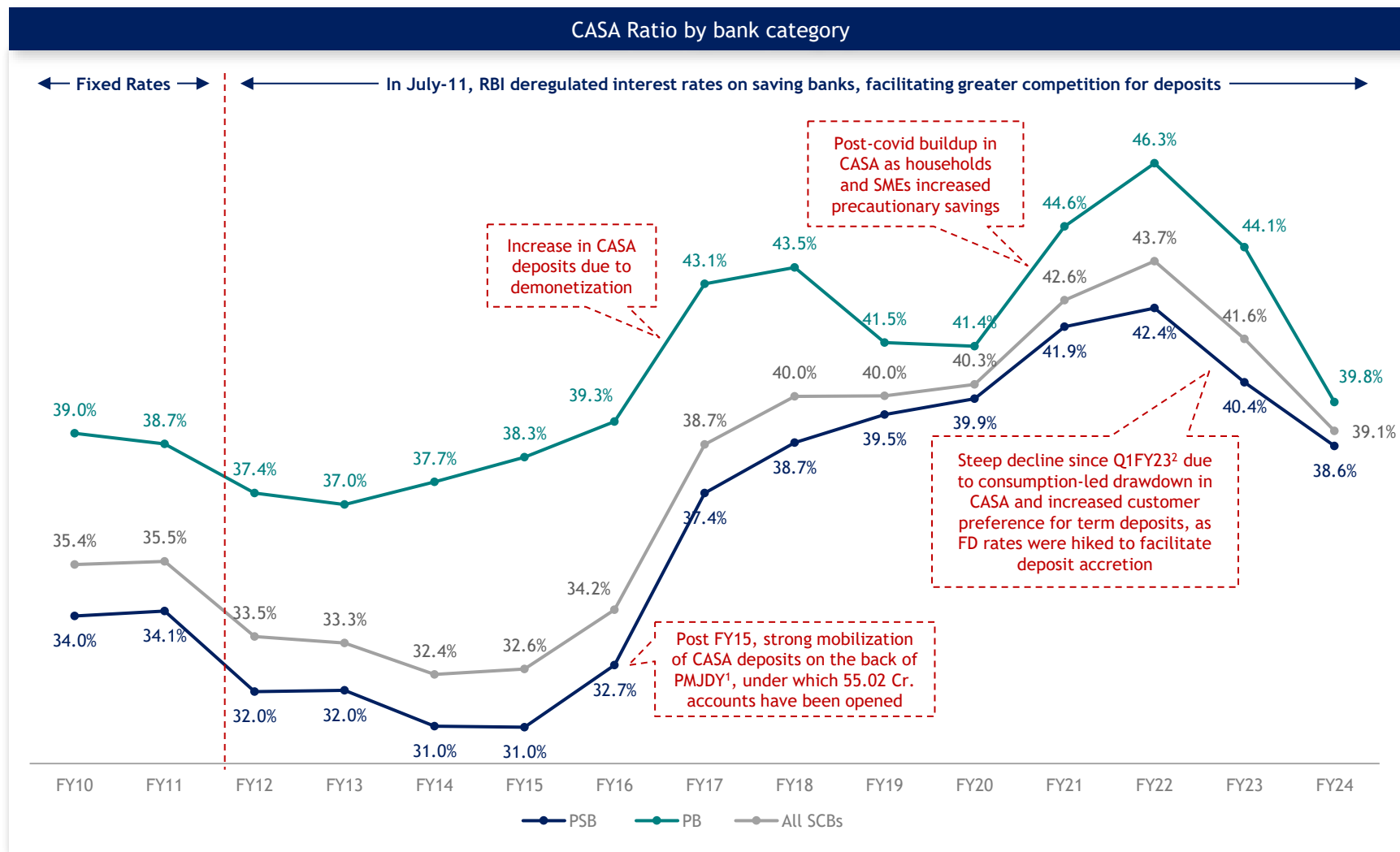
RBI's risk-weight tightening cools off retail credit surge



Source: RBI; Notes: 1. All data excludes the impact of merger of HDFC Bank and HDFC; 2. Unsecured Retail loans includes credit card outstanding dues, education and other personal loans

CASA Gains Reversed as Rate Cycle Had Tightened (FY10-24)

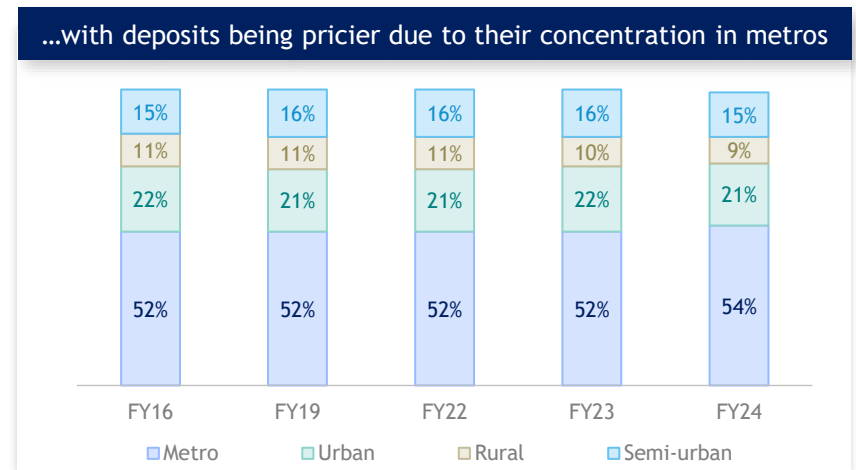
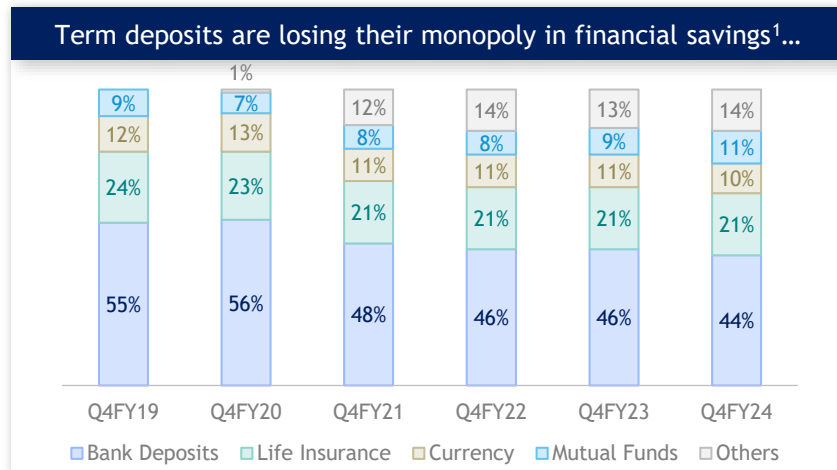
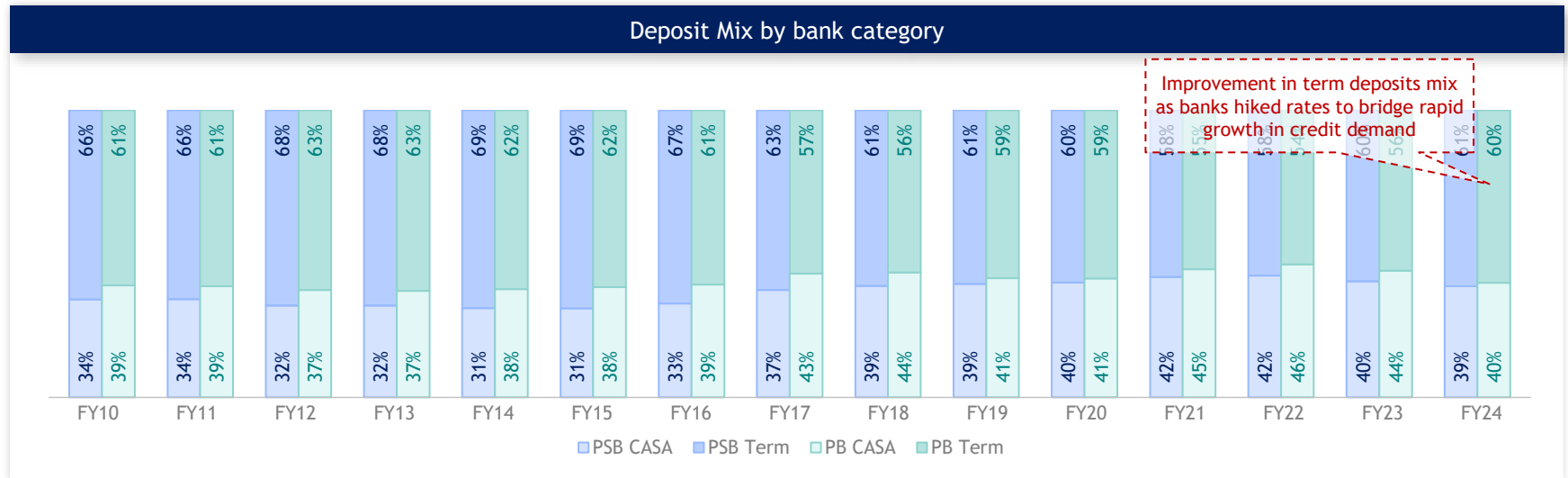
After peaking post-COVID, CASA ratios dipped amid rising FD rates and costlier deposit accretion



Source: RBI, Care Ratings; Notes: 1. PMJDY denotes Pradhan Mantri Jan Dhan Yojana, with number of accounts as of 07th March, 2025; 2. Broad-based fall in CASA ratio, rather than solely due to merger of HDFC Bank with HDFC

Shift in Savings: CASA Cools, Term Rises

In recent times, CASA has moderated as depositors chase higher yields

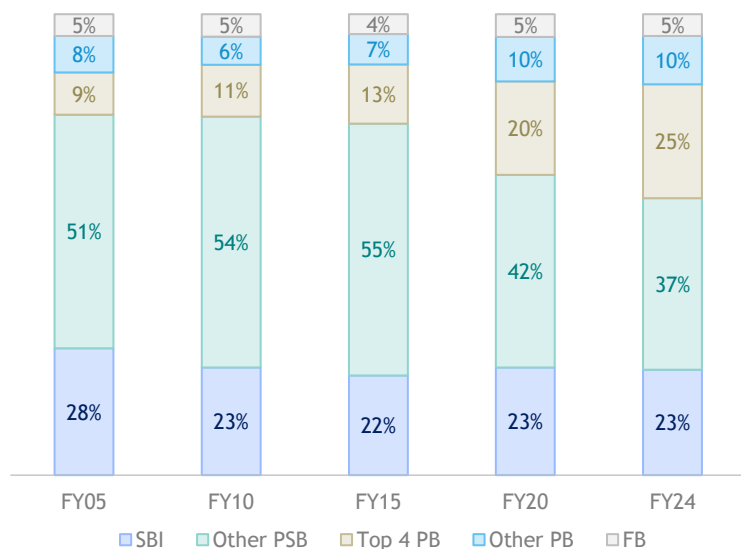


Source: RBI, Care Ratings; Notes: 1. Others includes Pension funds, PPFs, and small savings schemes

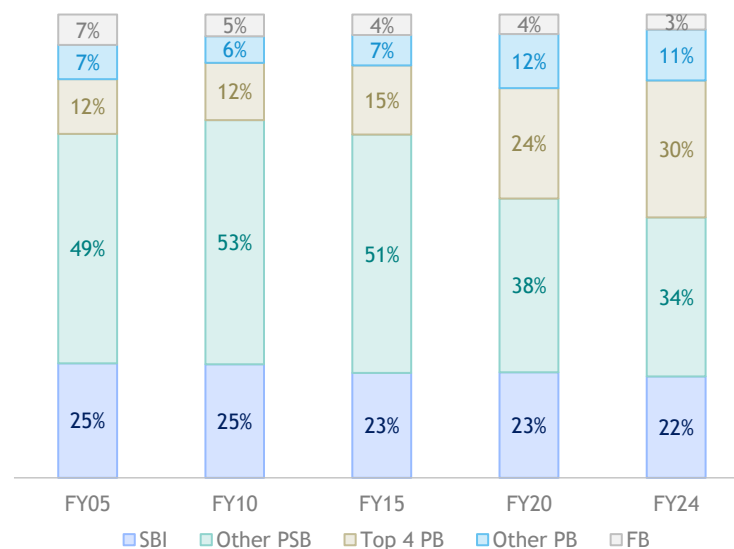
Large Banks Continue To Dominate The Sector

Private banks have gained ~20% credit market share from PSBs with only SBI being able to hold its ground

Top 4 Pvt Banks¹ have gained share in deposits from other PSB...



...and a similar trend is visible in market share in advances



Consolidation in Motion: Top Players Scale, Mid Banks Niche Out

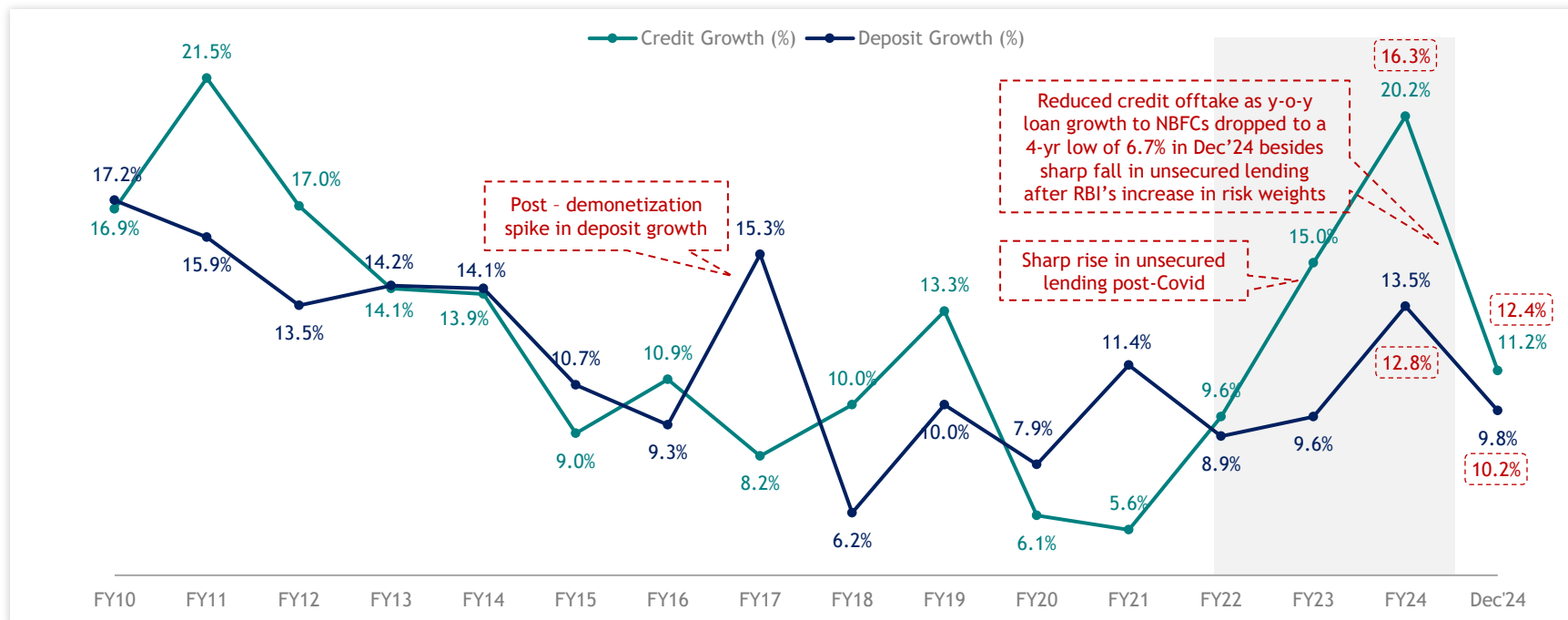
- Rapid growth in retail credit—driven by consumer durables, personal loans, and credit cards—has significantly boosted the market share of private banks, particularly the Top 4 (HDFC, ICICI, Axis, Kotak)
- Stronger digital and physical distribution has allowed large private banks to scale efficiently, leading to further concentration of market share among a few dominant players
- Despite this trend, select mid- and small-sized banks still have opportunities to carve out niches through superior customer experience, agility, and regional dominance

Source: RBI; Notes: 1. Top 4 PB denotes HDFC, ICICI, Axis and Kotak Bank

Credit Growth Outpaces Deposits - Gap Remains Elevated Despite FY25 Cool-Off

Retail and unsecured lending drive mismatch; FY24 saw partial easing post RBI measures

Total Deposits and Credit Growth % YoY¹



Credit to Deposit (C-D) Ratio% of Banks

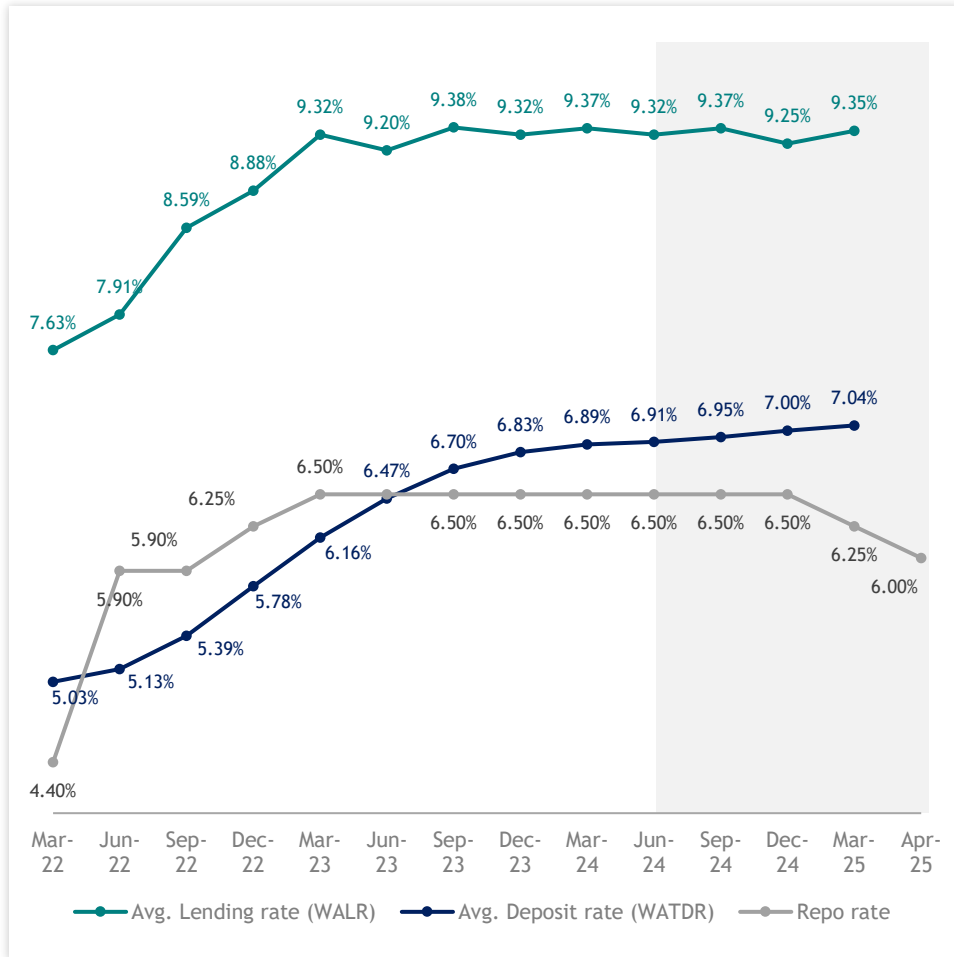
PSB	73%	76%	78%	78%	77%	76%	75%	69%	69%	69%	68%	64%	66%	71%	74%	76%
PB	77%	80%	82%	82%	84%	86%	90%	87%	88%	88%	87%	82%	83%	85%	91%	91%
FB	70%	81%	83%	92%	83%	81%	79%	71%	71%	68%	63%	54%	55%	57%	54%	-

Source: RBI, Care Ratings; Notes: 1. x% denotes credit and deposit growth after excluding the impact of merger of HDFC Bank with HDFC

Rate Cuts to Shape Margin Dynamics & Deposit Strategy

RBI's 50 bps rate cut signals pivot from inflation-fighting to growth-support – private banks most exposed to NIM impact

Lending and Deposit rate movements^{1,2}



Key Triggers for rate cut

Easing of CPI Inflation to 3.6% in Feb-25 from 6.2% in Oct-24



Slowdown in estimated GDP growth to 6.4% in FY25 compared to 8.2% in FY24

Impact of rate cut

- Reduced cost of borrowings and EMI payments for floating-rate loans
- Quick transmission of rates was witnessed as large banks like HDFC, ICICI, Axis, etc. reduced saving deposit rates by 25 bps
- NIM contraction to be sharper for Private banks which have 85% of EBLR² advances, against PSBs 45%

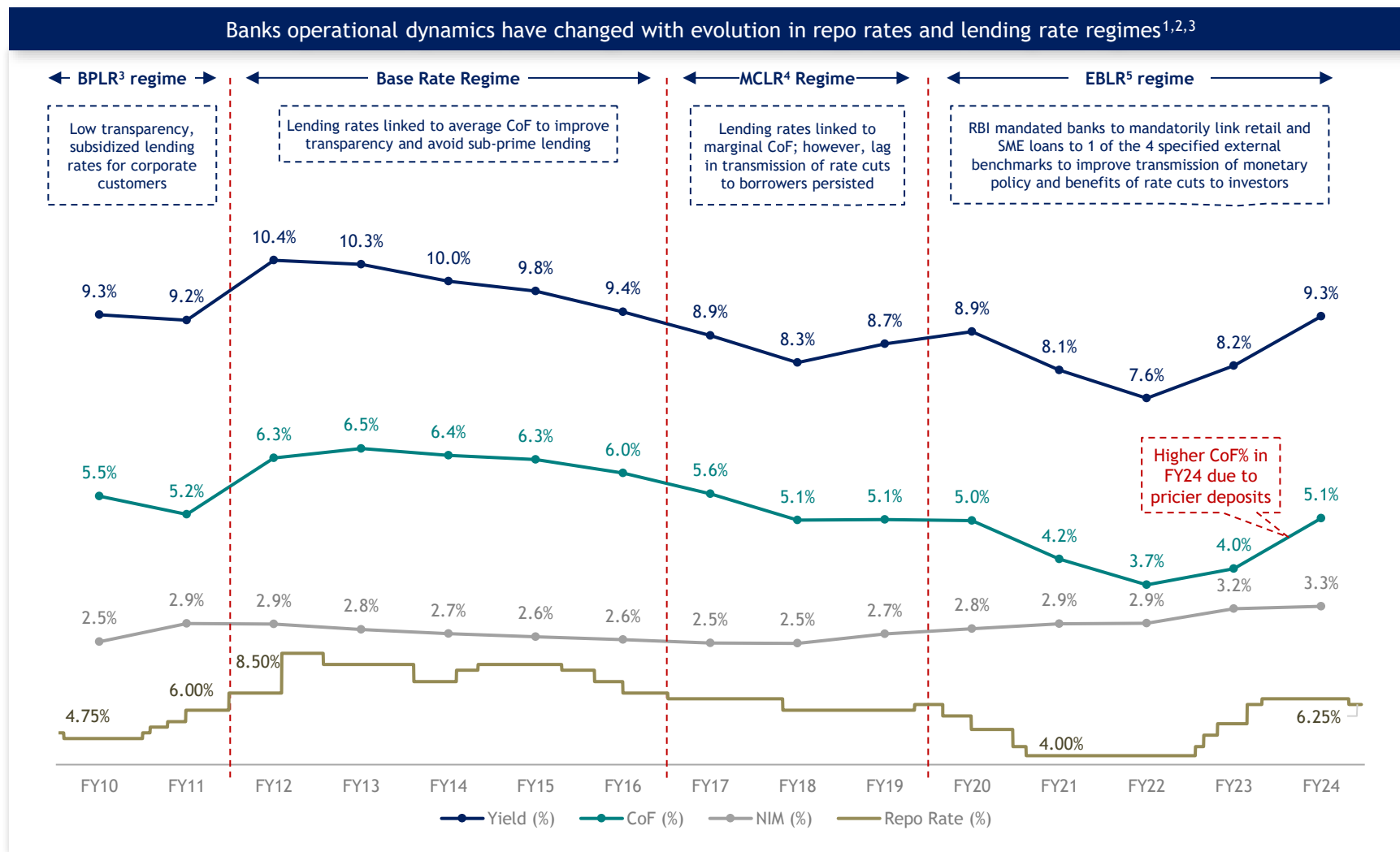
Source: RBI; Notes: 1. WALR is Weighted Average Lending Rates on fresh loans and WATDR is Weighted Average Domestic Term Deposit Rates on outstanding deposits; 2. EBLR - External Benchmark based Lending Rate



Banking KPIs: Strengthening Fundamentals, Resilient Returns

Banking sector Earnings Snapshot (FY10-24)

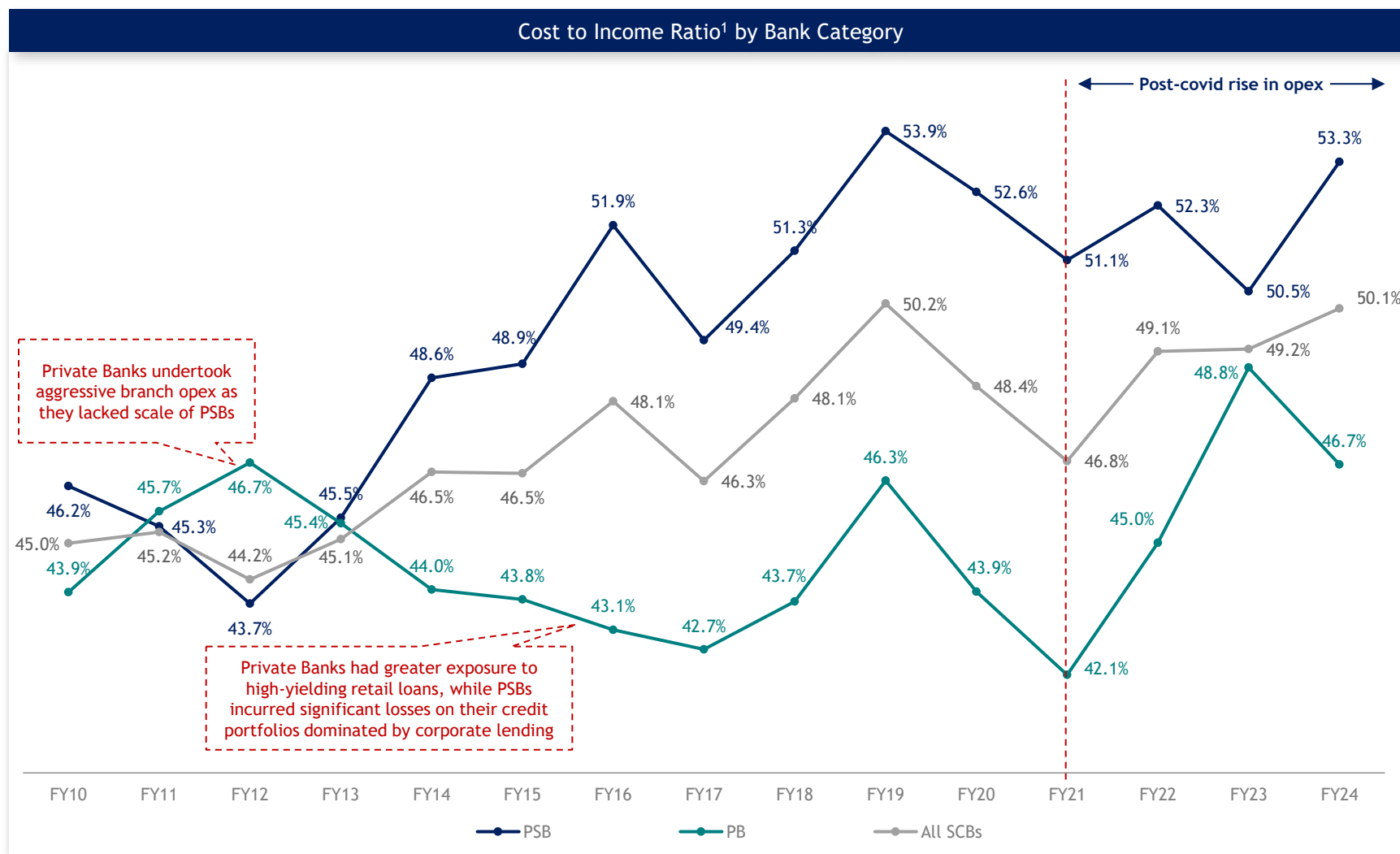
Regime shifts and rising yield help maintain interest margin, despite pricier deposits



Source: RBI; Notes: 1. Yield = Interest on advances/Average advances; 2. CoF - Cost of funds; 3. NIM - Net Interest Margin, NIM computed as percentage of average assets; 3. BPLR - Benchmark Prime Lending Rate; 4. MCLR - Marginal Cost of Funds based Lending Rate; 5. EBLR - External Benchmark based Lending Rate

Private Banks Sustain Efficiency Edge With Structurally Lower Cost-to-income

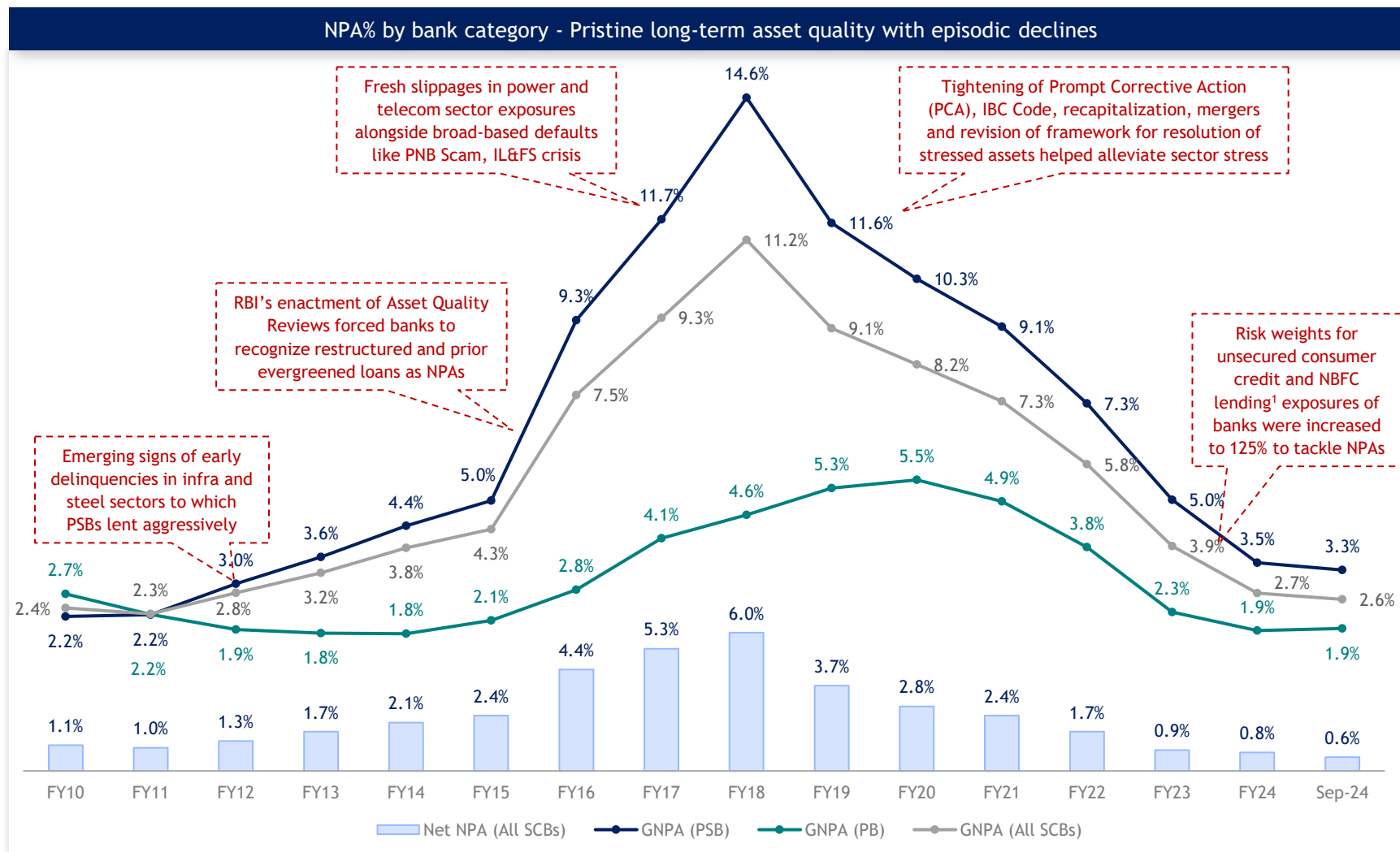
Higher retail loan share and diversified other income streams have anchored lower cost-to-income ratios for private banks



Source: RBI; Notes: 1. Cost to Income Ratio = Operating Expenses / (Net Interest Income + Other Income)

From Crisis to Control: Asset Quality Strengthens Across Cycles

Proactive regulatory actions and cleaner recognition cycles have brought GNPA and NNPA levels down to a decade low

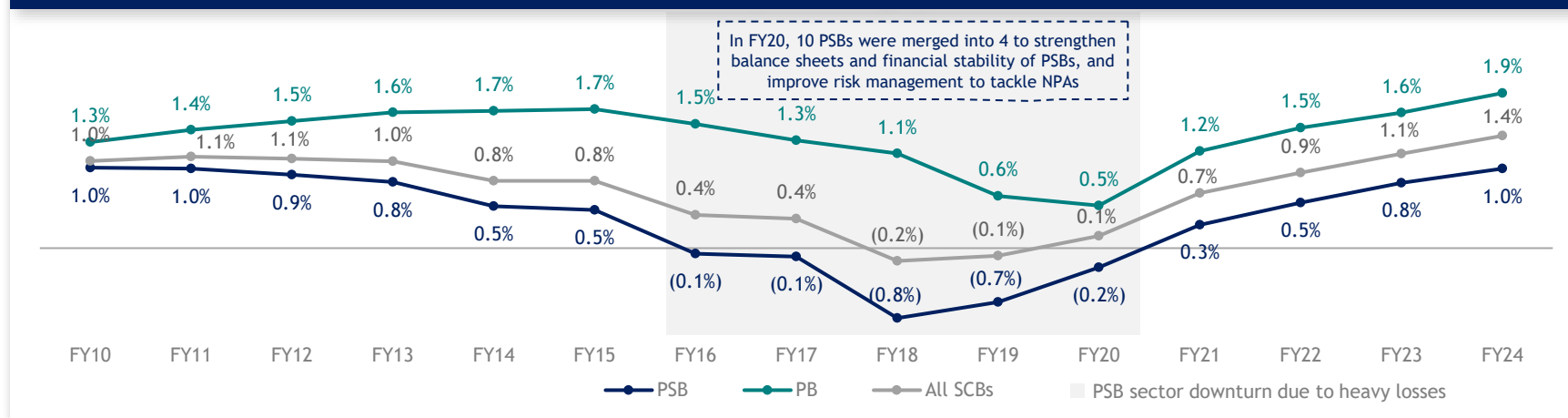


Source: RBI; Notes: 1. The increased risk weight measure on bank lending to NBFCs was reversed in Feb'25 to boost liquidity

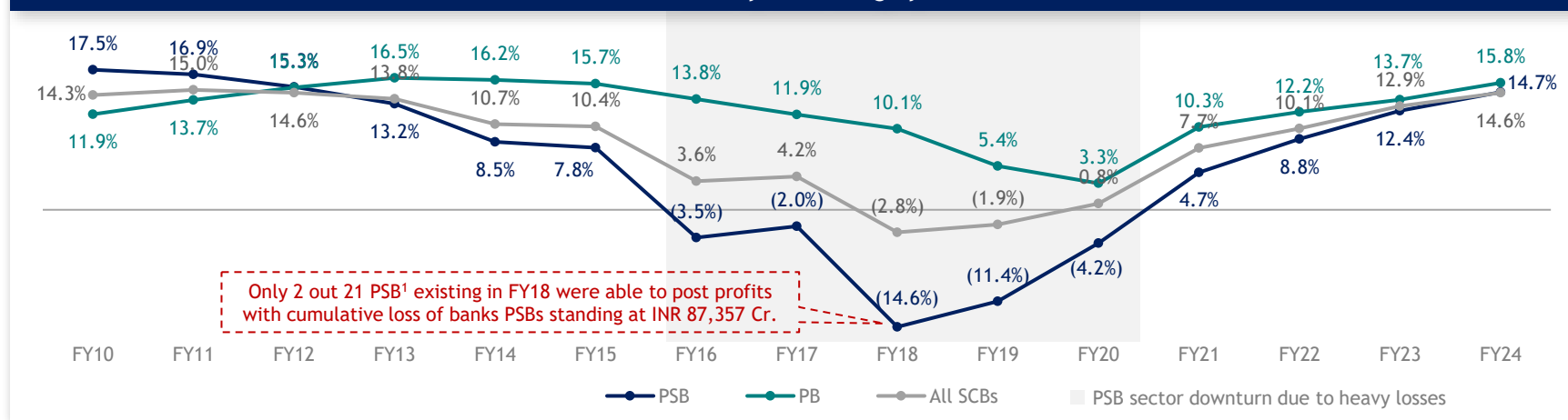
Private Banks Outperform on Returns Despite Higher Funding Costs

Stronger balance sheets and higher operating leverage have helped private banks consistently lead on RoA and RoE metrics

RoA% by bank category



RoE% by bank category

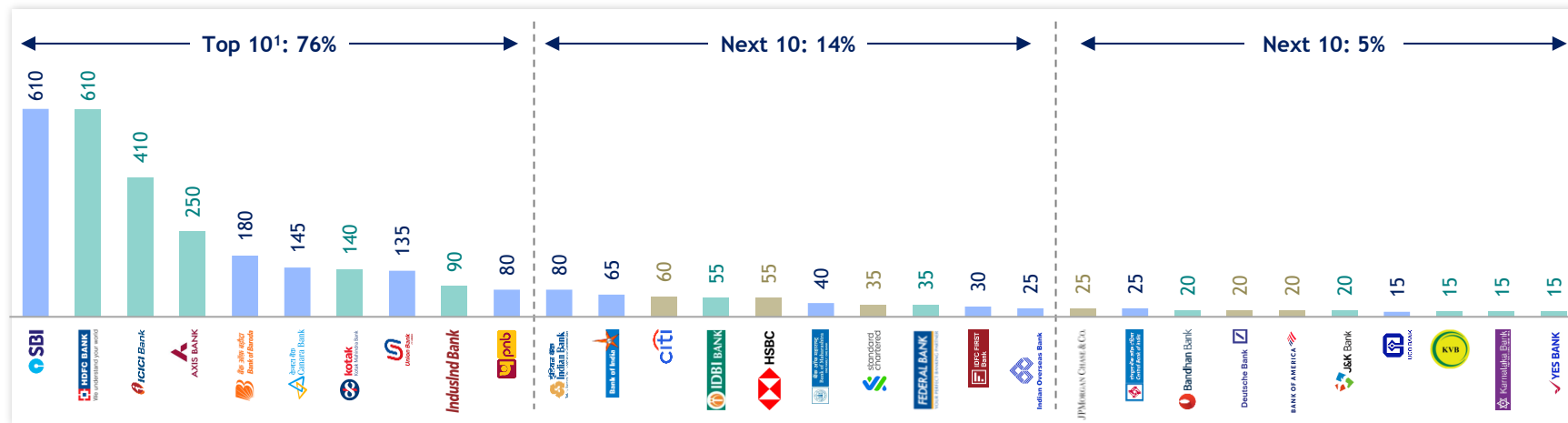


Source: RBI; Notes: 1. Indian Bank and Vijaya Bank were the only PSBs able to post profits in FY18

Profit Powerhouse: Top Banks Corner the Earnings Pool

The top 10 banks now contribute 76% of sector profits – up from 66% in FY10, mirroring the asset concentration trend

PAT FY24 (INR '00 Cr.)



PAT FY10 (INR '00 Cr.)

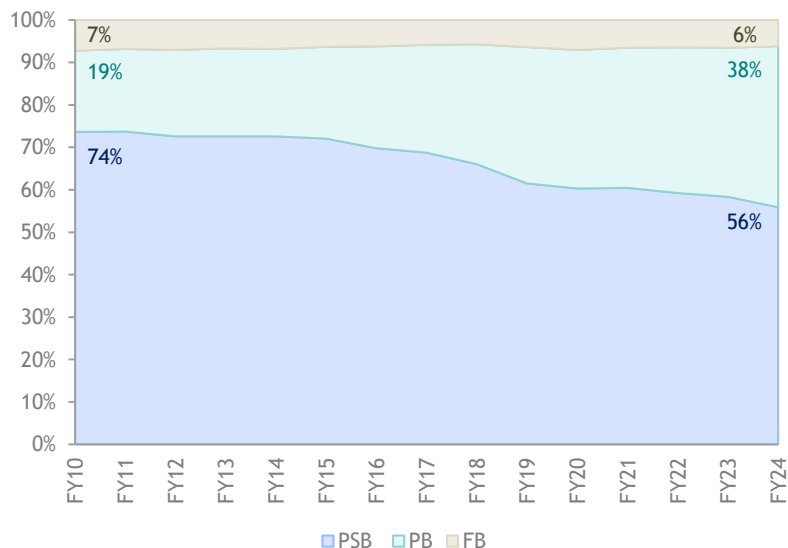


Source: RBI; Notes: 1. As a proportion of total banking profits; 2. Payments and Small Finance Banks not considered for the above ranking; 3. Citi's metrics are after including the impact of sale of its global consumer banking business to Axis Bank; 4. IDBI Bank was reclassified as private bank by RBI from FY19 onwards

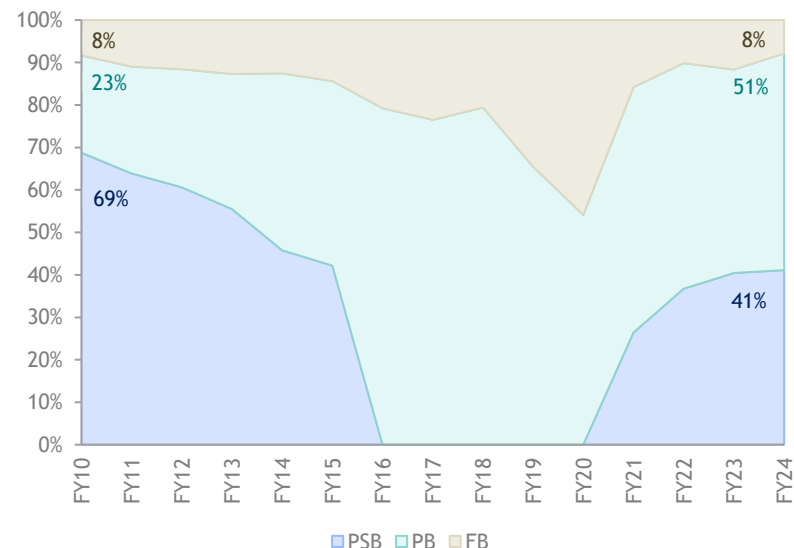
Private Banks Surge: Assets Doubled; Profits Dominated

From clean balance sheets to capital discipline, private lenders have driven the sector's growth and earnings

Share of Banks in Total Assets (%)



Share of Banks in Total PAT (%)



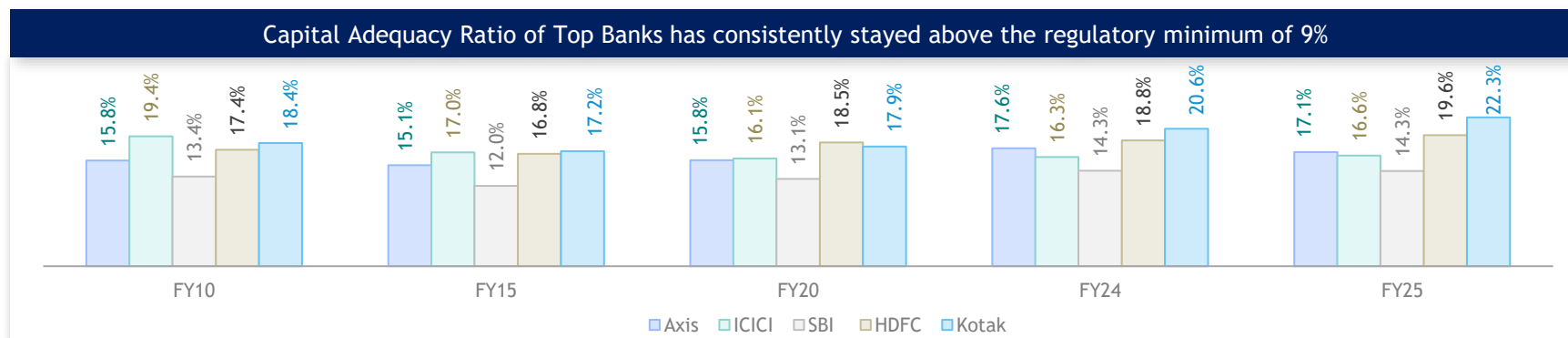
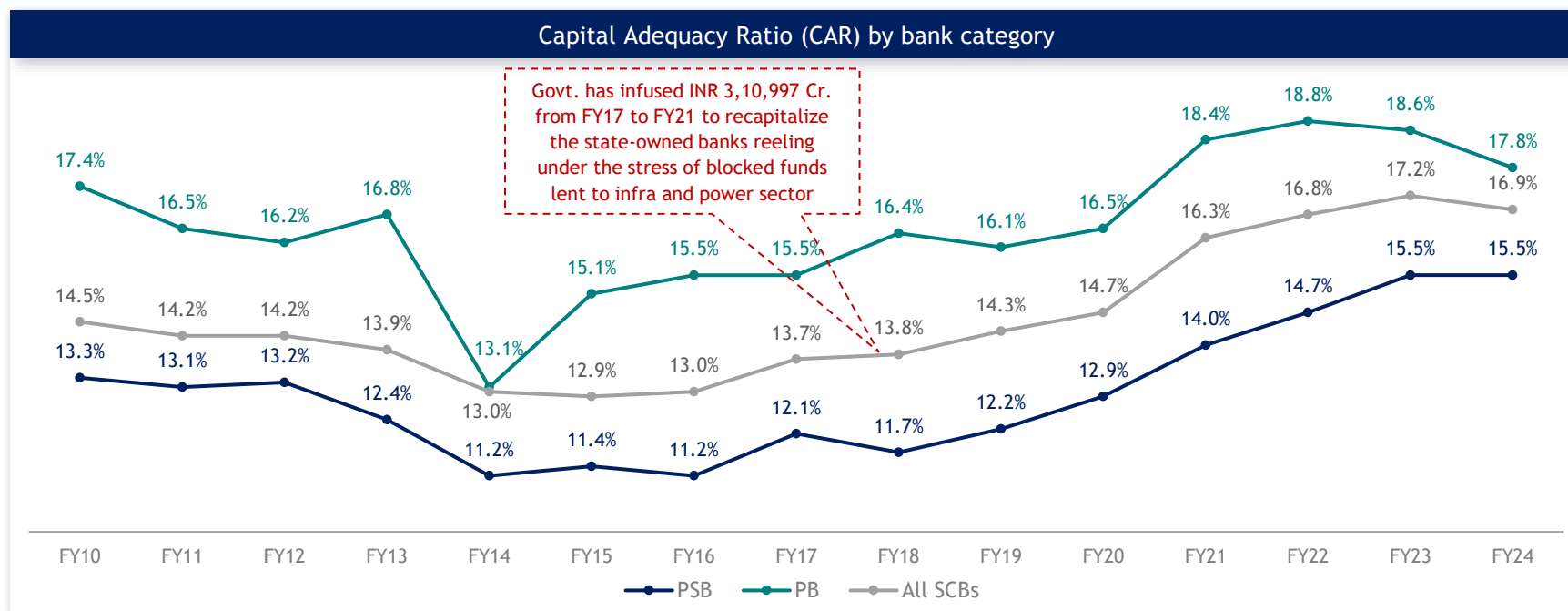
Key Trends: Evolving assets and profitability mix

- Share of private banks in sector's total assets has doubled from 19% in 2010 to 38% in 2024, thereby leading to erosion of share of dominant PSBs
- Private banks accounted for 50%+ of sector's profitability in 2024, up from 23% in 2010, while SBI's share in PSB profits stood at ~45%
- PSBs faced significant losses during FY16-20 on account of aggressive lending and wilful defaults of loans to sectors like infra, steel, and power
- GNPA of PSBs were reported as high as 14.6% in FY18, with the government infusing over 3.1 lakh crore between FY17-21 to provide capital buffer, and undertaking reforms like IBC 2016, Asset Quality Reviews, reclassification of NPAs, and mergers to alleviate stress and achieve profitability

Source: RBI, News Reports

Capital Ratios Remain Strong and Well Above Regulatory Norms

Top banks maintain comfortable CAR levels, with PBs leading the buffer build-up as lending scales





Valuations Tell the Story: Premiums, Pressure & Performance

How the Markets Have Moved: A Look at Price Trajectories

Old vs. New, PSU vs. Private — Divergence sharpens across timeframes

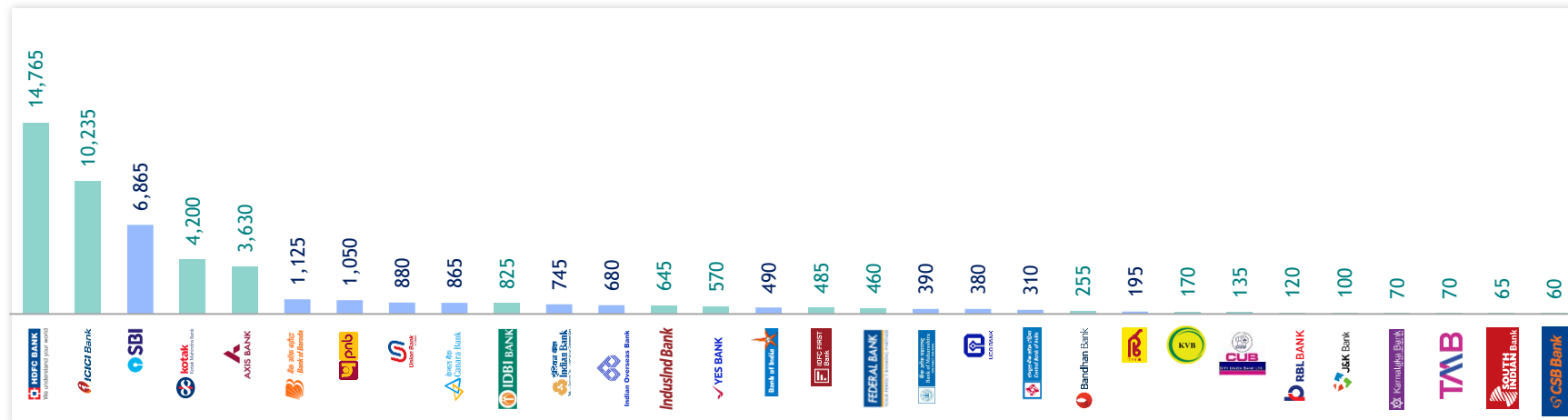
Banks	Price Change (%)				
	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr
Public Banks					
SBI	(5%)	45%	302%	169%	191%
BoB	(9%)	84%	369%	15%	41%
PNB	(20%)	172%	180%	(43%)	(59%)
UBI	(8%)	197%	292%	(43%)	(64%)
Canara Bank	(9%)	116%	362%	57%	(1%)
Indian Bank	(5%)	217%	853%	254%	135%
IOB	(42%)	98%	239%	(10%)	(72%)
BOI	(12%)	121%	123%	(37%)	(75%)
Bank of Maharashtra	(19%)	191%	325%	31%	(24%)
UCO	(41%)	156%	119%	(45%)	(69%)
CBI	(41%)	88%	96%	(68%)	(81%)
Punjab & Sind	(55%)	80%	105%	(37%)	NM
Private Banks (Old)					
Federal Bank	(3%)	71%	257%	173%	456%
KVB	(1%)	242%	537%	136%	165%
CUB	11%	12%	55%	117%	449%
J&K Bank	(17%)	196%	466%	(15%)	13%
Karnataka	(14%)	160%	351%	49%	22%
Tamilnad	(1%)	NM	NM	NM	NM
South Indian	(4%)	199%	248%	3%	27%
CSB	4%	66%	80%	NM	NM
Private Banks (New)					
HDFC	19%	35%	88%	253%	818%
ICICI	22%	71%	308%	407%	726%
Kotak	19%	15%	58%	205%	926%
Axis	3%	61%	169%	102%	345%
IDBI	(19%)	89%	97%	14%	(36%)
IndusInd	(40%)	(20%)	68%	(13%)	295%
Yes Bank	(23%)	9%	42%	(89%)	(70%)
IDFC First	(8%)	53%	147%	NM	NM
Bandhan	(22%)	(43%)	(49%)	NM	NM
RBL	(8%)	104%	12%	NM	NM
DCB	11%	56%	61%	(5%)	171%

Source: Capital IQ; Data as of 08/05/2025

Private Banks Command the Premium - Market Cap Tells the Story

Private banks hold 4 out of the top 5 spots in market cap, reflecting investor confidence and consistent outperformance

Market Capitalization FY25 (INR '00 Cr.)¹



Market Capitalization FY10 (INR '00 Cr.)²



Source: Capital IQ; Notes: 1. Data as of 08/05/2025; 2. Data as of 01/04/2010

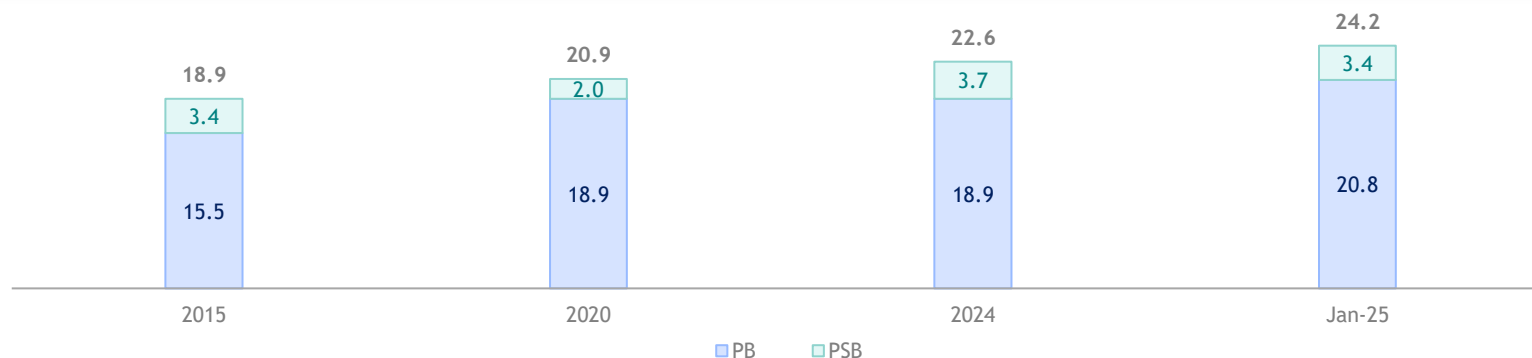
Banking Sector Commands c.1/3rd of Nifty 50 - A Core Pillar of India's Markets

Private Banks Lead the Charge as Sector Weight in Nifty-50 and BSE-200 Surges to Decade Highs

Banking sector's weight in the Nifty-50 index has nearly doubled to 31.7% since FY10

Nifty weights	FY10	FY13	FY16	FY19	FY22	FY24	Apr'25
Private Banks (PB)	13.3	16.6	20.5	26.3	21.9	25.6	28.9
Axis Bank	1.9	2.3	2.7	3.2	2.6	3.0	3.0
HDFC Bank	4.4	6.3	7.6	10.7	8.4	11.1	13.3
ICICI Bank	7.0	6.6	5.0	5.5	6.6	7.8	9.1
IndusInd Bank	-	-	1.7	1.9	0.8	1.0	0.4
KMB	-	1.4	2.5	3.8	3.4	2.7	3.0
Yes Bank	-	-	1.0	1.1	-	-	-
Public Sector Banks (PSB)	4.4	4.1	2.9	2.6	2.5	2.9	2.8
BOB	-	0.6	0.5	-	-	-	-
PNB	0.9	0.5	0.2	-	-	-	-
SBI	3.5	2.9	2.2	2.6	2.5	2.9	2.8
Banking sector	17.7	20.7	23.4	28.9	24.4	28.5	31.7

Banking sector's weight in BSE-200 Index has increased to 24.2% from 18.9% in 2015



Source: Broker reports

TSR Trends: Private Banks Lead the Value Creation Curve Over Long-Term

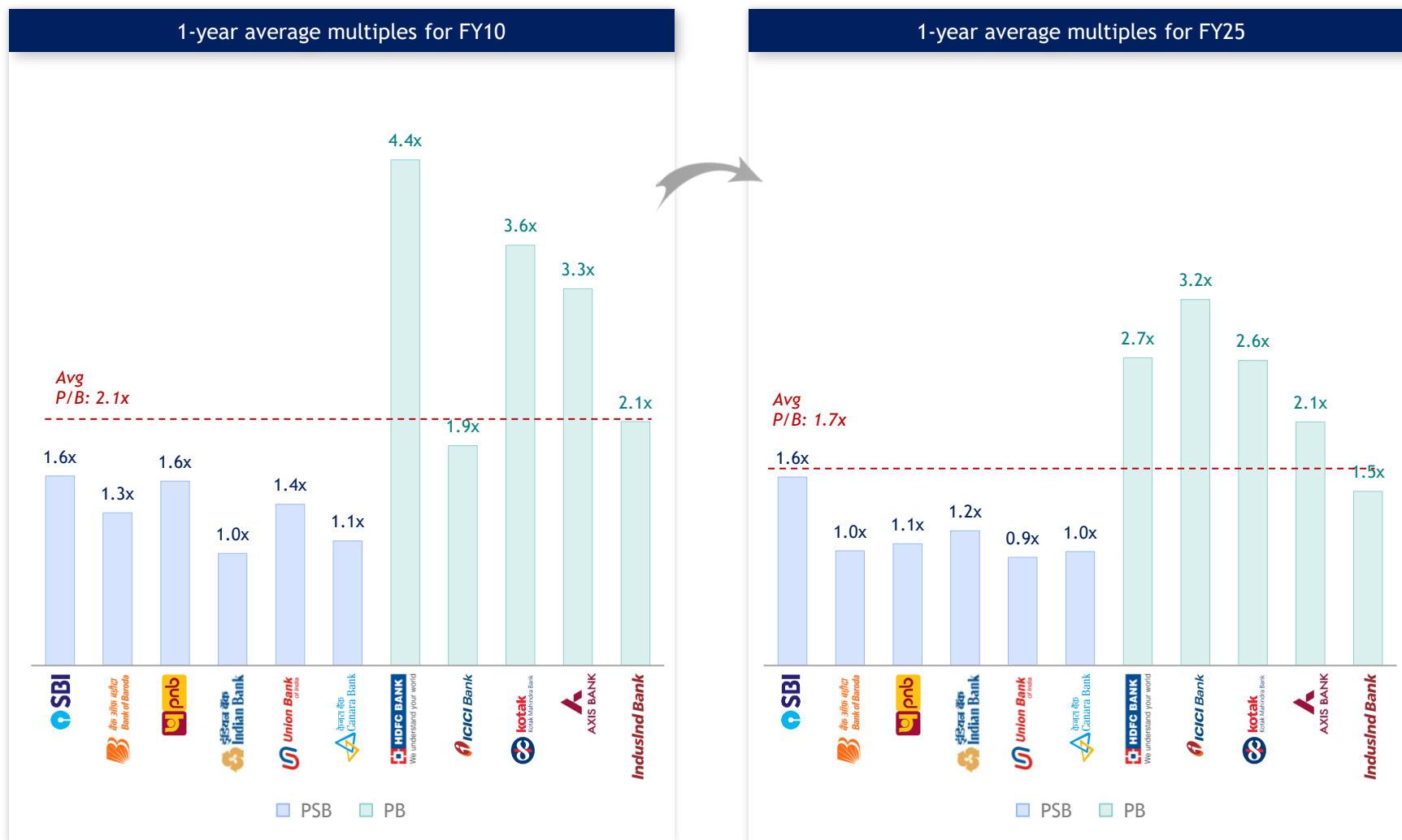
PSBs hold medium-term momentum; Private Banks shine on consistency and returns



Source: Capital IQ; Notes: Data as of 08/05/2025; 1. TSR - Total Shareholder Returns (annualized)

Multiples Compress But Market Still Pays for Quality

Valuation delta sustained for premium franchises despite sector-wide re-rating



Source: Capital IQ; Note: 1. Consolidated multiples basis CIQ universal database

Resilience & Reform Priced In: P/B Multiples Mirror Structural Shifts

Sector cleanups, macro shocks, and policy resets reflected in valuations

P/LTM Book Trend¹

External factors >>

Tapering by US Federal Reserve resulted in currency depreciation and FII outflows from India's capital markets

Sharp fall in multiples in FY21 owing to Covid-led slowdown in credit growth

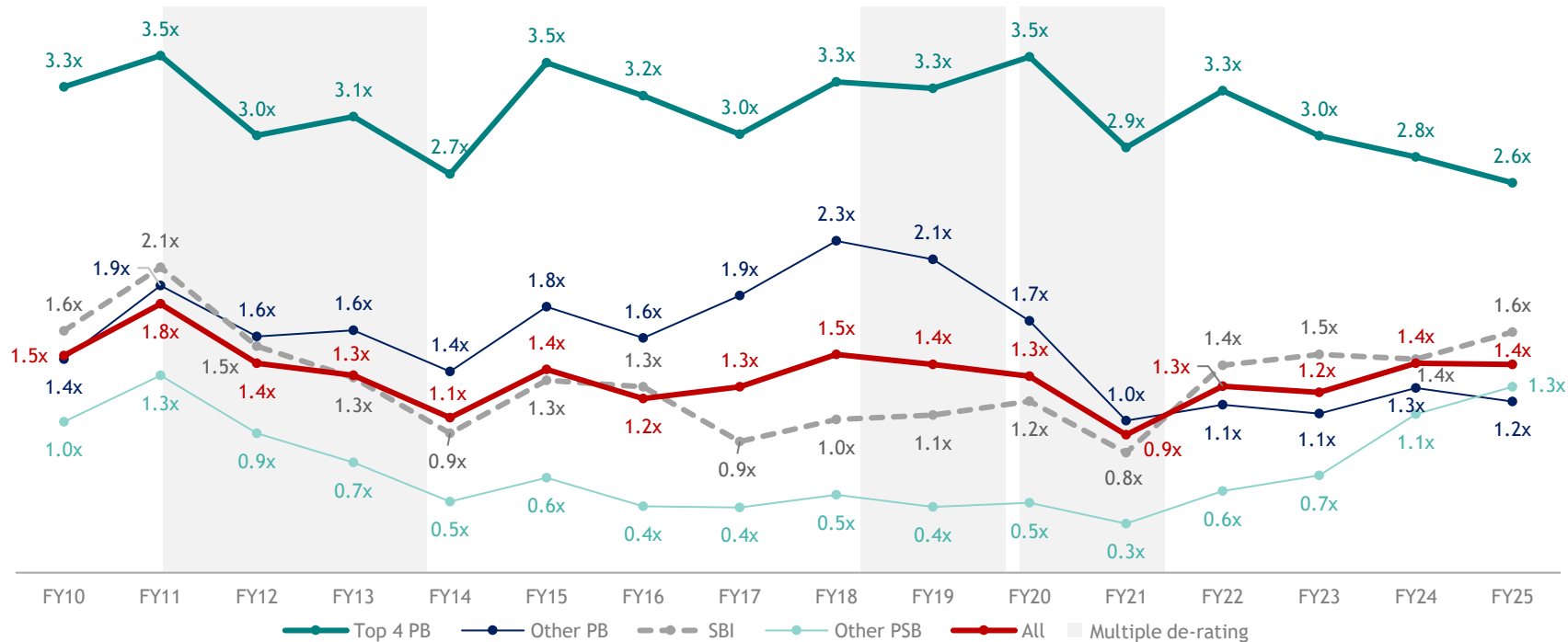
Sector-specific >>

Aggressive lending to telecom, infra and steel sectors with lenient repayment schedules deteriorated asset quality

Enactment of banking reforms w.r.t. AQR, tightening of PCA led to fair recognition of NPAs

IL&FS, NBFC liquidity crisis and banks' governance issues in FY19 led to broad-based de-rating

Mega-merger of 10 PSU banks into 4, improved operational efficiencies with benefits of scale



Source: Capital IQ; Notes: 1. The P/LTM Book multiple of all banks is the simple average of all listed private and PSU banks across all years

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