

CAD, retail asset quality key challenges for new SBI chair

Maintaining loan growth momentum, protecting margins may not be easy as interest rate cycle changes

MANOJIT SAHA
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The banking system in India is healthy and well capitalised, and bad loans are in check. State Bank of India, the country's largest lender, reflects this robust health of the system and reported ₹61,077 crore as net profit in 2023-24 as against ₹50,232 crore in the previous year.

The gross and net non-performing ratios are 2.21 per cent and 0.57 per cent, respectively, as on June 30.

Challa Sreenivasulu Setty, who takes charge as chairman on Wednesday, still has to worry about a few issues.

First is deposit growth, and, within that, the share of current and savings account (Casa) deposits, which are the low-cost deposits.

The bank's deposit growth was 8.18 per cent year-on-year till June 30, way below loan growth of 15.39 per cent. The Casa deposits scenario is much grimmer and has grown by a mere 2.6 per cent year-on-year. Term deposit growth was 12.2 per cent.

Further, it is the growth of current account deposits that the new chairman may like to address first. Current account deposits reported negative growth of 4.64 per cent year-on-year till June, while savings account deposit growth was 3.76 per cent.

"While SBI was able to defend its overall deposit market share over the last five years at 23 per cent, the Casa deposit share has fallen by 200 basis points. Within Casa, the current account market share

has fallen more, around 310 basis points," said Rikin Shah, vice-president, research, IIFL Securities.

"The problem for SBI is that they are unable to catch up with small and medium enterprises (SMEs) in getting their businesses, where the private banks were able to deepen their relationship. Hence private banks' current account market share has been rising. Any large or mid-sized firm today is focused on not leaving funds idle. If it has a sizable amount it will put it in liquid funds rather than parking it in its current account. So a bank needs to offer more solutions, and deepen their relationship with SMEs," Shah said.

Most banks are facing pressure in mobilising resources. Amid surging equity markets, investors are putting money in stocks rather than in bank deposits. According to latest data, bank credit growth was 13.6 per cent year-on-year till August 9 while deposit growth was trailing 10.9 per cent.

The challenge of raising resources overseas is more acute. SBI is one of few Indian lenders that have a large foreign presence. Advances from foreign offices of the bank were ₹5.53 trillion, as on June 30. Deposits were only ₹1.98 trillion. Overseas advances grew 14.41 per cent year-on-year till June, and deposit growth was 10.48 per cent. The credit-deposit ratio from overseas operations is almost 280 per cent!

One of the biggest achievements of outgoing chairman Dinesh Khara was to revive growth momentum. In the last two

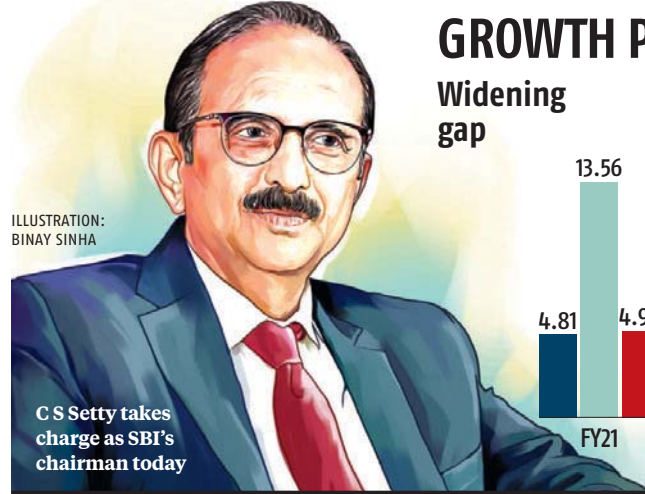
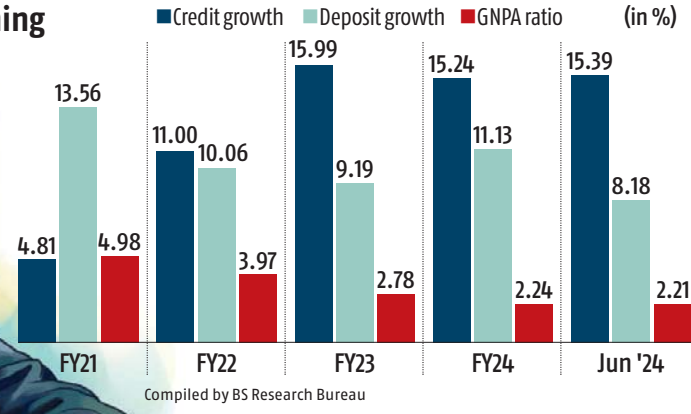


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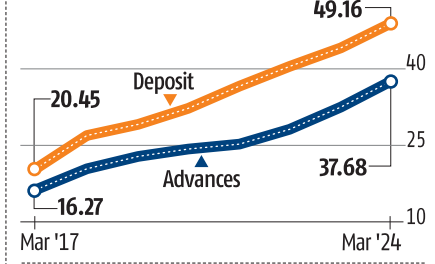
C S Setty takes charge as SBI's chairman today

GROWTH PICTURE

Widening gap



Deposit and advances (in ₹ trn)



Net interest margin (in %)



years, SBI's loan growth has been more than 15 per cent. Healthy loan growth, in addition to improving asset quality, drove earnings growth for SBI.

One of the challenges for the new chairman will be to maintain loan growth, which is the key to retain market share.

"The biggest challenge for SBI is going to be to maintain the loan growth momentum. Earnings growth is expected to come from loan growth. After a long time we are seeing SBI growing at industry level. Earlier, they used to grow lower than industry and were losing market share. Keeping up the loan growth momentum will not be easy," said Asutosh Mishra, head of research, Ashika Stock Broking.

The interest rate cycle, which is on the cusp of turning, would have con-

sequences for net interest margins (NIMs). NIMs were under pressure in the past one year due to deposit re-pricing. SBI's NIM was 3.22 per cent in Q1 of FY25, down from 3.33 per cent a year ago. The cost of deposits from domestic operations increased 45 basis points to 5 per cent in the past one year while the yield on advances was up by only 5 basis points to 8.83 per cent.

"We are entering into a declining interest scenario. Home loans are a major part of SBI's loan portfolio, which is linked to an external benchmark — the policy repo rate. Any change in the repo rate will immediately change the home loan rate and exert pressure on the margins. Deposit rates come down with a lag," Mishra said.

In a loan book of ₹38.12 trillion as on June 30, the home loan portfolio of SBI is almost ₹7.4 trillion, almost a fifth.

With the asset quality cycle peaking in FY18, SBI also benefited with gross non-performing assets (NPAs), as a percentage of gross advances, falling from 4.98 per cent at the end of FY21 to 2.21 per cent in June 2024.

However, there are early signs of pressure on the unsecured loan portfolio, which could become a challenge.

"Retail asset quality has started to deteriorate. Within retail it is mainly unsecured. Even if SBI says it gives loans to government employees, their NPAs have shot up from 70 basis points a year ago to 100 basis points in unsecured personal loans. Stress has gone beyond small-ticket

personal loans to large-ticket ones. The worry is, there is significant stress in SBI Card. There is a 50 per cent overlap between SBI Card and SBI customers. So if SBI Card customers are facing stress it is not unlikely that they will face difficulty in servicing SBI loans," Shah of IIFL Finance said.

Addressing the business community recently, Reserve Bank of India Governor Shaktikanta Das said India was on the threshold of a major structural shift in its growth trajectory, moving towards 8 per cent gross domestic product growth in a sustained manner.

It is to be seen if SBI under Setty, who will have a three-year term, can ride the economic cycle to take SBI to new heights, navigating some of these challenges.