Sector Thematic

Financial Services

Megatrends | Re-bundling ahead

As policymakers put together a series of guardrails for the financial services industry (UPI, account aggregators, and OCEN), we identify the key megatrends that are likely to emerge and/or accelerate to shape "India's Decade", going forth. These megatrends are anchored in (a) accelerated micro-merchant adoption of digital payments on the back of D2C commerce (unit economics turning positive as breakeven thresholds shrink by >70%); and (b) 'sachetisation' and re-bundling of financial solutions (proliferation of "checkout financing"). A combination of these megatrends is likely to reflect in (a) new growth avenues (thin-file or NTC customers), (b) new asset classes (Buy Now Pay Later), and (c) consequent changes to market microstructures across lenders, brokers, asset managers and insurers alike.

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INSTITUTIONAL RESEARCH

Financial Services

Megatrends | Re-bundling ahead

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- **The accelerating generational shift:** The generational shift within the Indian populace is beginning to accelerate, altering income, spending and savings patterns. As digital natives, the millennials will contribute to increasing digital adoption and rising penetration of financial services beyond deposits, facilitating a sharper migration in deposit market share to private banks.
- **From savings to investment products:** The demographic shift will also drive a more secular shift in savings patterns, thereby driving higher penetration across financial products beyond deposits. While the expansion in the total addressable market (TAM) could offer a significant canvas for growth, the higher competitive intensity from new-age FinTech companies could change the market micro-structure, forcing consolidation and a "long-tail" shakeout in investment and capital-market businesses.
- **Merchant adoption turbocharged:** A lower regulatory cost (MDR) and a pandemic-induced push towards contactless payments, especially with the proliferation of low-cost QR-codes, has turbocharged micro-merchant adoption of digital payments. With FinTechs and Big Tech investing heavily in this space, the merchant ecosystem is approaching a critical mass, reflecting in improving unit economics (30-50% reduction in breakeven time), which offers FinTechs a "right-to-win" and a valuable cash cow to top up their payments offering with checkout financing solutions such as Buy Now Pay Later that are emerging as disruptors to conventional credit cards.
- **The re-bundling of financial services:** The first generation of FinTechs built its business models around unbundling of financial services, one traditional function at a time, such as payments. Even as they continue to unbundle, entities that can successfully re-bundle services are likely to emerge as winners. We see this manifest in higher competitive intensity for deposits, the emergence of "thin-file" customers as a new growth avenue and potential disruption of last-mile FIs. We identify ICICI Bank and Kotak Mahindra Bank as early winners in the "re-bundling" journey.
- **The elusive capex cycle:** A sustained uptick in the post-lockdown economic activity and a benign interest rate-liquidity environment has the potential to spur the next round of corporate capex, led by CPSUs. We expect larger, well-capitalised private sector banks to disproportionately participate in the capex financing cycle. Forced mortality (IBC) and a deleveraging drive have shrunk most capital-intensive sectors to 2- or 3-player markets, with implications for concentration risk residing on banks' wholesale portfolios as they continue to raise their fund-based exposure to market leaders.

THE ACCELERATING GENERATIONAL SHIFT

Catalyst: *Sustained economic expansion*

Beneficiaries: *ICICIBC, AXSB and KMB*

FROM SAVINGS TO INVESTMENT PRODUCTS

Catalyst: *Growth in tech-enabled distribution*

Beneficiaries: *SBILIFE, UTIAM and ISEC*

MERCHANT-END DIGITAL ADOPTION TURBOCHARGED

Catalyst: *Strong network effects and improving unit economics*

Beneficiaries: *FinTechs*

SACHETISATION AND RE-BUNDLING

Catalyst: *Lower entry barriers and greater collaboration*

Beneficiaries: *ICICIBC and KMB*

THE ELUSIVE CAPEX CYCLE

Catalyst: *Policy support*

Beneficiaries: *SBIN, ICICIBC, AXSB and KMB*

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HDFC securities 20 YEARS

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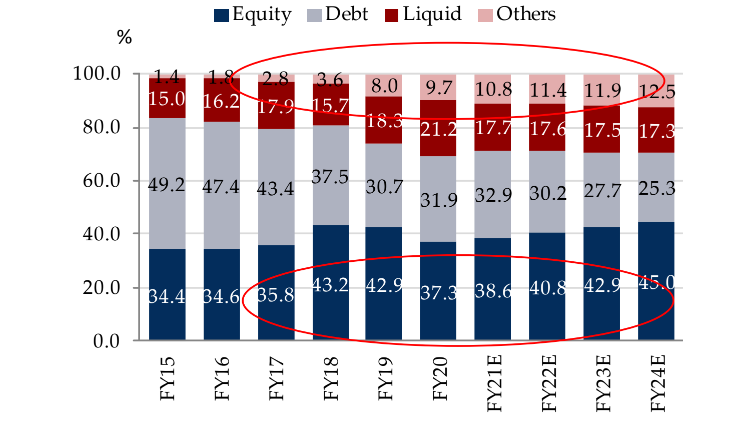
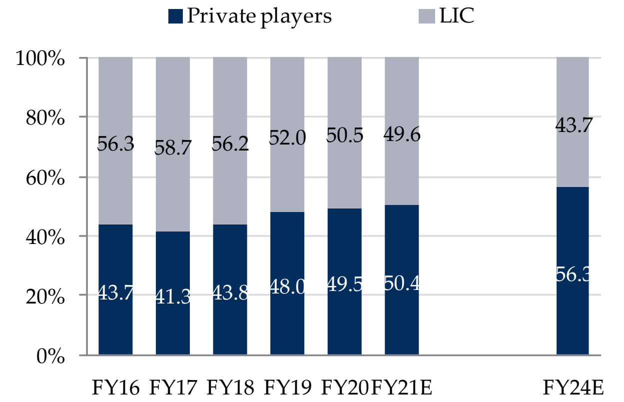


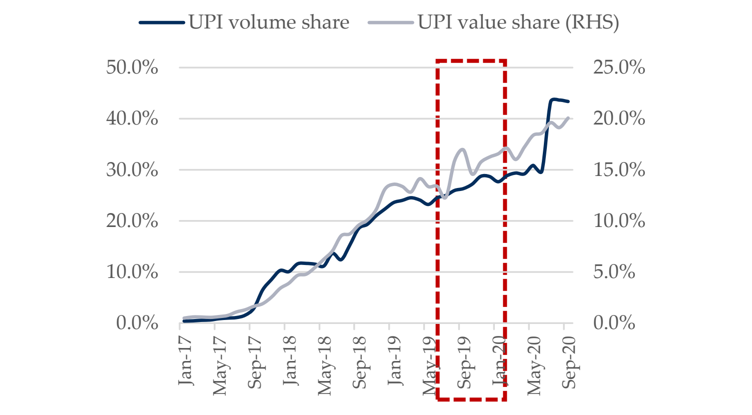
Source: AMFI, CRISIL and HSIE Research

Exhibit 2: Private life insurers likely to gain at the cost of LIC



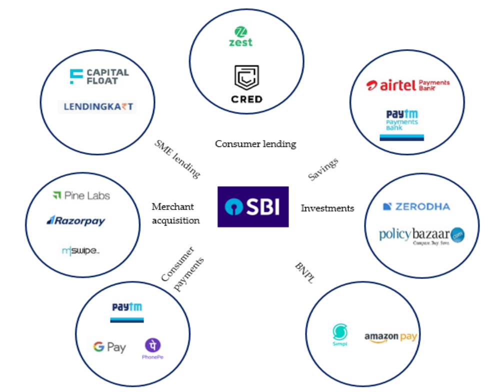
Note: Market share on NBP basis Source: IRDAI, HSIE Research

Exhibit 3: UPI market share trends



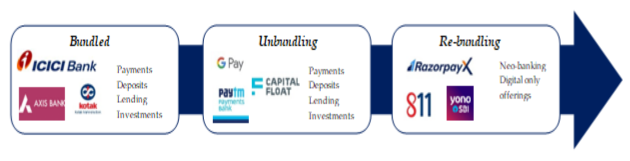
Source: RBI, NPCI and HSIE Research (overall digital payments)

Exhibit 4: FinTechs unbundling the universal bank



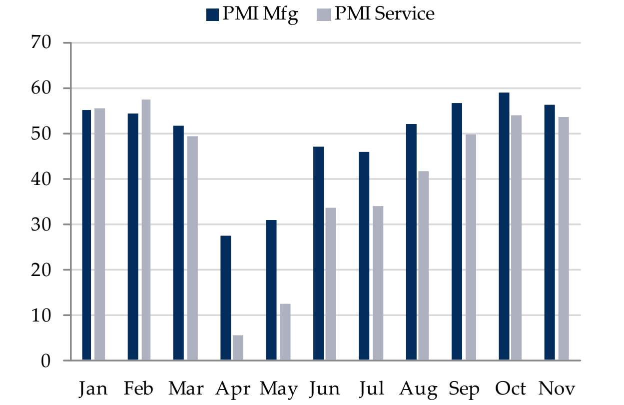
Source: HSIE Research

Exhibit 5: The unbundling-re-bundling cycle



Source: HSIE Research

Exhibit 6: PMI shows signs of sustained demand



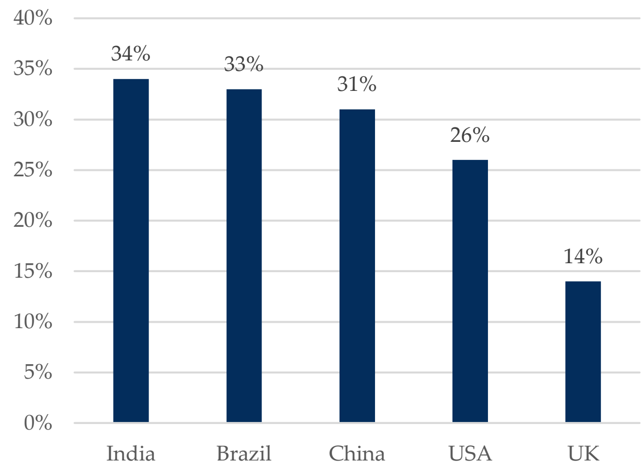
Source: Bloomberg and HSIE Research

Megatrend | The accelerating generational shift

India is home to 440mn millennial consumers (born between 1980 and 1995), the largest millennial population globally

- **The emergence of the Indian millennial:** Millennials (born between 1980 and 1995) now constitute 34% of India's total population (amongst the highest in the world) (Exhibit 7) and are beginning to dominate the working and saving populace. While backed by little quantifiable data directly relevant to age-group cohorts in financial services, the generational shift in the Indian consumer is now beginning to accelerate, with implications for income profile, the pyramid of affluence, the distribution of household savings, deposit share migration, usage and frequency of digital journeys, competitive intensity (challenger banks) and pricing power.

Exhibit 7: Cross-country millennial population (% of the total population)

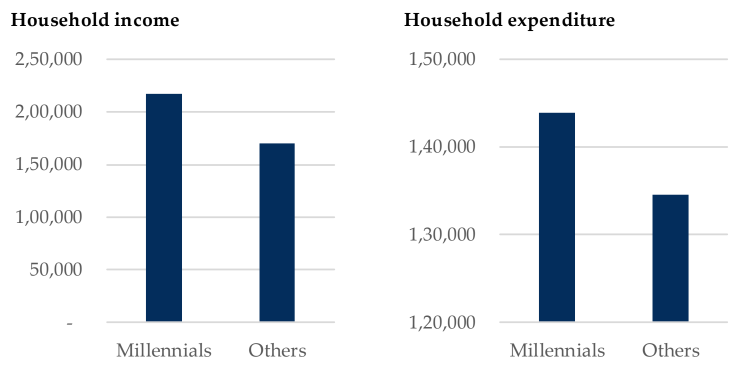


Source: Thomson One and HSIE Research

- **Differences in income and savings profile:** A 2017 RBI study claimed that a majority of Indian household wealth resides in physical assets such as real estate (77%) and gold (11%). Whilst this could be true at a pan-India level, multiple subsequent surveys suggest that millennials and post-millennials earn and save differently from earlier generations (Exhibit 8).

According to bankers, millennials account for ~30% of new card issuances, about one-fourth of personal loan inquiries and ~45% of second-year card spends

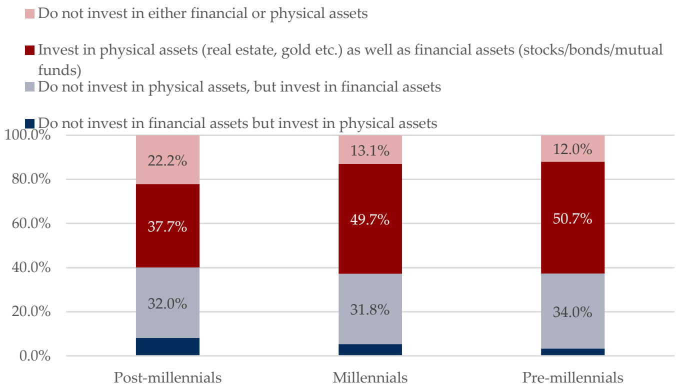
Exhibit 8: Indian millennials earn and spend differently to earlier generations



Source: ICE 360 Survey and HSIE Research

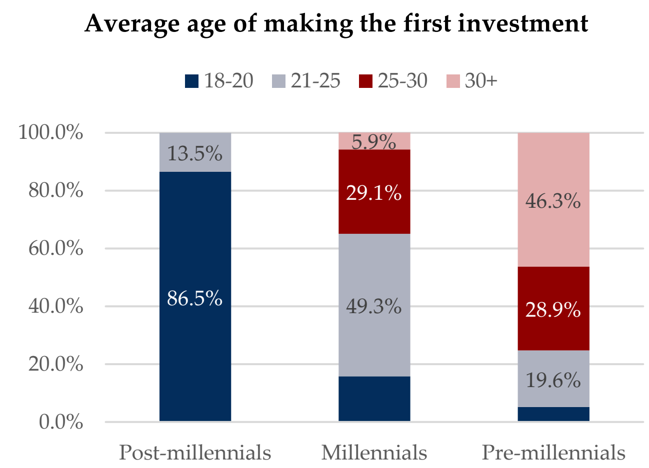
- **Differences in savings and investment habits:** The inter-generational behavioural difference also manifests itself in attitudes towards how and when the millennials and post-millennials start saving and investing (Exhibit 9 and 10).

Exhibit 9: Lower investible surpluses with millennials



Source: YouGov Survey and HSIE Research

Exhibit 10: Millennials begin investing a lot earlier

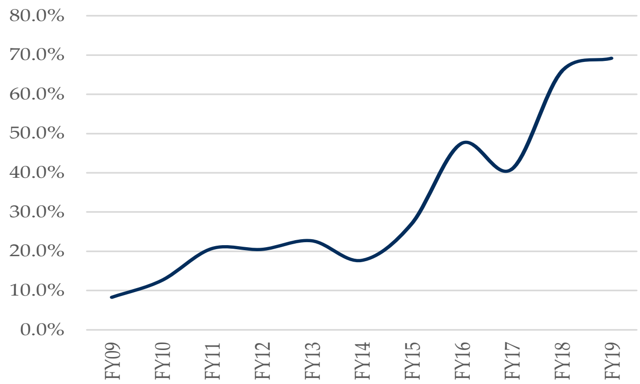


Source: YouGov Survey and HSIE Research

Implications

- **Sharper migration of deposit market share to private banks:** Private financial institutions are likely to be the greatest beneficiaries of the demographic-flux-induced shift in savings. In the last two years, private banks have performed exceedingly well on the deposits front, capturing 66-69% of incremental deposit growth. Deposit growth has become increasingly polarised towards large private banks in 1HFY21, leading to market share gains. Private banks' superior product offering and convenient tech-based interface relative to most of their PSU peers' gives them a better chance at targeting these cohorts.

Exhibit 11: Private banks' incremental deposit market share



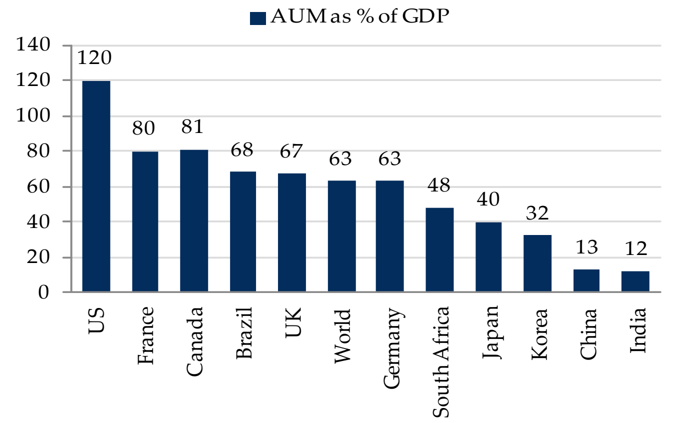
Source: RBI and HSIE Research

- **Early adopters of FinTech:** This cohort of consumers is increasingly adopting digital channels for their entire product and service journeys from search to payments. Surveys by global consultants claim that the average Indian millennial is among the earliest adopters and the first-to-fully-migrate to FinTechs and digital platforms.

Megatrend | From savings to investment products

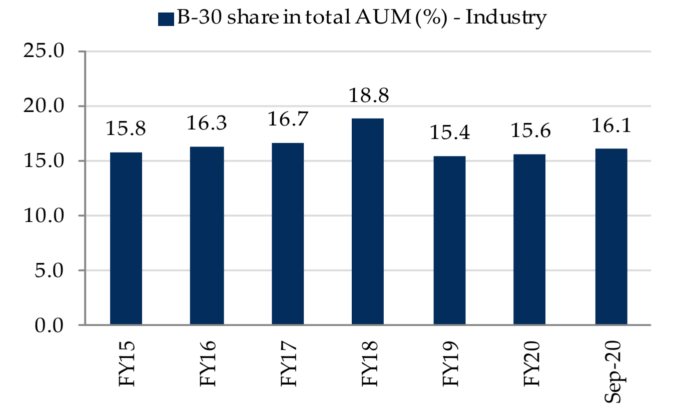
- **Rising penetration of investment products:** One of the consequences of the generational change is likely to reflect in the rising composition of investment products (beyond deposits) in the form of asset management products (mutual funds and insurance) and capital market investments (Exhibits 12 through 17).

Exhibit 12: Massive potential for India's MF sector



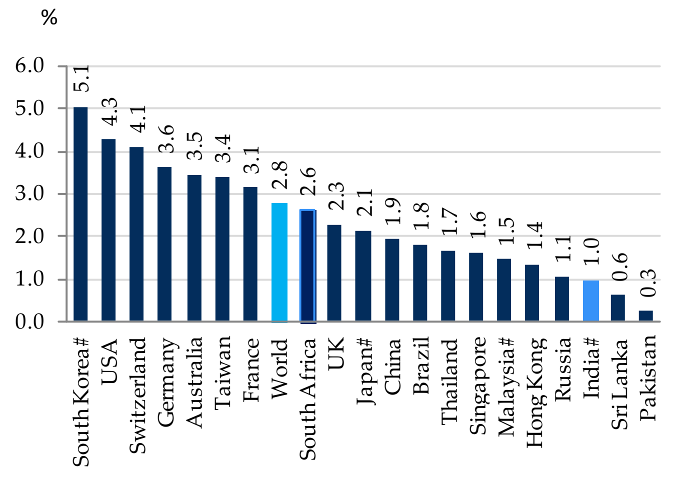
Note: AUM as of 4QFY19. Only open-ended funds considered
Source: CAMS RHP and HSIE Research

Exhibit 13: B-30 MF market share



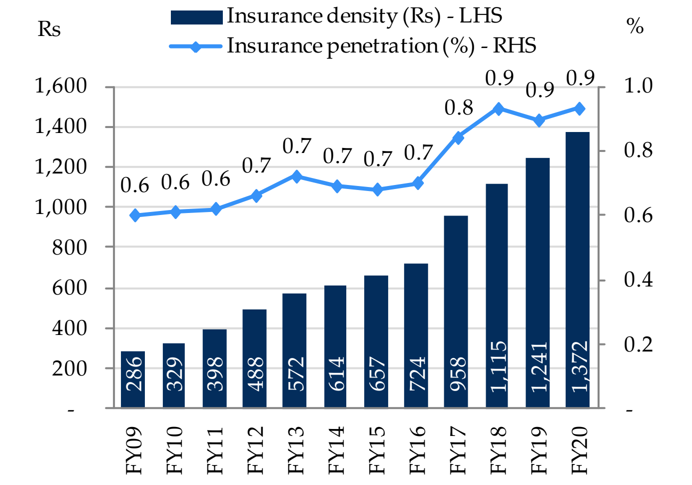
Note: MAAUM basis. Source: NAV India and HISE Research

Exhibit 14: GI penetration across major nations



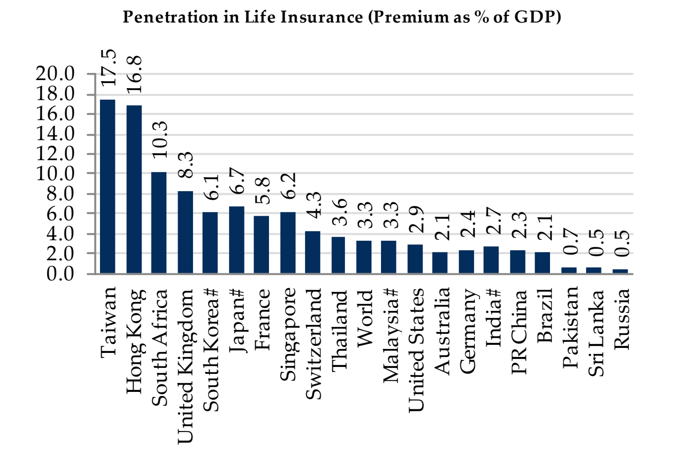
Note: Insurance penetration is the ratio of premium to GDP, CY18 data except # for FY. Source: Swiss Re, HSIE Research

Exhibit 15: Rising insurance density



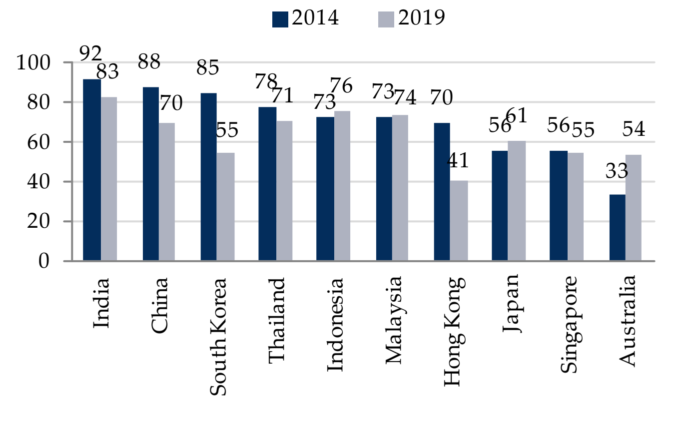
Note: Insurance density is defined as Gross direct premium/population. Source: Swiss Re, HSIE Research

Exhibit 16: Life insurance industry penetration



Note: CY18 data except # for FY. Source: Swiss Re, HSIE Research

Exhibit 17: Protection shortfall across major nations



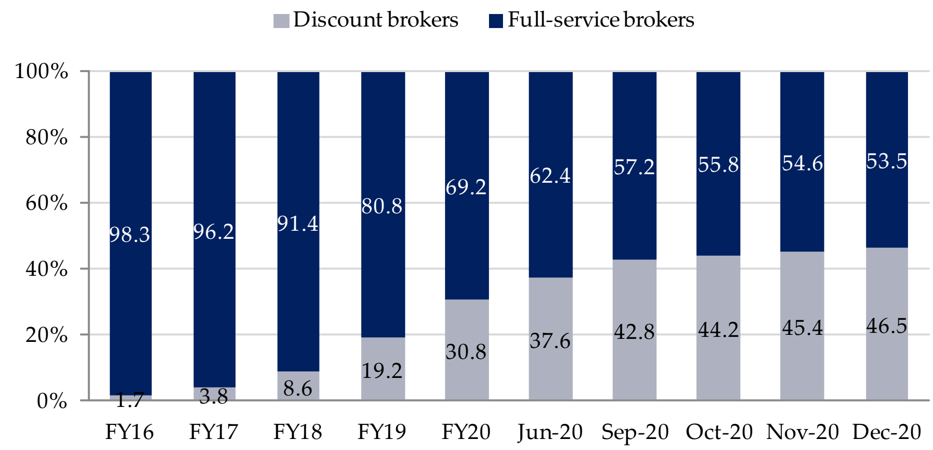
Source: Swiss Re, HSIE Research

- **Higher competitive intensity to result in shakeout across the investment industry**: With recent relaxations to entry barriers (no profitability criteria), the AMC industry is likely to witness greater competitive intensity from new-age FinTechs. The likes of Zerodha and Paytm Money are poised to leverage their massive investor reach (broking business), which could result in a long-tail shakeout in the AMC industry.

Imminent long-tail shakeout and consolidation in investment and capital markets businesses from the entry of new-age FinTech players (on the back of lower entry barriers)

Similarly, discount brokers account for ~80% of the incremental active accounts over FY18-21TD (Nov-20), primarily driven by the acquisition of young traders (the millennials), primarily from Tier 2-4 cities. Discount brokers such as Zerodha and Upstoxx claim ~60% of new accounts are millennials (age group around 30) and first-time broking customers. Additionally, the new-age FinTech brokerages such as Alice Blue and Nextbillion Technology have entered the list of top 20 active customers in the past two years.

Exhibit 18: Rising share of discount brokers in active clients

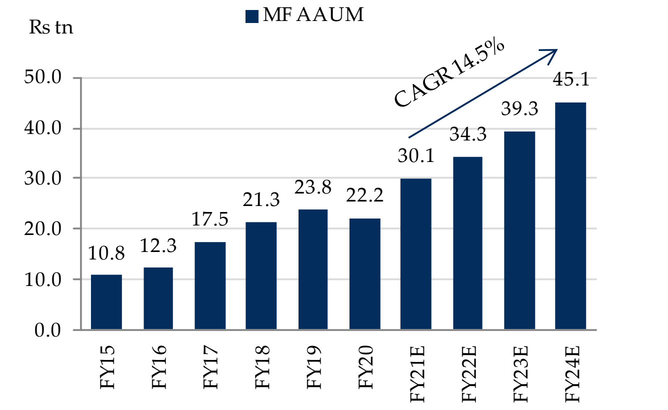


Source: NSE, HSIE Research

Implications

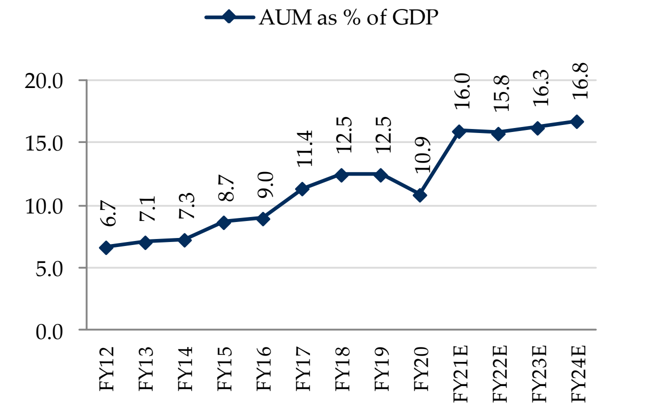
- **Total addressable market (TAM) expansion across businesses:** The combination of rising penetration and emergence of new-age FinTech companies is likely to result in significant TAM expansion across each of the four major businesses.

Exhibit 19: MF AUMs to witness 15% CAGR



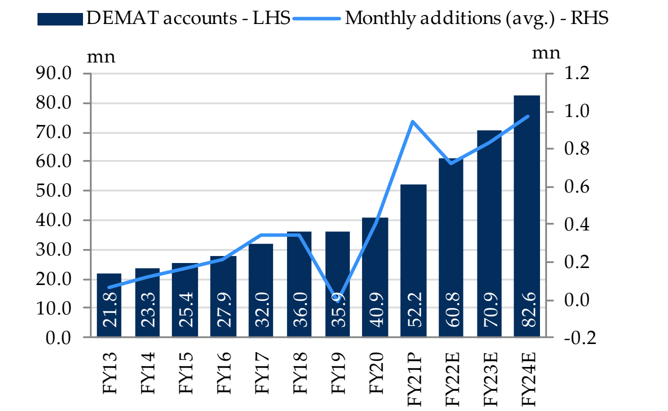
Source: AMFI, CRISIL and HSIE Research

Exhibit 20: MF penetration- a long way to go



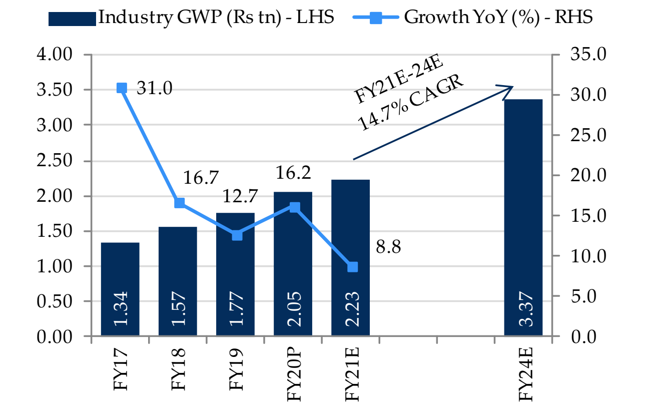
Source: Source: AMFI, IMF, RBI, CRISIL, Statistics Times and HSIE Research

Exhibit 21: Significant potential for growth in Demat account openings



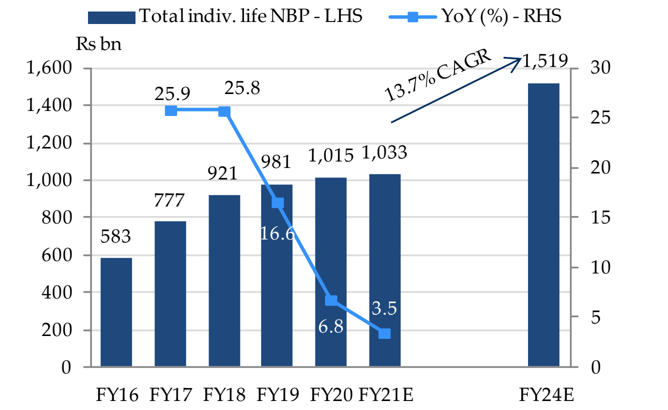
Source: CDSL, NSDL and HSIE Research

Exhibit 22: General Insurance industry to grow at ~14.7% CAGR



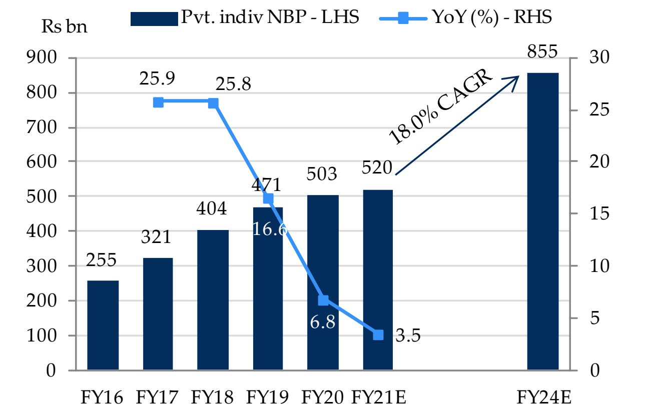
Source: GIC Yearbook and HSIE Research

Exhibit 23: Individual NBP trend



Source: IRDAI and HSIE Research

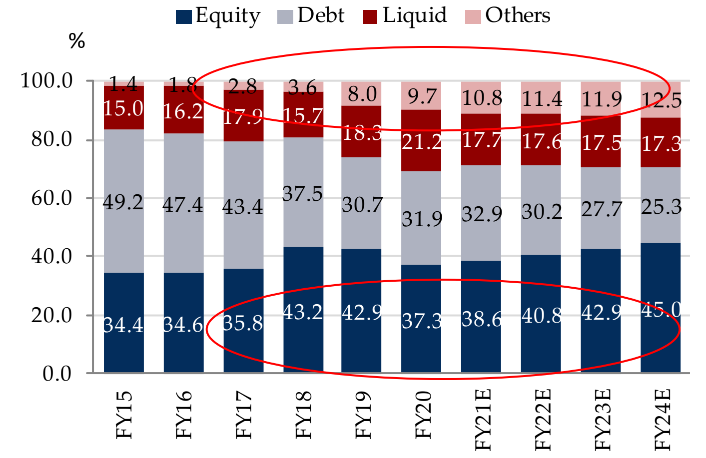
Exhibit 24: Pvt. life insurers individual NBP forecasts



Source: IRDAI and HSIE Research

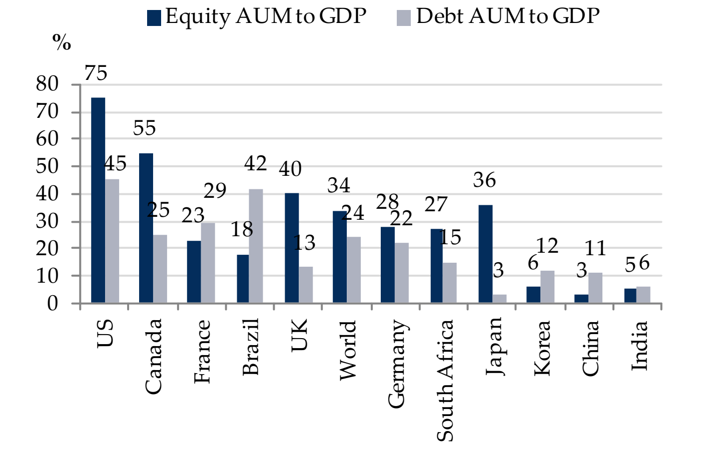
- **AUM mix to pose downside pressure on AMC earnings:** While we expect total AUMs to clock a 15% 3-year CAGR to reach Rs45trn by FY24E, we expect the share of equity and passives in the total AUM to rise from 47% in FY20 to 58% by FY24E (+1100bps). This will likely accelerate with more incumbents and FinTech firms launching differentiated products. Additionally, the rise of RIA models and IIFL One-type models will also boost momentum for passives. The rise of the direct channel through platforms such as Coin, ET money, Paytm Money etc. is also likely to result in increased awareness for ETFs. The sharp rise in passive AUMs will mean lower flow for active equities. This will result in margin pressures for asset managers. We expect the sizeable asset managers to manage these pressures better than their smaller peers.

Exhibit 25: Rising share of equity and passives



Source: AMFI, CRISIL and HSIE Research

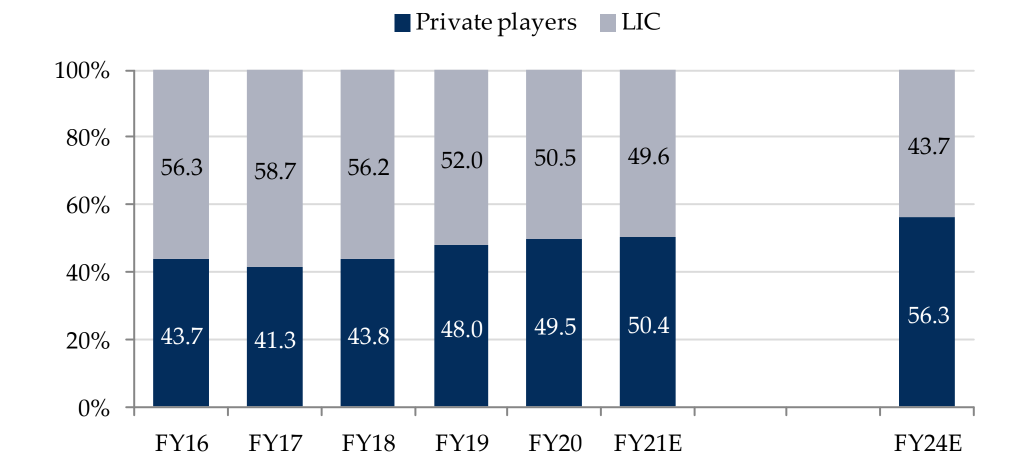
Exhibit 26: AUM as a % of GDP across nations



Note: AUM data as of CY 2019:Q4; only open-ended funds have been considered; balanced/mixed funds are assumed to be composed of 70% equity and 30% debt
GDP is based on current prices
Source: IMF, IIFA, CRISIL, UTIAM RHP, HSIE Research.

- **Structural market share gains for private life insurers at the cost of LIC:** Better product offerings, aggressive marketing and superior customer service by private players are expected to result in private players further gaining market share at the cost of LIC. Private players saw strong growth in individual NBP at 18.5% CAGR (FY16-20) vs. 11.8% for LIC. We expect the market share of private players in individual NBP to improve by 592bps to 56.3% over FY21E-24E.

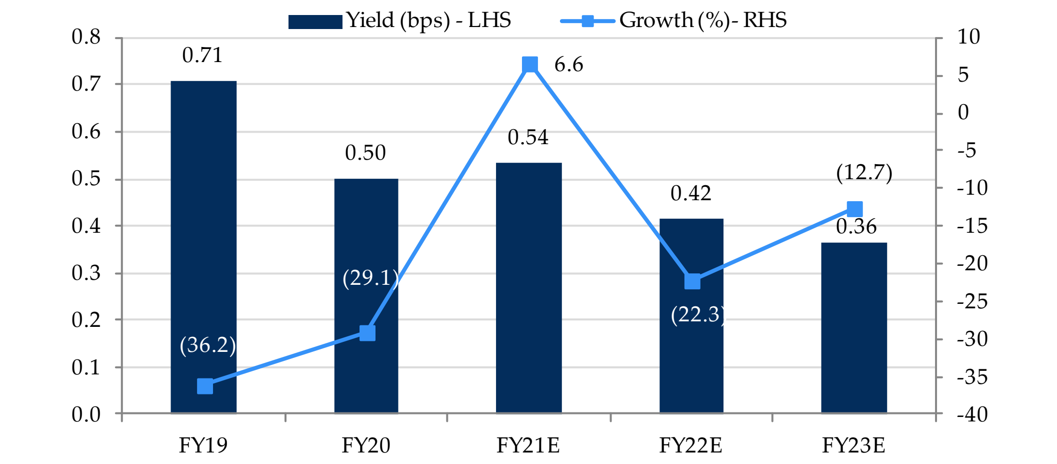
Exhibit 27: Private life insurers likely to gain at the cost of LIC



Note: Market share on NBP basis
Source: IRDAI, HSIE Research

- **Pricing pressure likely to creep into the cash segment:** Pricing pressure has been intense, mainly in the derivatives segment, as bank-owned and traditional brokerages reduced rates on derivative offerings. Derivative pricing is now comparable for most players across different categories. We expect blended yields to slip significantly for bank-owned brokers over FY21-24E. They have been able to retain pricing on cash equities, mainly because of the "trust" factor, which investors have in these institutions. Given cash equities contribute ~60-70% broking revenues, we expect these companies to continue to do well in years when cash volumes improve significantly. Having said the above, we believe that over time, discounting will also enter the cash equities segment as more credible names enter broking or as discount brokers establish higher credibility. Until then, discount and traditional brokers will continue to earn high return ratios.

Exhibit 28: ISEC - Yields likely to trend downwards



Source: ISEC, HSIE Research

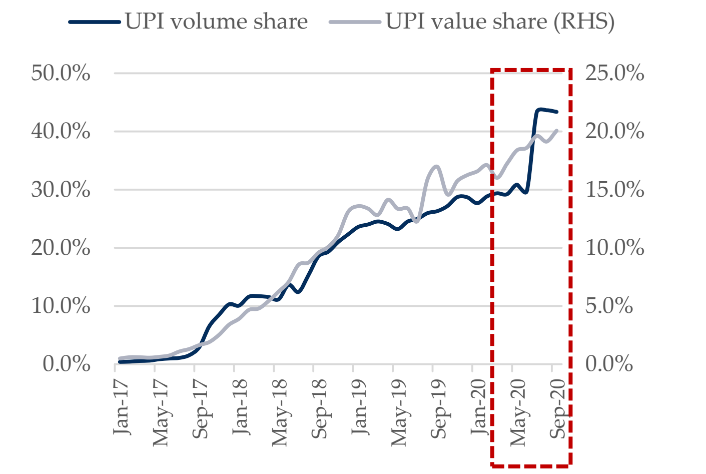
- **GI profitability to peak:** We expect profitability for the sector to peak sometime during FY21-22E as lockdown forced lower capacity utilisation across segments except health. Within health, we expect the Private insurers to better manage loss ratios compared to the PSU health insurers. The new MV Act will result in sustained lower loss ratios in the motor segment as accidental claims will need to be filed within six months. Currently, almost 30-35% of TP claims are filed after one year of an accident. We expect this to temporarily increase the profitability of the general insurers as over time IRDAI will not allow aggressive price revisions.

- **Insurtech to drive growth:** Life/Non-life insurance penetration in India is low at just 2.7/1.0% in FY19. This is expected to grow. Digital sales penetration for life/non-life insurance products is estimated at 1.4/2.0% in FY20; we expect the same to grow to 3.5/5.0% by FY25E. This works out to an FY20-25E CAGR of 33.7/31.4%. With protection itself being severely underpenetrated and having the potential to grow several folds over the next decade, web-aggregator insurance models are poised to witness growth at a scorching pace.

Megatrend | Merchant-end digital adoption turbocharged

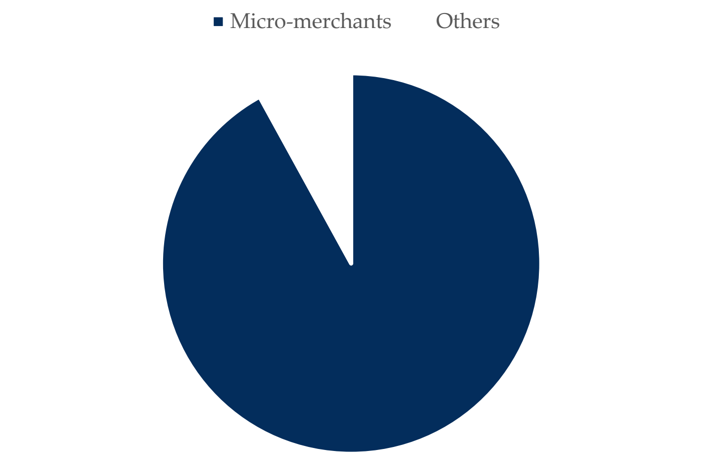
- **Addressing merchant friction:** Although consumer adoption of digital payments has witnessed a steady growth over the years (Exhibit 29), the overall digital payments journey was historically constrained by frictional factors at the merchant's end, especially in the case of the ~60mn "micro-merchants", who account for >90% of the retail transaction market (Exhibit 30).

Exhibit 29: UPI market share trends



Source: RBI, NPCI and HSIE Research (overall digital payments)

Exhibit 30: Share of micro-merchants in retail transactions



Source: IFMR Lead, CIG and HSIE Research

P2M transactions are witnessing explosive growth, benefiting from improving unit economics on the back of a combination of network effect and consequent lower transaction costs

- **Merchant adoption accelerating:** A lower transaction cost (low MDR) (Exhibit 31) and a pandemic-induced push towards contactless payments have turbocharged merchant adoption of digital modes of payment across categories, thus catalyzing digital transaction volumes.

Exhibit 31: RBI proposed MDR rationalisation

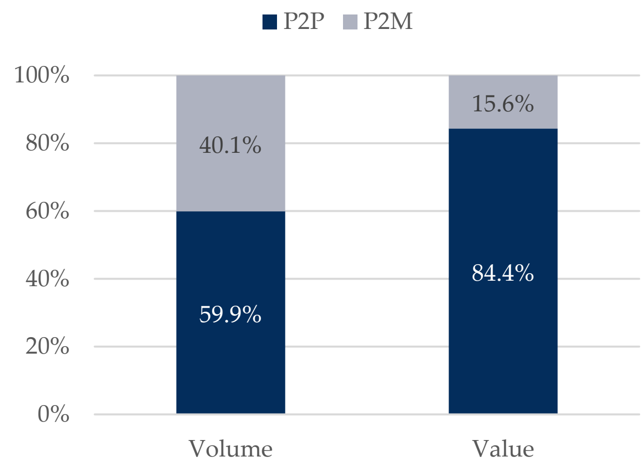
Merchant category		Physical PoS	Digital PoS
Small merchants		0.40%	0.30%
Special category merchants		0.40%	0.30%
All other merchants		0.95%	0.85%
Government transactions	Rs 5 for transaction value between Rs 1-1,000 Rs 10 for transaction value between Rs 1,001-2,000 MDR not exceeding 0.5% for transactions above Rs 2,000 with an upper limit of Rs 250		

Source: Bloomberg and HSIE Research

- More importantly, interoperable QR-codes have emerged as a low-cost acceptance option and especially found favour with micro-merchants, thus driving a sharp acceleration in merchant adoption. UPI QR installations currently stand at >60mn clocking ~250mn transactions on a monthly basis.

- **Volume explosion drives improvement in merchant economics:** Historically, on a standalone basis, merchant acquisition was a loss-leader for several banks and often used as a means to cross-sell other products (CA float, cash management etc.). Also, the physical set-up costs were high, resulting in low penetration of conventional acceptance infrastructure. However, the emergence of low-cost QR-codes and the emergence of merchant-facing FinTechs and Big Tech have resulted in an unprecedented explosion in merchant payments on digital platforms, thus driving better unit economics (Exhibit 33).

Exhibit 32: UPI Mix: P2P still dominates



Source: NPCI and HSIE Research

Exhibit 33: PoS economics improving

(Rs unless specified)	FY18	FY19	FY20
Cost of a terminal	10,000	10,000	10,000
Total Operating Costs	**4,130**	**4,170**	**4,298**
Revenue			
Annual spends	29,29,661	32,26,811	39,35,812
Acquiring fee (Paisa)	0.10	0.10	0.10
Total Fee income	**2,930**	**3,227**	**3,936**
Cost to be recovered from Merchant	**1,200**	**943**	**363**

Implications

- **Network effects ahead:** With FinTechs and Big Tech investing heavily in this space, we believe that the merchant ecosystem is reaching a critical mass that will drive network effects in terms of higher adoption translating into higher volumes of merchant payments over digital platforms (and stickiness).

Nearly 15% of USD40bn payment fee pools currently accruing to incumbents (banks) could either disappear or migrate to large FinTechs and Big Tech

- **FinTechs have a 'right-to-win':** With ~60mn micro-merchants still inadequately covered (frequency of digital payments), most FinTechs and Big Techs continue to invest heavily in merchant acquisition. However, the unit economics are turning incrementally positive, offering FinTechs a valuable cash cow to top up their payments offering with add-ons such as neo-banking and lending solutions. Our discussions with consultants and banking experts suggest that 15% of the USD40bn payment fees currently accruing to banks could migrate to market-leading FinTechs and Big Tech. In our early 2021 Payments thematic, we will explore this 'right-to-win' and what it means for incumbents and their revenue pools.

- **Lending:** Digital lending will play an important role in facilitating seamless and complete digital adoption. On the retail side, credit cards have been the mainstay so far, and BNPL promises to be an effective challenger, offering a lower cost and a more convenient credit solution. The digitalisation of merchants opens up new possibilities on the merchant lending front too. For now, most FinTechs are offering credit to consumers and merchants via conventional lenders, in the absence of a favourable regulatory environment, although this could eventually change.

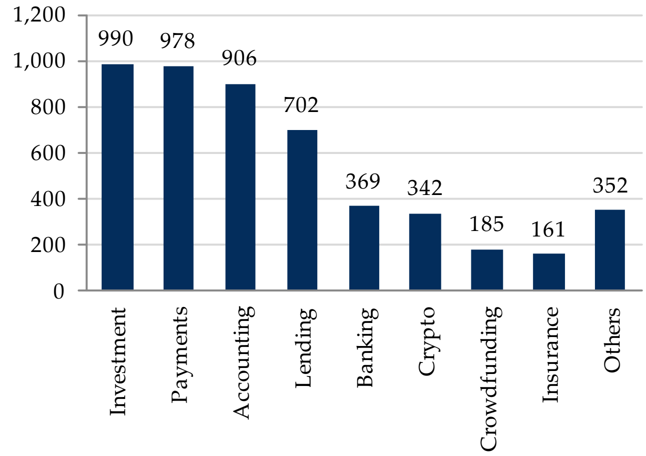
Megatrend | Unbundling, sachetisation and re-bundling

- **Phase I - The piecemeal unbundling:** As against traditional banking, FinTechs have built their business model centred around unbundling of financial services, disrupting one traditional banking function at a time (Exhibit 34). Of the 4,000+ FinTechs incubated in India, most have had their origin in the payments domain (Exhibit 35), which has traditionally been a beachhead for Indian banks. This was driven by lowering of entry barriers as the RBI permitted licensing of new-format players such as payments-only banks and account aggregators.

Exhibit 34: FinTechs unbundling the universal bank

Source: HSIE Research

Exhibit 35: India FinTech landscape

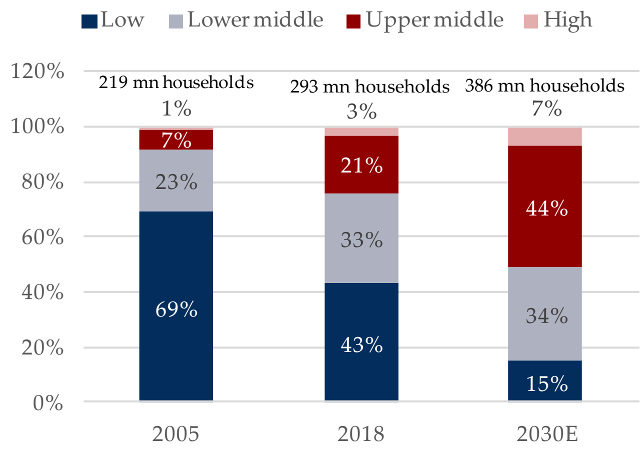


Source: Tracxn Database and HSIE Research

The average ticket size of short-term personal loans is trickling down to sub-Rs10k, especially for millennial first-time borrowers

- **Phase II - Sachetised financial solutions:** The widespread merchant adoption of digital payments and the consequent expansion of digital footprint on account of unbundling have resulted in a market for "sachet" (small-ticket) financial solutions across all major financial products (credit, insurance, mutual funds, etc.). With 35% of PE/VC funding in 1HCY20 going towards late-stage FinTechs, we believe that the mature FinTechs will continue their disintermediation journey to build sachetised financial solutions. This is beginning to reflect in how mature FinTechs such as PhonePe, Pine Labs, and RazorPay are beginning to offer micro-credit and micro-insurance solutions for small merchants.

Exhibit 36: The market for sachetised financial services



Source: Bain & Co. and HSIE Research

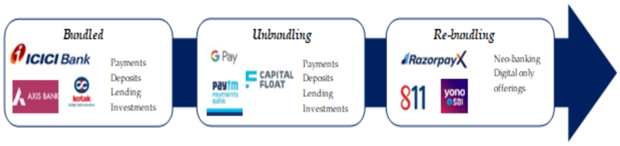
Exhibit 37: "Sachet" solutions in the offing

	Sachet Product	Description
MONEYTAP, EarlySalary, mPokket, PaySense, KreditBee	Instant cash loans	These are small unsecured personal loans where the amount is credited to the bank account of the borrower
Simpl, LAZYPAY, ePayLater, zest	Buy Now Pay Later	These are credit advances for ecommerce that may not be structured as a formal loan
kissht, EarlySalary, instacred	Cardless EMI	These are credit advances for ecommerce purchases that are structured as a formal loan with periodic repayments
BharatPe, RupeeCircle, LenDen	Peer To Peer Lending	Individual borrowers can directly avail loans from individual lenders through these intermediary platforms
BAJAJ FINSERV, CASHe	EMI Card	These are cards with a pre-approved credit amount and a fixed EMIs repayment schedule

Source: Media reports and HSIE Research

- **Phase III - The case for re-bundling:** However, unbundling creates a fragmented customer journey and increases search costs for consumers. Even as FinTechs continue to unbundle, the next few years will be dominated by banks and FinTechs that can successfully "re-bundle" services to cater to their customers' evolving financial needs. We see ICICIBC and KMB as early movers in the "re-bundling" journey.

Exhibit 38: The unbundling-re-bundling cycle



Source: HSIE Research

Exhibit 39: Select incumbent-FinTech collaborations

Name of collaborators	Product
Pine Labs, HDFCB	Merchant acquisition
Amazon Pay, KVB	BNPL
Amazon Pay, IDFCB	BNPL
Razorpay, RBK	Credit cards
IPRU, Airtel Payments Bank	LI
WhatsApp Pay, SBI GI	GI
Mobikwik, Edelweiss Tokio	LI
Credit Mantri, BOB	Credit scoring

Source: HSIE Research

Implications

Thin-file customers (new to bureau) constitute 10-30% of the borrower mix across financial products

10-15% of existing fee pools (deposit-related fees and transaction fees) could come under pressure from late-stage FinTech companies

- **Competition for household savings:** Unlike global banks, Indian banks are heavily deposit-funded, primarily driven by the fact that deposits constitute ~60% of India's household financial savings ($300bn). In line with improving household demographics and availability of alternatives, we see potential for a meaningful shift in household savings composition, resulting in higher competitive intensity for deposits, historically an uncontested space for banks.

- **Thin-file customers to emerge as an addressable market:** The exponentially-growing transaction trail (daily retail payments of INR500bn) offers tons of "digital exhaust" available to FIs to build curated top-up solutions. We believe this will open new growth avenues with "thin-file" or "invisible" customers (10-30% of product-wide bureau hits) emerging as a massive addressable market.

- **Revenue pools under pressure:** Most successful FinTechs have usually targeted under-served and over-charged customer segments, thereby disrupting legacy revenue or fee pools. For instance, deposits often account for 10-15% of the total fees for private sector banks. Similarly, interchange fees account for about one-fifth of total fees. Our discussions with practising consultants suggest that a few such pools (10-15% of existing fees) could come under pressure on the back of rising competitive intensity from late-stage FinTech companies.

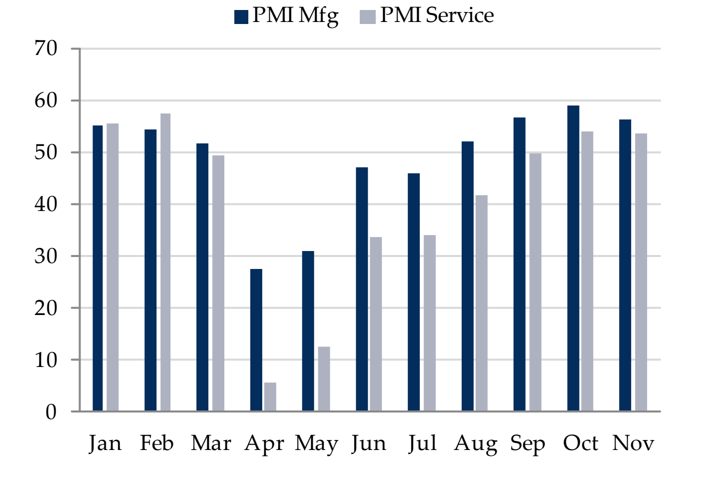
- **Disruption of conventional last-mile FIs:** As the mature FinTechs begin building sachetised and affordable financial solutions (lending and beyond) for the lower-income households, we see redundancy to the conventional last-mile financial institution model (MFIs) as a possible outcome.

- **Ecosystem partnerships:** We see significant M&A potential emerging between "bank for tech" (FinTech) and "tech for bank" (incumbents) over the coming years as mature FinTechs chase cross-sell opportunities on their existing platforms. Such partnerships will ideally marry incumbents' product portfolios (lending and beyond) with the FinTechs' platform offering consumers greater choice and convenience. We believe such collaborations are crucial for incumbent banks to offset the drag on their existing fee income streams.

Megatrend I The elusive capex cycle - with a difference

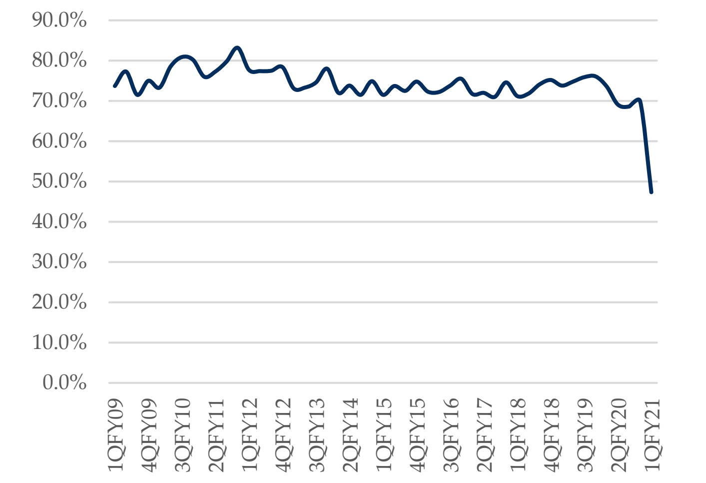
- **Post-lockdown recovery faster-than-expected:** The RBI recently suggested that the Indian economy is recovering from the effects of the lockdown at a quicker-than-anticipated pace, consistent with several high-frequency indicators (Exhibit 40). Whilst the early-stage rebound was attributed to "pent-up" demand, these demand trends are now beginning to sustain, which is likely to trigger the next capex cycle that has been elusive for the past six years.
- **Sector-wise capacity utilisation improving:** Anecdotal evidence suggests that sustained demand is beginning to reflect in higher capacity utilisation (CU) across sectors - and is likely to reflect in the RBI's lagged CU trends (Exhibit 41).

Exhibit 40: PMI shows signs of sustained demand



Source: Bloomberg and HSIE Research

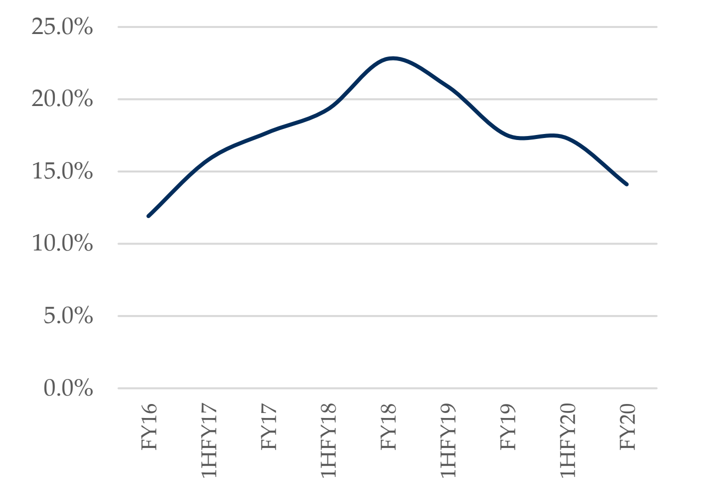
Exhibit 41: Capacity utilisation trends - select sectors



Source: RBI and HSIE Research

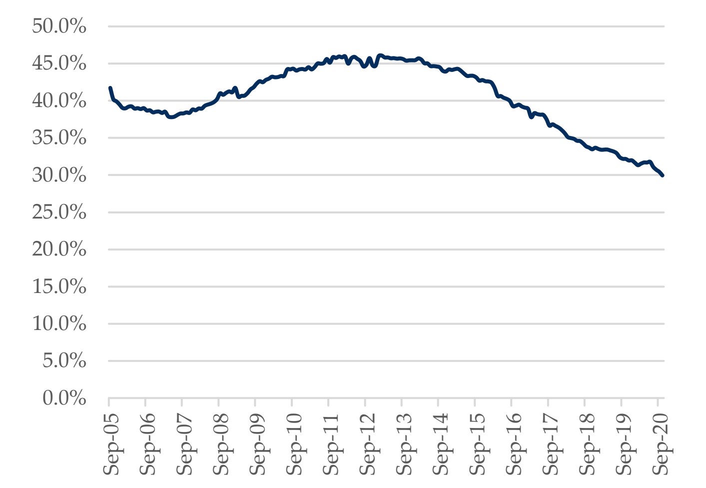
- **Large corporate deleveraging has played out:** Over the past few years, the asset quality cycle in large corporate credit has resulted in high mortality (IBC) and evidence of deleveraging for corporate India. The asset quality cycle also took a toll on lenders' risk-appetite towards borrowers below certain rating thresholds, thus squeezing the flow of industrial credit towards key capital-intensive sectors. This reflects in the steady decline in the share of industrial credit from >46% at its peak in February 2013 to sub-30% in October 2020 (Exhibit 43).

Exhibit 42: Industry GNPA trends



Source: RBI and HSIE Research

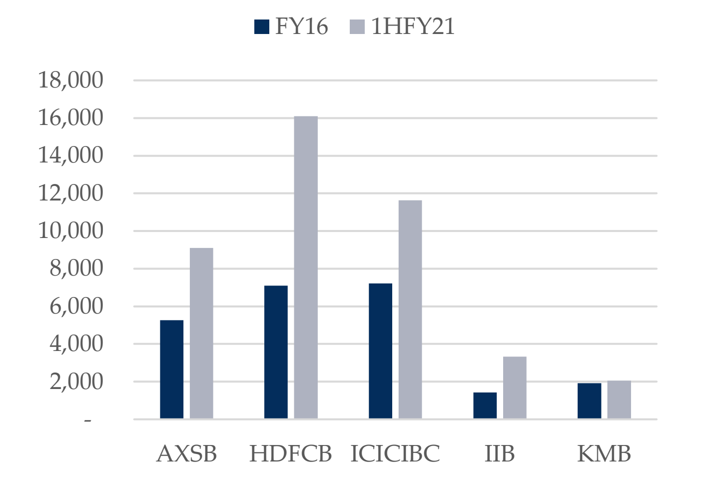
Exhibit 43: Share of industrial credit in non-food credit



Source: RBI and HSIE Research

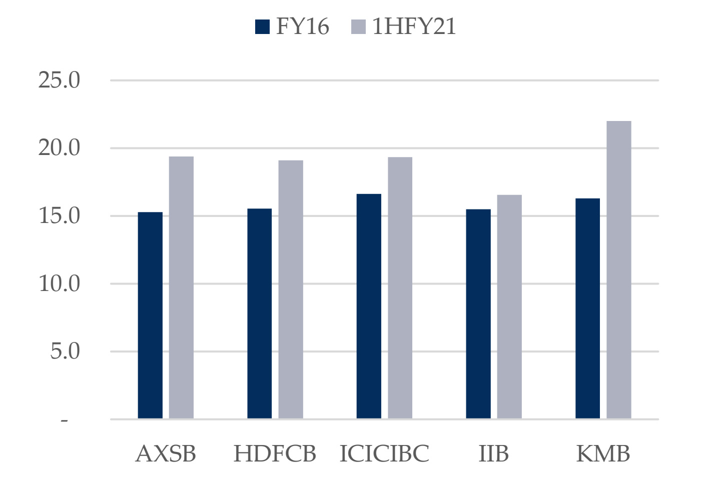
- **CPSUs to lead the charge; private sector banks well-capitalised:** On the back of an accommodative policy stance and a benign interest-rate liquidity environment, we believe that a fresh capex cycle led by PSU borrowers is in the offing. While the earlier capex cycle was largely financed by PSBs, private sector banks are relatively better-capitalised now to finance this one. Backed by larger and stronger balance sheets (Exhibit 44), large private banks are well-placed (Exhibit 45) to support the next round of capex.

Exhibit 44: Balance sheet size of select private banks



Source: Banks and HSIE Research

Exhibit 45: CRAR of select private banks

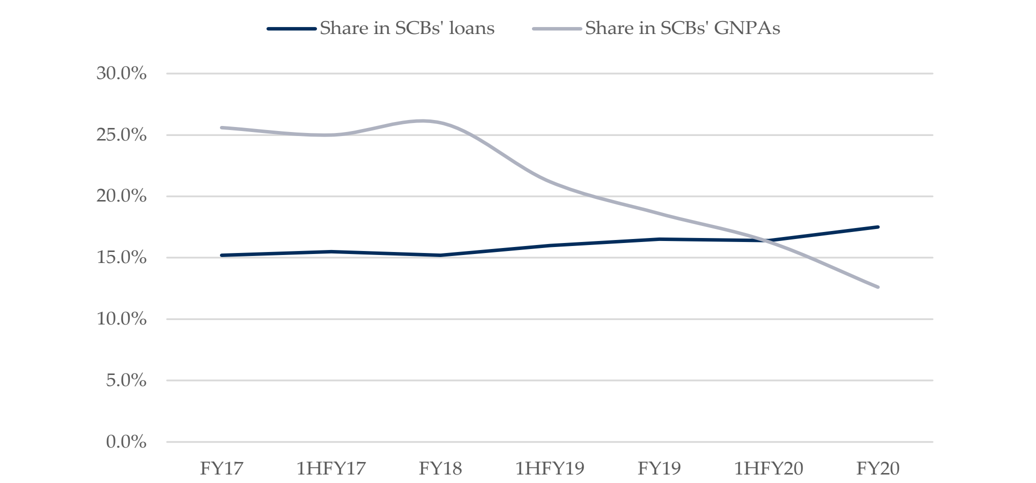


Source: Banks and HSIE Research

Implications

- **Potential rise in wholesale banking concentration risk:** Most capital-intensive sectors such as aviation, steel, power and telecom have witnessed significant market share consolidation on the back of forced mortality (IBC) and a broader drive towards deleveraging. As a result, many of these sectors have shrunk to 2- or 3-player markets, with consequent implications for the concentration risk residing on banks' wholesale portfolios as they continue to raise their fund-based exposure to market leaders.

Exhibit 46: Share of the 100 largest borrowers



Source: RBI and HSIE Research

- **Market for medium-rated corporate entities:** Despite all the policy lip-service, the domestic bond market continues to be shallow and is a massive "missing piece" in the overall corporate lending jigsaw, especially for medium-rated corporate entities that need access to long-term capital.

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Autos : Two wheelers

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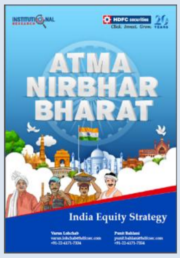
Banks: Double whammy for some



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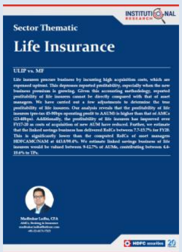
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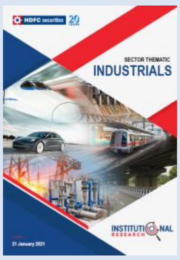

Industrials: Triggering a new cycle

Disclosure:

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