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Private banks gain ground at expense of PSU peers

BY [SALONI SHUKLA](#), ET BUREAU | UPDATED: NOV 13, 2017, 09:37 AM IST

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Mumbai: State-run banks are fast ceding ground to private banks that gained [market share](#) handsomely riding on the [bad loans](#) brake with deposits rising more than a quarter for big players and in low single digits for their state-run rivals.

The deposit and advances base was also impacted with seven state-run banks facing prompt corrective action (PCA) from RBI that bars them from undertaking some basic banking activities.

An ET [analysis](#) shows that top five private sector banks on an average registered a deposit growth of nearly 17 per cent at the end of September 2017, while their counterparts together registered a growth of less than 9 per cent. Due to inactivity by a few small- and mid-sized [PSU](#) banks, deposit growth overall in the April-September grew 2 per cent compared with 8.2 per cent in the corresponding period last year. On a year-on-year basis too, deposit growth was 8.7 per cent against 10.8 per cent last year.

"We have seen some share of advances and deposits move to private sector banks and that is a given considering some state-run banks are stressed, a few are also under PCA," said Siddharth Purohit, analyst with SMC Institutional Equities. "The major problem is that [balance sheet](#) growth is still not happening and economic activity on the corporate front remains muted, so we don't see credit growth recovery anytime soon."

Private Banks Gain at Cost of PSU Peers

The PSBs have also lost share in the total credit over the last 3-year period. Outstanding credit as on September 30, 2017 was ₹46.02 lakh crore, of which PSBs had a share of around 48 per cent. However, this was lower than that in September 2015 when it was around 56 per cent.

Overall bank credit also mirrored deposit growth and grew at 2.1 per cent during the April-September 2017 period, which was lower compared with 3.4 per cent in the compared period last year. On a year-on-year basis too, growth in credit was around 6.9 per cent, lower than the 10.1 per cent in the last year.



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"We expect this trend of convergence between credit and deposit growth to continue," says Sonal Varma of Nomura. "A cyclical recovery and higher commodity prices should boost working capital needs, while the availability of growth capital after the recently announced recapitalisation plan should also enable public sector banks to extend additional loans. In turn, this should push the credit-deposit ratio higher towards 75 per cent from 72.6 per cent in mid-October and tighten banking system [liquidity](#) incrementally."

At the end of the September quarter net profit growth for private banks turned around while it fell for PSBs. An estimate by Care Ratings shows overall net profits declined by nearly 18 per cent for the banking system.

"Net profits declined by 17.8 per cent during the quarter as a result of fall in other income coupled with slower growth in interest income," says [Madan](#) Sabnavis of Care Ratings. "The decline in net profits is however restricted by lower growth in provisions made by the banking sector along with keeping a check on their operating expenses."

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