

# State of Indian Banks 2023

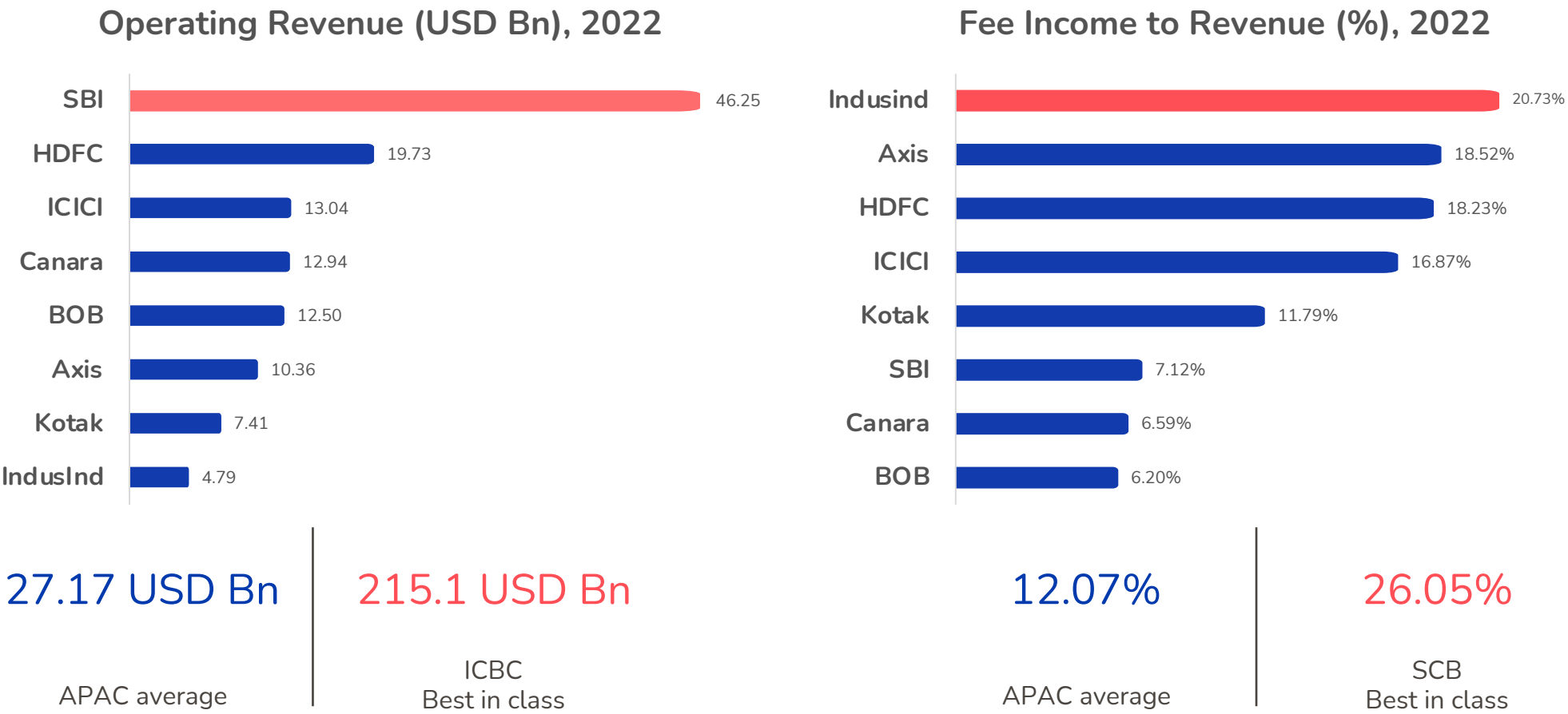
From recovery to growth



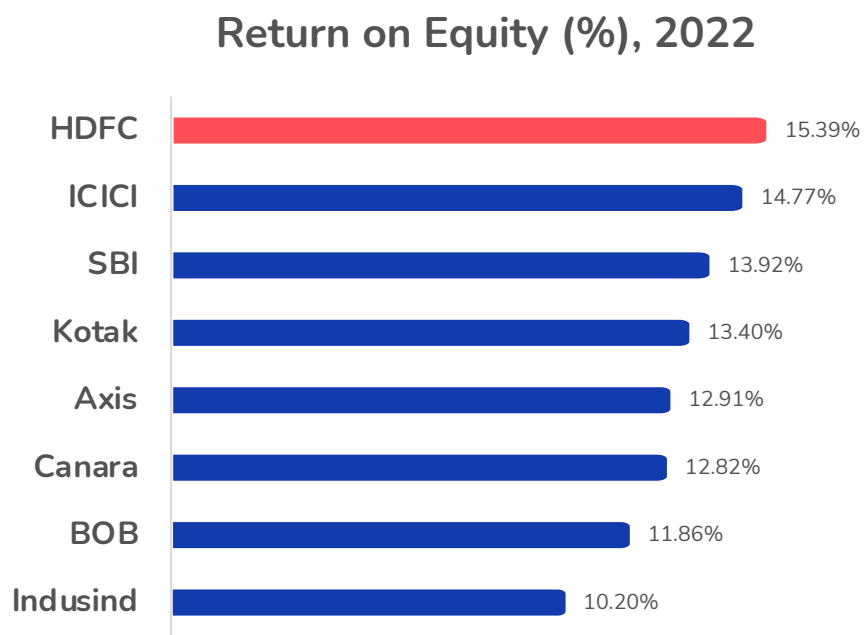
# Market highlights

1. India's real **GDP** is expected to grow by **5.5%** in FY2023-24
  - The total **outstanding loans** of Indian banks stood at USD 1.59 trillion (**50.3% of the GDP**) as of September 2022.
  - The banking sector contributes **~8%** to the Indian **GDP**
2. The **credit growth** for Indian banks is expected to be **13.5%** in FY2023-24, primarily driven by demand from retail, non-banking financial institutions and large corporates
  - Loans from SMEs will pose a **risk** to banks' **asset quality** as it is most vulnerable to rising interest rates
  - The **non-performing loans** expect to continue declining due to recoveries and write-offs of legacy problem loans
3. The **yields** on Indian government securities increased significantly when the Reserve Bank of India **hiked** the interest rates by **250 basis points** to 6.50% since May 2022. The hike has caused losses for bond investors as the price drops with increases in yields. The RBI is expected to increase the interest rate by a **further 25 basis points**.
  - RBI's treasury losses as a result of rising interest rates could be **partially offset** by the interest and non-interest incomes of the banks
4. **Indians** are among the **most willing** to embrace emerging digital payment methods
  - **93%** of Indian consumers use at least one digital payment method and more than **50%** were done via **QR codes** or digital money transfer apps which shows the popularity of **UPI** in India
  - In January 2023, the number of UPI transactions stood at **8.04 billion** with **USD 155.76 billion** in value

# Fee income to revenue is increasing for Indian banks



# Indian banks have been able to maintain profitability despite economic uncertainty

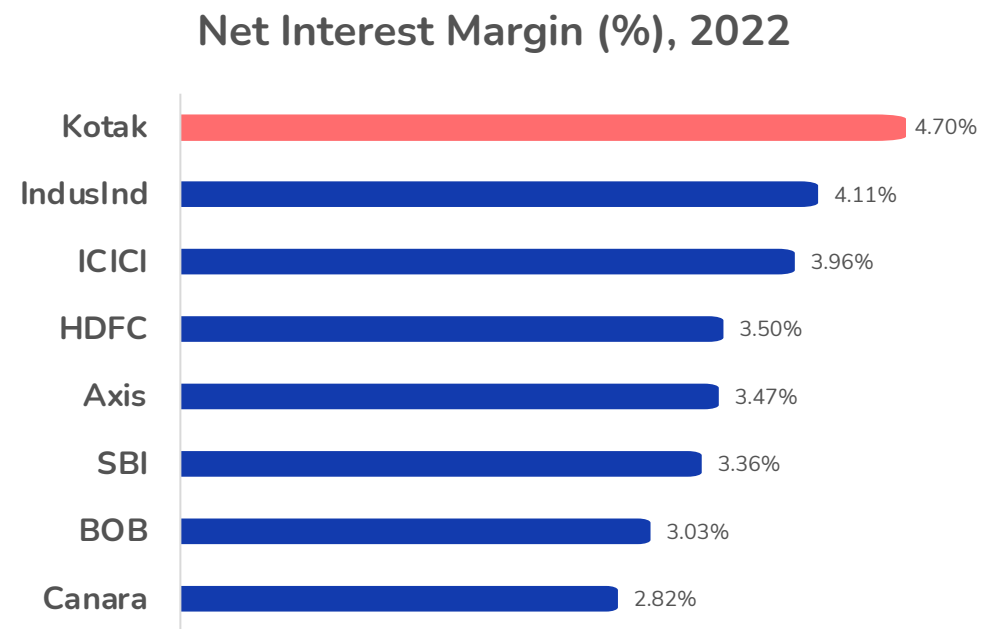


11.77%

APAC average

21.7%

BCA  
Best in class



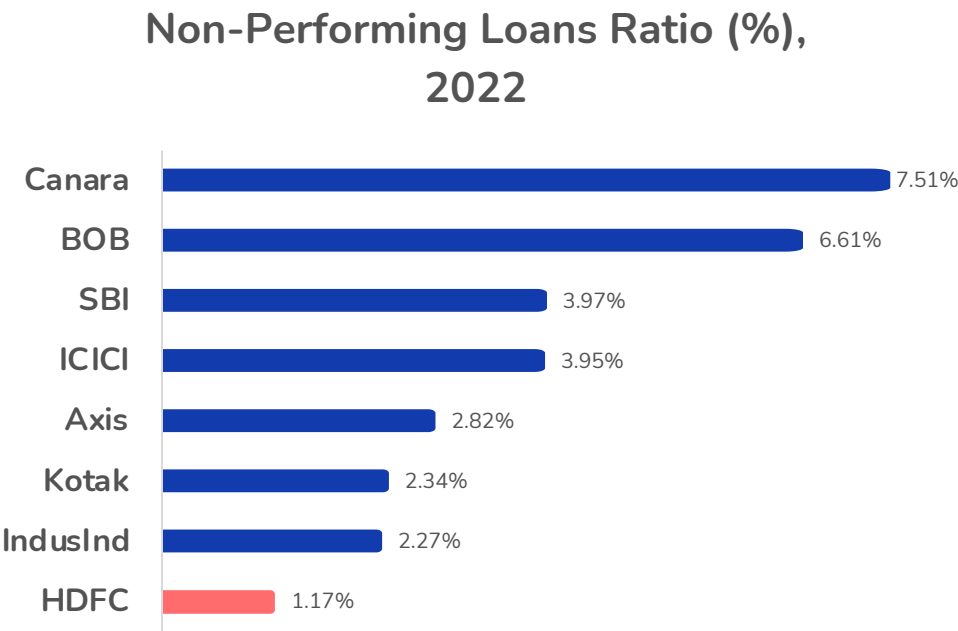
3%

APAC average

7.85%

BRI  
Best in class

# NPLs are returning to low levels post COVID-19

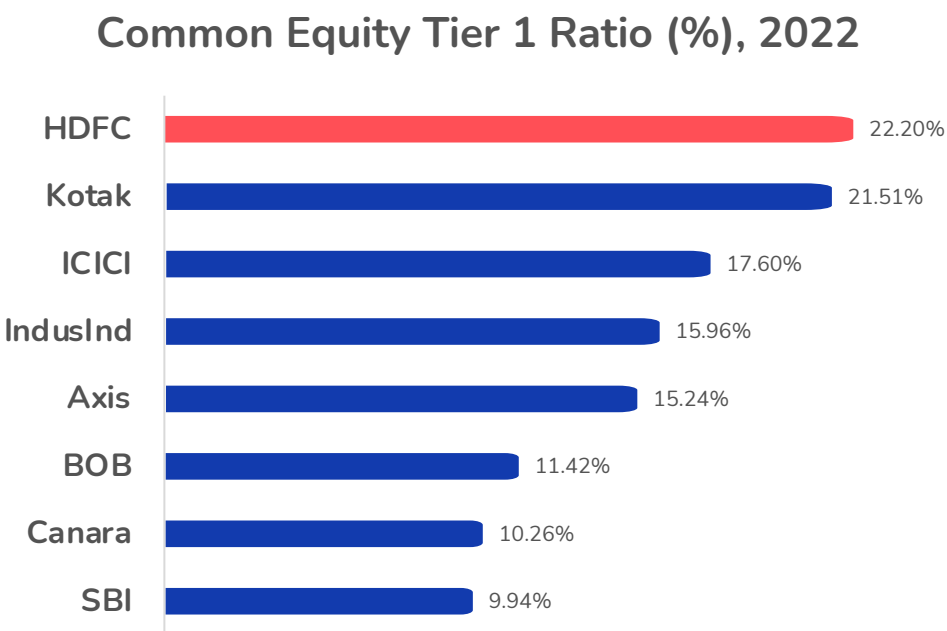


2.14%

APAC average

0.17%

Bendigo  
Best in class



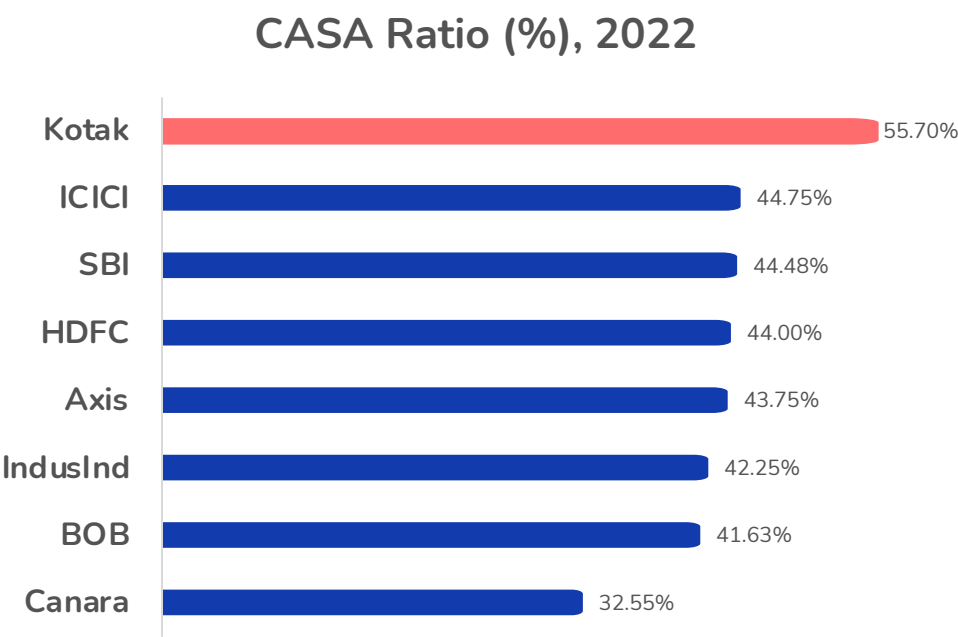
15.56%

APAC average

26.7%

Danamon  
Best in class

# Indian banks are maintaining efficient business operations

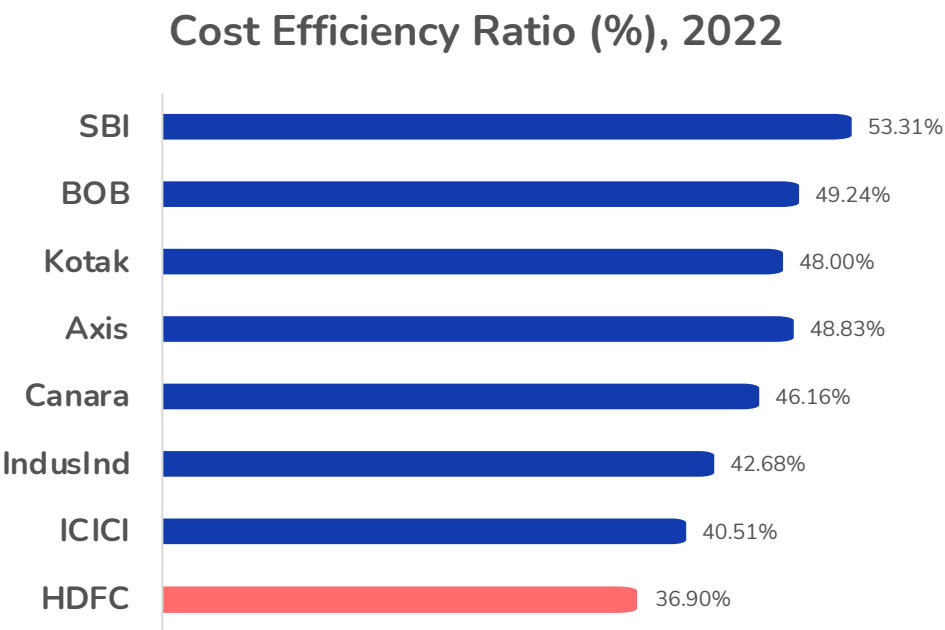


42%

APAC average

81.9%

BCA  
Best in class



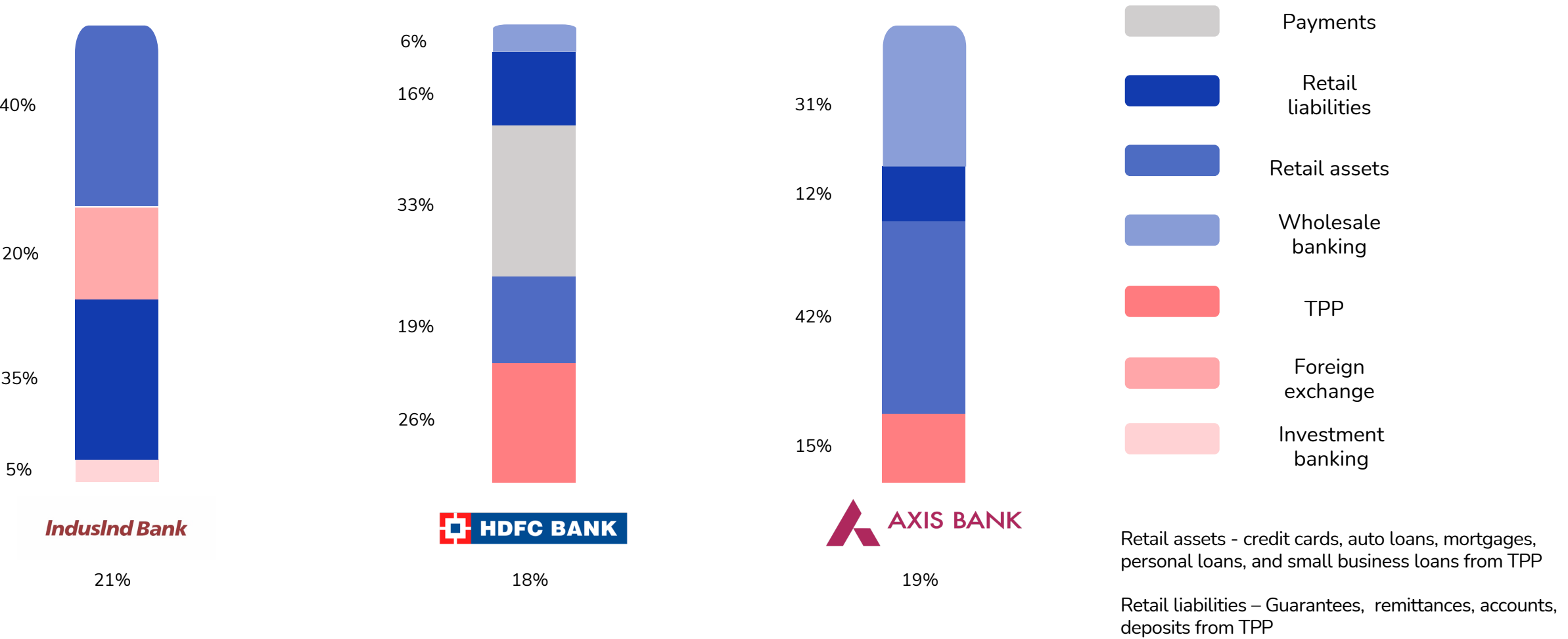
45.3%

APAC average

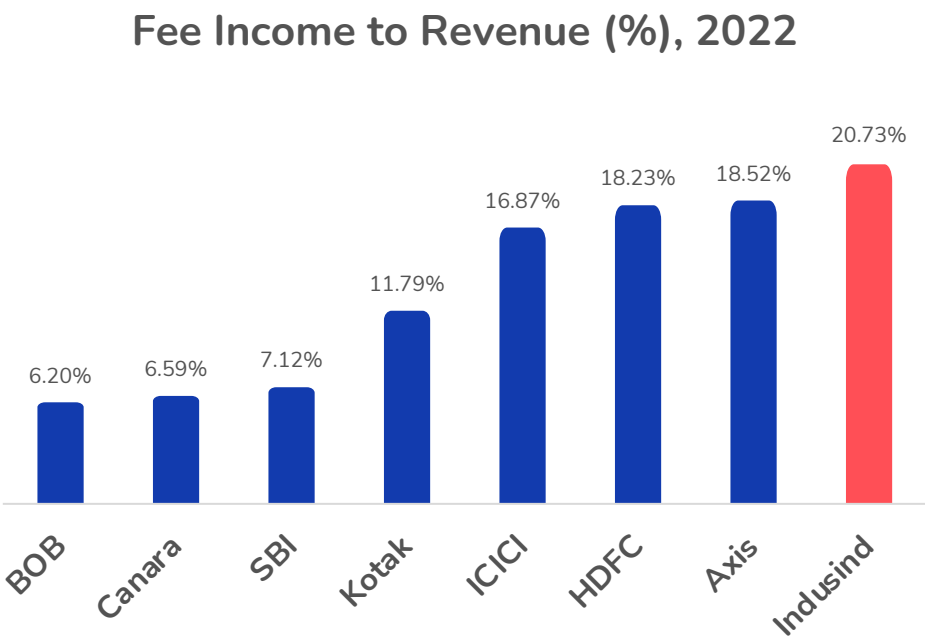
26.53%

ICBC  
Best in class

# Top 3 Indian banks to champion fee-based income via digital channels



# Indian banks generated an average of 13% fee income to revenue in 2022



IndusInd Bank income generated through non-banking transactional fees has decreased significantly between 2021-22. The income generated from these transactions have decreased from ~47% in 2021 to ~32% in 2022

IndusInd Bank generates more than 68% of its fee income from transactional fees

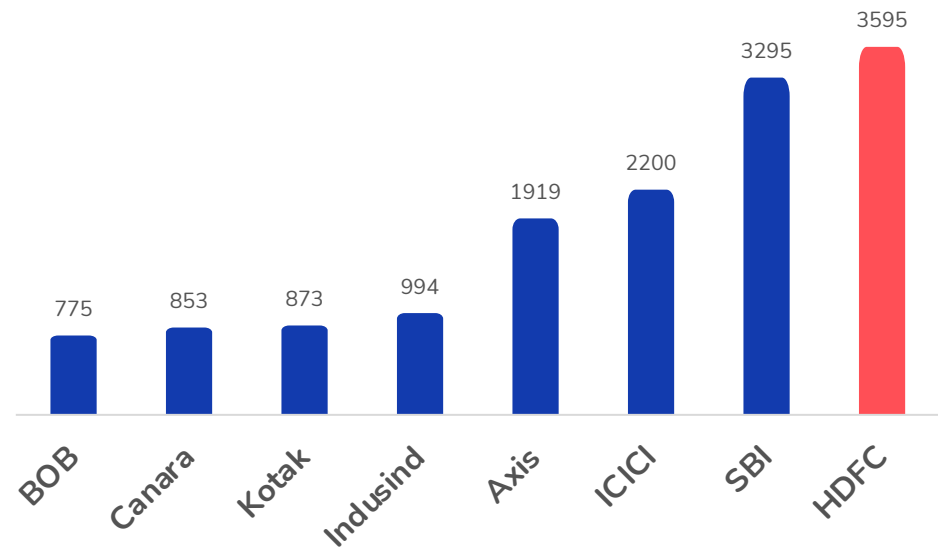
Fee-based income	2021	2022	YoY
Cards and distribution fees	182.89	270.32	47.81%
General banking fees	108	137.73	27.53%
Loan processing fees	188.41	269.82	43.21%
Investment banking	30.10	11.29	-62.50%
Trade and remittances	97.46	97.59	0.13%
Foreign exchange income	114.15	121.80	6.70%
Securities/MM/FX trading/Others	185.02	85.55	-53.76%
Consolidated total	906.03	994.09	9.72%

The negative impact on the trading income is due to the tightening of the monetary policy which caused a rise in the yields of securities and dropped the prices of these securities, thereby lowering their value



# HDFC Bank generates the highest fee income at USD 3595 Mn

Fee-based income (USD Mn), 2022



HDFC bank reports fee income generated through its retail and wholesale division and has a well-diversified portfolio which is predominantly non-fund-based

HDFC generates more than 32% of its fee income from payment products

Fee-based income	2021	2022	YoY
Retail assets	596	727	22.1%
Third-party providers	685	786	14.7%
Payment products	894	1153	29.1%
Retail liabilities	596	677	13.6%
Wholesale	208	252	20.7%
Consolidated total	2978	3595	20.7%

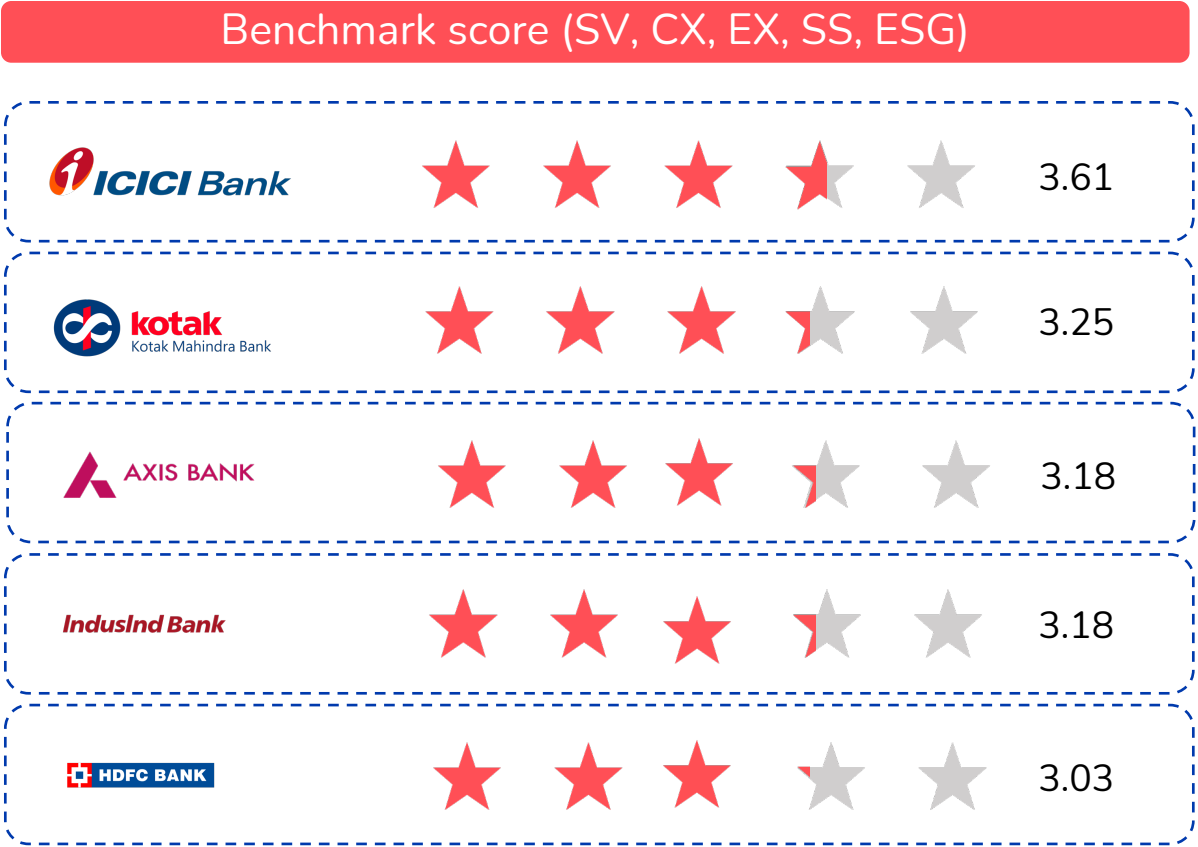
HDFC generates the most fee-based income among all Indian banks in terms of dollar value, the bank has multiple sources of revenue for fee income apart from transaction-based fees



## Indian Banks today

- twimbit Purpose Score
- Best Practices by Indian Banks

# twimbit purpose scores for top 5 banks in India



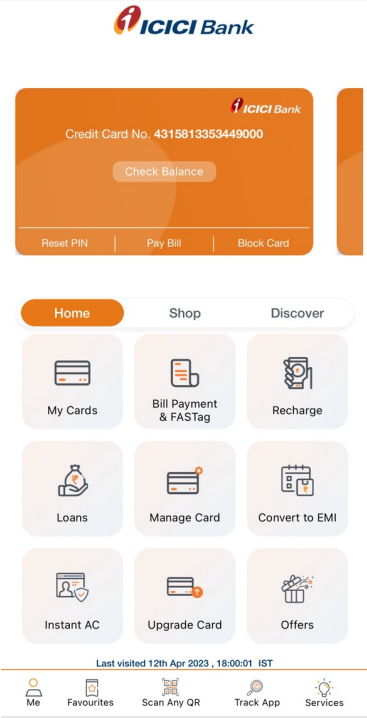


Top initiatives by Indian Banks

# ICICI banks' - Growing digital propositions

ICICI Bank has numerous **initiatives** for all its customer bases with **over 600 APIs** for retail banking and **over 85** for corporate banking

1. iMobile Pay – A SuperApp for retail customers with more than **400 services**
  - Banking services (savings account, Demat, loans, credit cards)
  - Payment services (scan to pay, recharges, bookings, shopping offers) and e-gift cards (for over 50 top brands)
2. ICICI STACK – A merchant account with zero balance and swipe-based benefit
  - Digital POS solutions through Easypay (POS, UPI, Cards, etc.)
  - Buy Now Pay Later (BNPL) service through credit and debit card EMI
  - The proposition has recorded **69% growth** in spending and **41% growth** in active merchants
3. Embedded banking for MSMEs – One-to-one client ERP integration using APIs
  - Plug-and-play cloud-hosted applications which can be installed on the client's desktop
  - Pre-integrated cloud-based connected banking solutions for accounting and payrolls



iMobile iOS app



ICICI STACK

# Kotak 811 – Kotak's digital only bank

With over **750 million** smartphone users, this digital initiative aims to target **52%** population below the age of 30. Kotak Mahindra Bank has transformed from a digital acquisition & fulfilment engine into a **digital semi-autonomous bank**.

- Focused on delivering exponential growth, mobilising engagement and cross-sell
- Kotak 811 acquired a **12.3 million** customer base (**71% of total**) in March 2022
- The app has more than **6.2 million monthly active users**

With Kotak 811, customers can open a full-service, zero balance, digital bank account in **under five minutes** using their mobile phone or web browser



Power-packed with  
**250+ Banking-related**  
features

# Axis Bank - Corporate digital transformation

#1 API Product Suite

- Full width of transaction banking API products
- Single API integration for end-to-end digital banking experience
- Real-time update and tracking directly from ERP
- Industry’s first complete suite of trade APIs
- Seamless experience in supply chain finance through APIs

#2 Corporate Developer Portal

- Intuitive & user-friendly API catalogue & documentation
- Open Sandbox environment with self-sign-up and testing
- API analytics dashboard with 24\*7 monitoring capabilities
- Fully digital end-to-end customer onboarding experience

#3 Partnerships

- New channel for customer acquisition via partners
- Collaborating with partners to co-create industry-first solutions
- Digital & instantaneous on-boarding on connected banking
- Enabling banking services on customer’s preferred 3<sup>rd</sup> party platforms
- Fully digital current account opening via vKYC with no document upload

#4 Portal Journeys

- Intuitive UI across all digital product journeys
- Persona-based personalized dashboards
- One-stop shop for all transaction banking requirements across cash, trade & FX

Impact

% digital payments transactions via APIs\*

2x transaction volume

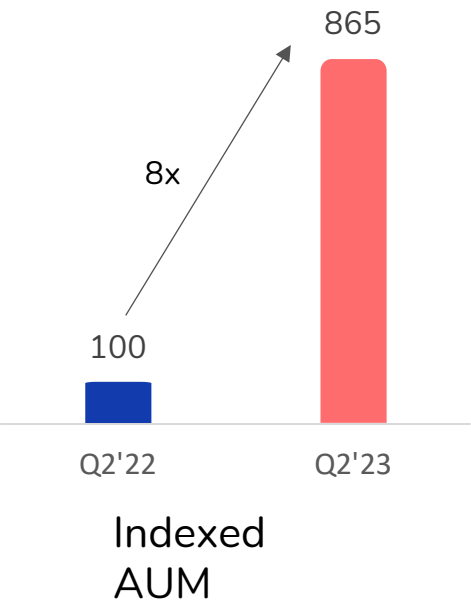
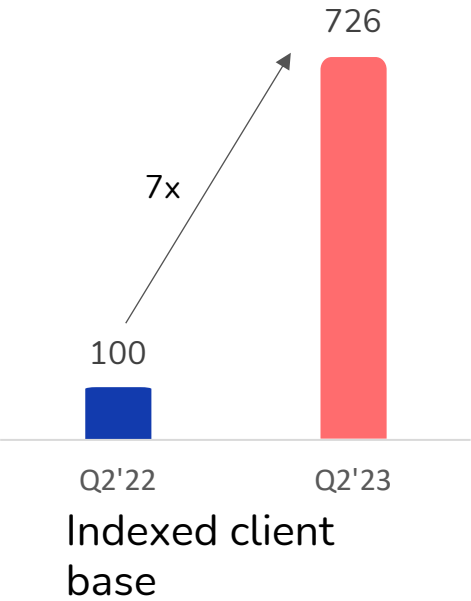
2.5x transaction value

2x customers onboarded

\*Note: YoY growth Dec’22 vs. Dec’21



# IndusInd Bank - Building partnership-led business models leveraging APIs

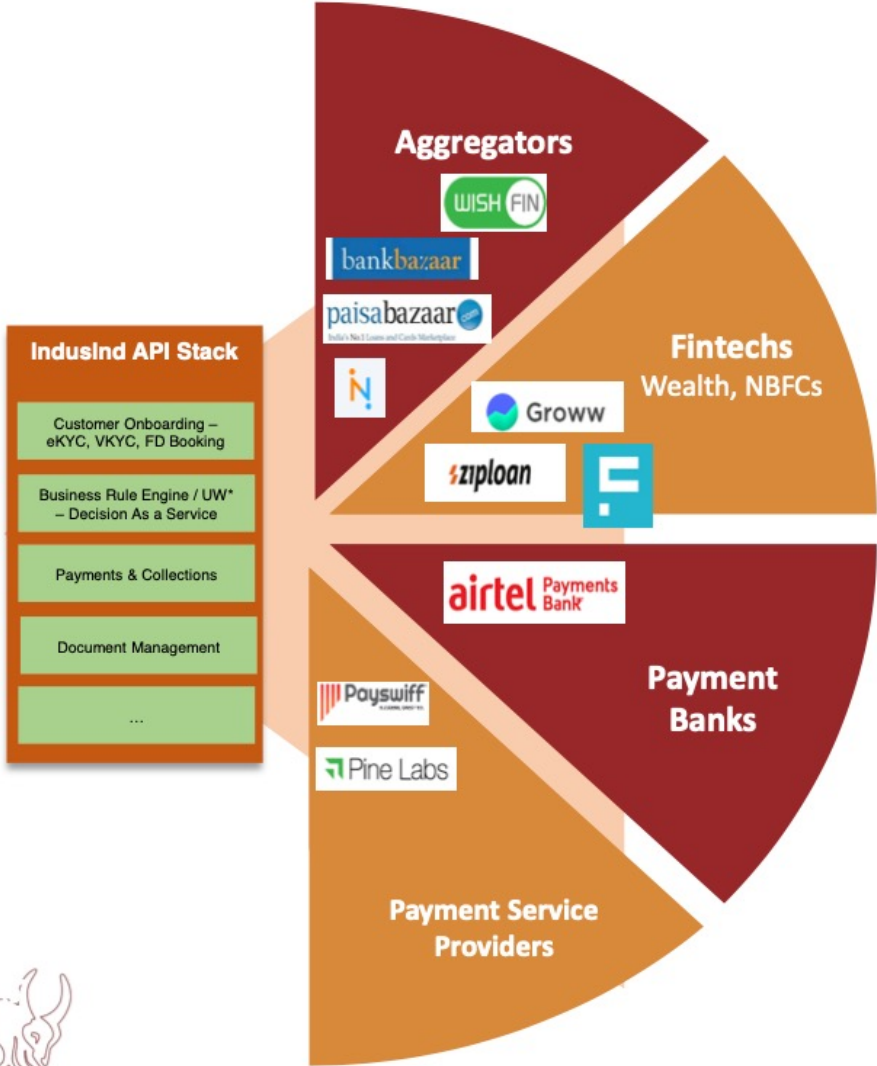


Partnership objectives:

- Co-create new products
- Acquire new clients at scale
- Offer enriched value propositions to clients

Robust governance framework:

- KYC
- Customer consent & data privacy
- Data localization
- Information security
- Digital lending guidelines
- Grievance Redressal
- Business continuity



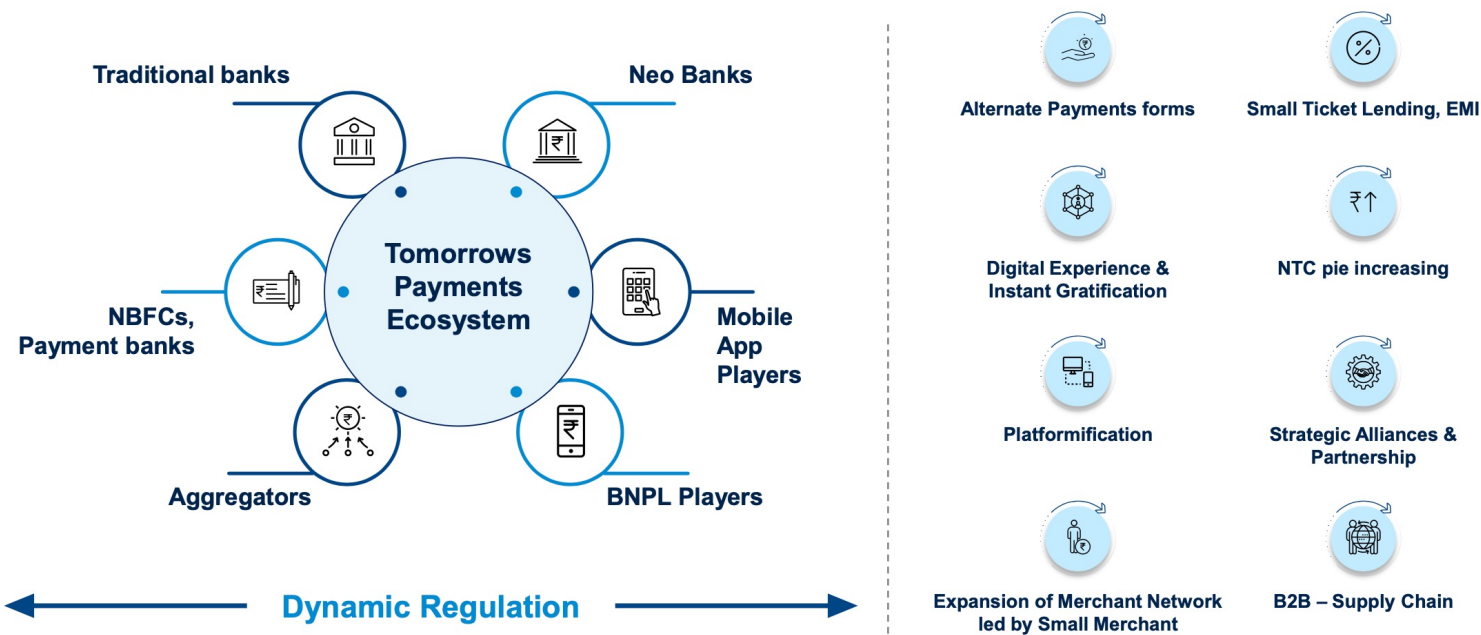


# HDFC Bank - Digital future readiness

To develop and offer **the best-in-class products and services**, HDFC has adopted a factory approach centred on the innovation of intellectual properties. Furthermore, the bank is set to **improve its average customer uptime** and **enhance the anywhere banking experience**. To help achieve this, the bank is investing in core technology transformation to strengthen its tech foundations and infrastructure security and resilience.

HDFC has **1,400+** internal APIs with **70%** growth in published partner APIs in the last two years. The API transformation program is designed to enhance API orchestration.

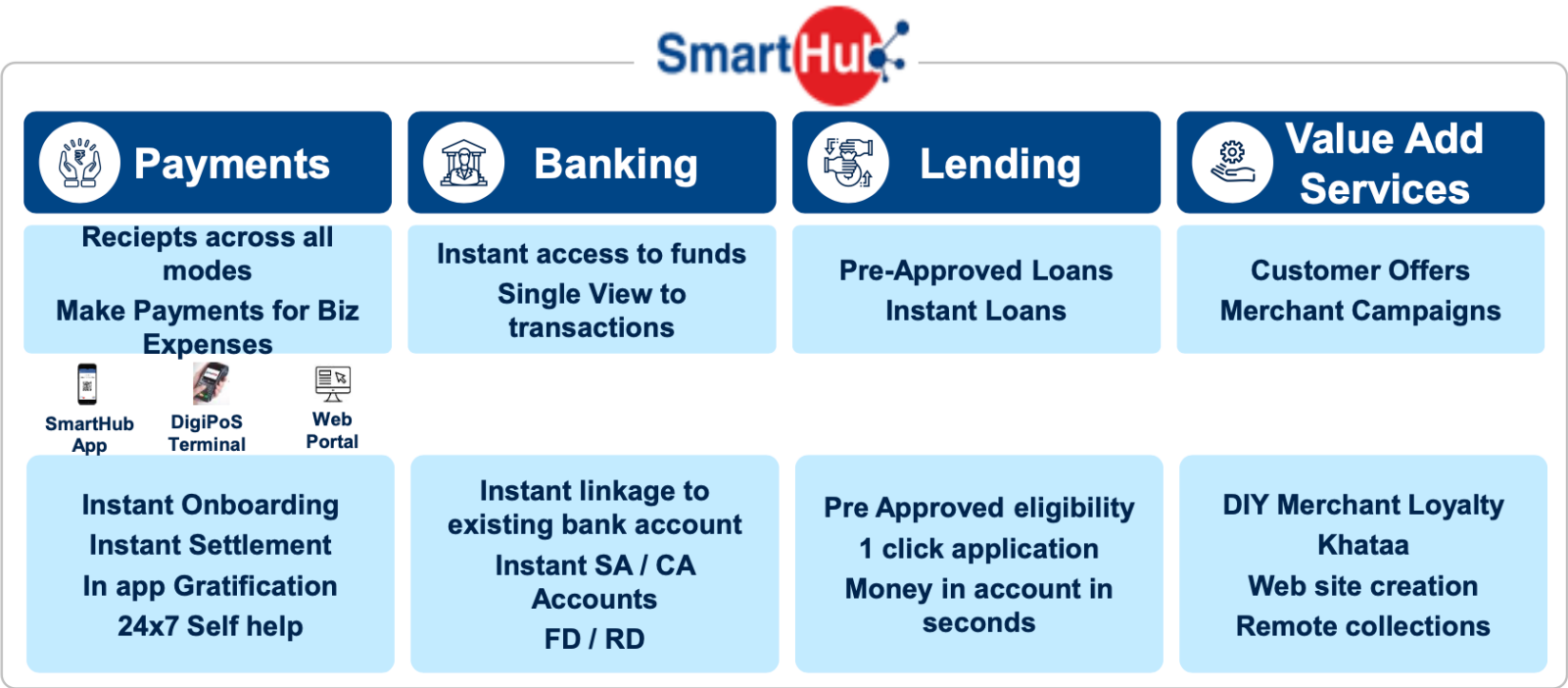
Increased competition is leading to diverse opportunities for HDFC Bank in payments:



# HDFC Bank – Digital future readiness

SmartHub Vyapaar 2.0 – Integrated mobile merchant ecosystem:

1. A **one-stop digital** banking solution for SMEs designed to provide SMEs with a range of financial services and digital tools to help manage their businesses efficiently.
2. Allows the SME to deal with all the financial products in one app.



# ICT priorities for Indian Banks

1. **Strengthening technology foundation and core modernisation** – Banks are updating their legacy systems and other critical IT structure by adopting a cloud-first, cloud-native approach for all customer touchpoints.
  - Implementing hybrid landing zones to support a multi-cloud architecture
  - Formulating ecosystems powered by partnerships with other financial and non-financial institutions and fintechs to generate new revenue streams and reach a wider target audience.
2. **Resiliency and cybersecurity** – The rise in digital and online banking has made cybersecurity a priority for Indian banks. Banks are implementing advanced security measures like:
  - AIML-based security and monitoring tools for application and network ecosystems to identify potential liquidity and market risks and security breaches
  - Automation in disaster recovery (DR) resiliency to reduce recovery time objective (RTO)
3. **Leveraging data analytics** – Indian banks are leveraging data analytics in various ways:
  - Customer analytics for better customer insights and personalisation
  - Personalised engine utilised to implement multi-dimensional recommendations based on customer attributes
  - Automated decision-making models to reduce the turnaround time
    - Automated loan processing with predetermined creditworthiness levels can reject applicants which do not meet the bank's minimum credit criteria



Biggest challenges for Indian Banks

# Declining Net Interest Margins and rising OPEX are putting pressure on the profitability of Indian Banks



#1

## Declining Net Interest Margins

- Repo rate hikes by the Reserve Bank of India have fully transmitted to home loans
- Asset-liability mismatch caused by slow deposit growth and aggressive credit climb builds pressure on the NIM
- The repo rate hike seems to have peaked and any reduction in this rate will lead to a simultaneous reduction in the interest rates of loans
- To keep loans unimpaired, banks have already stretched home loan tenures to keep the EMIs intact



#2

## Rising operating costs

- The operating costs for Indian banks have risen from an average of USD 2.26 Bn in 2018 to USD 3.81 Bn in 2022 resulting in an annual increase of 15.27%
- Branch expansion plans are the primary drivers of the increasing costs
  - Indian private-sector banks have recently increased their branch network from 14,893 in 2021 to 16,189 in 2022
  - HDFC is planning to double its branch network over the next three to five years adding 1,500 to 2,000 branches annually

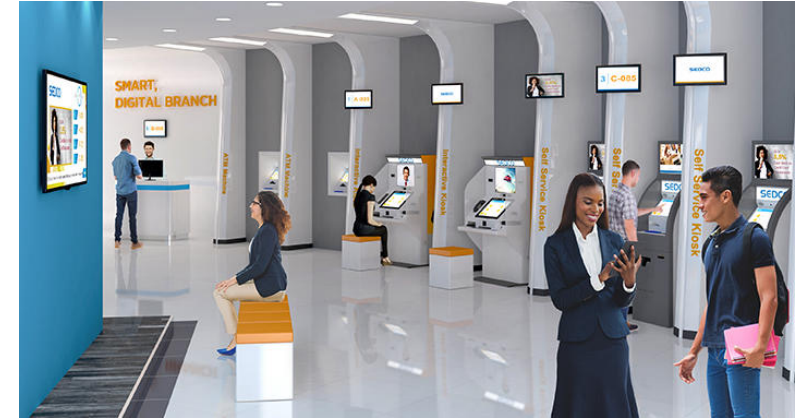


## Growth Opportunities for Indian Banks

- Enhancement of the branch network
- Establishing partnerships for new revenue streams
- Potential to increase revenues

# #1 Enhancement of the branch network

- Indian banks are **expanding** their branch network **contrary** to the expectation that digitalization would prevent the need for physical branches
- Private sector banks **added 1,296 branches** in 2022, with HDFC and Axis Bank accounting for an addition of 734 and 164 branches, respectively
- The private sector banks are adopting an **omnichannel** sales model with investments in both branches and technology



\*A flagship digitalized branch with smart self-service kiosks and in-branch advisors

## Analyst recommendation

Banks in India should follow **Bendigo's** approach of closing branches with low footfall and consolidating branches within close proximity into a flagship digitalized branch



# #1 Enhancement of the branch network

- Indian private sector banks **lack presence** in rural locations despite their aggressive branch expansion
  - HDFC is planning to **double** its branch network in the next 3 to 5 years
  - DBS-owned Lakshmi Vilas Bank is planning to **expand** to smaller cities currently dominated by state-owned banks
  - Kotak Mahindra Bank aims to grow its digital footprint and offer the human touch

## Analyst recommendation

Banks should also migrate over-the-counter services to digital self-service kiosks the way **OCBC** and **HLB** did with their next-gen ATMs and in-branch tablets allowing customers to do basic banking functions



\*A next-gen OCBC ATM which helped the bank migrate 31% of its over-the-counter services

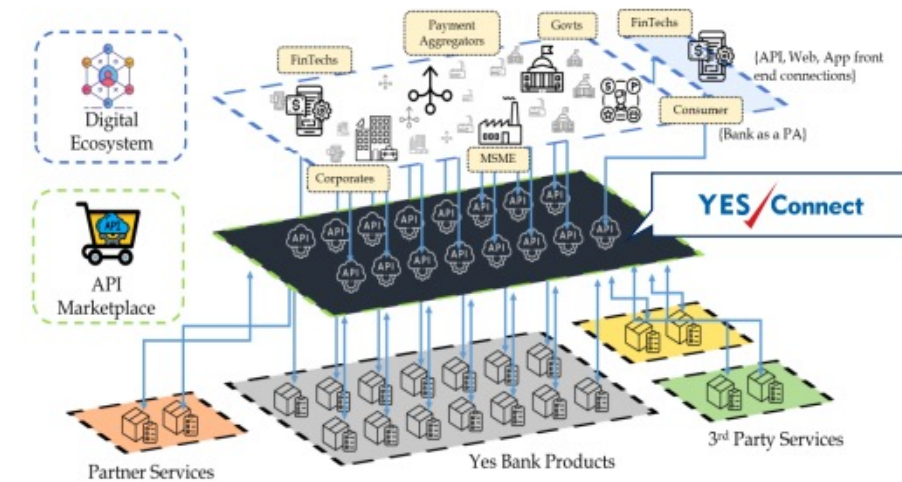


## #2 Establishing partnerships for new revenue streams

- Fee-based income is **limited** to general **banking services** and **commissions** for most Indian banks. However, banks like Yes Bank and Federal Bank have created ecosystems to generate revenue through partnerships.
- **Yes Bank** has an expansive API ecosystem of **450+ APIs** and **30+ fintech** partnerships with 15 more partnerships in the pipeline. The bank is taking a one-bank approach and leveraging its strengths of existing digital assets.

### Analyst recommendation

Other Indian banks should establish ecosystems and partnerships to **diversify** their revenue streams and **eliminate their dependence** on interest income as their primary source of income. This is because interest income tends to become erratic since it fluctuates with interest rates.



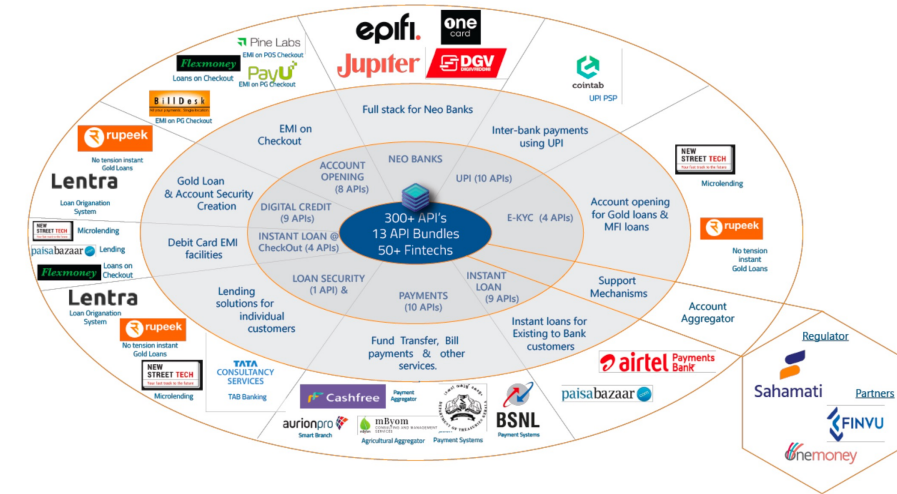
\*Yes Bank's API infrastructure

## #2 Establishing partnerships for new revenue streams

- Federal Bank has a fintech landscape comprising 300+ APIs offered to 50+ fintech in 13 bundles
- Ecosystems are efficient for banks to monetise their internal capabilities and partner with third-party providers
- Partnerships allow banks to disaggregate and securely market their products and services to the customer base of their partners and tap into new revenue streams

### Analyst recommendation

Indian banks can also follow CommBank's approach of partnering with Backr that helped provide small business owners with links and APIs to various jobs and services



\*Federal Bank's fintech landscape

## #3 Potential to increase revenues

- Bank **credit is growing** at 15% per annum in 2023, riding on economic recovery and improving asset quality
- The push for better government infrastructure and higher working capital demands have incentivized banks to expand their lending portfolio
- The RBI has **suspended** the increase in repo rate in May 2022
- The retail loan momentum expects to continue for another **2 quarters** and grow as the demand for home loans stays robust despite rising interest rates
- The MSME segment is expected to **grow** due to the government's "Atmanirbhar Bharat" initiative and the Productivity Linked Incentive Scheme
- Corporate credit which makes up 45% of the overall credit is expected to **grow** at an annual average rate of 11% till March 2024.
  - It will be driven by additional working capital requirements due to high inflation and a move from bond markets to bank loans due to interest rate movements

### #3 Potential to increase revenues

- Indian banks performed incredibly well, **striking amazing results** in 2022 and are expected to **propel further** in 2023
- The NPAs are expected to **decrease** to around **5%** in 2023 and **4%** in 2024
- To enjoy earnings generated from loans, banks need to **keep an eye** on deposits which are **lagging behind** due to low interest and a lack of incentive for consumers to save



NPAs are at a  
seven-year low  
of 5.9%



Credit is  
expected to grow  
at 15% in 2023



Retail loans are  
expected to grow  
at 18%



The MSME  
segment is  
expected to grow  
at 17%



Corporate credit  
is expected to  
grow at 11%



We help build and grow  
**purpose-driven businesses**

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