

Indian states banking barometer series #1: Tamil Nadu

We believe, along with pan-India banking trend analysis, regularly penning down bottoms-up analyses of state-specific trends would also be insightful. We are therefore launching 'Indian states banking barometer series', which would help investors and corporates keep a close tab on the sector as well as bank-specific trends (credit, deposit market share) and positioning in a particular state (credit segment offering opportunities, who is dominant, credit quality behaviour, etc). Indian financial landscape is diversified and heterogeneous across states with banks adopting differentiated strategies in varied markets.

This maiden note in the series deep-dives into the Tamil Nadu (TN) market, which commands 9% / 7% share in credit / deposits respectively. The state has a few distinct characteristics: i) is more credit-centric and further skewed towards agri and specific industry segments; regional banks/HDFCB are more prominent; ii) deposit profile is granular, but the state is not a active deposit mobilisation market (except home players); iii) regional banks dominate semi-urban markets; large banks focus on metros; FB/Bandhan are more active in urban markets.

- ▶ **Tamil Nadu (TN) – Credit-centric market; skewed towards agri and specific industries:** TN has been a relatively credit-centric market as reflected in: i) elevated credit to deposit (C/D) ratio at ~113% vs pan-India C/D ratio of 76%, ii) state credit to GDP ratio averages 56% (FY15-FY19) vs 53% at pan-India level. Credit is concentrated relatively more into the agri sector and specific industries (construction, textiles, food processing, vehicles). Credit-centric market is also demonstrated through high C/D ratio of >160% for Axis, IIB, FB, Ujjivan, Equitas, Bandhan, etc. Private banks are more aggressive in vehicle and credit card segments and are selectively tapping a few industry segments.
- ▶ **Regional banks, HDFCB more prominent in credit market; Equitas ramping up:** On further evaluation of TN credit market, regional banks (namely CUBK, KVB, FB) emerge more prominent. Amongst large private banks, HDFCB leads followed by Axis. Equitas is now consolidating its position in TN.
- ▶ **Despite granular deposit profile, state is not a very active deposit market except for home players:** TN's deposit profile is more granular as reflected in 68% of deposits flowing from household sector and average ticket size being 15-20% lower than the pan-India average. It is not a very active deposit market for large private banks (their TN share is less than pan-India). However, KVB and CUBK enjoy higher deposit concentration in TN, being the home market, and are actively ramping up their deposit market share (their C/D ratio is <70%). Similarly, for SBI and Kotak, TN is a more balanced between credit and deposit (110-120% C/D ratio). Federal Bank has scaled up credit well, yet needs to catch up on the deposit front in the state.
- ▶ **Regional banks dominate semi-urban markets; large private banks focus on metros; Federal/Bandhan more active in urban:** In TN, top two cities (Chennai, Coimbatore) constitute >50% credit/deposit. However, their presence (branches) is relatively higher in semi-urban and urban than metros. Interestingly, rural and semi-urban markets in TN are dominated by SBI, regional banks and SFBs. Metro markets are key focus areas for large private banks (CUBK and KVB are not far behind in branches). FB and Bandhan more active in urban markets.

Disclaimer – Data collected and used for analysis here is from RBI and SLBC (State Level Banker Committee) and has utility to depict state-wise trends. 'Indian States Banking Barometer' will be our periodic product to keep close tabs on state-specific trends.

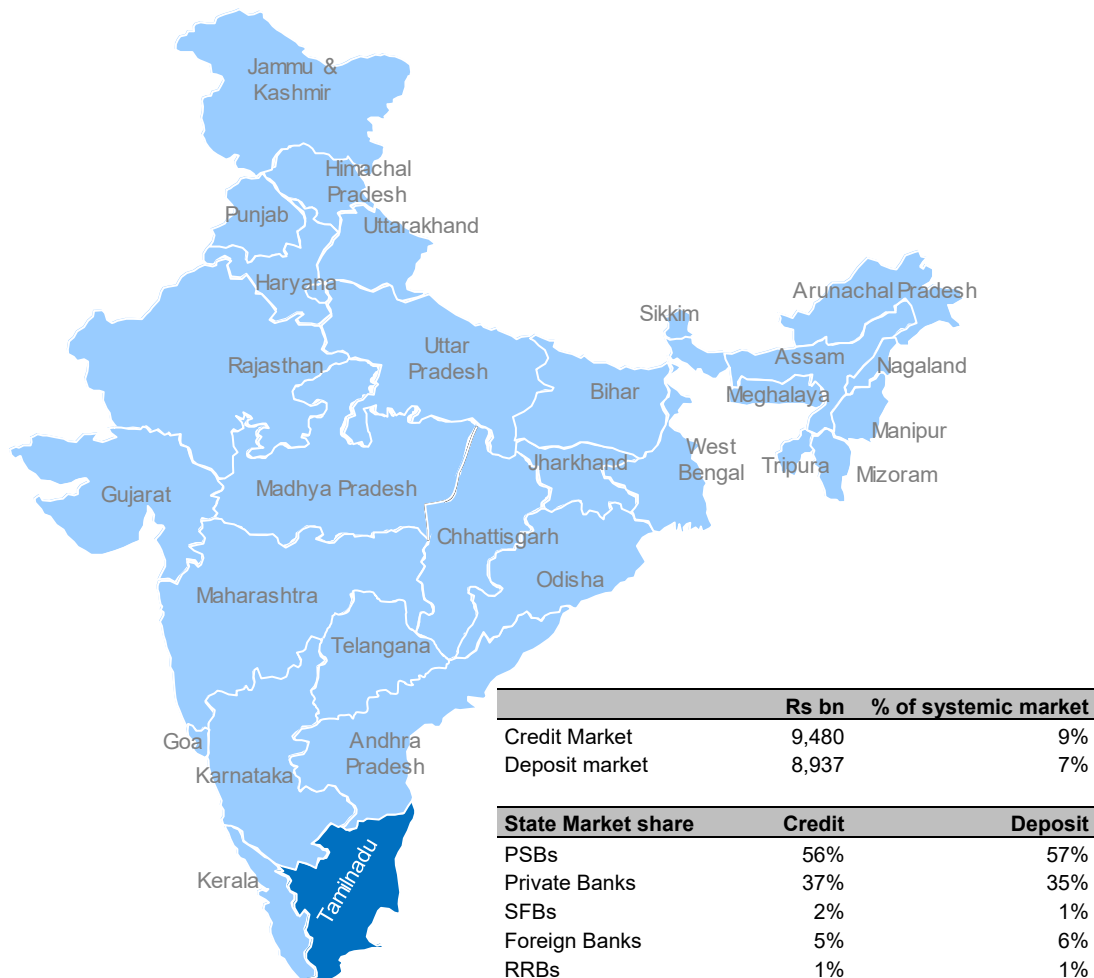
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Chart 1: Tamil Nadu market – commands 9% / 7% share in credit / deposits



Source: RBI, I-Sec research

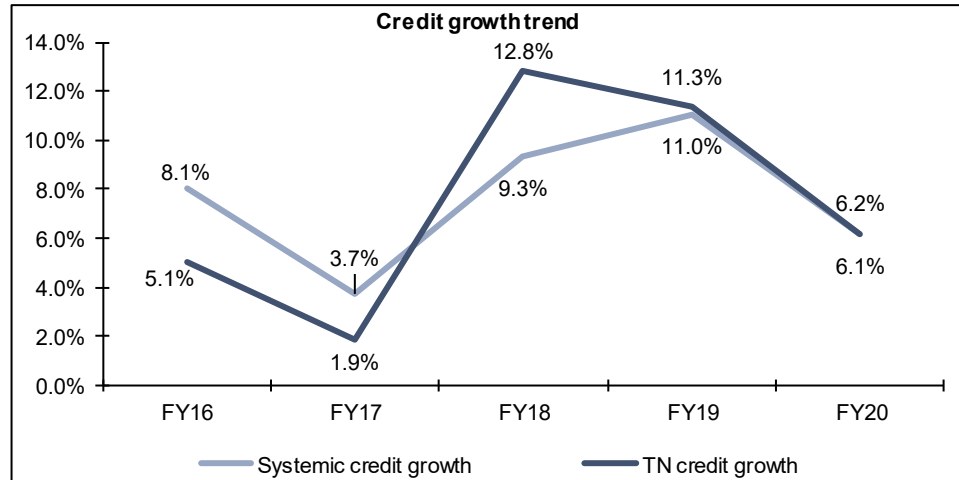
Table 1: Player-wise positioning in Tamil Nadu

	FY20 - Rs bn		C/D ratio FY20	% Market share		FY16-FY20 CAGR	
	Credit	Deposits		Credit	Deposits	Credit	Deposits
Large Private Banks							
Axis Bank	493	302	163%	5.3%	3.3%	24%	15%
HDFC Bank	936	697	134%	10.1%	7.5%	19%	21%
Kotak Mahindra Bank	143	106	135%	1.5%	1.1%	11%	11%
Indusind Bank	136	69	197%	1.5%	0.7%	20%	27%
Yes Bank	79	23	344%	0.9%	0.2%	24%	-14%
RBL Bank	43	36	119%	0.5%	0.4%	31%	32%
Bandhan Bank	13	4	349%	0.1%	0.0%	N/A	N/A
Mid sized Banks							
City Union Bank	213	325	66%	2.3%	3.5%	11%	12%
Karur Vysya Bank	228	343	67%	2.5%	3.7%	6%	7%
Federal bank	161	61	265%	1.7%	0.7%	26%	18%
South Indian Bank	124	81	154%	1.3%	0.9%	10%	9%
SBI	1,767	1,602	110%	19.0%	17.3%	8%	12%
Small Finance Bank							
Equitas SFB	82	29	283%	0.9%	0.3%	N/A	N/A
Ujjivan SFB	22	8	288%	0.2%	0.1%	N/A	N/A
Total - Tamil Nadu	9,280	8,407	110%			8%	9%

Source: Industry data, I-Sec research

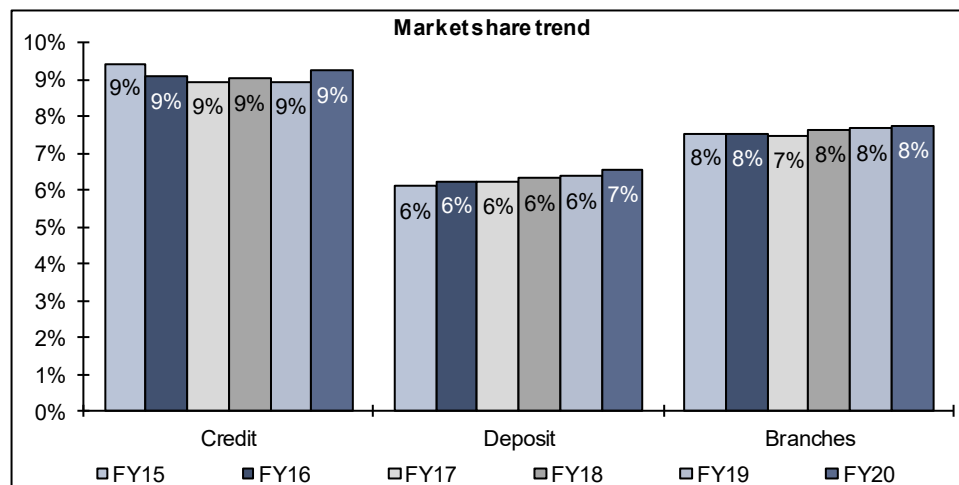
Tamil Nadu – A credit centric market

Chart 2: Tamil Nadu’s credit growth broadly mirrors pan-India growth



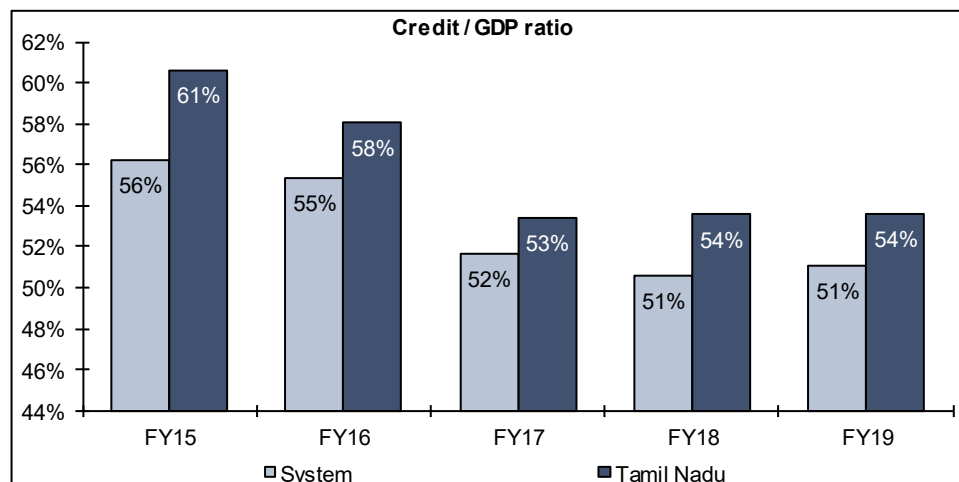
Source: Industry data, I-Sec research

Chart 3: Credit market share static; deposit market share gradually catching up



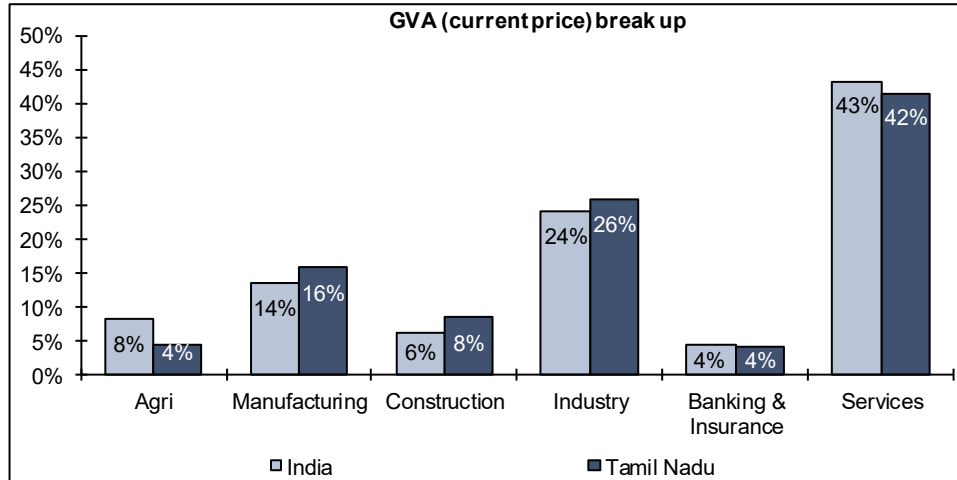
Source: RBI, I-Sec research

Chart 4: Credit-centric market with higher ‘credit to GDP’ multiplier



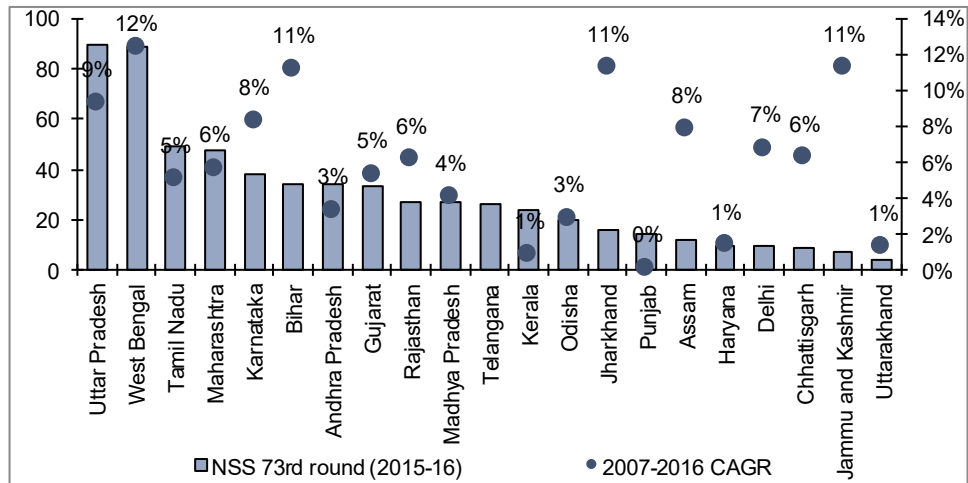
Source: RBI, I-Sec research

Chart 5: Industry, manufacturing, construction GVA higher than pan-India share



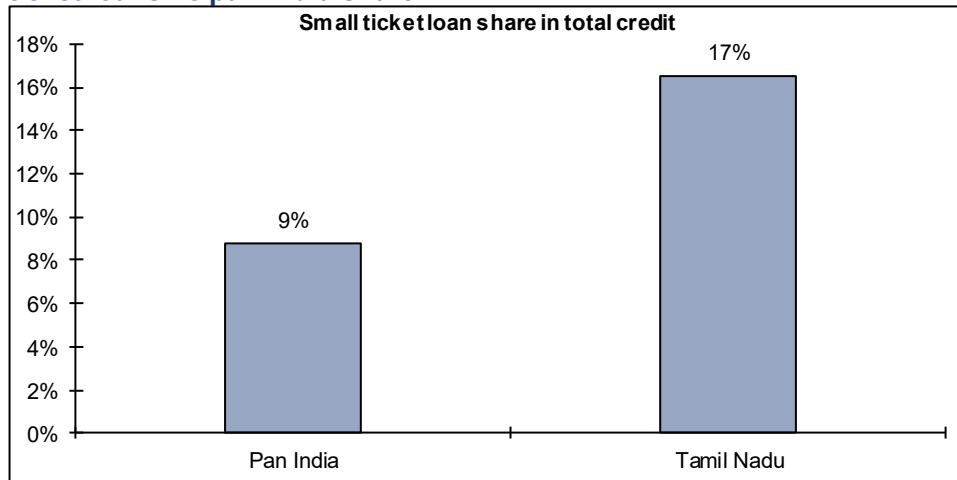
Source: RBI, I-Sec research
 Note – systemic GVA is derived as sum of all states. Data is as at FY19.

Chart 6: Tamil Nadu amongst top-3 states w.r.t. number of registered MSMEs



Source: RBI, I-Sec research

Chart 7: ...resulting in granular credit market as reflected in 2x share of small-ticket loans vs pan-India share



Source: RBI, I-Sec research

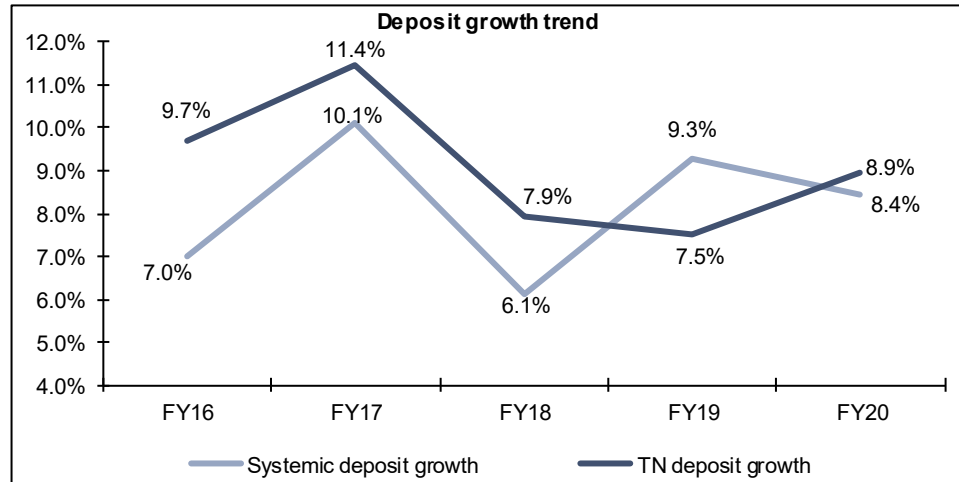
Table 2: Agriculture & specific industries credit highest contributor to the state credit; private banks more aggressive in vehicle and credit card segments, and are selectively tapping Industrial loans

Segment-wise Credit break up As on March'20	Pan India	Tamil Nadu	Bank-wise share				
			PSU	Foreign	Private	RRB	SFBs
Agriculture	13%	19%	68%	0%	24%	5%	2%
Industry	31%	26%	56%	8%	35%	0%	0%
<i>Food Manufacturing & Processing</i>	2%	2%	44%	6%	49%	0%	0%
<i>Textiles</i>	2%	4%	51%	2%	47%	0%	0%
<i>Gems and Jewellery</i>	1%	1%	46%	0%	53%		0%
<i>Basic Metals & Metal Products</i>	3%	1%	50%	12%	37%		0%
<i>Engineering</i>	2%	2%	43%	22%	35%		0%
<i>Vehicles, Vehicle Parts & Transport Equipments</i>	1%	2%	18%	32%	49%		0%
<i>Construction</i>	7%	5%	79%	2%	18%	0%	0%
Transport Operators	2%	2%	32%	3%	58%		7%
Professional And Other Services	8%	6%	40%	5%	51%		4%
Personal Loans	24%	24%	55%	3%	41%	1%	0%
<i>Housing</i>	13%	11%	63%	2%	34%	0%	0%
<i>Vehicles</i>	2%	2%	43%	0%	57%	0%	0%
<i>Personal Credit Cards</i>	1%	1%	0%	19%	81%		
Trade	10%	10%	48%	3%	46%	0%	3%
Finance	10%	11%	62%	9%	28%	1%	0%
Others	3%	2%	39%	6%	41%		14%

Source: RBI, I-Sec research

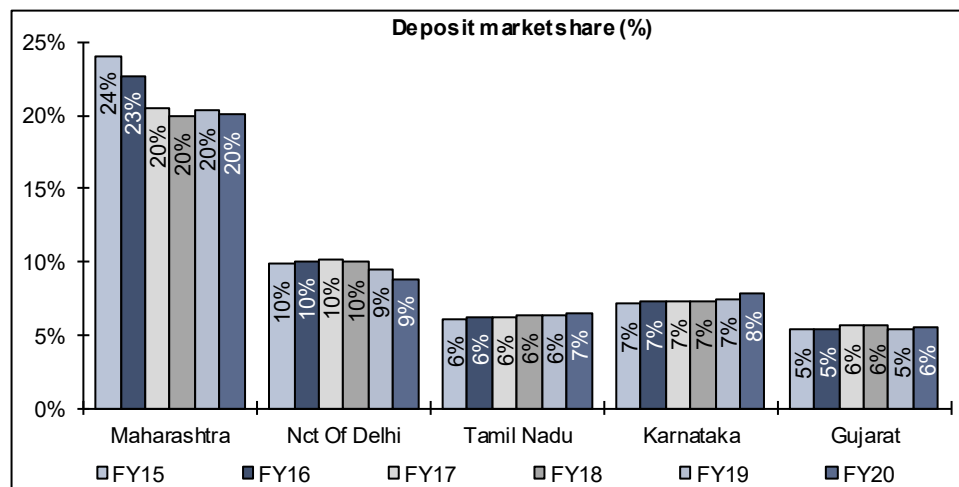
Tamil Nadu has granular deposit profile

Chart 8: Tamil Nadu’s deposit growth outpaces pan-India level



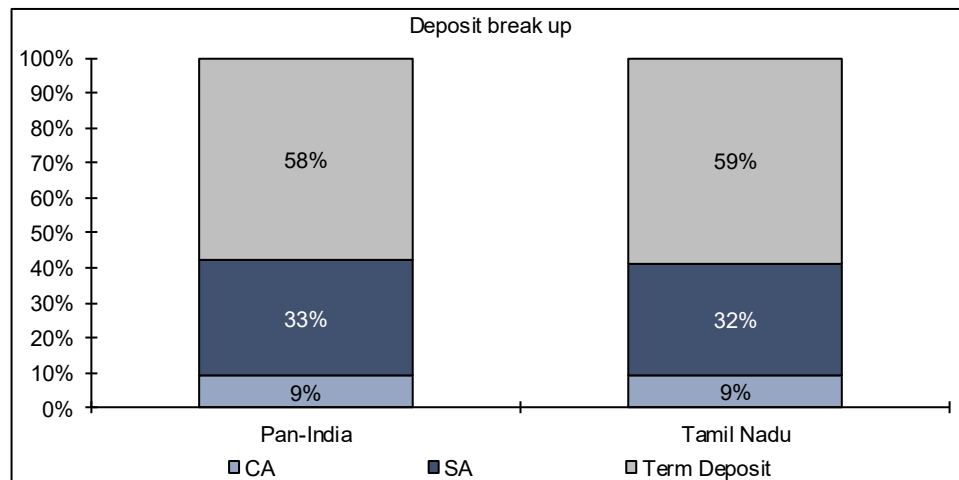
Source: Industry data, I-Sec research

Chart 9: Relative to other states, Tamil Nadu is doing better in deposit ramp-up



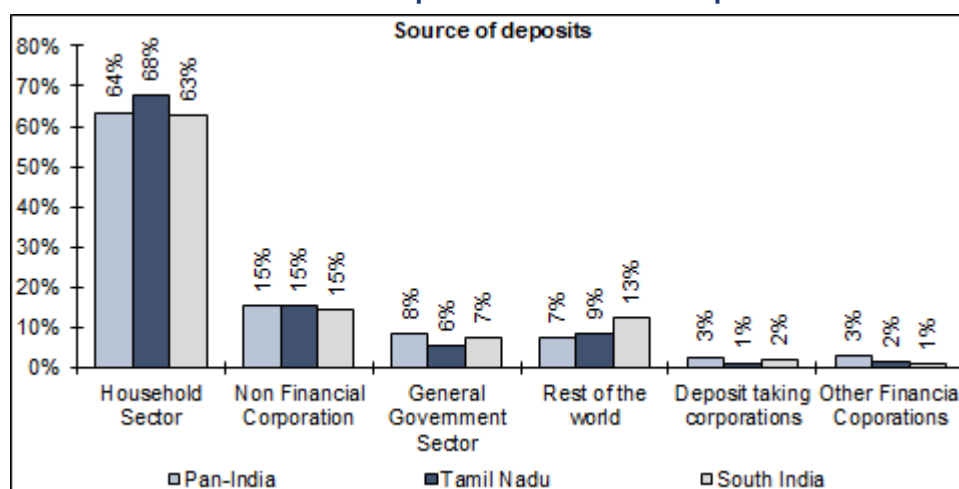
Source: RBI, I-Sec research

Chart 10: Deposit mix in Tamil Nadu broadly mirror pan-India mix



Source: RBI, I-Sec research

Chart 11: Deposit profile more granular with higher share of household segment while share of non-resident deposits is lower as compared to South India



Source: RBI, I-Sec research

Table 3: Average ticket size is 15-20% lower than pan-India level

Bank group	Current		Saving		Term Deposit		Total Deposit	
	Pan-India	Tamil Nadu	Pan-India	Tamil Nadu	Pan-India	Tamil Nadu	Pan-India	Tamil Nadu
Foreign banks	24,50,624	15,42,216	1,27,563	1,46,459	38,20,727	38,43,910	9,03,937	9,06,596
Private sector banks	2,44,459	1,51,361	49,252	31,340	4,63,393	3,27,970	1,28,943	86,229
Public sector banks	88,217	1,10,458	24,634	20,664	2,73,434	2,76,286	58,345	48,847
Small finance banks	81,253	25,572	7,610	4,145	2,46,495	88,403	39,605	17,945
Regional rural banks	30,968	46,718	9,893	6,865	1,23,290	1,58,388	17,474	23,793

Source: RBI, I-Sec research

Tamil Nadu: Metros command >50% credit/deposit share; branches more concentrated in semi-urban

Table 4: Metro markets dominate credit with ~54% share in total state loans...

Segment-wise credit break up As on March'20	Pan-India	Tamil Nadu	Bank-wise share			
			Rural	Semi urban	Urban	Metro
Agriculture	13%	19%	33%	45%	13%	9%
Industry	31%	26%	2%	11%	17%	71%
<i>Food Manufacturing & Processing</i>	2%	2%	5%	20%	22%	53%
<i>Textiles</i>	2%	4%	3%	23%	46%	28%
<i>Gems and Jewellery</i>	1%	1%	0%	2%	21%	76%
<i>Basic Metals & Metal Products</i>	3%	1%	2%	7%	14%	77%
<i>Engineering</i>	2%	2%	3%	9%	14%	74%
<i>Vehicles, Vehicle Parts & Transport Equipments</i>	1%	2%	0%	5%	8%	86%
<i>Construction</i>	7%	5%	1%	6%	8%	85%
Transport Operators	2%	2%	3%	20%	18%	59%
Professional And Other Services	8%	6%	3%	14%	16%	66%
Personal Loans	24%	24%	8%	27%	19%	46%
<i>Housing</i>	13%	11%	7%	27%	18%	48%
<i>Vehicles</i>	2%	2%	6%	26%	24%	44%
<i>Personal Credit Cards</i>	1%	1%	1%	10%	13%	76%
Trade	10%	10%	5%	17%	16%	62%
Finance	10%	11%	1%	2%	1%	96%
Others	3%	2%	4%	15%	14%	67%
Total Credit			10%	21%	15%	54%

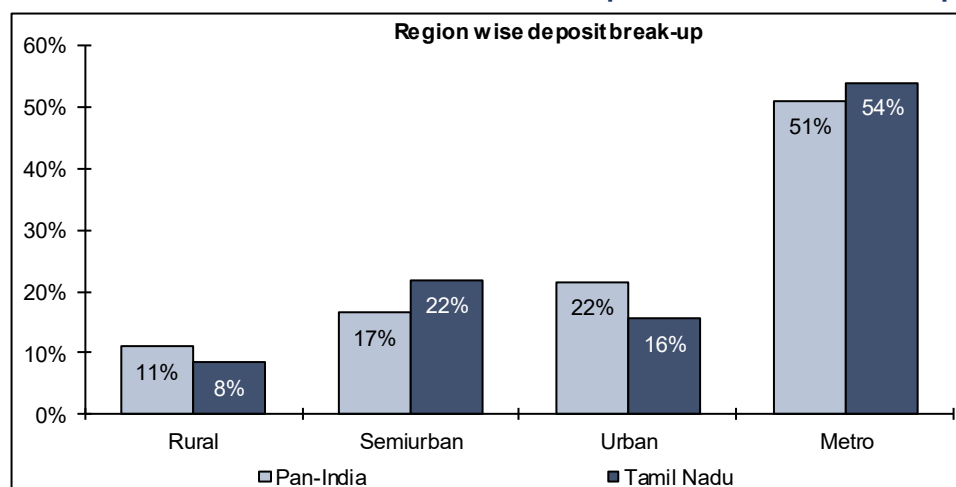
Source: RBI, I-Sec research

Table 5: ... as reflected in top two cities (Chennai, Coimbatore) contributing 53% to state credit

	FY20 - Rs bn		C/D ratio FY20	% share		FY16-FY20 CAGR	
	Credit	Deposits		Credit	Deposits	Credit	Deposits
Chennai	4,139	3,502	118%	45%	42%	6%	6%
Coimbatore	746	721	104%	8%	9%	8%	11%
Salem	378	419	90%	4%	5%	22%	31%
Tiruppur	331	205	161%	4%	2%	10%	11%
Madurai	283	289	98%	3%	3%	12%	12%

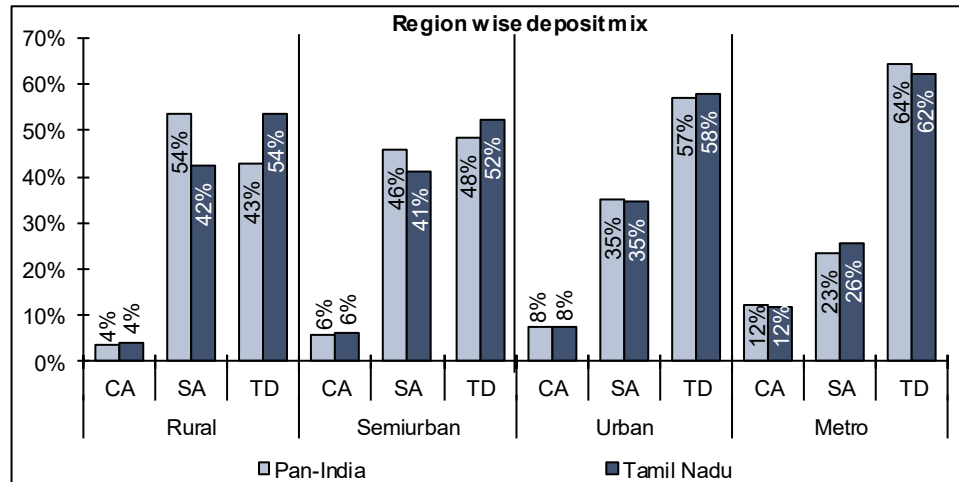
Source: Industry data, I-Sec research

Chart 12: Semi-urban & metro markets more penetrated in terms of deposits...



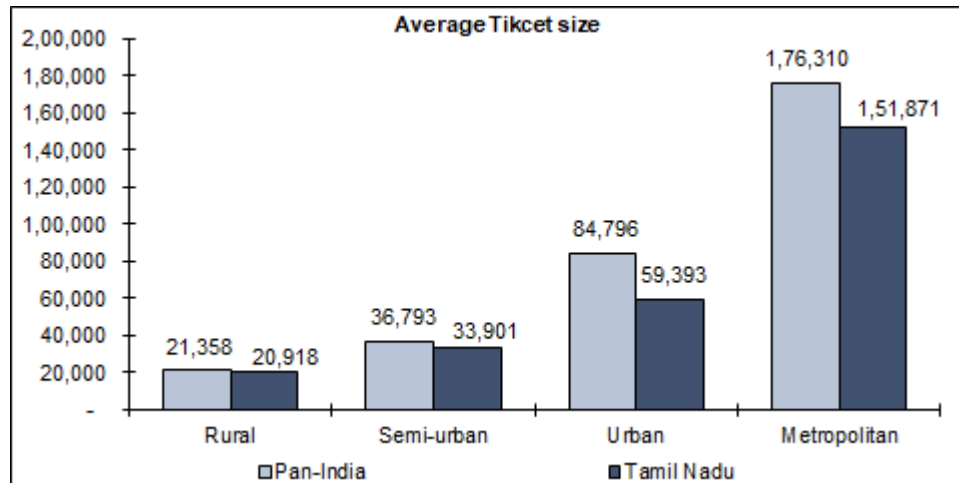
Source: RBI, I-Sec research

Chart 13: ... driven by higher TDs while metro market is driven by higher savings



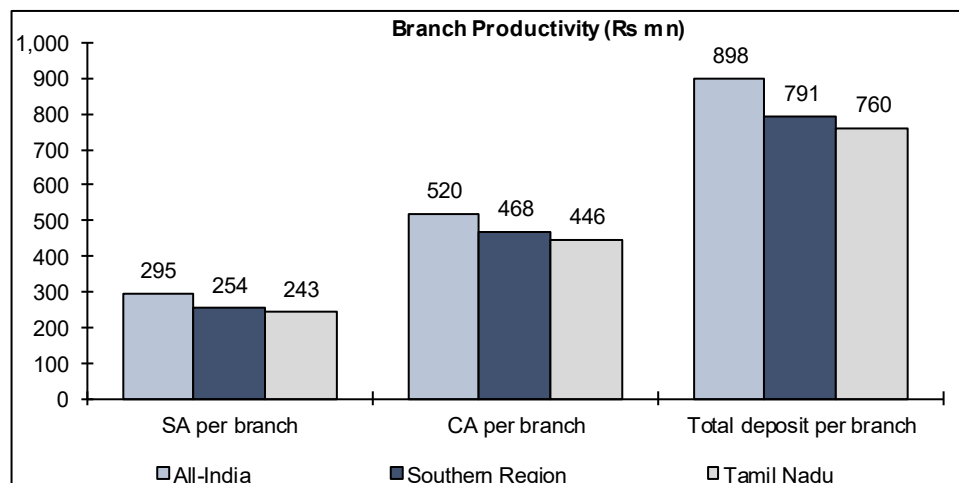
Source: RBI, I-Sec research

Chart 14: Granularity and household concentration reflects in lower ticket size



Source: RBI, I-Sec research

Chart 15: Lower ticket size also reflects in lower deposits per branch

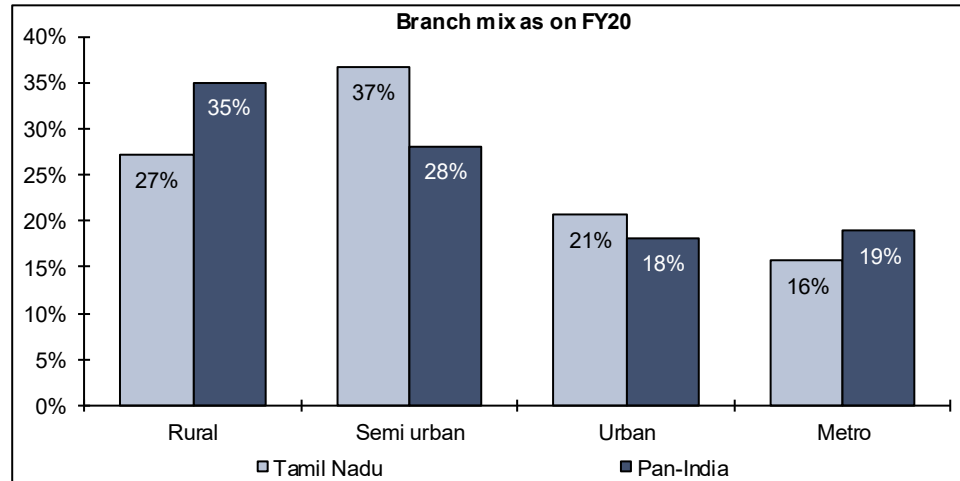


Source: RBI, I-Sec research

Chart 16: Branch penetration is relatively higher in semi-urban and urban than metros

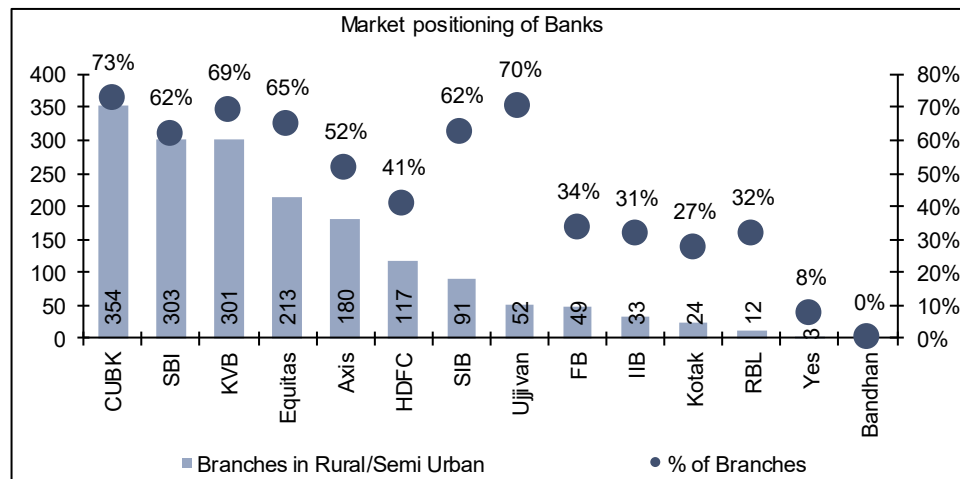
Rural and semi-urban markets are dominated by SBI, regional banks (CUBK, KVB, SIB), SFBs (Equitas, Ujjivan).

Within large private banks, Axis and HDFCB are relatively more active in semi-urban and rural markets.



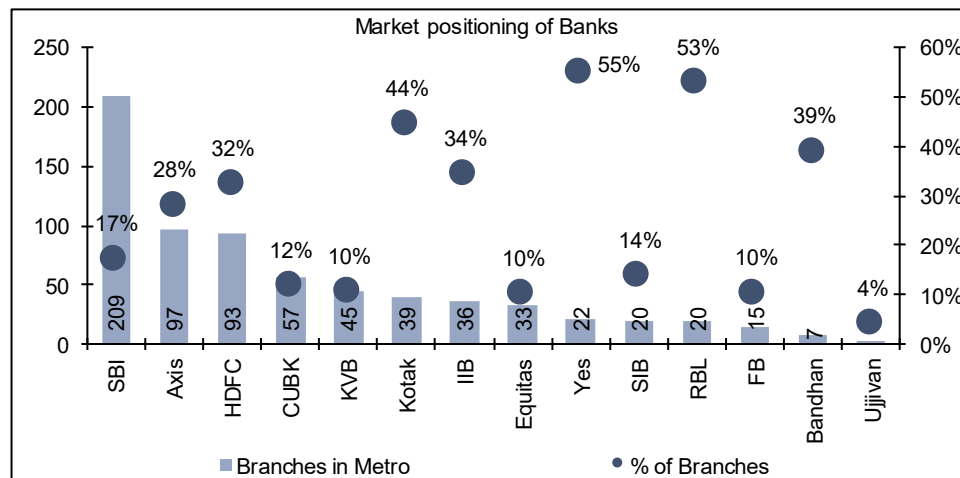
Source: Company, Industry data, I-Sec research

Chart 17: Rural and semi-urban markets dominated by SBI, regional banks and SFBs



Source: Company, Industry data, I-Sec research

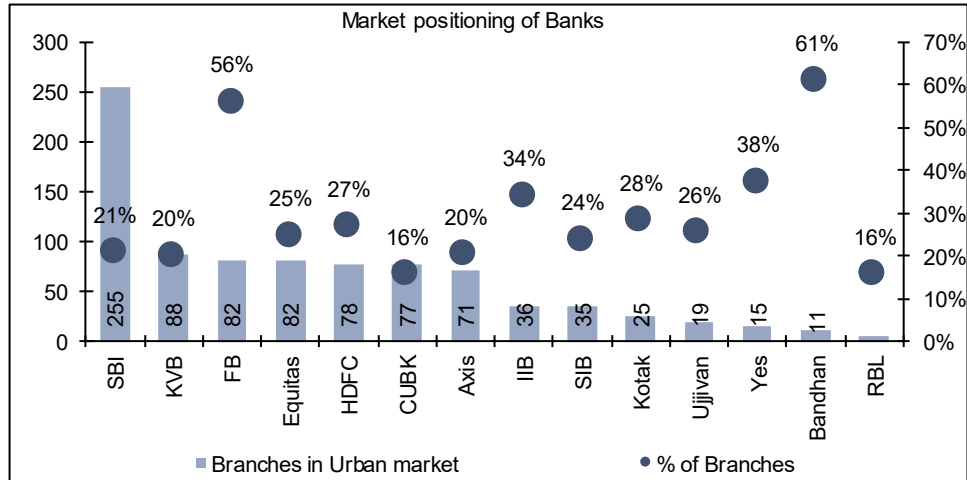
Chart 18: Metro markets are key focus areas for large private banks; CUBK and KVB not far behind in terms of number of branches



Source: Company, Industry data, I-Sec research

Chart 19: Federal and Bandhan are more active in urban markets

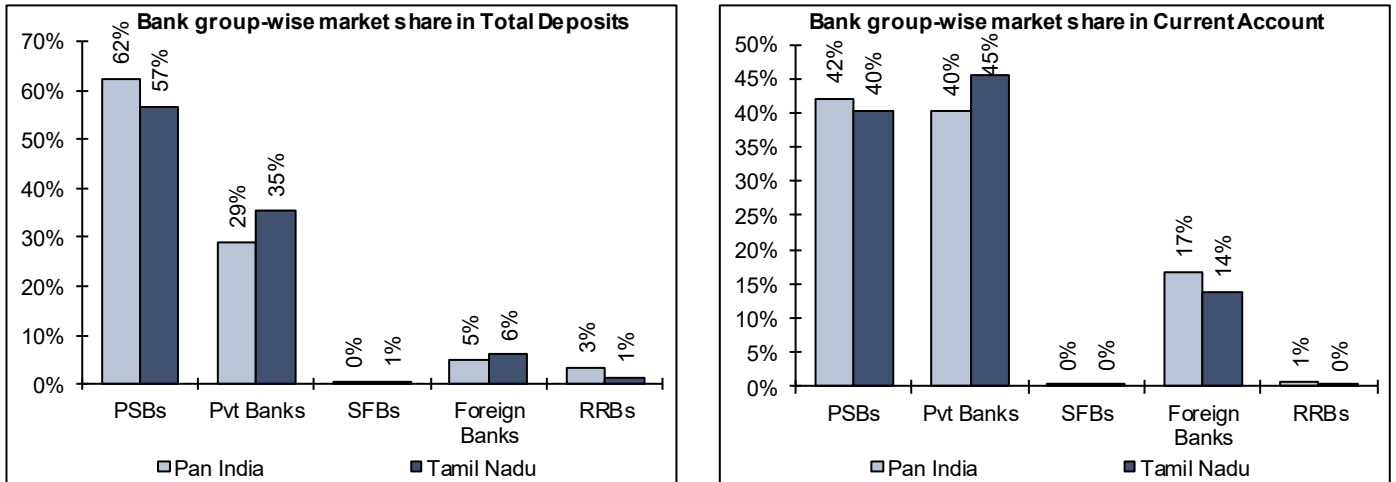
Federal Bank's presence (branches) in urban markets is even higher than that of large private banks. Bandhan, though high in terms of proportion of branches in urban markets, still lags in number of branches.



Source: Company, Industry data, I-Sec research

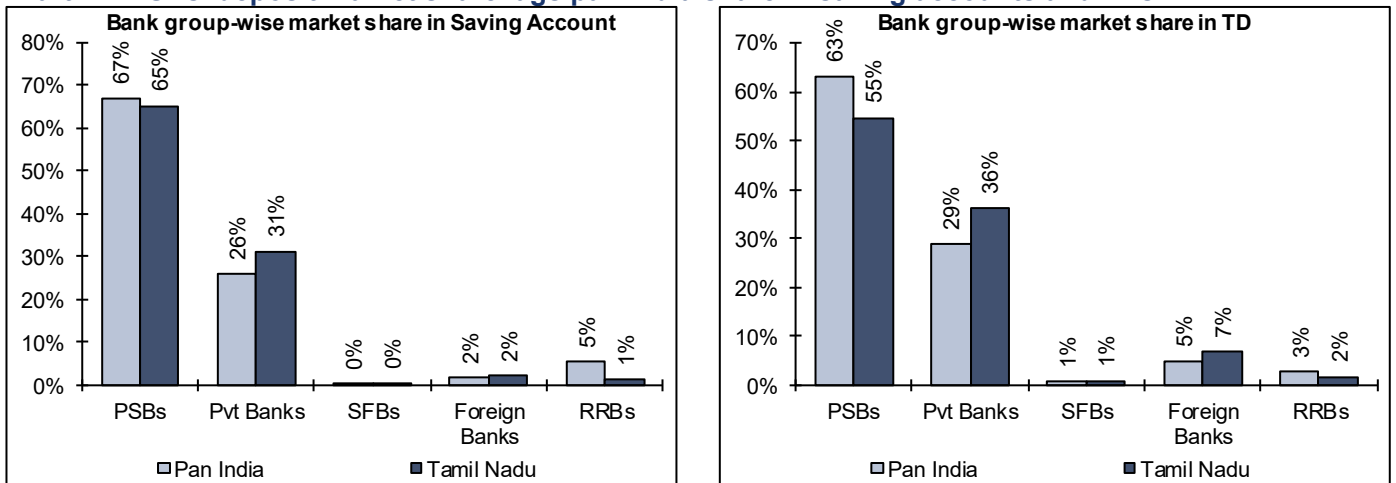
Tamil Nadu - Player-wise market analysis

Chart 20: Private banks enjoy higher deposit market share in Tamil Nadu across categories



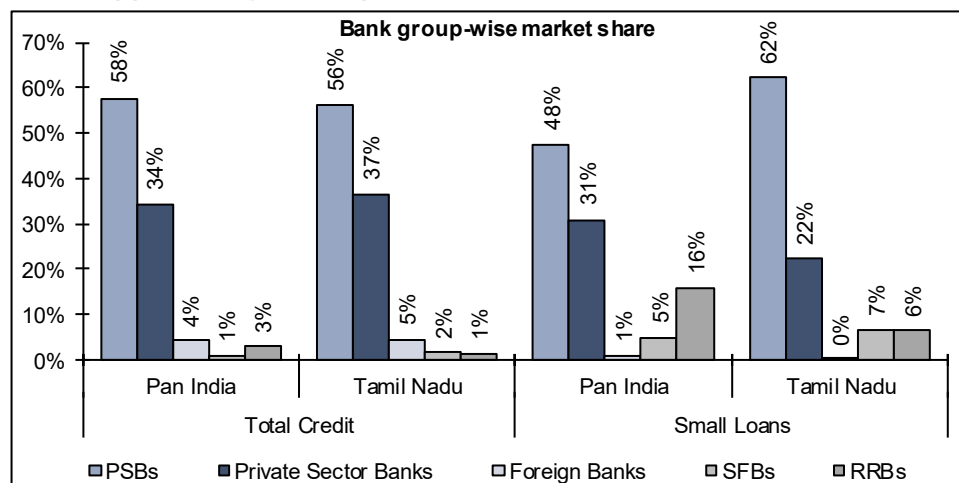
Source: RBI, I-Sec research

Chart 21: PSBs' deposit market share lags pan-India share in saving accounts and TDs



Source: RBI, I-Sec research

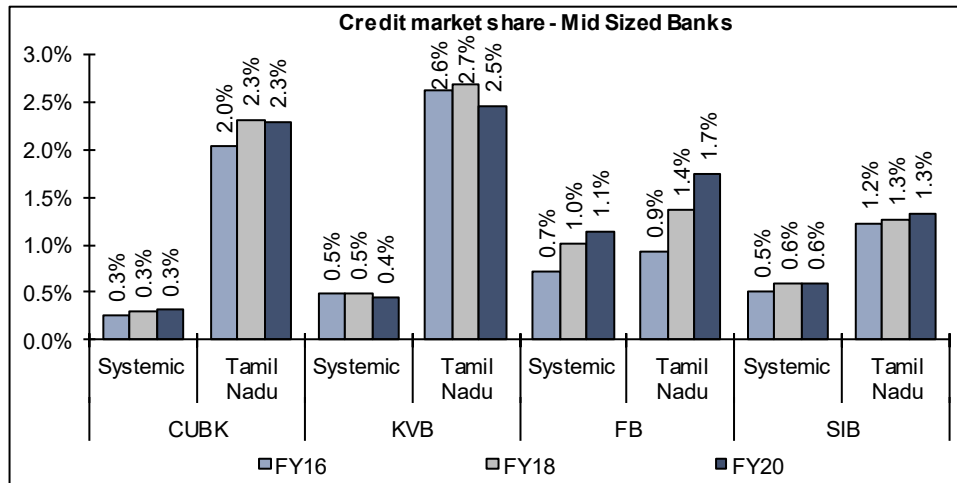
Chart 22: TN credit market fragmented similar to pan-India profile; SFBs and RRBs aggressively tapping small ticket loans



Source: RBI, I-Sec research

Credit market share in Tamil Nadu: CUBK (gradual ramp-up) and Federal (rapid), while other regional banks witnessed similar market share movement at state as well as pan-India level.

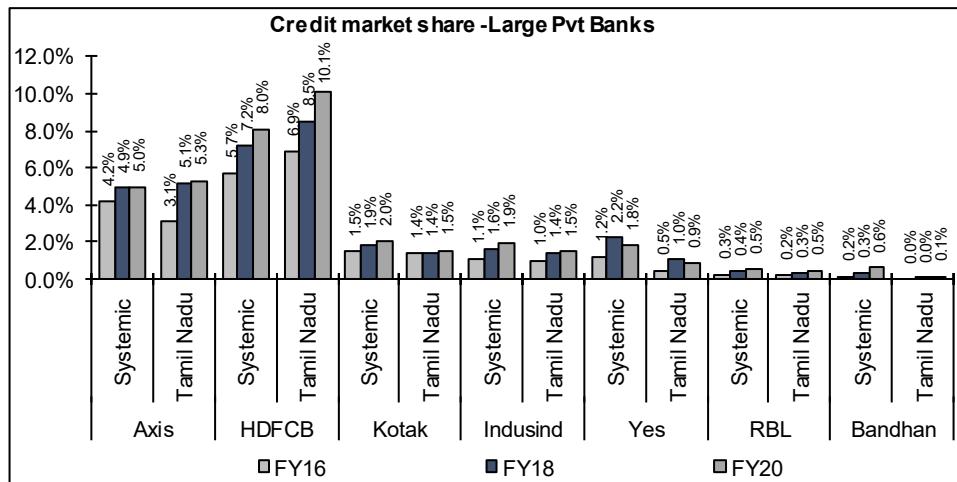
Chart 23: Regional banks more prominent in Tamil Nadu; Federal ramping up market share



Source: Company, Industry data, I-Sec research

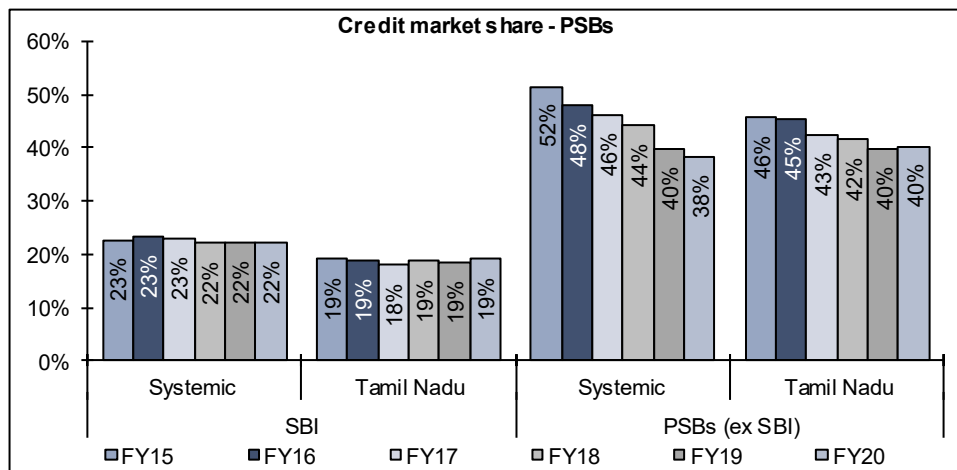
HDFCB is relatively more prominent: its credit market share in Tamil Nadu is higher than its pan-India share, followed by Axis Bank. Kotak's and Indusind's market share gain in TN lags their pan-India market share gain.

Chart 24: HDFCB more prominent, followed by Axis (higher TN share than pan-India)



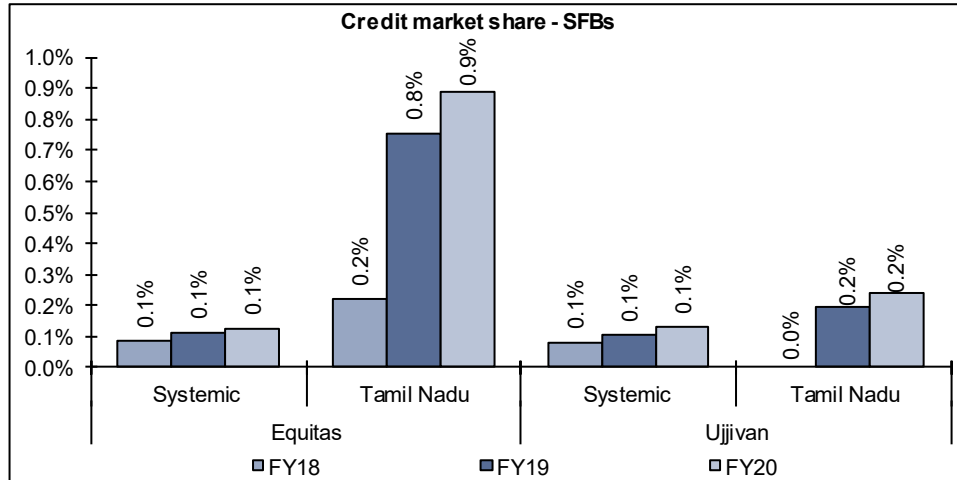
Source: Company, Industry data, I-Sec research

Chart 25: SBI's credit market share in Tamil Nadu is stable; PSBs are on a losing streak



Source: Company, Industry data, I-Sec research

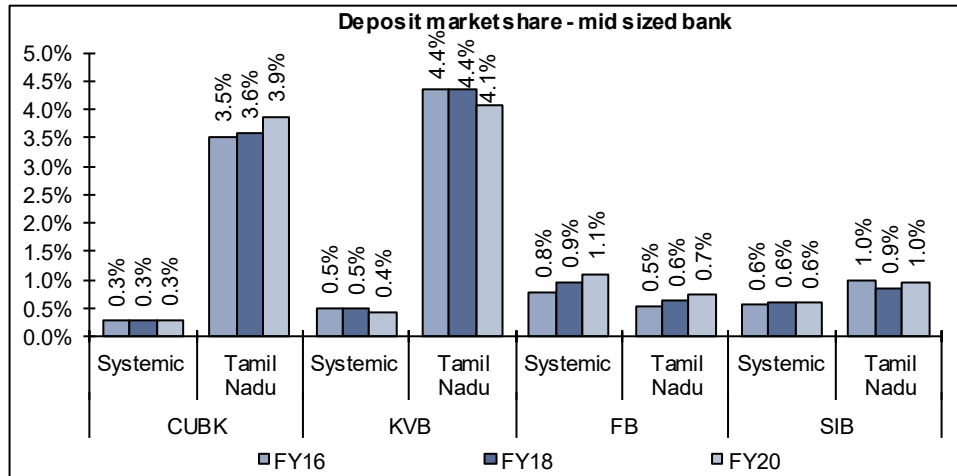
Chart 26: Equitas consolidating its position in Tamil Nadu



Source: Company, Industry data, I-Sec research

CUBK is steadily gaining market share in Tamil Nadu (despite its static share in pan-India deposits). FB, though prominent on credit front, lags its pan-India average as far as TN deposit market share goes. KVB is losing market share & SIB has broadly maintained the same in TN as well as systemic.

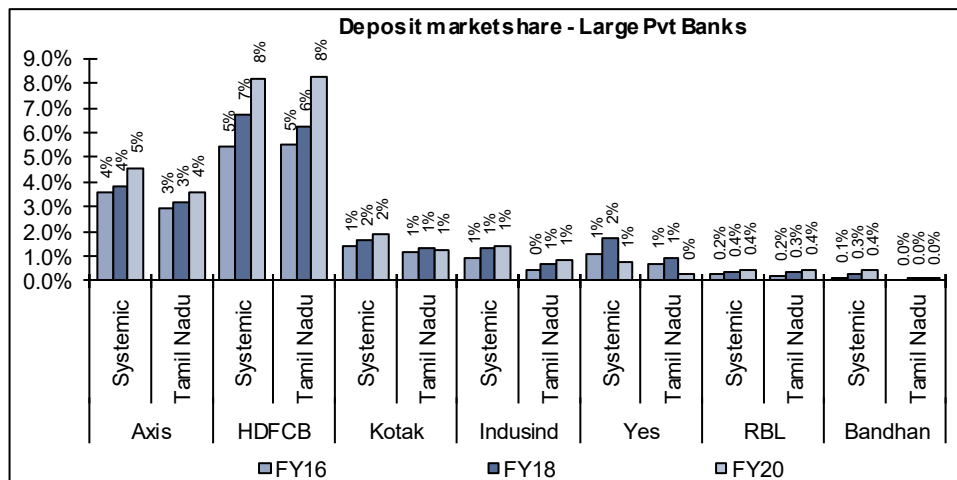
Chart 27: CUBK active in ramping up its deposit share; Federal still needs to catch up to its pan-India average (compared to credit)



Source: Company, Industry data, I-Sec research

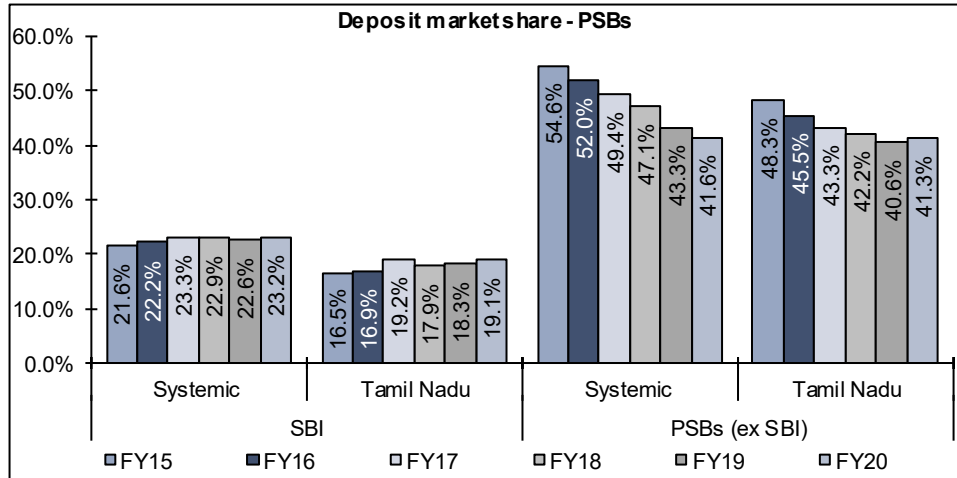
Axis Bank, HDFCB and Indusind Bank are gaining deposit market share in Tamil Nadu – mirroring their trend at pan-India level; Kotak and Bandhan are relatively less active in ramping up deposit share in the state (and their gains in pan-India market share is flowing from other states).

Chart 28: For private banks, TN does not seem a very active deposit market (its state market share is equal to its pan-India market share)...



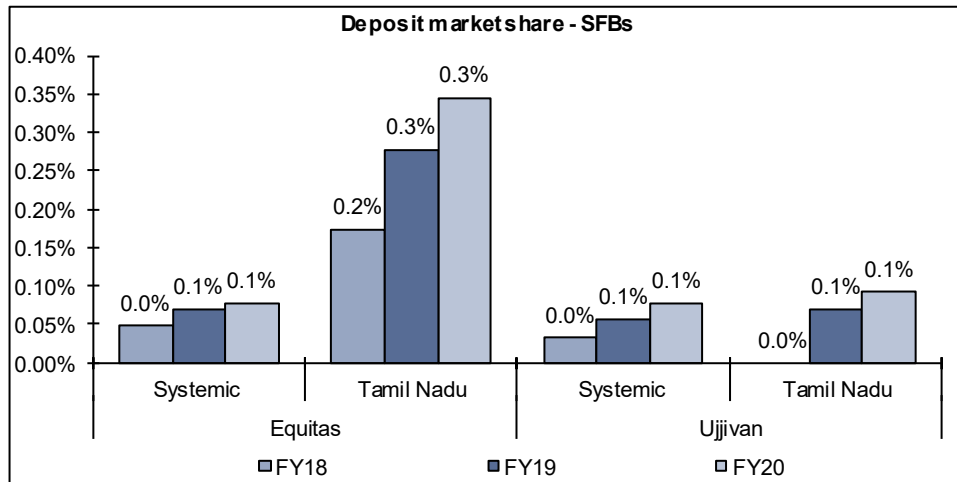
Source: Company, Industry data, I-Sec research

Chart 29: ...similar trends for SBI and PSBs deposit market share in TN



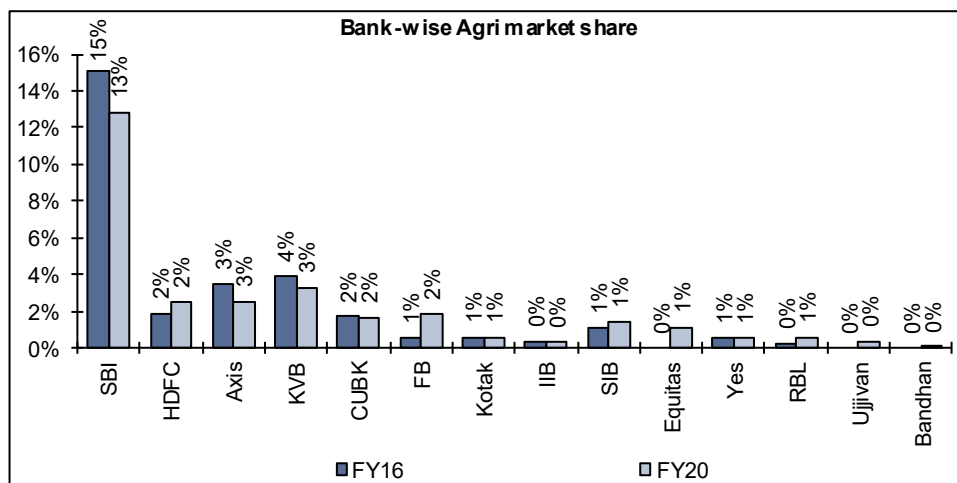
Source: Company, Industry data, I-Sec research

Chart 30: Equitas, though strengthening its TN deposit base, lags credit ramp-up



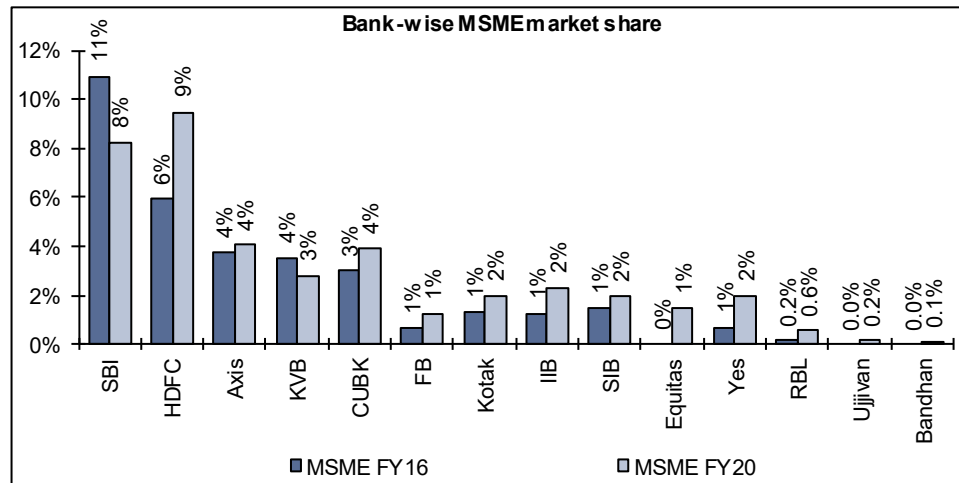
Source: Company, Industry data, I-Sec research

Chart 31: Private banks not active w.r.t agri loans in TN; KVB, FB, Equitas still steady due to agri gold loans



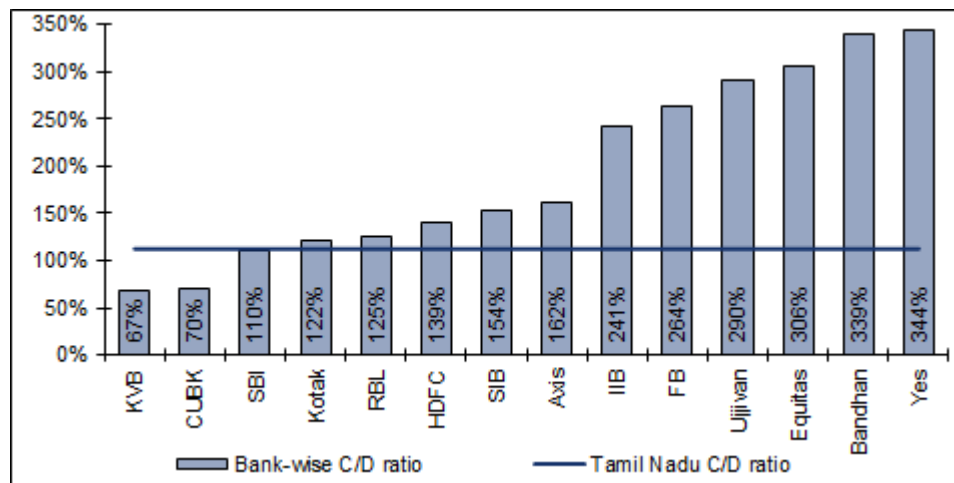
Source: Company, Industry data, I-Sec research

Chart 32: Market share in priority sector MSMEs for most banks is improving, except SBI



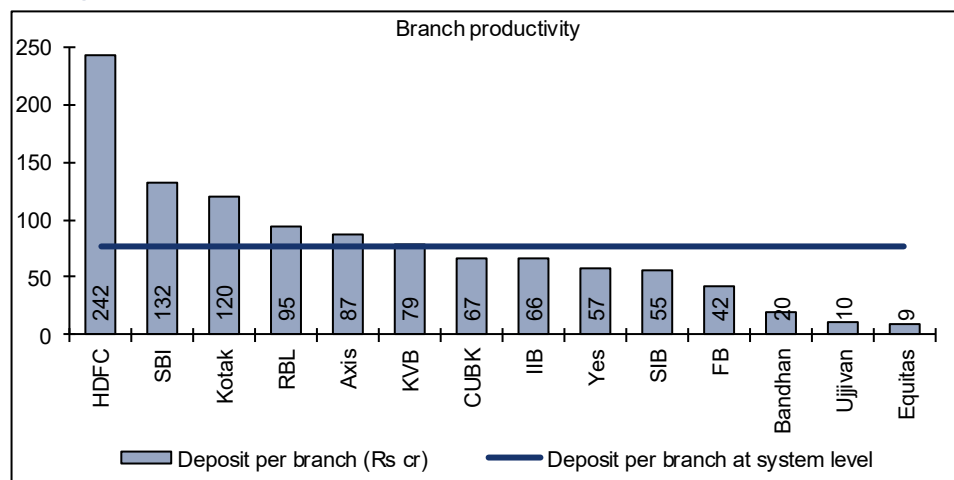
Source: Company, Industry data, I-Sec research

Chart 33: Tamil Nadu more of a credit-centric market (C/D >160%) for Axis, IIB, FB, Ujjivan, Equitas, Bandhan, etc.



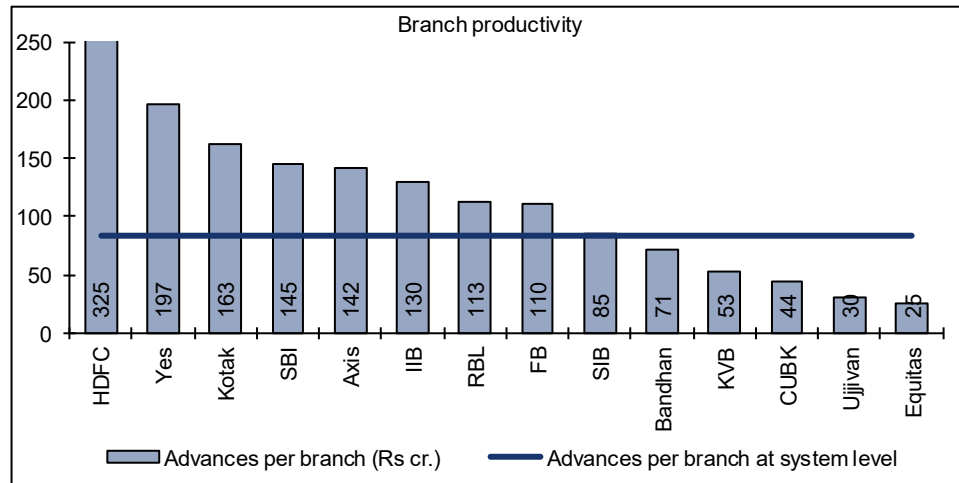
Source: Company, Industry data, I-Sec research

Chart 34: HDFCB / SBI / Kotak enjoy superior branch productivity; given lower vintage, scope to further ramp up exists for Federal and Bandhan



Source: Company, Industry data, I-Sec research

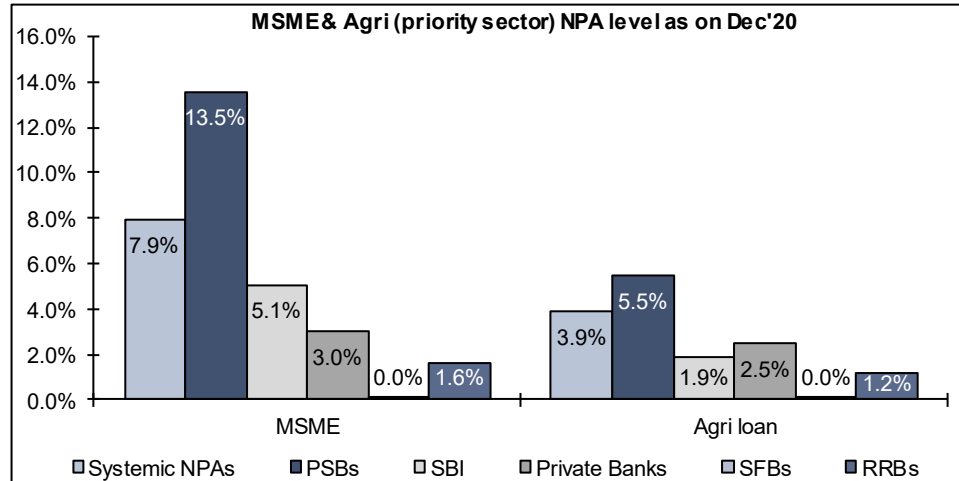
Chart 35: Banks focused on mid & large corporates are having better productivity



Source: Company, Industry data, I-Sec research

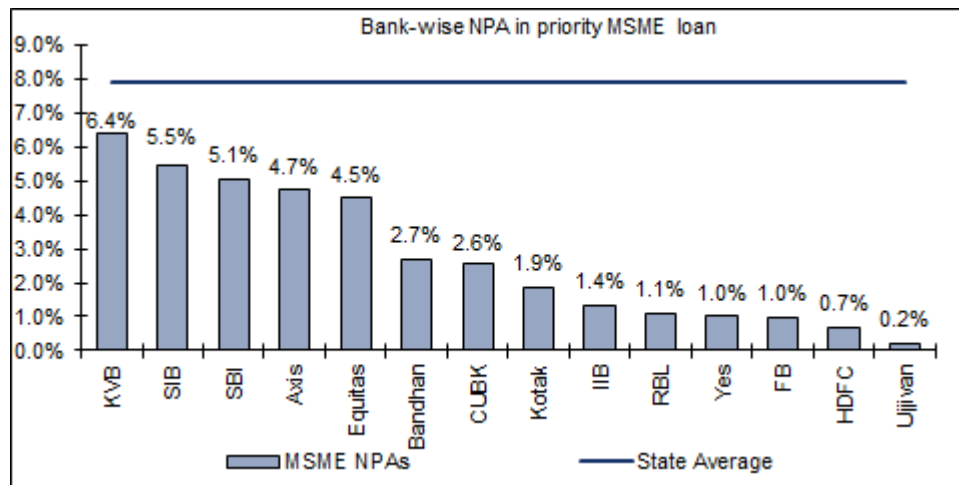
Tamil Nadu - Priority sector lending NPA analysis

Chart 36: Private banks & SBI are managing asset quality way better than PSBs



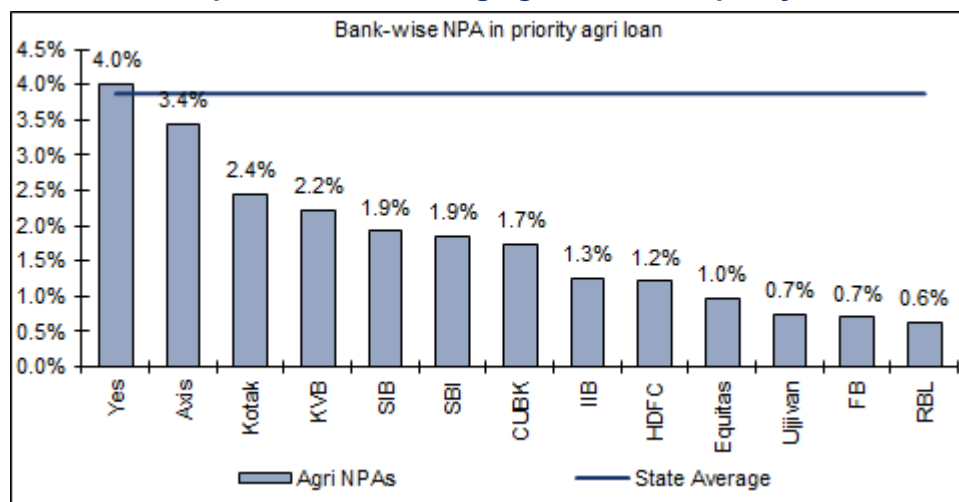
Source: Company, Industry data, I-Sec research

Chart 37: Large private banks managing MSME (PSL) NPAs better than others



Source: Company, Industry data, I-Sec research

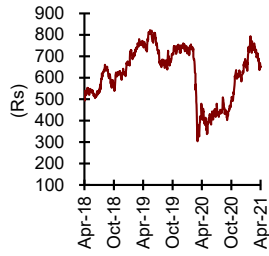
Chart 38: Most private banks managing better asset quality



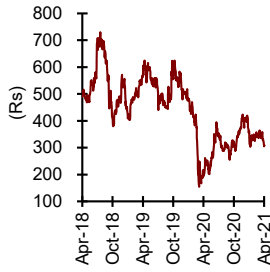
Source: Company, Industry data, I-Sec research

Price charts

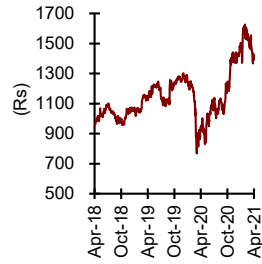
Axis Bank



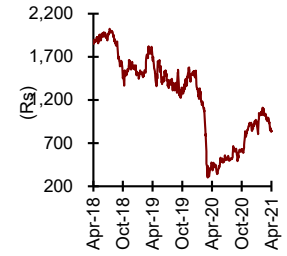
Bandhan Bank



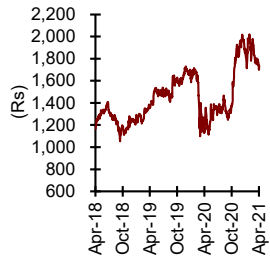
HDFC Bank



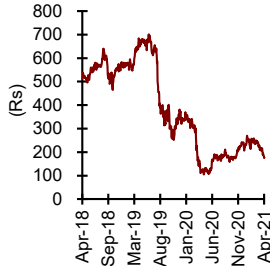
IndusInd Bank



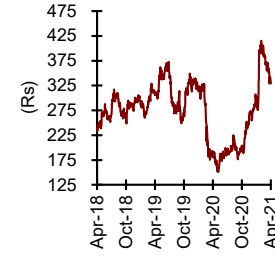
Kotak Mahindra Bank



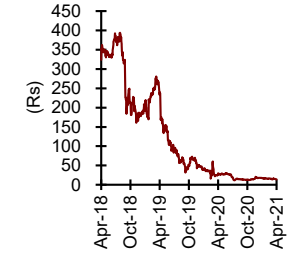
RBL Bank



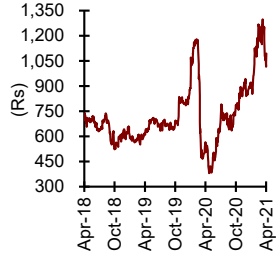
State Bank of India



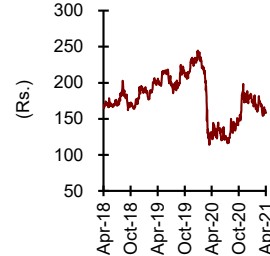
Yes Bank



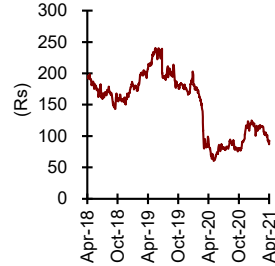
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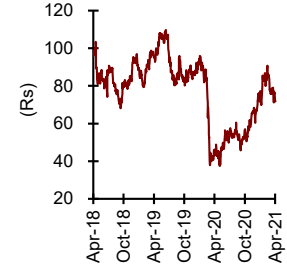
City Union Bank



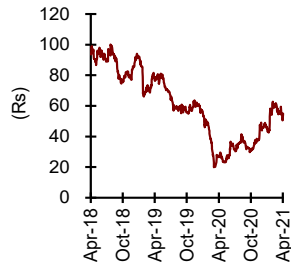
DCB Bank



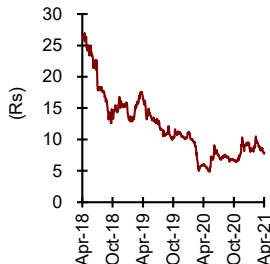
Federal Bank



Karur Vysya Bank



South India Bank



Source: Bloomberg

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