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India's Private Banks: The Premium That Vanished

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The Premium That Vanished: Why India's Private Banks Stopped Compounding

For a decade, India's private banks were the market's great compounders. 15–18% returns on equity, structural credit growth, and a P/B premium the rest of the world could only envy. That story is cracking.

In the June 2026 quarter, net interest margins fell to multi-year lows across the sector, profits disappointed despite double-digit credit growth, and on 20 July the biggest names sold off 5% in a day. Most striking of all: **HDFC Bank now trades cheaper than JPMorgan.** The premium is gone.

The puzzle is that this is happening in what should be a ***favorable*** setup - strong loan demand and an RBI that has been cutting rates. When low rates and high growth are squeezing banks instead of helping them, something structural has changed.

Macro Snapshot (as of July 2026)

Indicator	Reading	Read-through
Private-bank NIMs (Q1 FY27)	HDFC 3.40%, Axis 3.46%, Kotak 4.53%	Kotak at a ~5-year low; ICICI steady at 4.28%
RBI repo rate	5.25% (paused since Dec 2025)	125 bps of 2025 cuts squeezed margins; pause aids repair
System credit-deposit ratio	~83% (record, Mar 2026)	Credit 13.8% vs deposit 10.8% growth — funding strain
Certificates of deposit	₹6.6 lakh crore, ~7.1% yield	Wholesale funding costly despite rate cuts
Deposit share of hh savings	~35% (FY25), from ~58% (FY12)	Equity/MF share up ~2% → ~15%; SIPs ~₹30,000 cr/mo
HDFC Bank P/B	~2.0x (16-year low)	Below JPMorgan (~2.4x); ~17% discount to ICICI
FY27 NII (7 banks)	+11% YoY (forecast)	Cyclical margin repair as deposits reprice down

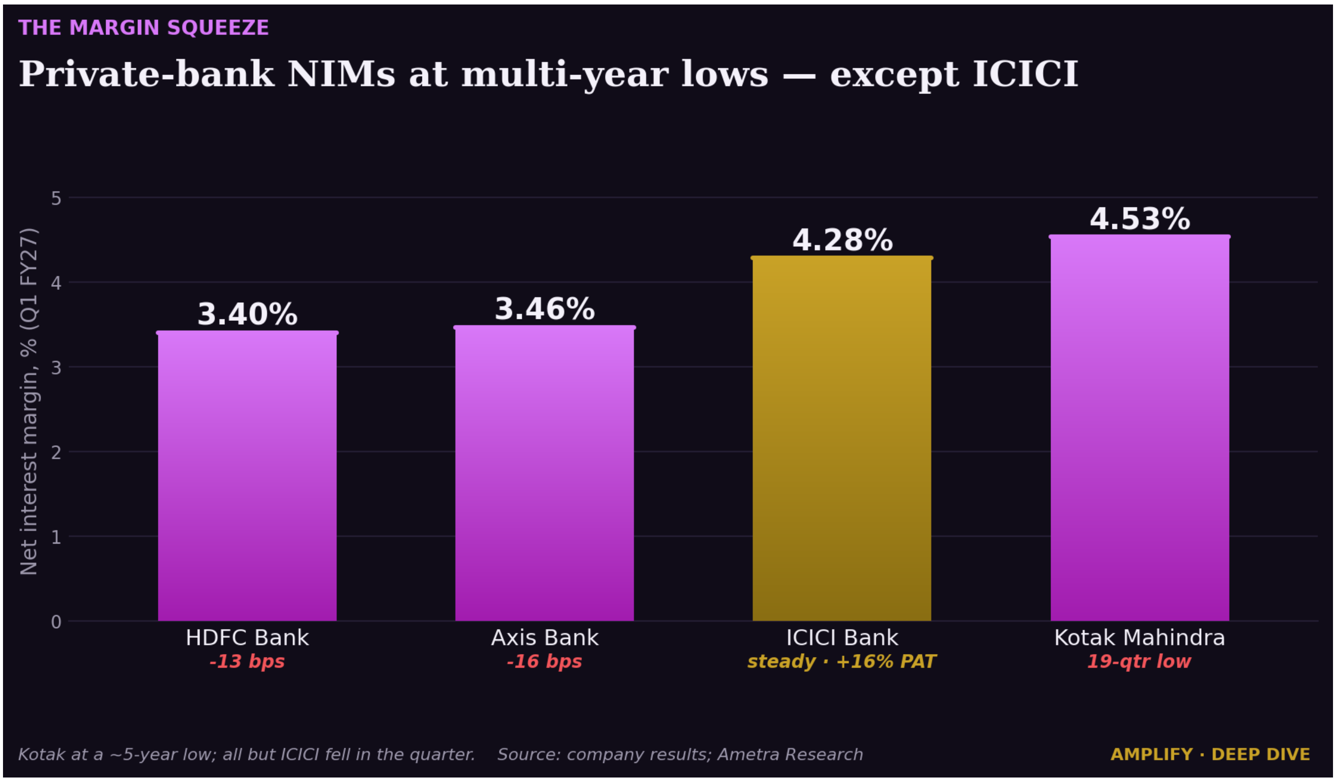
1. The Margin Squeeze — When Rate Cuts Hurt

Start with the counter-intuitive part. The RBI cut the repo rate by 125 bps through 2025 to 5.25%, then paused. Rate cuts are supposed to help banks. For India's private banks, they did the opposite, because of *how* their books are wired.

A large share of private-bank loans are floating and linked to the repo (external benchmark, or EBLR). When the RBI cuts, those loan yields reprice **down almost immediately.** Deposits, especially fixed deposits already booked at high rates, reprice down only slowly, with a lag of several quarters. So in a cutting cycle the asset side falls first and the liability side stays stuck, and the margin gets crushed in between.

The June-quarter scoreboard shows it:

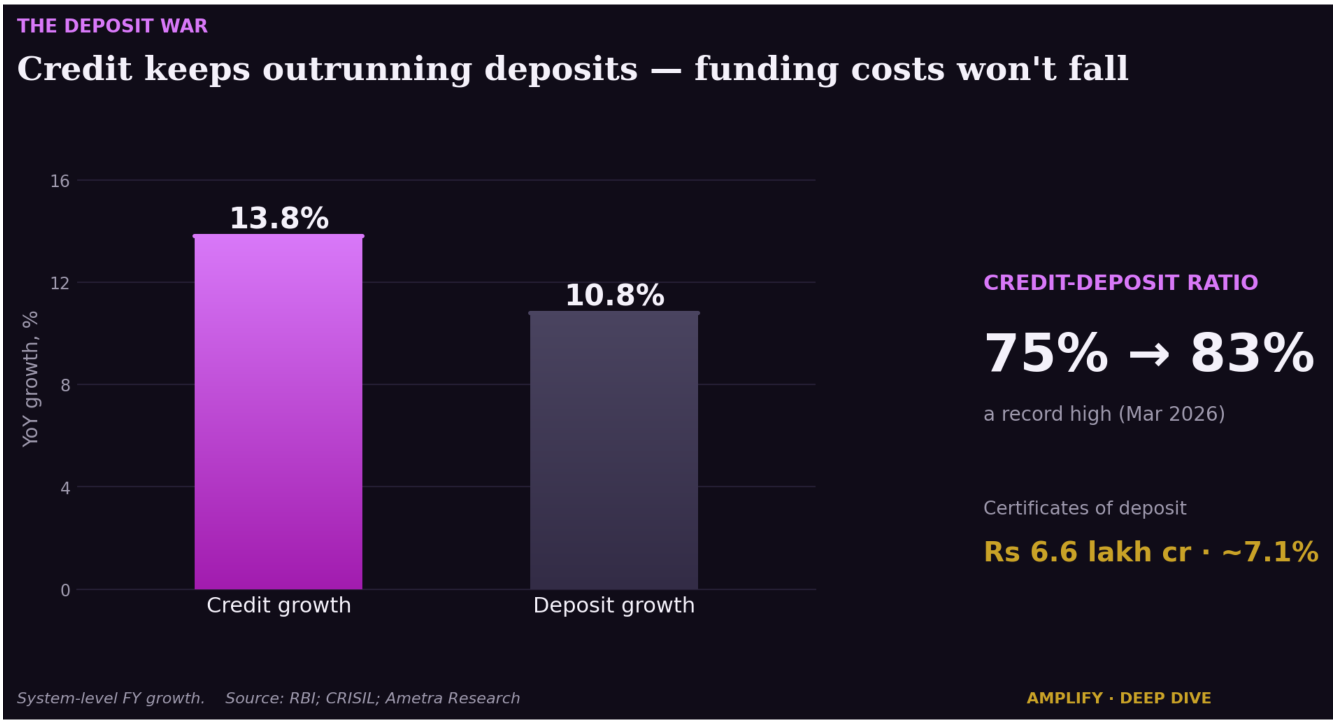
- **HDFC Bank:** NIM 3.40%, down 13 bps in the quarter
- **Axis Bank:** NIM 3.46%, down 16 bps
- **Kotak Mahindra:** NIM 4.53% - a **19-quarter (near five-year) low**
- **ICICI Bank:** NIM 4.28%, broadly steady, profit up 16% - the exception



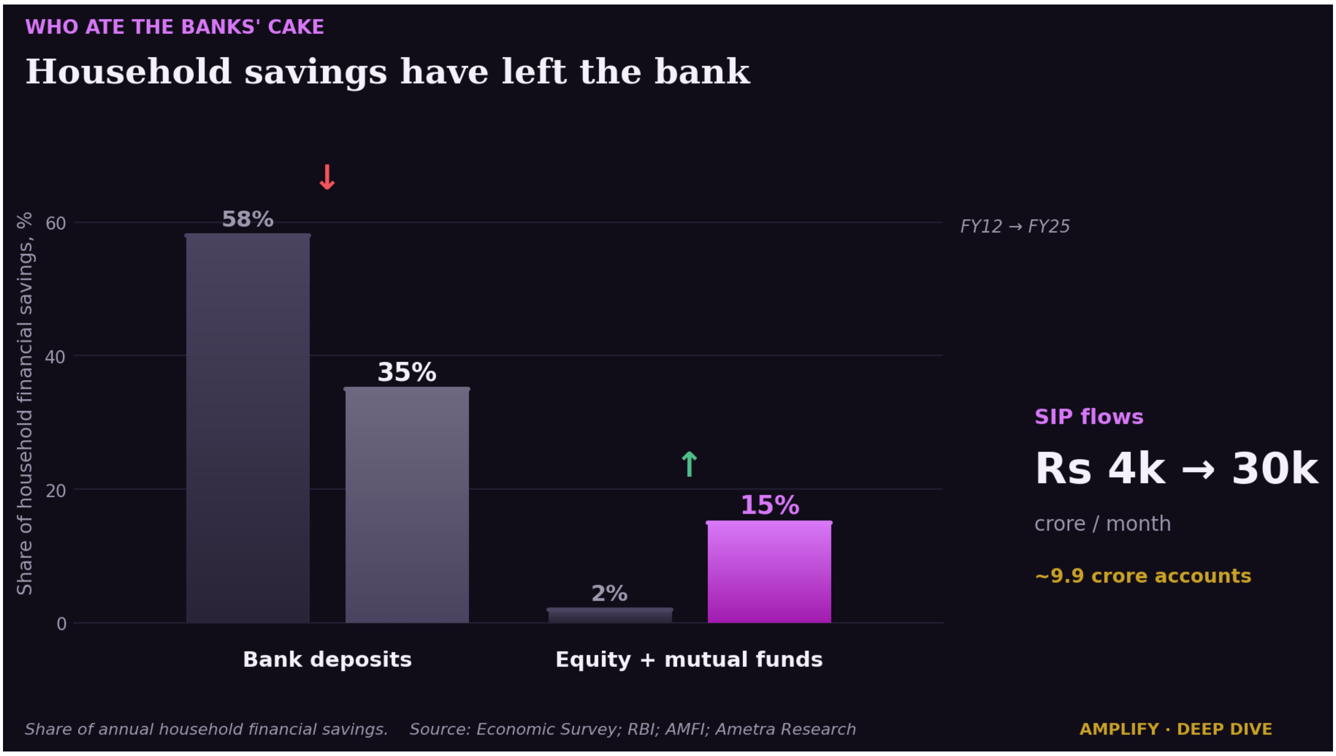
2. The Deposit War — A Shrinking Share of a Shifting Pie

If repricing were the whole story, it would be a passing cyclical dip. It isn't, because the other blade of the scissors is structural: **banks can no longer raise cheap deposits fast enough.**

Credit has outgrown deposits for years, roughly 13.8% loan growth against 10.8% deposit growth, pushing the system credit-deposit ratio to an all-time high of **83% in March 2026** (from ~75% a year earlier). Low-cost CASA is shrinking as a share of the mix, forcing banks toward expensive term and wholesale funding. Outstanding certificates of deposit hit a record **₹6.6 lakh crore**, yielding around **7.1% even after the rate cuts.** Funding costs simply won't come down.



Here is the deep cause, and it should feel familiar from our earlier deep dives: **the Indian saver has left the bank.** The deposit share of household financial savings has collapsed from ~58% (FY12) to ~35% (FY25), while equities and mutual funds have risen from ~2% to ~15%. Monthly SIP flows now run near **₹30,000 crore**, from under ₹4,000 crore a decade ago, across ~9.9 crore accounts. The very SIP river we described as the *cushion* under Indian equities is the *water draining* out of bank deposits. Mutual funds, insurance and pensions are compounding deposits' share away, MF/insurance AUM growing ~15% a year versus ~9% for bank deposits. That is who ate the banks' cake.



A bank fighting for a shrinking slice of savings pays up for it. Structurally higher cost of funds means structurally lower margins. This is not a bad quarter; it is a new regime.

3. The De-Rating — Converging with the Global Banks

Put the two together - squeezed margins and a permanently more expensive deposit base. And the return on equity that justified the premium erodes. So the premium has gone.

- **HDFC Bank** trades at ~**2.0x** forward book - a 16-year low, down over 24% year-to-date, and a ~17% *discount* to ICICI (a reversal of its historic premium).
- **ICICI Bank**, the franchise leader, holds **~2.8x -** resilient, but far below the sector's old 3.5–4x.
- **JPMorgan** sits near **2.4x**; **Wells Fargo** near ~1.4x.

Read that again: HDFC Bank, long the gold standard of emerging-market banking, now carries a lower multiple than JPMorgan. The 2x premium Indian private banks once commanded over US mega-caps — earned by superior RoEs and an under-penetrated market — has compressed to nothing. The market is repricing Indian banks from 'structural compounders' to 'good banks in a maturing, more competitive market' — and a good bank in a normal market looks a lot like JPMorgan.

4. Is There a Way Out?

Yes. But it splits into a cyclical fix and a harder structural one.

Cyclical, the easier half. The margin drag is close to a trough. With the RBI now *paused* at 5.25%, deposit repricing is finally catching up to the earlier loan-yield cuts, and a lower CRR is releasing cheap funds. Analysts expect NIMs to stabilise and aggregate net interest income to grow ~11% in FY27. A prolonged *pause* and not more cuts, is what repairs bank margins. So some of the pain reverses on its own.

Structural, the harder half, is where the winners separate from the losers.

- **Deposit franchise is everything now:** The banks that can still gather low-cost CASA through branches, salary and transaction banking, and digital reach. This will out-earn those leaning on wholesale money. ICICI's outperformance is exactly this.
- **Monetise the shift instead of fighting it:** If savers want mutual funds and insurance, banks can earn the *distribution* and *wealth-management* fees on those very flows, turning the financialization that drains deposits into a fee-income engine. If you can't beat the SIP, sell it.
- **Secured, disciplined lending:** After a cycle of unsecured and microfinance stress, credit-cost control and a mix shift to secured lending protect the bottom line.
- **Cost and digital leverage** to defend RoA as margins normalise.

The uncomfortable truth: for the sector as a whole, the era of super-normal, cheap-CASA-fuelled RoEs is normalising toward global levels, which means the valuation convergence with JPMorgan is, largely, *deserved*, not a mispricing.

But there is another aspect – a positive Black Swan event.

The positive black swan — when a crash rescues the banks.

— **Deposits come home.** A savage bear market ends the romance with SIPs. Frightened savers rotate out of mutual funds back into the safety of bank deposits, and at lower rates, because the RBI would be cutting hard into the downturn. The structural deposit drain reverses, cheap CASA returns, and the cost of funds collapses. Falling yields would also hand banks treasury gains on their bond books.

— **The competition is carried out on stretchers.** A downturn is an NPA event for whoever lent most aggressively, likely high-yielding NBFCs and thinly-capitalised lenders fighting a bad-loan battle, many forced to shrink or exit. India saw exactly this in the 2018–20 NBFC crisis (IL&FS, DHFL): the strong private banks gained deposits and share while weaker rivals imploded.

— **The survivors take the pie.** Well-capitalised banks with secured books and real deposit franchises absorb the vacated share. Less competition, a bigger slice of lending, and recovering margins, these are the exact combination that drives a re-rating. The very crash our other deep dives warn about could be the catalyst that restores the private-bank premium.

5. Ametra's Read

This is part cyclical and part structural, and telling them apart is the whole game.

The cyclical piece, i.e., the NIM trough, is real and probably near its low; a rate pause and CRR relief should aid a modest FY27 recovery. But the structural piece, i.e., a saver who now prefers a SIP to a fixed deposit, is not going away, and it caps how high margins and RoEs can re-inflate. That is why the de-rating is not simply an oversold opportunity to buy the old compounders cheaply.

— **The re-rating trade is over; this is now a delivery story:** Own the franchises, not the sector. Favour banks with genuine low-cost deposit engines and real fee/wealth income (the ICICI archetype) over those dependent on wholesale funding or still digesting a merger (HDFC's near-term burden).

— **Don't buy purely on 'cheap versus history':** HDFC below JPMorgan looks anomalous, but part of that gap is a justified reset, not a guaranteed snap-back. A re-rating needs delivered RoA, not just a low starting multiple.

— **Watch the credit cycle:** Margin pressure plus any rise in credit costs (unsecured, microfinance) is what turns a soft patch into an earnings downgrade.

— **Keep the positive tail in view:** Paradoxically, a global equity crash would be a gift to the strongest banks: deposits flee back to safety at low rates, over-extended NBFCs are knocked out on NPAs, and the survivors re-rate on margin recovery and share gains. It is a reason to own the quality franchises even here. **They are, in effect, a call option on the downturn.**

The best banks in the world stopped compounding not because they got worse, but because their cheapest raw material, the deposit, stopped being cheap. The way back runs through the deposit franchise and the fee line, not the rate cycle alone.

Sector Positioning Map

Stance	Where	Why
Beneficiary — franchise	ICICI-type deposit leaders	Low-cost CASA + fee/wealth income; defends RoA as margins normalise
Beneficiary — fee engine	Banks with AMC / wealth / distribution arms	Monetise the SIP and insurance flows that drain deposits
Turnaround watch	HDFC Bank	Cheapest vs history, but needs delivered RoA; merger digestion near-term
Caution — wholesale-funded	Banks reliant on CDs / bulk deposits	Structurally higher cost of funds; margin-taker, not maker
Caution — high-yield NBFCs	Unsecured / microfinance lenders	Credit-cost risk; first to crack in a downturn
Macro watch	RBI rate path	A pause repairs NIMs; fresh cuts delay the recovery

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