SECTORAL REPORT

PSU BANK

Oct 01, 2025

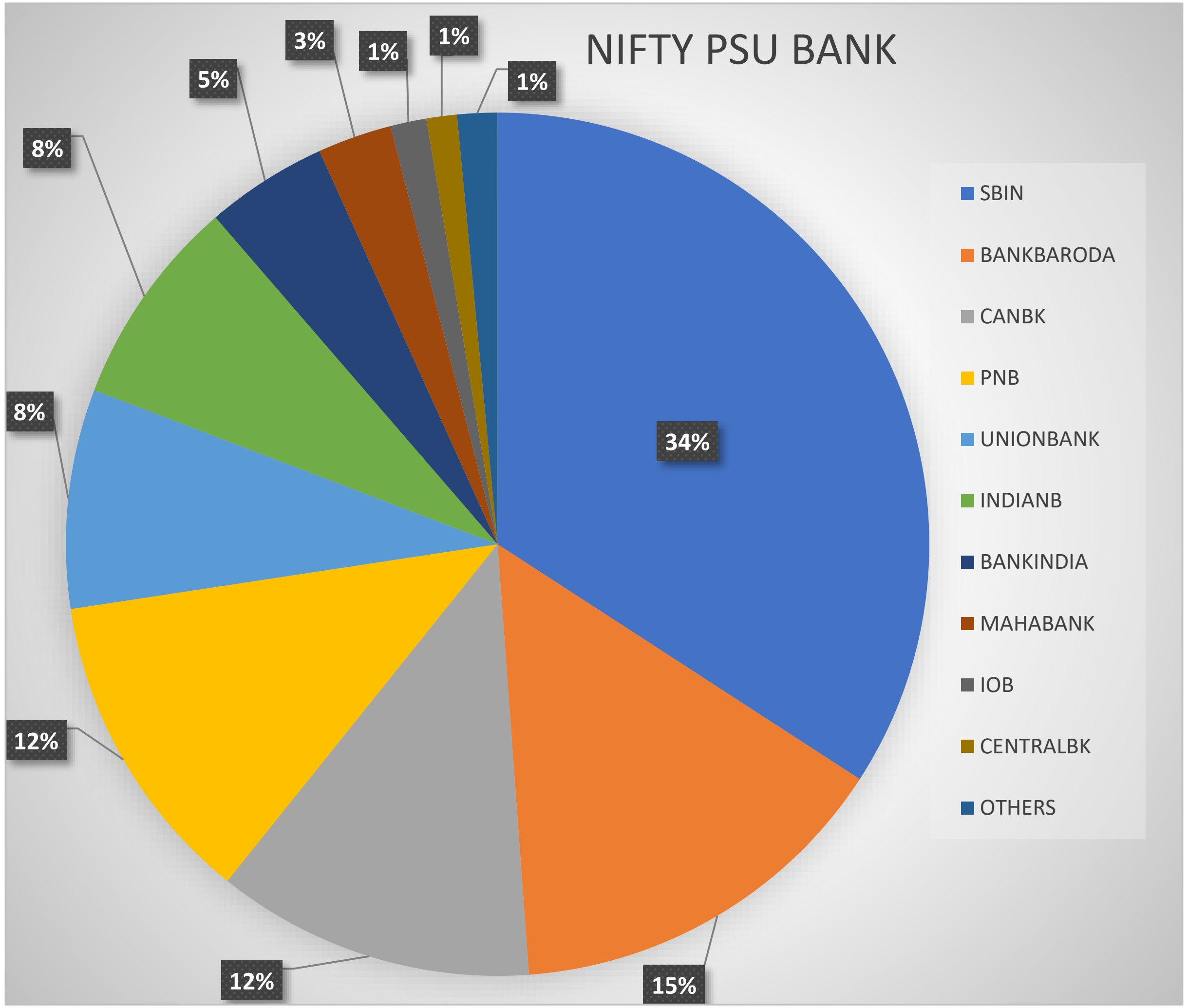
Banking sector.

India's banking sector stands as a pillar of the nation's economic progress, playing a vital role in mobilising capital, expanding credit access, and driving financial inclusion. While it continues to navigate challenges such as regulatory shifts, rising operational costs, and growing competition from fintech players, the sector is simultaneously embracing opportunities brought by digital innovation, structural reforms, and evolving customer needs. From UPI's global reach to a surge in fintech investments and grassroots financial schemes like Jan Dhan Yojana, India's banking landscape is undergoing a dynamic transformation—laying the groundwork for a more inclusive, tech-driven, and resilient financial ecosystem.

As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world.

Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

The Indian banking industry has recently witnessed the rollout of innovative banking models like payments and small finance banks. In recent years India has also focused on increasing its banking sector reach, through various schemes like the Pradhan Mantri Jan Dhan Yojana and Post payment banks. Schemes like these coupled with major banking sector reforms like digital payments, neo-banking, a rise of Indian NBFCs and fintech have significantly enhanced India's financial inclusion and helped fuel the credit cycle in the country.



PSU Banks outperformed private banks.

Public sector banks (PSBs) have outperformed private banks (PVBs) in loan growth for the first time since 2011. At the end of FY25, PSBs achieved a 13.1% YoY loan growth, outpacing PVBs by four percentage points, which recorded a 9% growth. This strong performance was evident across multiple segments, including mortgages, corporate loans, and various non-mortgage retail segments such as auto loans. Private banks have historically commanded premium valuations due to their steady market share gains, growing 6–7% faster than the system growth rates. However, if the growth advantage continues to narrow in the medium term, the case for premium valuations may weaken. India head for financials at Bernstein, Mr. Pranav Gundlapalle, noted that while private banks still offer above-average profitability and trade at reasonable valuations, the current risk of a relative growth slowdown may not be fully priced in. ICICI Bank's price-to-book (P/B) ratio is currently around 3.5, while State Bank of India's P/B is around 1.5, reflecting differing market perceptions of the two banks' growth prospects, profitability, and risk profiles.

Private sector banks have flagged the increased aggression from public sector banks, leading to growth and profitability pressures. Group Chief Financial Officer (CFO) of ICICI Bank, Mr. Anindya Banerjee, acknowledged the challenges posed by capable competitors priced meaningfully below them. HDFC Bank has also highlighted the issue of aggressive lending by public sector banks, particularly in larger-ticket corporate and Small and Medium Enterprises (SME) loans, where pricing is extremely low due to growth objectives rather than margin or returns. Reserve Bank of India (RBI) data and Bernstein analysis show that the loan growth differential between PSU and PVB banks was around 4% at the start of 2011, peaked at 20% in 2016, and reduced to 4% again with the onset of Covid. As of the end of FY25, PSBs held a total loan portfolio of Rs. 98,20,000 crore (US$ 1.14 trillion), representing 52.3% of the market share, compared to PVBs' loan base of Rs. 75,20,000 crore (US$ 878.91 billion), accounting for 40% of total loans. Analysts suggest that PSBs have the upper hand due to higher levels of marginal cost lending rate (MCLR) loans, which reprice with a two-quarter lag. PSU banks are better placed to manage margin pressures due to their high share of MCLR loans, ranging between 52–60%.

TECHNICAL OVERVIEW NIFTY PSU BANK– 7,526.75 (WEEKLY CHART)

- The Nifty PSU BANK Index has been one of the key outperformers compared to the main index this month.

- On the weekly chart, the index continues to move in the north direction after range breakout. It continues to trade above the support of 20 WEMA and trading in line with it, which signals sustained bullish momentum. RSI is gradually moving towards the north direction which indicates good strength in the index.

- **To extend its upward trajectory, the index must decisively break above the recent high of 7,565. A sustained move beyond this level could further reinforce bullish sentiment. On the downside, 7,400 will serve as the initial support level.**

SECTOR REPORT PERFORMANCE

DATE	MONTHLY SECTOR	PERFORMANCE
01/09/25	NIFTY CONSUMTION	UP BY 0.03% IN THE MONTH OF SEP
01/08/25	NIFTY FMCG	UP BY 0.59% IN THE MONTH OF AUGUST
01/07/25	NIFTY FINANCE	TRADE NOT INITIATED
02/06/25	NIFTY PSUBANK	UP BY 3.25% IN THE MONTH OF JUNE
02/05/25	NIFTY AUTO	UP BY 4.56% IN THE MONTH OF MAY
01/04/25	NIFTY PSUBANK	UP BY 4.45% IN THE MONTH OF APRIL
03/03/25	NIFTY FINANCE	UP BY 8.88% IN THE MONTH OF MARCH
01/02/25	NIFTY AUTO	DOWN BY -10.36% IN THE MONTH OF FEB
01/01/25	NIFTY IT	DOWN BY -1.56% IN THE MONTH OF JAN

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