A Flight to Safety as Indian Banks Navigate Tumultuous Times

2020 Greenwich Leaders: Indian Corporate Banking

The global pandemic is putting economies and financial systems around the world under unprecedented stress. In India, this represents an even sterner test for a banking system that is still reeling from the impact of bank failures prior to the outbreak of COVID-19. Amid a national lockdown and fears of a liquidity crisis, companies in India are joining consumers in shifting business to the largest and presumably safest banks. In this report, we will analyze how the still-unfolding crisis and the many other challenges facing India's banking sector are affecting the competitive positioning of individual public- and private-sector banks.

INDIA'S BANKING WOES PILE UP

These key factors converged to create a perfect storm in India's banking system:

- **Stress of Public Sector (PSU) Banks' Balance Sheet**
  With direct intervention from the Indian government, non-performing asset (NPA) ratios had started to decline by 2019, but this is still a work-in-progress for the PSU banking sector. The series of public bank mergers orchestrated by RBI represent a critical step that will make the banking system stronger and more stable. **However, navigating sweeping organizational integrations is going to be tough with the epic challenge of the COVID-19 crisis.**
- **NBFC Liquidity Issues**
  The nonbank financial companies (NBFC) crisis, which started in 2018 with the collapse of IL&FS, continues to plague the Indian banking sector. These 10,000+ lightly regulated NBFCs are not only a critical source of credit for small and medium businesses, they have also become intricately linked with the overall banking sector. Despite the government's pledged support, **the credit crunch brought on by the COVID-19 pandemic is set to drive systemic risks and create additional hurdles ahead**.
- **Macro Slowdown**
  Underlying many of the problems has been India's slowing economic growth since 2017. Coupled with **business conditions worsening due to the COVID-19 shutdown, CRISIL* estimates that the economy will shrink by 5% in 2020. The government's economic package is unlikely to provide sufficient support as the lockdown drags on, inevitably putting greater stress on the banking sector.**
- **Rescue of Yes Bank**
  Perhaps a final straw for the crumbling confidence in India's smaller private sector banks, the Yes Bank fiasco revealed deep-seated issues within the sector. **Shaken customer confidence in fast-growing private sector banks has led to a flight to safety and a surge in customer deposits and corporate relationships for the bigger and more stable banks, such as SBI, ICICI and HDFC.**
- **Compressed Interest Margins**
  Banking sector profitability took a hit once again on May 22, as the RBI cut the repo rate by 40 basis points to 4.0%, its lowest rate since 2000. Meanwhile, the RBI also extended a moratorium on loan payments by three months, to August 2020. With demand collapsing across the Indian economy, these steps were seen as a critical part of the government's response to the COVID-19 crisis. **However, lower interest rates will erode bank margins in the midst of a crisis, and the moratorium on loan payments moves the banking industry into uncharted territory, with vast implications for bank revenues, loan-to-deposit ratios and the nationwide non-performing loans cleanup.**

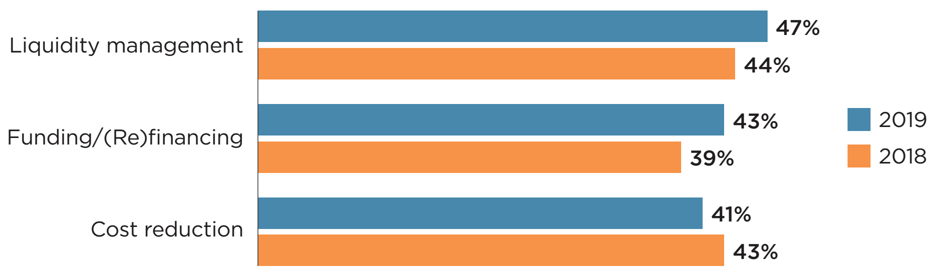
*CRISIL is India's leading ratings and research agency. The company provides high-end research and advisory services to major banks and corporations internationally. CRISIL is a subsidiary of S&P Global.

Consequences of the Crisis

Even before the government instituted its COVID-19 lockdown, Indian companies were concerned about deteriorating economic conditions and worried about access to liquidity. The corporate treasurers participating in the Greenwich Associates 2019 Asian Large Corporate Banking and Indian Middle Market Banking Studies ranked liquidity management as their top priority for the year ahead, with funding and financing close behind. (Interviews were conducted from 4Q 2019 through 1Q 2020.)

"We are focusing on dealing with the current economic headwinds," explained one corporate treasurer. "There is negativity, a lack of trust, and we struggle to get the credit limit that we usually do. We want to limit our dependency on banks and look into other sources such as equity. Lastly, we will want to ensure that we can maintain adequate liquidity to service our loans."

TOP PRIORITIES OF CORPORATE TREASURERS IN INDIA



Note: Based on 406 responses in 2018 and 582 in 2019 to an open-end question on corporates' top priorities for the year.
Source: Greenwich Associates 2018 and 2019 Asian Large Corporate Banking and Indian Middle Market Banking Studies

At the time of our interviews, 41% of study participants ranked cost reductions as a top priority for 2020. That share is undoubtedly higher today. Weaker companies are already finding it more difficult to access credit, and as the economic consequences of the COVID-19 shutdown continue unfolding, Indian companies will come under even more pressure and will look to increasingly drastic measures.

Crisis Altering the Competitive Landscape: Safety in Size

With COVID-19 arriving on the heels of a series of crises that already had India's companies and consumers worried about the solvency of their banks, customers are flocking to the relative security of the country's largest and presumably most stable banks. Many of those banks rank among the list of 2020 Greenwich Share and Quality Leaders.

Greenwich Share and Quality Leaders — 2020

Greenwich Share Leader 2020

Greenwich Quality Leader 2020

Indian Large Corporate Banking Market Penetration—Local Banks

Bank	Market Penetration*	Statistical Rank
State Bank of India	73%	1
HDFC Bank	69%	2
ICICI Bank	61%	3

Indian Large Corporate Banking Quality—Local Banks

Bank
Axis Bank
HDFC Bank

Indian Large Corporate Banking Market Penetration—Foreign Banks

Bank	Market Penetration*	Statistical Rank
Citi	54%	1
Standard Chartered Bank	51%	2
HSBC	45%	3

Indian Large Corporate Banking Quality—Foreign Banks

Bank
HSBC
Standard Chartered Bank

Note: Based on 184 respondents. *Market Penetration is the proportion of companies interviewed that consider each bank an important provider of corporate banking services. Market-level leaders are based on Top 3 leading banks, including ties. Quality leaders are cited in alphabetical order, including ties.
Source: Greenwich Associates 2019 Asian Large Corporate Banking Study

Greenwich Share and Quality Leaders — 2020

Greenwich Share Leader 2020

Greenwich Quality Leader 2020

Indian Middle Market Banking Market Penetration—Local Banks

Bank	Market Penetration*	Statistical Rank
HDFC Bank	59%	1
ICICI Bank	50%	2T
State Bank of India	49%	2T
Axis Bank	48%	2T

Indian Middle Market Banking Quality—Local Banks

Bank
HDFC Bank

Indian Middle Market Banking Market Penetration—Foreign Banks

Bank	Market Penetration*	Statistical Rank
HSBC	23%	1
Standard Chartered Bank	20%	2
Citi	18%	3

Indian Middle Market Banking Quality—Foreign Banks

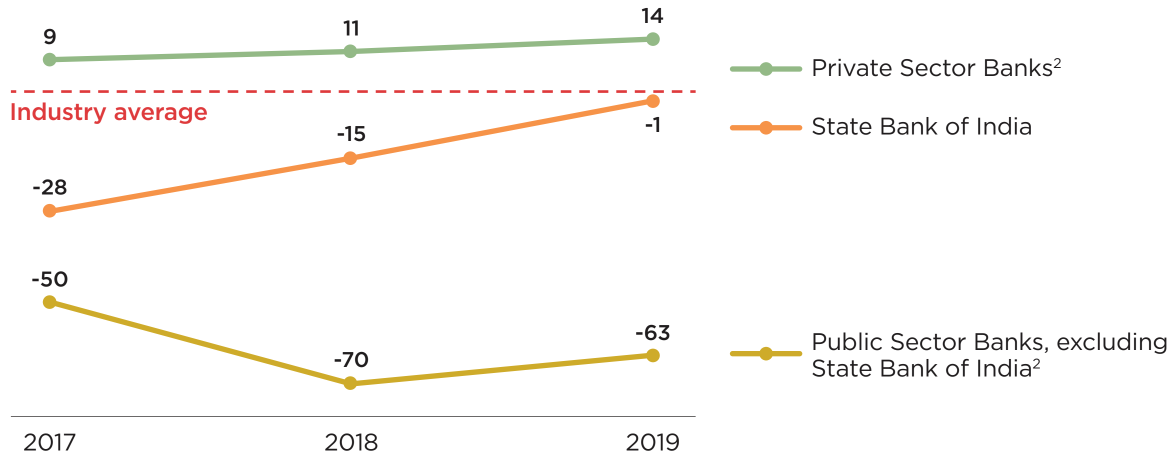
Bank
Citi
HSBC

Note: Based on 450 respondents. *Market Penetration is the proportion of companies interviewed that consider each bank an important provider of corporate banking services. Market-level leaders are based on Top 3 leading banks, including ties. Quality leaders are cited in alphabetical order, including ties.
Source: Greenwich Associates 2019 Indian Middle Market Banking Study

Public Sector Banks

At the top of the list of India's biggest and presumably most stable banks is State Bank of India, which might be in the strongest position to weather the crisis and even gain ground during this period of disruption. SBI is viewed as a safe haven in the midst of heightened bank risks triggered by the Yes Bank collapse and the resulting crisis of confidence in smaller private sector banks. Even more than before, the bank is now well positioned to leverage its stronger balance sheet and lower costs of funding to woo companies hungry for liquidity. However, this should not take away from the fact that SBI has laid a strong foundation for itself, with continued effort to improve clients' perception of the bank's capabilities and service quality.

GREENWICH QUALITY INDEX (GQI) DIFFERENCE FROM MEAN[1]
2017 to 2019



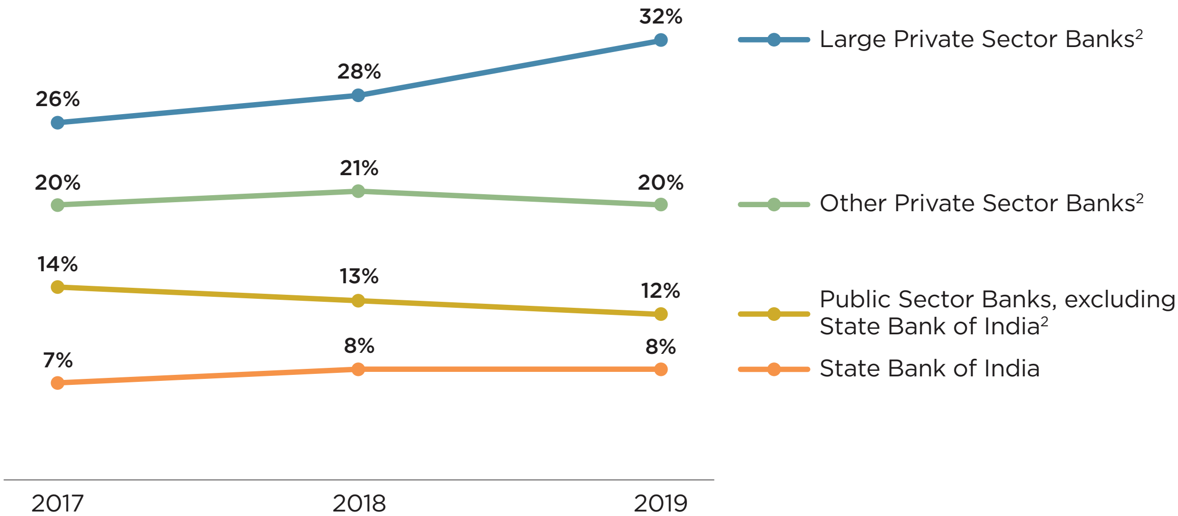
Note: Based on 143 large corporate banking respondents in India in 2017, 149 in 2018, 184 in 2019, and 358 middle market banking respondents in India in 2017, 408 in 2018 and 450 in 2019. [1]The Greenwich Quality Index score is based on a normalized composite of all qualitative evaluations, transformed to a scale of 0 to 1,000. Scores shown in chart are difference from the mean. [2]Private Sector Banks refer to Axis Bank, HDFC, ICICI Bank, and other smaller Private Sector Banks. Public Sector Banks, excluding State Bank of India, refer to Bank of Baroda, Canara Bank, Union Bank of India, Punjab National Bank, and other smaller Public Sector Banks.
Source: Greenwich Associates 2019 Asian Large Corporate Banking Study and Greenwich Associates 2019 Indian Middle Market Banking Study

As shown in the chart above, SBI's scores on the Greenwich Quality Index—a composite measure of bank quality based on ratings provided by corporate clients—have been on a steady climb since 2017, driven in large part by improvements in higher-level relationship factors like advisory capabilities. Although SBI still lags private sector players in these measures, these quality improvements make the bank an increasingly viable alternative for clients concerned about the safety of smaller private sector banks. At the same time, improved quality will put SBI in a strong position to win new business from other public sector banks that experience service disruptions from either merger integrations or the COVID-19 crisis. Across the board, any new corporate relationships will be particularly valuable to SBI. The reason: When SBI assumes the role of a company's lead domestic bank, it tends to crowd out rivals and capture an outsized share of the company's overall wallet.

It is unclear how smaller public sector banks will fare during the crisis. Excluding SBI, public sector banks have been gradually losing share of core corporate banking relationships, declining from 14% in 2017 to 12% in 2019. In terms of quality ratings from Indian companies, these banks lag private sector players by a wide margin and have been virtually left behind since 2017, as SBI steadily improved. Now, as the Indian government merges public sector banks, they face challenging integrations. Together, these factors suggest that public sector banks other than SBI could be at risk of losing additional corporate relationships and market share during the crisis—even as the government's restructuring of the sector sets them on a trajectory to emerge as stronger organizations and more capable competitors in the long term.

RELATIVE SHARE OF CORPORATE BANKING (CORE RELATIONSHIPS)[1]

2017 to 2019



Note: Based on 143 large corporate banking respondents in India in 2017, 149 in 2018, 184 in 2019, and 358 middle market banking respondents in India in 2017, 408 in 2018 and 450 in 2019. [1] Share of relationships is measured through share of citations of a core relationship (i.e., top 3–5 banks for domestic and international banking usage). [2] Large Private Sector Banks refer to privately owned Indian banks, including ICICI, HDFC and Axis Bank; Other Private Sector Banks refer to all other privately owned Indian banks; Public Sector Banks, excluding State Bank of India, refer to all other national and state-owned banks in India.
Source: Greenwich Associates 2019 Asian Large Corporate Banking Study and Greenwich Associates 2019 Indian Middle Market Banking Study

Private Sector Banks

Even before the COVID-19 crisis, India's biggest private sector banks were winning business from their smaller private-sector counterparts, due in large part to fallout from the Yes Bank restructuring. In 2018, private sector banks accounted for 49% of core corporate banking relationships[1] in India. That total was divided between 28% held by the three largest private sector banks, ICICI, HDFC and Axis Bank, and 21% held by other, smaller private sector competitors. From 2018 to 2019, this group of smaller private banks lost a percentage point of penetration, while the three largest private sector banks added four percentage points, climbing to 32% of the total.

Weakness for smaller private sector banks was also visible in their ability to hold on to domestic cash management relationships. The proportion of smaller private sector banks' clients using them for domestic cash management needs dropped to 46% in 2019 from 49% in 2018. As one corporate treasurer explained about his company's decision to limit its use of a smaller private bank, "We can't leave deposits/TRA with them. There is an absence of stability."

PRODUCT CROSS-SELL—BANKING RELATIONSHIPS INTO DOMESTIC CASH MANAGEMENT*

Note: *Cross-sell for domestic cash management is calculated based on the number of client relationships a bank has and whether they are cited also for a domestic cash management relationship. Based on 1,319 respondents in 2018 and 1,484 in 2019.
Source: Greenwich Associates 2018 and 2019 Asian Large Corporate Banking and Indian Middle Market Banking Studies

[1]Core relationships are defined as the top 3-5 banking relationships where the corporate's majority share of wallet is concentrated.

We expect this trend to continue through the pandemic lockdown. Coming into the crisis, Indian companies viewed ICICI, HDFC and Axis Bank as offering the market's highest levels of quality and service:

They have the credit appetite to take additional exposures and their quotes are aggressive. Beside that, they have a good reach across India and are technologically inclined.

[Our Top 3 private sector banks] provide us with strong balance sheet support and prompt paperwork, and they displayed a good understanding of our banking needs.

Source: Greenwich Associates 2019 Asian Large Corporate Banking and Indian Middle Market Banking Studies

Large private sector banks also excel in helping clients in the digitization of their banking process—an important strength as the demand for digital banking spiked in the midst of the pandemic. Look out for an upcoming Greenwich Report on the latest banking digitization trends in India.

Liquidity Crisis or Solvency Crisis?

As of now, the government moratorium on loan payments is acting as life support for companies, many of which simply don't have the cash flow needed to make payments in the economic lockdown, and for banks, some or even many of which could already be veering toward insolvency without the measure. But the moratorium is not a restructuring. Eventually, companies will have to return to paying interest and principal, and banks will have to account for these loans.

The central bank is undoubtedly hard at work trying to ease this transition, but in the next few months, the stressed balance sheets of India's banks could be put to an unprecedented test. In the end, the fate of the Indian banking industry during COVID-19 will come down to one question: Does the crisis remain what it is today—a liquidity crisis caused by the sudden interruption of economic activity—or does it metastasize into a much more dangerous solvency crisis that would require a much larger intervention?

GREENWICH EXCELLENCE AWARDS

For the third year, Greenwich Associates is recognizing excellence in Indian corporate banking. The 2020 Greenwich Excellence Awards identify the top-ranked banks in a series of product and service categories. Winners are determined by receiving a statistically significant portion of "Excellent" ratings from their large corporate and middle market clients in India.

Greenwich
Excellence
2020

2020 Greenwich Excellence Awards for Indian Large Corporate Banking

Among More Than 60 Banks Evaluated, 6 Have Distinctive Quality

Ease of Doing Business
J.P. Morgan

Knowledge of Transaction Banking Needs
Standard Chartered Bank

Knowledge of International Banking Needs
Citi

Quality of Advice
HSBC

Coordination of Product Specialists
Standard Chartered Bank

Making KYC Process Easier
Bank of America

Senior Management Effectiveness
State Bank of India

2020 Greenwich Excellence Awards for Indian Middle Market Banking

Among More Than 60 Banks Evaluated, 4 Have Distinctive Quality

Ease of Doing Business
HDFC Bank

Knowledge of Transaction Banking Needs
HDFC Bank

Knowledge of International Banking Needs
Citi

Quality of Advice
HDFC Bank

Coordination of Product Specialists
HDFC Bank

Making KYC Process Easier
*

Senior Management Effectiveness
HSBC
State Bank of India

Note: *Performance evaluations did not yield statistically differentiated providers for this metric.
Based on interviews with 184 corporates with annual revenues of INR 3,000 crores or more for Large Corporate Banking and 450 middle market companies with annual revenues of INR 300–3,000 crores for Middle Market Banking.

The findings reported in this document reflect solely the views reported to us by the research participants and do not represent opinions or endorsements by Greenwich Associates or its staff.

Greenwich Associates Head of Asia, Gaurav Arora, and consultant Winston Jin, specialize in Asian corporate/transaction banking and treasury services.

For more information: ContactUsAsia@greenwich.com or call +65.6236.0142

METHODOLOGY

From September 2019 to March 2020, Greenwich Associates conducted interviews with 184 Large Corporates and 450 middle market businesses in India and asked them to name the banks they use for a variety of services, including corporate lending, cash management, trade services and finance, foreign exchange, structured finance, interest-rate derivatives, and investment banking.

The Greenwich Quality Index ("GQI") comprises metrics which measure Institutional Relationship Quality and Overall Coverage (i.e., "People") Quality. Institutional Relationship Quality factors include "Effective Senior Management Support," "Ease of Doing Business," "Willingness to Lend," "Most Competitive Pricing," and "Ability to Communicate Upfront on KYC Requirements." Coverage Quality factors include "RM's Proactive Provision of Advice," "Knowledge of Transaction Banking Needs," "Knowledge of International Needs," "Frequency of Visits," "Timely Follow Up on Requests," and "Effective Coordination of Product Specialists." Study participants were then asked to rate their banks in 14 product and service categories. From September to November of 2019, Greenwich Associates conducted 184 interviews in large corporate banking with companies in India. Subjects covered included product demand, quality of coverage and capabilities in specific product areas.

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About Greenwich Associates

Greenwich Associates, part of CRISIL Limited (an S&P Global Company), is the leading global provider of data, analytics and insights to the financial services industry. We specialize in providing unique high value data and actionable recommendations to help our clients improve their business results.

CRISIL Privacy Notice

CRISIL respects your privacy. We may use your contact information, such as your name, address, and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com/privacy.

GREENWICH
DATA | ANALYTICS | INSIGHTS

CRISIL
An S&P Global Company