

Banks

India

Sector View: **Attractive** NIFTY-50: **20,990**

December 11, 2023

Breezing through the final wage settlement

The Indian Bank Association (IBA) has signed an [MOU](#) with bank employee unions about the 12th bipartite wage hike settlement. Accordingly, bank employees will receive a 17% increase in salary with effect from November 1, 2022. While the final quantum of hike is a tad higher than what most banks have provided for (14-15%), the additional provision requirement is unlikely to have a material impact on profitability, ending one more headwind that has been in discussion with investors recently.

Final quantum is marginally higher than previous cycle and bank assumptions

The IBA has agreed to a wage hike of 17% in the 12th bipartite wage hike settlement with bank employee unions. This wage hike will be effective from November 1, 2022. In the previous wage hike cycle (11th bipartite settlement), the negotiations lasted for a significantly longer time (~3 years) and the finally agreed wage hike was 15% (Exhibit 2). Further, most of the impacted banks under our coverage have been providing for the revised wages, assuming a hike of 14-15% (Exhibit 1).

Our analysis of long-term trends (past 24 years) indicates that PSU banks have seen average wage cost per employee grow at ~10% CAGR, which is higher than the ~7% CAGR for private banks (Exhibits 9, 10). While average revenue per employee and average PPOP-per-employee have been better for PSU banks, they have struggled on profitability on a relative basis, mainly on account of higher credit cost.

Impact on profitability is unlikely to be material

As a result of the agreement, banks will be required to make one-time provisions for: (1) arrears of wages for the past 11 months (November 2022 to September 2023) and (2) arrears of retirement benefits (pension and gratuity). In our estimate, the impact of wage arrears is unlikely to be material (Exhibit 1).

Based on our preliminary estimates, the one-time provision for wage arrears adds to the overall cost (FY2024E) for banks by 0-2%. Consequently, it will have an impact of 0-3% on FY2024E EPS and 0-40 bps on FY2024E BVPS for banks under coverage. While the impact of higher retirement benefits is difficult to quantify, it is unlikely to be material either. Thus, this additional cost will be absorbed by banks without a noticeable dent in profitability.

Estimates unchanged; stay positive on the sector

We keep our estimates for banks unchanged, given that the one-time impact of the wage hike on profitability is not material. Most banks have been reporting healthy return ratios recently. This has been driven primarily by improving asset quality, resulting in declining credit costs. We believe that this period of low credit cost is likely to continue for some more time, as we do not see any worrying signs of stress in either the retail, MSME or corporate segments so far.

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0-40 bps impact on FY2024E BVPS for banks under coverage on account of the arrears of wage hike

Exhibit 1: Incremental provision requirement toward arrears of wages due for 17% revision, March fiscal year-ends

	Cumulative provision for 11 months	Wage hike assumption	Total cost for FY2024E	PAT for FY2024E	Net worth for FY2024E	Incremental provision required			Impact on PAT	Impact on EPS	Impact on BVPS
	(Rs bn)	(%)	(Rs bn)	(Rs bn)	(Rs bn)	(Rs bn)	(% of cost)	(% of PAT)	(Rs bn)	(%)	(%)
SBIN	89.0	14	1,120.2	544.9	3,715.7	19.1	1.7	3.5	14.2	2.6	0.38
BOB	13.2	18	278.3	156.9	1,107.4	(0.7)	(0.3)	(0.5)	(0.6)	(0.4)	(0.05)
Canara	10.7	15	242.4	142.8	848.3	1.4	0.6	1.0	1.1	0.8	0.13
PNB	14.4	14	272.7	85.2	1,059.4	3.1	1.1	3.6	2.1	2.4	0.19
Union	12.1	15	231.9	134.6	935.2	1.6	0.7	1.2	1.1	0.8	0.12
Federal	2.2	15	56.2	32.5	281.0	0.3	0.5	0.9	0.2	0.7	0.08
KVB	0.8	15	24.4	13.8	96.0	0.1	0.5	0.8	0.1	0.6	0.08

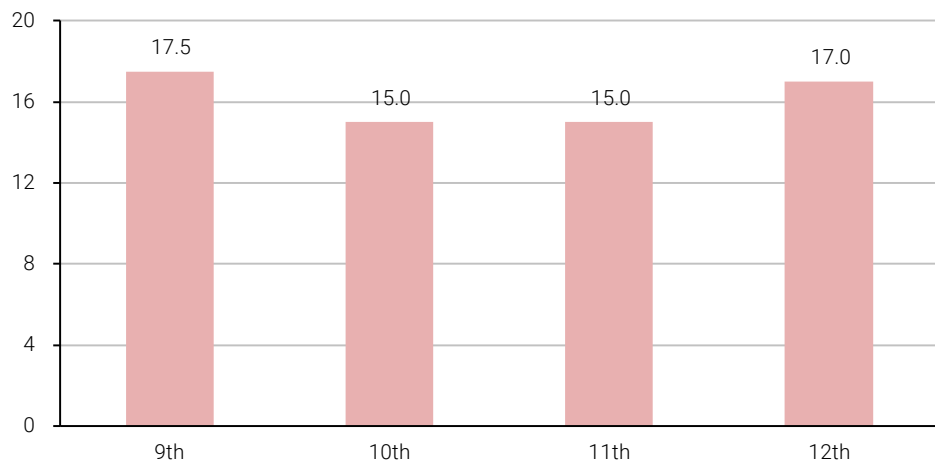
Notes:

- (1) BOB has not disclosed the assumption of wage hike used in its provision estimate. We have assumed 18% hike assumption for BOB.
- (2) KIE estimates of cost, PBT, PAT and BVPS.

Source: Companies, Kotak Institutional Equities estimates

17% wage hike agreed in the latest round is higher than that in the past two rounds

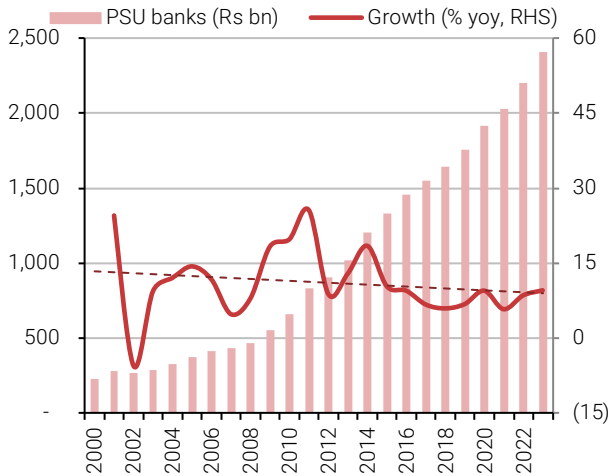
Exhibit 2: Hikes agreed in the past few rounds of 5-year bipartite wage settlement (%)



Source: Kotak Institutional Equities

Total cost for PSU banks has grown at ~11% CAGR over the past 23 years

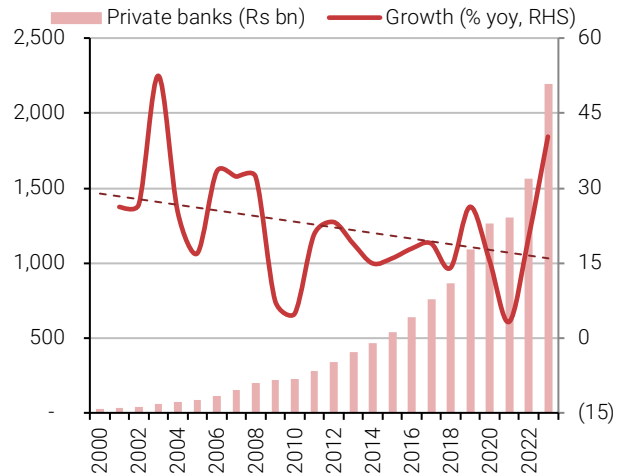
Exhibit 3: Total cost for PSU banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Total cost for private banks has grown at ~22% CAGR over the past 23 years

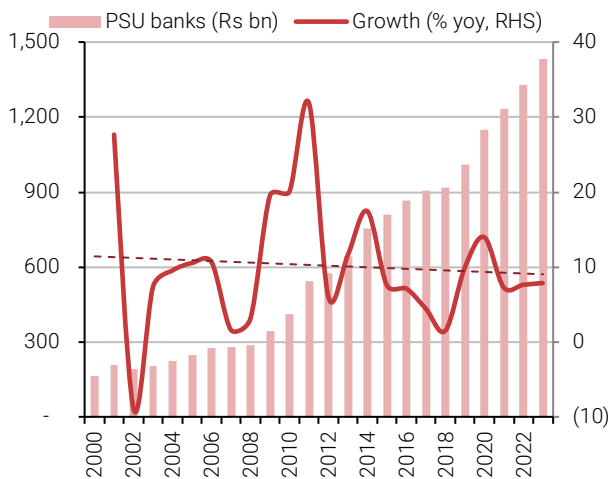
Exhibit 4: Total cost for private banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Staff cost for PSU banks has grown at ~10% CAGR over the past 23 years

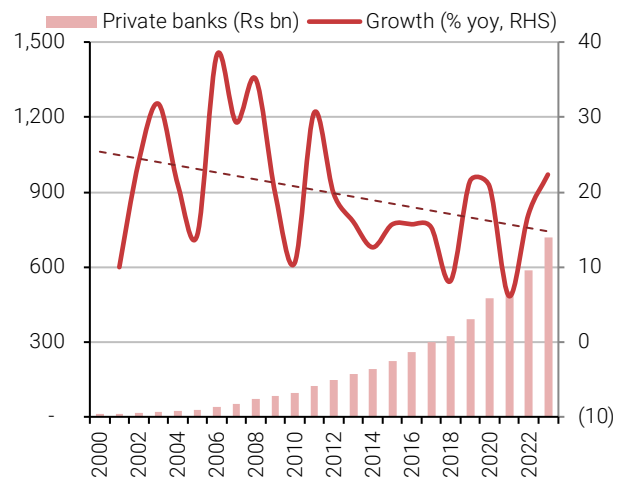
Exhibit 5: Staff cost for PSU banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Staff cost for private banks has grown at ~20% CAGR over the past 23 years

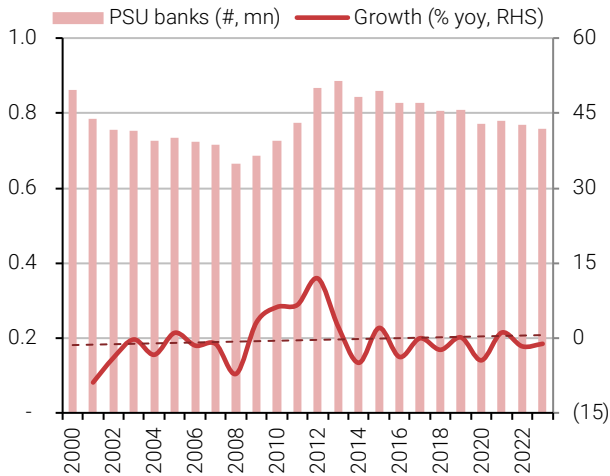
Exhibit 6: Staff cost for private banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Employee count for PSU banks has been roughly flat over the past 23 years

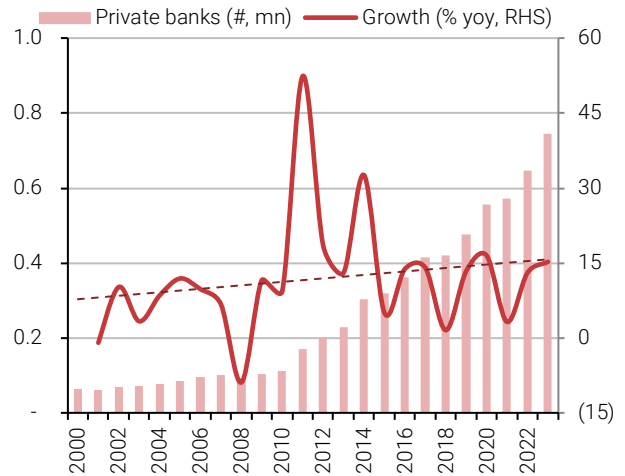
Exhibit 7: Employee count for PSU banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Employee count for private banks has grown at ~11% CAGR over the past 23 years

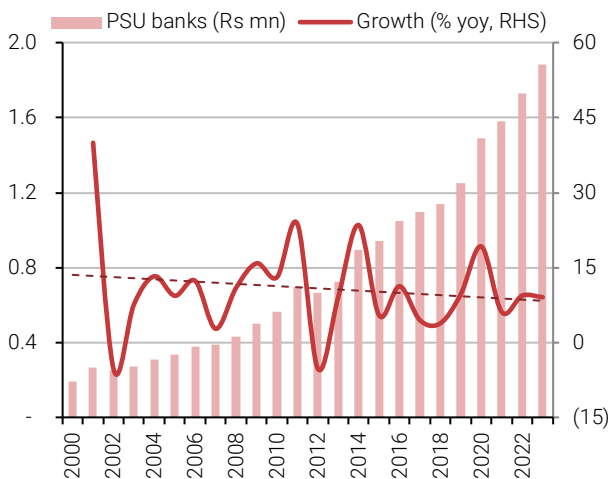
Exhibit 8: Employee count for private banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Average staff cost per employee for PSU banks has increased at ~10% CAGR over the past 23 years

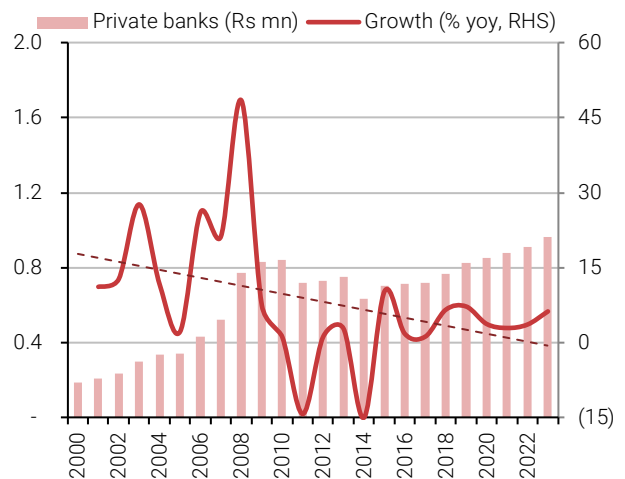
Exhibit 9: Average staff cost per employee for PSU banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Average staff cost per employee for private banks has increased at ~7% CAGR over the past 23 years

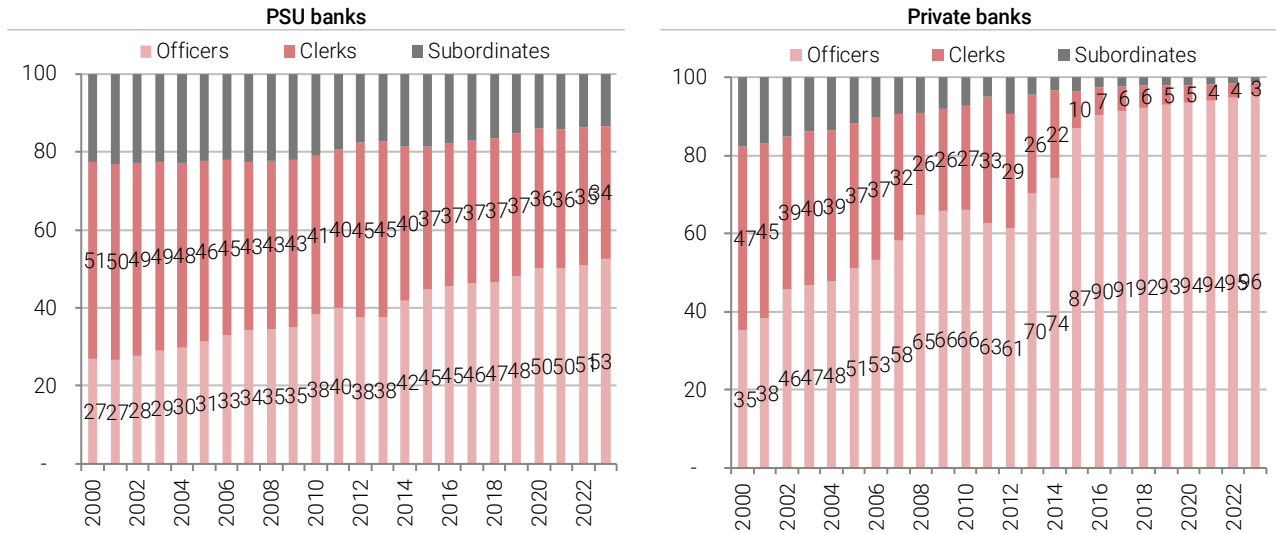
Exhibit 10: Average staff cost per employee for private banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Share of "officer" category employees (who earn higher than other categories) has increased faster for private banks as compared to PSU banks

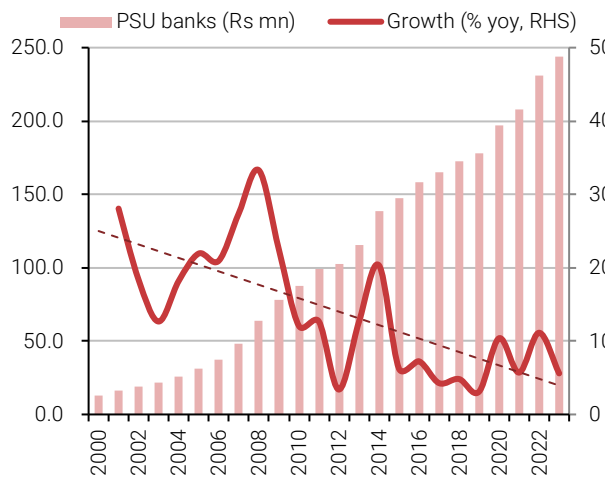
Exhibit 11: Mix of bank employees by grade, March fiscal year-ends, 2004 - 2023 (%)



Source: RBI, Kotak Institutional Equities estimates

Average business per employee has grown at ~12% CAGR for PSU banks

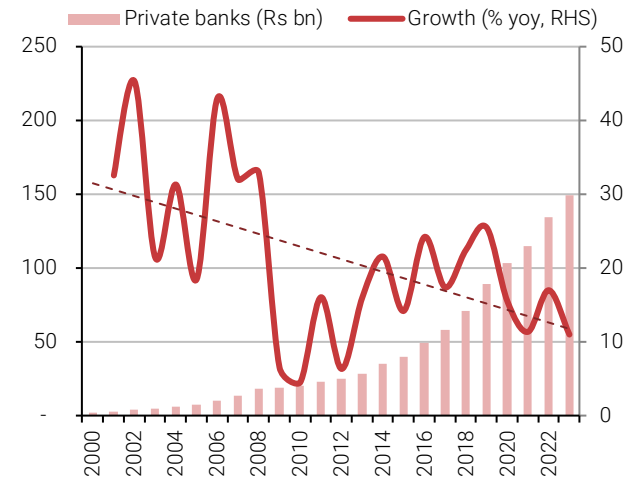
Exhibit 12: Average business (advances + deposits) per employee for PSU banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average business per employee has grown at ~18% CAGR for private banks

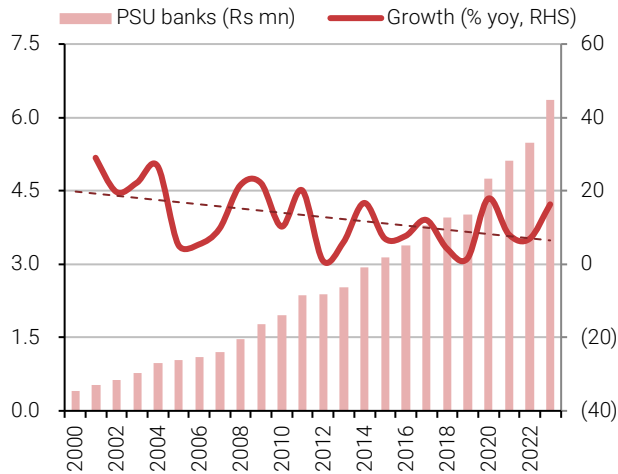
Exhibit 13: Average business (advances + deposits) per employee for private banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average revenue per employee has grown at ~13% CAGR for PSU banks

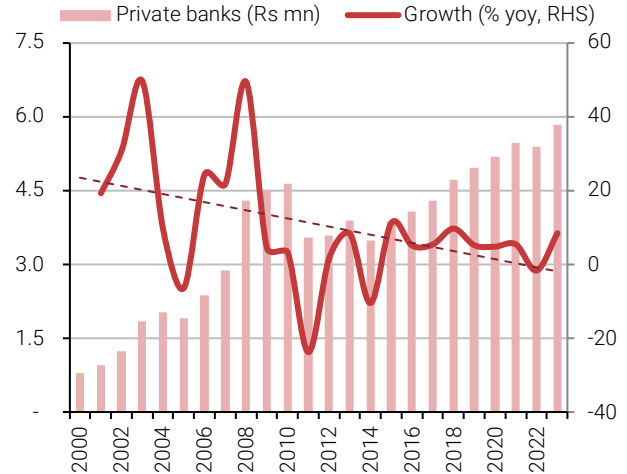
Exhibit 14: Average revenue per employee for PSU banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average revenue per employee has grown at ~9% CAGR for private banks

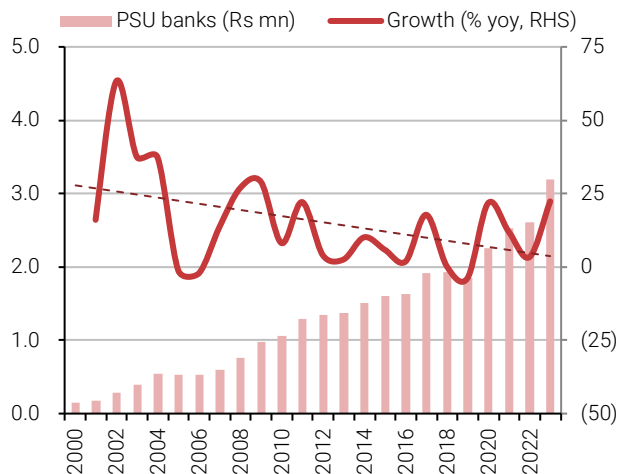
Exhibit 15: Average revenue per employee for private banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average PPOP per employee has grown at ~14% CAGR for PSU banks

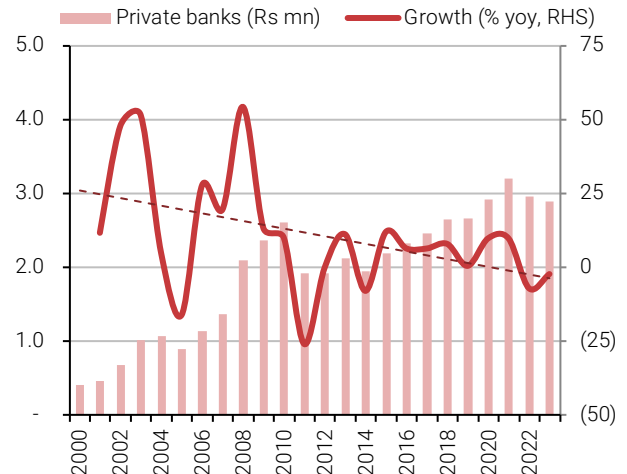
Exhibit 16: Average PPOP per employee for PSU banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average PPOP per employee has grown at ~9% CAGR for private banks

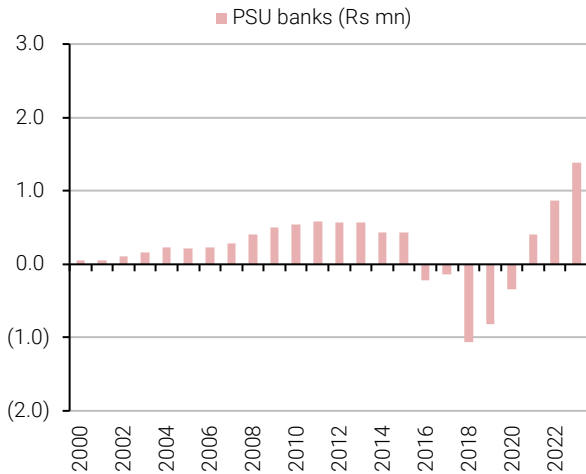
Exhibit 17: Average PPOP per employee for private banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average PAT per employee stood at ~Rs1.4 mn for PSU banks in FY2023

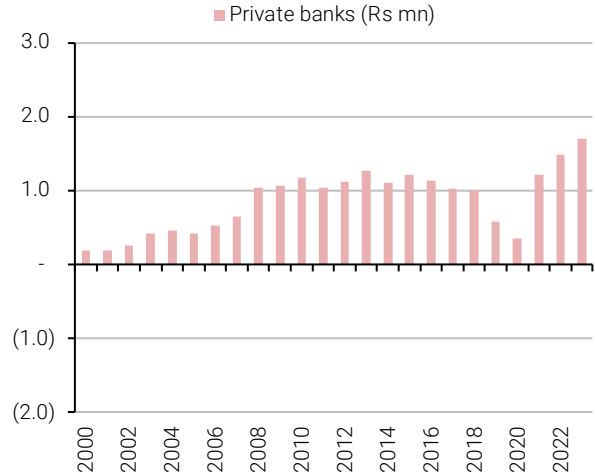
Exhibit 18: Average PAT per employee for PSU banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Average PAT per employee stood at ~Rs1.7 mn for private banks in FY2023

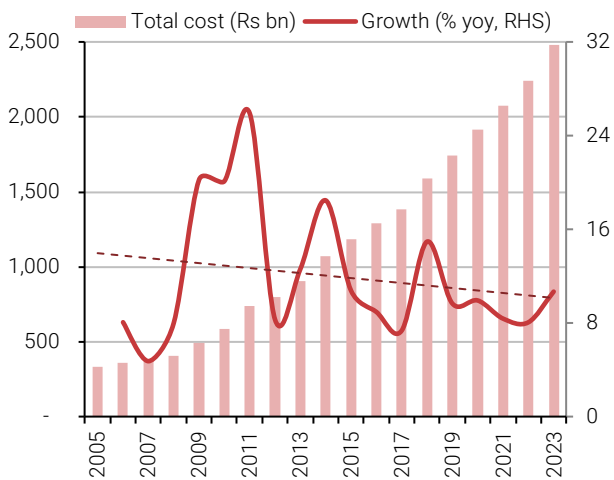
Exhibit 19: Average PAT per employee for private banks, March fiscal year-ends (Rs mn)



Source: RBI, Kotak Institutional Equities

Total cost for PSU banks has grown at a CAGR of ~11% over the past 23 years

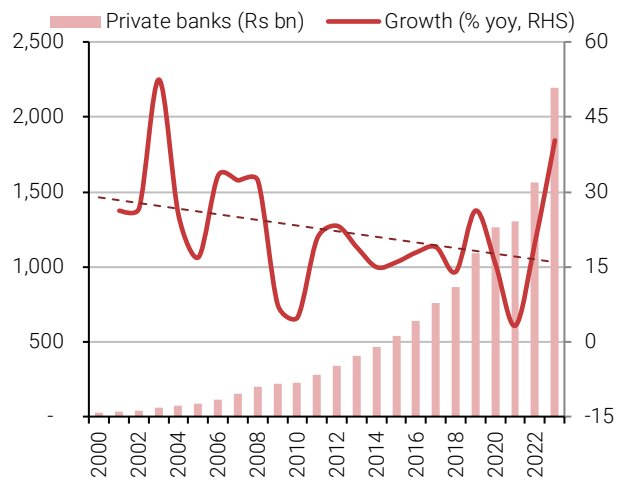
Exhibit 20: Total cost for PSU banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Staff cost for PSU banks has grown at ~11% CAGR over the past eighteen years

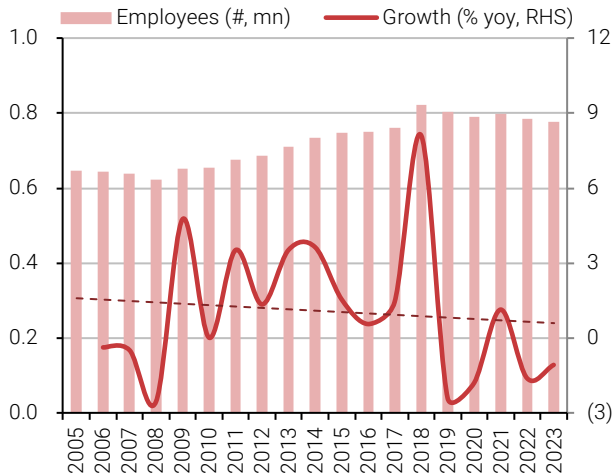
Exhibit 21: Total cost for private banks, March fiscal year-ends (Rs bn)



Source: RBI, Kotak Institutional Equities

Employee count has grown at ~1% CAGR over the past eighteen years

Exhibit 22: Number of employees in PSU banks, March fiscal year-ends (#, mn)



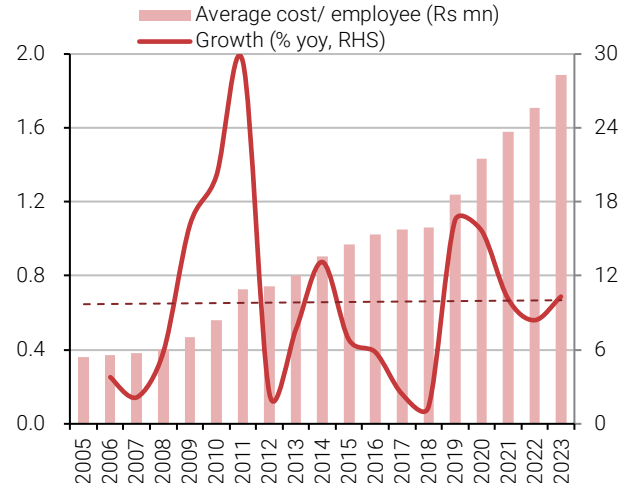
Notes:

- (1) We have included IDBI Bank also in this analysis.
- (2) Associate banks of SBI have been included in this analysis post their merger into SBI.

Source: Companies, Kotak Institutional Equities

Average cost per employee has increased at ~10% CAGR over the past eighteen years

Exhibit 23: Average cost per employee for PSU banks, March fiscal year-ends (Rs mn)



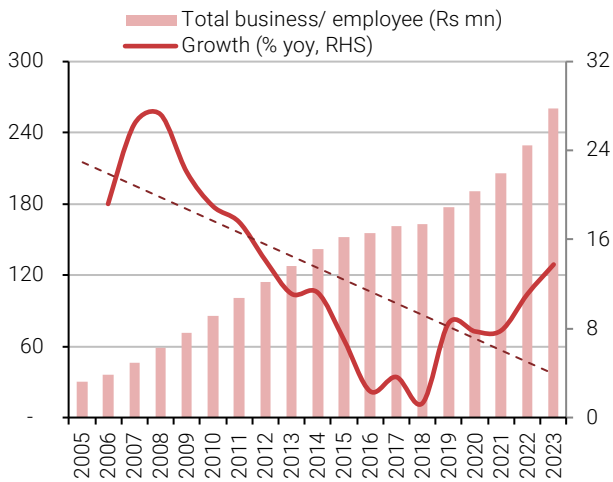
Notes:

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Source: Companies, Kotak Institutional Equities

Total business per employee grew at ~13% CAGR over the past eighteen years

Exhibit 24: Total business (deposits + advances) per employee for PSU banks, March fiscal year-ends (Rs mn)



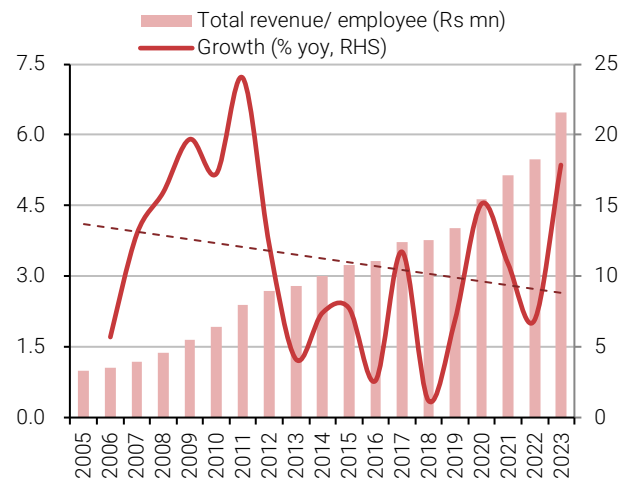
Notes:

- (1) We have included IDBI Bank also in this analysis.
- (2) Associate banks of SBI have been included in this analysis post their merger into SBI.

Source: Companies, Kotak Institutional Equities

Total revenue per employee grew at ~11% CAGR over the past eighteen years

Exhibit 25: Total revenue per employee for PSU banks, March fiscal year-ends (Rs mn)



Notes:

- (1) We have included IDBI Bank also in this analysis.
- (2) Associate banks of SBI have been included in this analysis post their merger into SBI.

Source: Companies, Kotak Institutional Equities

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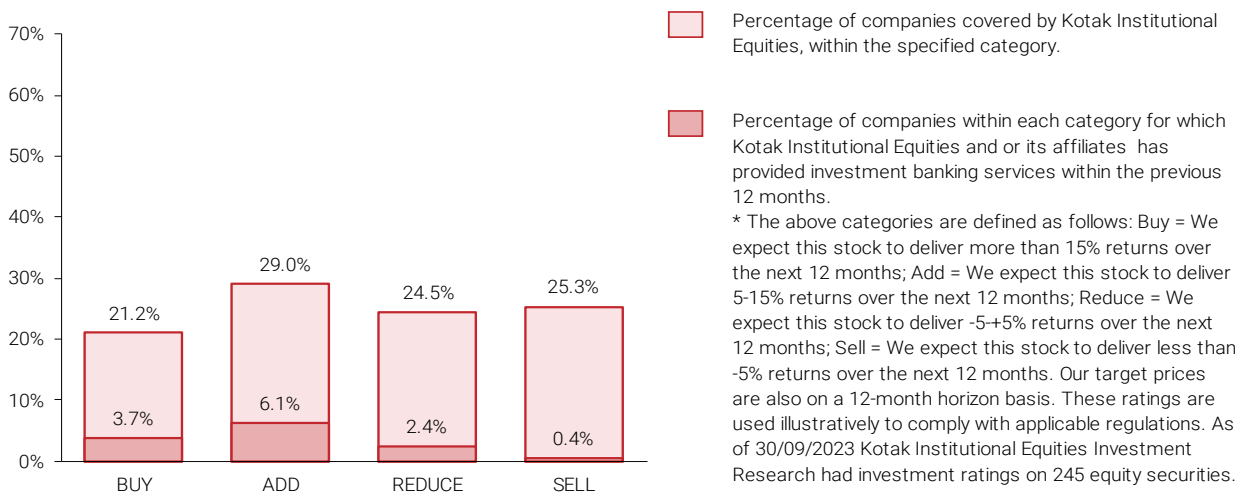
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Source: Kotak Institutional Equities

As of September 30, 2023

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