Net NPAs Reach Historic Low Levels, Fall Below 1.0% in Q4

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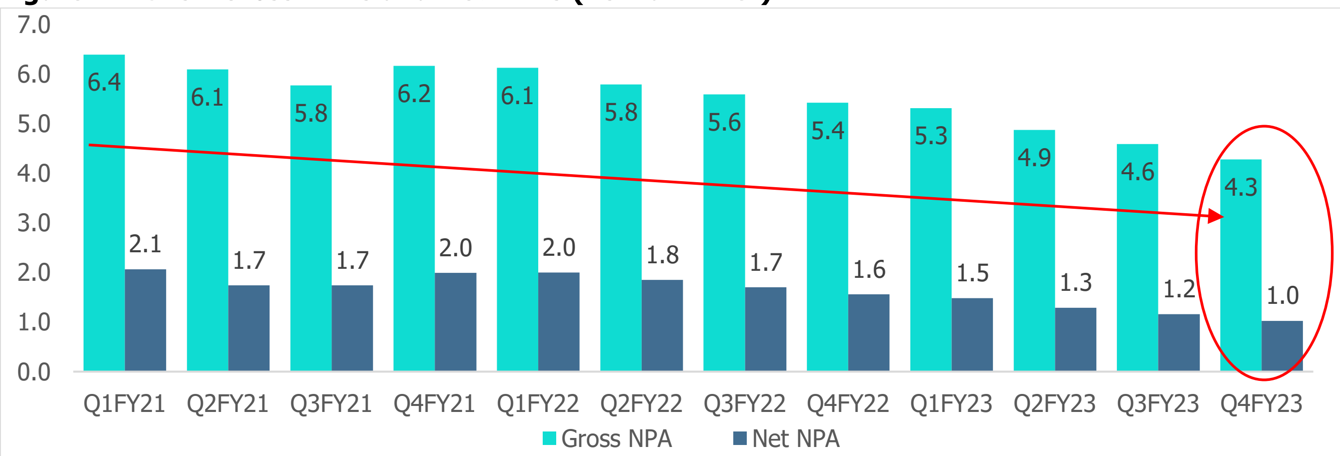
Synopsis

- Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs) reduced by 23.5% y-o-y to Rs.5.5 lakh crore as of March 31, 2023, due to lower slippages, "steady recoveries & upgrades" and write-offs. The GNPA ratio of SCBs reduced to 3.96% as of March 31, 2023, from 6.04% over a year ago. Robust growth in advances of 16.5% y-o-y is also supporting this reduction.
- Net Non-Performing Assets (NNPAs) of SCBs reduced by 34.0% y-o-y to Rs.1.3 lakh crore as of March 31, 2023. The NNPA ratio of SCBs reduced to 0.95% from 1.72% in Q4FY22 which is significantly better than pre-AQR levels of 2.1% (FY14).
- SCBs credit cost (annualised) declined by 16 basis points (bps) y-o-y to 0.6% in Q4FY23. Besides, it has been generally trending down from 1.4% in Q4FY21. The banks have been holding substantial buffers for provisions over the last 6-8 quarters along with continuous improvement in the asset quality required a lower level of incremental provisioning, resulting in lower credit cost.
- Restructured assets for select eight PSBs reduced by 24.7% y-o-y to Rs.1.0 lakh crore as of March 31, 2023, meanwhile select six PVBs declined by 50.1% to Rs.0.2 lakh crore due to repayments made by the borrowers, an uptick in the economic activities and also slipping some accounts into the NPAs. Restructured assets (eight PSBs + six PVBs) as a percentage of net advances stood at 1.07% as of March 31, 2023, dropped by 73 bps over a year ago period.
- PCR of SCBs expanded by 376 bps y-o-y in Q4FY23 mainly driven by PSBs on account of higher reduction rate in GNPAs as compared with accumulated provisions.

Asset Quality on Track to Reach Pre-AQR Levels

The GNPAs of SCBs reduced by 23.5% y-o-y to Rs.5.5 lakh crores as of March 31, 2023, vs Rs.7.3 lakh crores over a year ago. PSBs accounted for 77.2% of aggregate GNPAs compared to 61.4% of advances. Overall, the SCBs stress level has reduced as their outstanding SMAs have declined and the restructured book has reduced significantly in Q4FY23, indicative of improving asset quality.

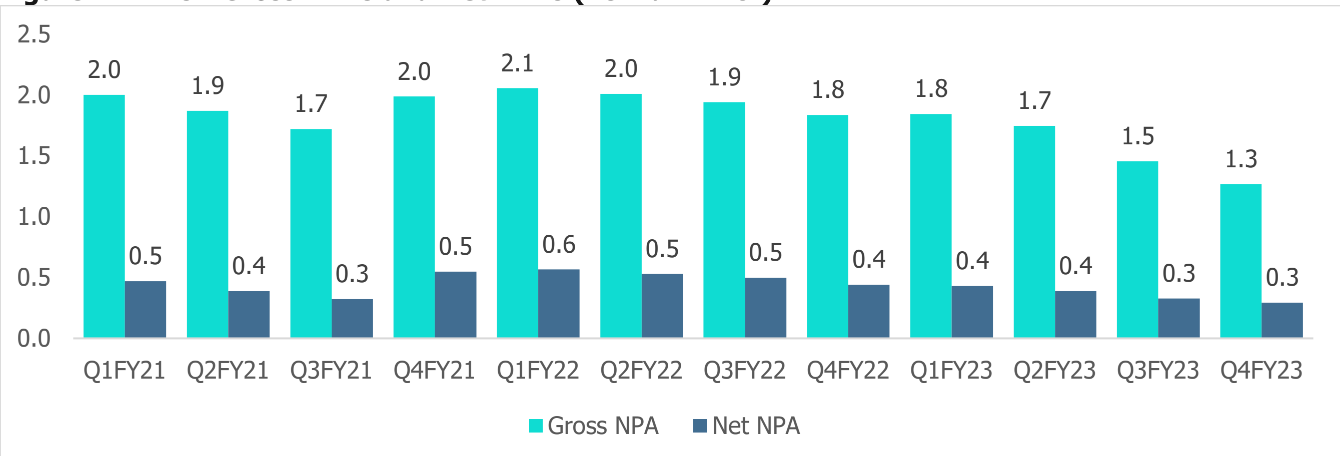
Figure 1: PSBs - Gross NPAs and Net NPAs (Rs. Lakh – Cr)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs and 18 PVBs

GNPAs of PSBs reduced by 21.0% y-o-y to Rs.4.3 lakh crore in Q4FY23 due to lower slippages, steady recoveries & upgrades, and write-offs. PSBs slippages declined by 37.5% y-o-y to Rs.0.22 lakh crore in Q4FY23. PSBs write-offs and recoveries were stable at Rs.0.18 lakh crore and Rs.0.29 lakh crore in the quarter.

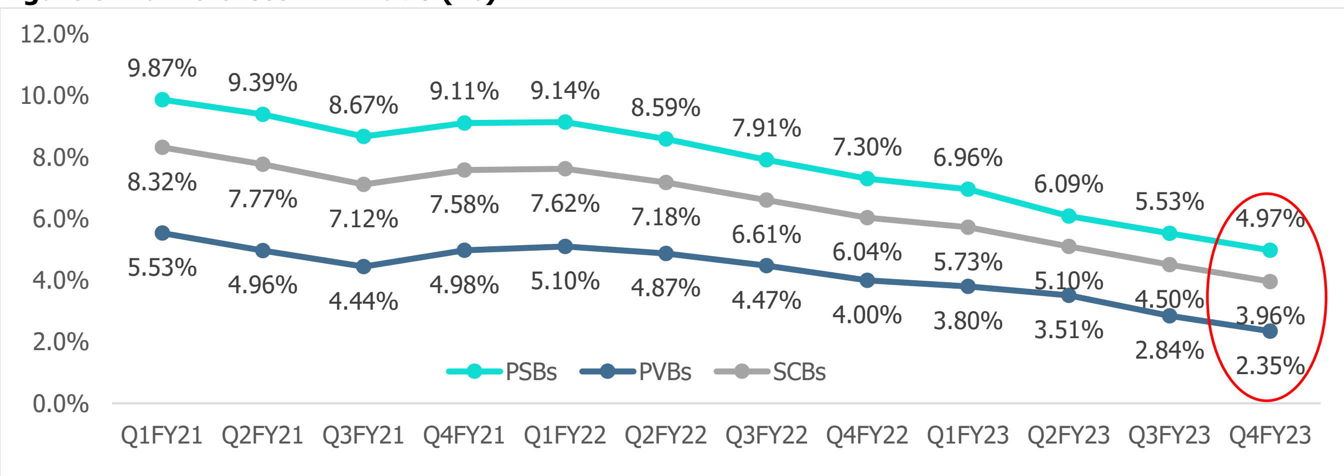
Figure 2: PVBs - Gross NPAs and Net NPAs (Rs. Lakh – Cr)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs and 18 PVBs

GNPAs of PVBs reduced by 30.9% y-o-y to Rs.1.3 lakh crore in Q4FY23 due to higher recoveries & upgrades. The slippages of 15 PVBs reduced by 0.5% to Rs.0.18 lakh crore in the quarter.

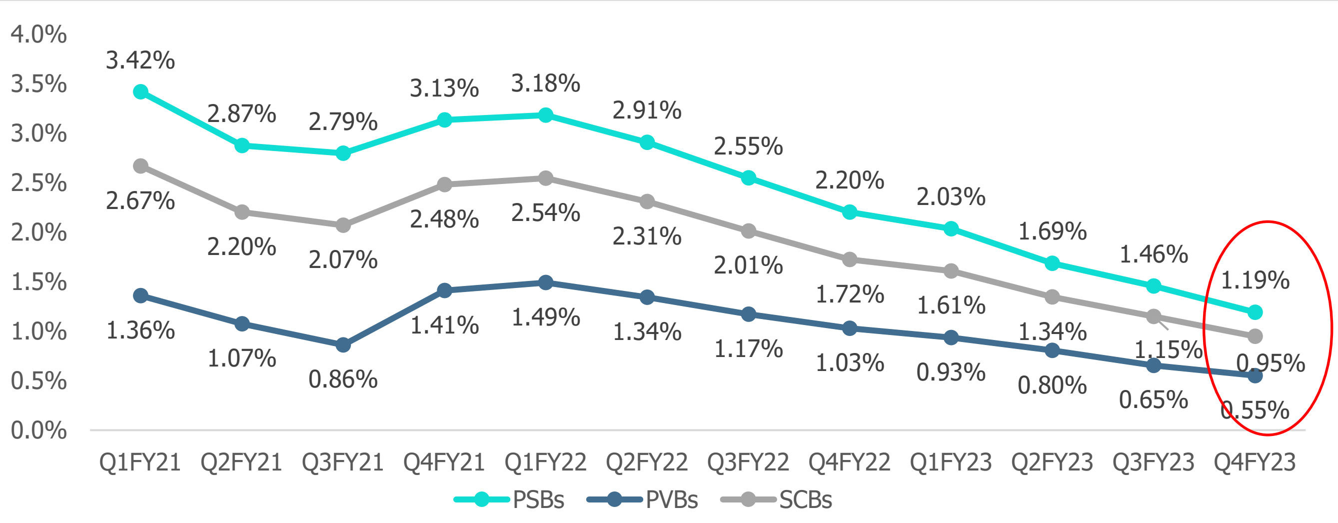
Figure 3: Banks Gross NPA Ratio (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs and 18 PVBs

- The reduction in the absolute stock of GNPAs along with rising advances has led to the GNPA ratio of SCBs reducing to 3.96% as of March 31, 2023, from 6.04% a year ago, and 7.58% as of March 31, 2021, reaching the Pre- Asset Quality Review (AQR) levels.

Figure 4: Net NPA Ratio (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs and 18 PVBs

- Reflecting the improvement of GNPAs and adequate provision levels, NNPAs of SCBs too reduced by 34.0% y-o-y to Rs.1.3 lakh crore in Q4FY23. The NNPA ratio of SCBs also reduced significantly to 0.95% from 1.72% in Q4FY22. NNPAs of PSBs dropped by 101 bps to 1.19% in Q4FY23 while PVBs reported a drop of 38 bps to 0.55%.

Figure 5: Fresh Slippages of Select Banks (Rs. Crore)

PSBs	Q4FY22	Q3FY23	Q4FY23	Y-o-Y (%)	Q-o-Q (%)
SBI	2,845	3,098	3,185	12.0	2.8
BoB	4,514	2,172	2,242	-50.3	3.2
PNB	9,575	3,865	3,518	-63.3	-9.0
UBI	5,263	2,305	2,687	-48.9	16.6
Canara	3619	3,018	2857	-21.1	-5.3
Total	**25,816**	**14,458**	**14,489**	**-43.9**	**0.2**
			PVBs		
HDFC**	4,000	6,600	4,900	22.5	-25.8
ICICI*	4,204	5,723	4,297	2.2	-24.9
Axis***	3,981	3,807	3,375	-15.2	-11.3
IndusInd	2,088	1,467	1,603	-23.2	9.3
Kotak	736	740	823	11.8	11.2
Total	**15,009**	**18,337**	**14,998**	**-0.1**	**-18.2**

Source: Banks Presentation, Note: * Gross Additions, ** HDFC Bank Slippage excludes Agriculture sec slippages for Q3FY23, *** includes the non-recurring impact of day 1 cross NPA slippages from the acquisition of Citi India Consumer Business for Q4FY23.

Figure 6: Select Nine PSBs – Total SMAs (Rs. Crore)

Banks	March 31, 2022	March 31, 2023	y-o-y (%)
BoI$	10,912	16,968	55.5
BoM$$#	1,090	793	-27.2
CB$	13,245	6,563	-50.4
CBI	14,924	12,860	-13.8
IB$#	3,546	2,417	-31.8
PSB#	756	446	-41.0
SBI#	3,544	3,260	-8.0
UCO Bank	16,783	14,177	-15.5
UBI$	4,447	5,040	13.3
Total	**69,247**	**62,524**	**-9.7**

Source: Banks Presentation, $SMA position of 5 crore & above, $$SMA positions 1 crore & above, # SMA 1 & 2

- Total SMAs of select nine PSBs reduced by 9.7% y-o-y to Rs.62,524 crore in Q4FY23 over a year ago period due to an uptick in economic activities.

Figure 7: Write-Offs of Select Banks (Rs. Crore)

PSBs	Q4FY22	Q3FY23	Q4FY23	Y-o-Y (%)	Q-o-Q (%)
SBI	4,856	10,024	6,677	37.5	-33.4
BoB	4,425	4,725	4,935	11.5	4.4
PNB	10,548	4,375	6,094	-42.2	39.3
UBI	812	1,249	2,679	229.9	114.5
Canara	2,989	2,836	4,317	44.4	52.2
Total	**23,630**	**23,209**	**24,702**	**4.5**	**6.4**
PVBs					
HDFC	1,700	3,100	2,400	41.2	-22.6
ICICI	2,644	1,162	1,158	-56.2	-0.3
Axis	1,697	1,652	2,429	43.1	47.0
IndusInd	1,353	795	569	-57.9	-28.4
Total	**7,394**	**6,709**	**6,556**	**-11.3%**	**-2.3%**

Source: Banks Presentation

Figure 8: Select Banks' Restructured Portfolio (Rs. Crore) – Shows Significant Reduction

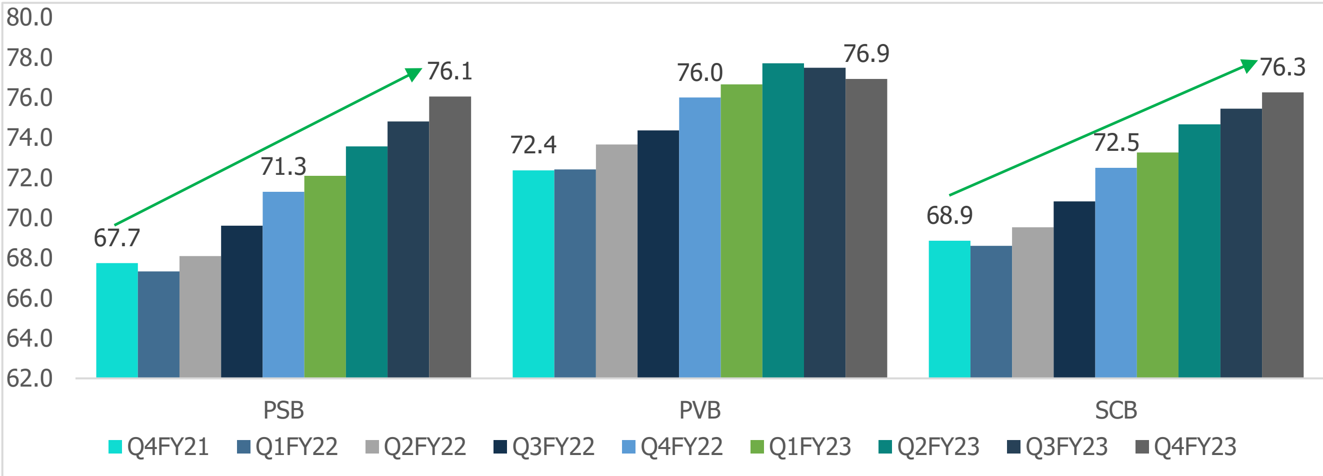
PSBs	March 31, 2022	March 31, 2023	Y-o-Y (%)	PVBs	March 31, 2022	March 31, 2023	Y-o-Y (%)
SBI	30,960	24,302	-21.5	HDFC	15,700	5,000	-68.2
BoB	19,000	16,000	-15.8	ICICI	4,987	4,508	-9.6
PNB	17,204	10,934	-36.4	Axis	4,029	2,047	-49.2
UBI	21,442	17,826	-16.9	Kotak	1,205	718	-40.4
BoI	16,880	10,379	-38.5	IndusInd	6,215	2,435	-60.8
BoM	5,547	4,188	-75.2	Yes	6,752	4,705	-30.3
IB	15,205	11,278	-25.8				
CBI	8,794	6,766	-23.1				
Total	**1,35,032**	**1,01,673**	**-24.7**	**Total**	**38,888**	**19,413**	**-50.1**
% of Net Advances	2.2	1.4	-80 bps	% of Net Advances	1.1	0.45	-65 bps

- Indian banking sector navigated the Covid setback and witnessed significant improvement post the period. Overall, restructuring done by the banks in the Covid period has been reduced significantly due to repayment by borrowers, an uptick in economic activities and also slipping of some accounts into the NPAs.

Restructured portfolio for select eight PSBs reduced by 24.7% y-o-y to Rs.101,673 crore as of March 31, 2023, meanwhile select six PVBs declined by 50.1% y-o-y to Rs.19,413 crore in the same period.

Provision Coverage Ratio (PCR) – PSBs Improvement for PCR Drives for SCBs PCR at Higher Level

Figure 9: SCBs PCR Trend (%)

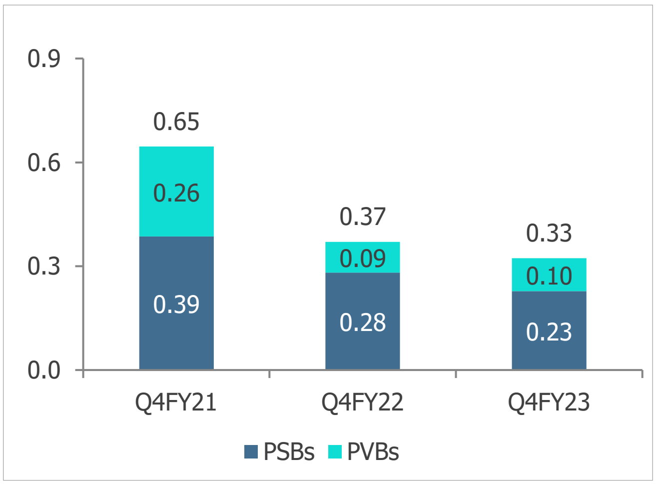


Source: Ace Equity, Note – PCR calculation (Provisions = GNPAs-NPAs), (PCR= Provisions/ NNPAs)
Includes 12 PSBs and 18 PVBs

- The PCR of SCBs has been generally trending upwards since Q4FY21 and stood at 76.3% in Q4FY23. It also rose by 376 bps y-o-y in the quarter mainly driven by PSBs.
  - SCBs GNPAs declined by 23.5% y-o-y in the quarter while accumulated provisions declined by 19.6% in the same period, resulting in higher PCR.
  - PSBs' PCR improved by 475 bps y-o-y to 76.1% in the quarter as the rate of reduction in GNPAs was faster than accumulated provisions.
  - PVBs' PCR improved by 93 bps y-o-y to 76.3% in the quarter.

Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

Figure 10: Provisions and Contingencies



Source: Ace Equity, CareEdge Calculations
Includes 12 PSBs and 18 PVBs

SCBs provisions declined by 12.3% y-o-y to Rs.0.33 lakh crore in Q4FY23 due to holding a substantial buffer for provisions by the banks along with improvement in the asset quality which required lower incremental provisioning in the quarter.

Credit cost (annualised) of SCBs declined by 16 bps to 0.58% in Q4FY23 and it has been generally trending down from 1.44% in Q4FY21. For PSBs, it reduced by 23 bps to 0.7% in the quarter, while for PVBs it marginally dropped by 2 bps to 0.5% in the same period. Credit cost witnessed a significant reduction over the last 6-8 quarters due to holding a substantial buffer for provisions and improvement in asset quality.

Conclusion

The gross non-performing assets (GNPA) ratio of scheduled commercial banks (SCBs) has nearly reached pre-Asset Quality Review (AQR) levels in the fourth quarter of the fiscal year 2022-23 (Q4FY23). This trend is expected to continue in the fiscal year 2023-24 (FY24) due to several factors, including lower incremental slippages, a reduction in restructured portfolios, and healthy growth in advances driven by an uptick in economic activities. SCBs have maintained a substantial buffer for provisions, which positions them well to address asset quality concerns. On the other hand, downside risks include an increase in crude oil prices, global economic slowdown, global monetary and liquidity tightening, elevated interest rates, and the prolonged Russia-Ukraine conflict.

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