

SCBs Witness All-Time Low Net Non-Performing Asset Levels

September 26, 2023 | BFSI Research

Synopsis

- Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs) reduced by 25.6% y-o-y to Rs. 5.32 lakh crore as of June 30, 2023, due to lower slippages, steady recoveries & upgrades and write-offs. Gross NPAs dropped in Q1FY24, despite a healthy growth of advances of 16.7% y-o-y in the same period. The GNPA ratio of SCBs reduced to 3.7% as of June 30, 2023, from 5.7% over a year ago.
- Net Non-Performing Assets (NNPAs) of SCBs reduced by 34.7% y-o-y to Rs. 1.25 lakh crore as of June 30, 2023. The NNPA ratio of SCBs reduced to 0.9% from 1.6% in Q1FY23 which is an all-time low.
- SCBs credit cost (annualised) declined by 16 basis points (bps) y-o-y to 0.52% in Q1FY24. Besides, it has been generally trending down from 1.44% in Q4FY21. Public Sector Banks (PSBs) 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 10 PSBs reduced by 22.4% y-o-y to Rs. 0.97 lakh crore as of June 30, 2023. Meanwhile, restructured assets of select six Private Banks (PVBs) declined by 48.5% to Rs. 0.17 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 (Ten PSBs + Six PVBs) as a percentage of net advances stood at 1.0% as of June 30, 2023, dropping by 60 bps over a year ago period.
- Provision Coverage Ratio (PCR) of SCBs expanded by 326 bps y-o-y to 76.5% Q1FY24 mainly due to improvement in overall asset quality and aggressive provisioning for non-performing assets on the books.

Figure 1: SCBs – Improving Gross NPAs and Net NPAs Trend (Rs. Lakh – Cr)

Asset Quality	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Gross NPAs											
Large PSBs	3.97	3.78	3.67	3.49	3.45	3.25	3.03	2.79	2.69	-22.1	-3.7
Other PSBs	2.15	2.01	1.92	1.93	1.86	1.63	1.55	1.49	1.36	-26.9	-8.6
PSBs	6.12	5.79	5.59	5.42	5.31	4.87	4.59	4.28	4.05	-23.8	-5.4
Large PVBs	0.86	0.82	0.76	0.72	0.72	0.71	0.71	0.68	0.69	-4.4	1.8
Other PVBs	1.19	1.19	1.18	1.12	1.12	1.04	0.74	0.59	0.58	-47.8	-0.9
PVBs	2.05	2.01	1.94	1.83	1.84	1.75	1.45	1.27	1.27	-30.8	0.6
SCBs	8.18	7.80	7.53	7.26	7.15	6.62	6.04	5.55	5.32	-25.6	-4.0
Net NPAs											
Large PSBs	1.37	1.26	1.15	1.04	1.00	0.86	0.79	0.71	0.64	-35.5	-9.3
Other PSBs	0.61	0.56	0.53	0.52	0.49	0.43	0.37	0.32	0.30	-37.6	-4.3
PSBs	1.98	1.82	1.68	1.56	1.49	1.29	1.16	1.03	0.94	-36.2	-7.7
Large PVBs	0.23	0.20	0.19	0.17	0.16	0.15	0.15	0.13	0.14	-15.1	6.0
Other PVBs	0.34	0.33	0.31	0.27	0.27	0.24	0.18	0.16	0.17	-38.1	2.1
PVBs	0.57	0.53	0.50	0.44	0.43	0.39	0.33	0.29	0.31	-29.4	3.8
SCBs	2.54	2.35	2.18	2.00	1.92	1.68	1.48	1.32	1.25	-34.7	-7.7

Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs (5 Large, 7 Others,) and 18 PVBs (3 large, 15 Others)

The GNPA of SCBs reduced by 25.6% y-o-y to Rs. 5.32 lakh crores as of June 30, 2023, Vs. Rs. 7.15 lakh crores over a year ago due to lower slippages, steady write-offs, and decent recoveries in the year. PSBs’ “Recoveries & Upgrades” from Q2FY23 to Q1FY24 (in the last four quarters) stood at Rs. 0.95 lakh crore as compared to 1.15 lakh crore in Q2FY22 to Q1FY23. Overall, the SCBs stress level has reduced on year on basis as their outstanding Special Mentioned Accounts (SMAs) have declined and the restructured book has also reduced significantly in Q1FY24, indicative of improving asset quality.

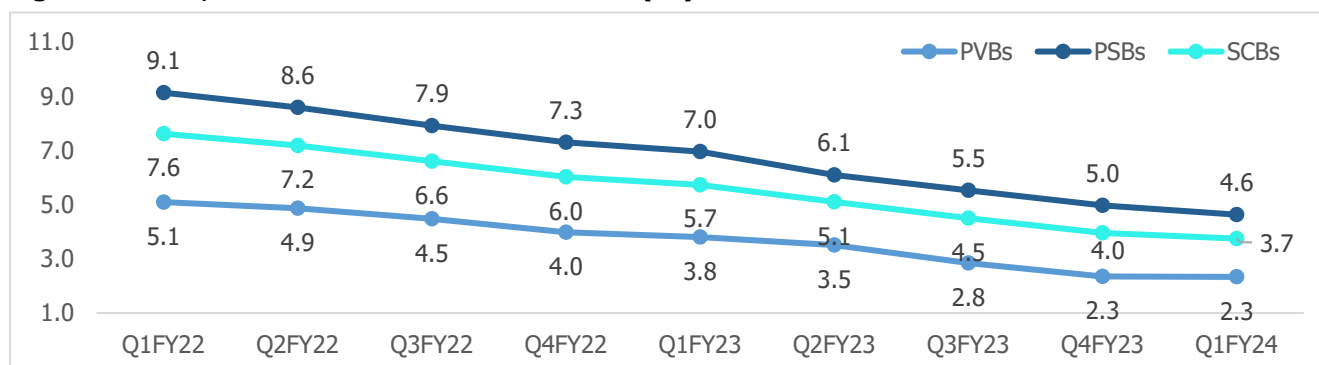
- GNPA of PSBs reduced by 23.8% y-o-y to Rs. 4.05 lakh crore as of June 30, 2023 as slippages reduced significantly whereas write-offs were steady during the year and healthy recoveries & upgrades. Within this, other PSBs’ GNPA reduced by 26.9% y-o-y to Rs. 1.36 lakh crore as of June 30, 2023.
- PSB slippages declined by 27.1% y-o-y to Rs. 0.26 lakh crore in Q1FY24. Whereas write-offs and recoveries were stable at Rs. 0.22 lakh crore and Rs. 0.20 lakh crore in the quarter.
- PVBs’ GNPA reduced by 30.8% y-o-y to Rs. 1.27 lakh crore as of June 30, 2023. This was driven by other PVBs wherein their GNPA reduced by 47.8% y-o-y to Rs. 0.58 lakh crore. While large PVBs’ GNPA reduced by 4.4% y-o-y in the same period.

The NNPA of SCBs reduced by 34.7% y-o-y to Rs. 1.25 lakh crores as of June 30, 2023, vs. Rs. 1.91 lakh crores over a year ago. SCBs created provisions (in Profit & Loss A/C) of Rs. 1.35 lakh crore from Q2FY23 to Q1FY24 Vs. Rs. 1.46 lakh crore from Q2FY22 to Q1FY23.

- NNPA of PSBs reduced by 36.2% y-o-y to Rs. 0.95 lakh crore as of June 30, 2023. While NNPA of PVBs reduced by 29.4% y-o-y to Rs. 0.3 lakh crore as of June 30, 2023, within this the major reduction came from other PVBs which dropped by 38.1% y-o-y to Rs. 0.17 lakh crore.
- On the other hand, NNPA of PVBs showed an increasing trend in Q1FY24 on a q-o-q basis, increasing by almost 3.8% during the quarter.

The reduction in the absolute stock of GNPA along with rising advances has led to the GNPA ratio of SCBs reducing to 3.7% as of June 30, 2023, from 5.7% a year ago, and 7.6% as of June 30, 2021. Overall, it has been showing a consistent improvement over the last two years.

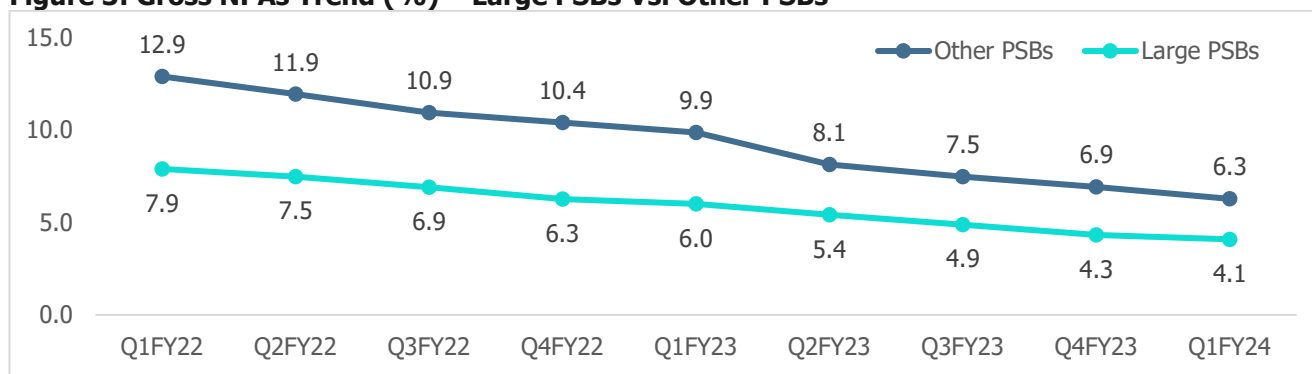
Figure 2: SCBs, PSBs PVBs – Gross NPAs Trend (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs and 18 PVBs (total 30 SCBs)

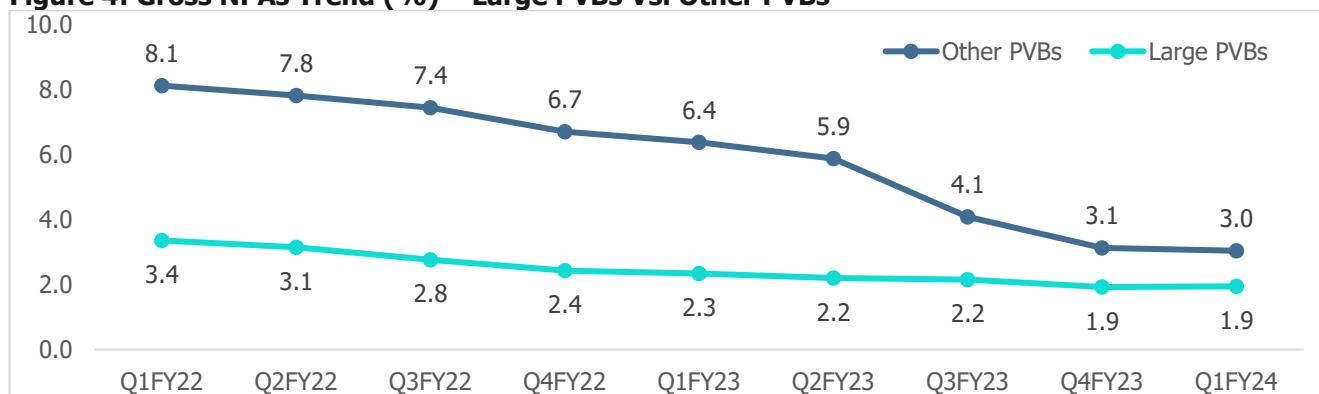
- PSBs GNPA ratio reduced by 240 bps y-o-y to 4.6% as of June 30, 2023, within this large PSBs reduced by 360 bps y-o-y to 6.3% as of June 30, 2023.

Figure 3: Gross NPAs Trend (%) – Large PSBs Vs. Other PSBs



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs (5 Large PSBs + 7 Other PSBs)

Figure 4: Gross NPAs Trend (%) – Large PVBs Vs. Other PVBs



Source: Ace Equity, CareEdge Calculations, Note: Includes 18 PVBs (3 Large PVBs + 15 Other PVBs)

- PVBs GNPA ratio reduced by 150 bps y-o-y to 2.3% as of June 30, 2023, within this large PVBs reduced by 340 bps y-o-y to 3.0% as of June 30, 2023.

Classification of Assets as Non-Performing

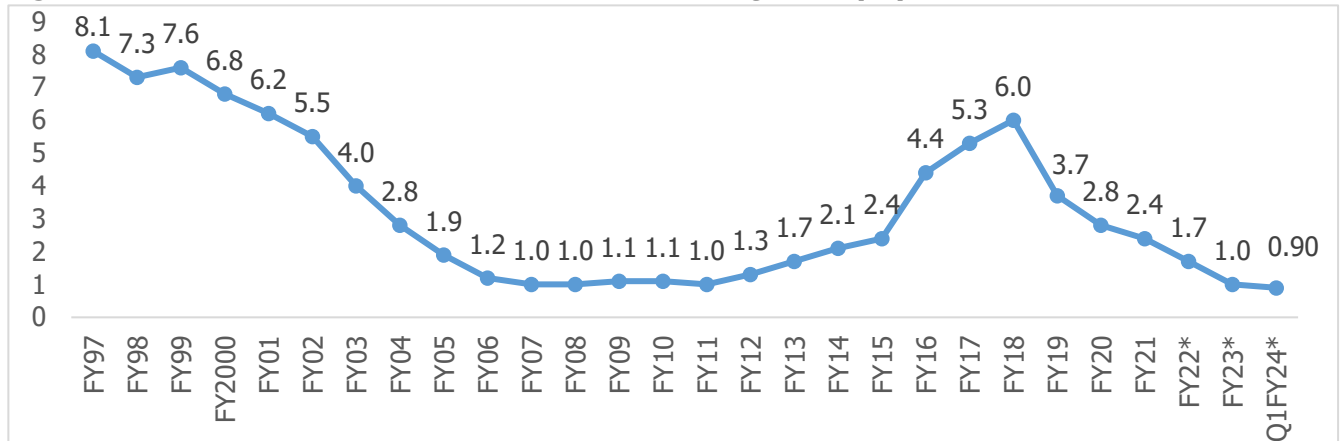
An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as NPA based on the concept of 'Past Due'. The specific period was reduced in a phased manner. An amount is considered as past due when it remains outstanding for 30 days beyond the due date. However, with effect from March 31, 2001, the 'past due' concept has been dispensed with. Further, with a view to moving towards international best practices and to ensure greater transparency, it has been decided to adopt the 90-day overdue norms for identification of NPAs, from the year ending 31 March 2004.

Figure 5: NPA Recognition period

Date	Period
March 31, 1993	4 Quarters
March 31, 1994	3 Quarters
March 31, 1995	2 Quarters*
March 31, 2004	90 Days

Source: RBI, * it was two quarters after the "Past Due" period (30 days) from March 31, 1995 to March 31, 2001. However, with effect from March 31, 2001 the 'past due' concept has been dispensed.

Figure 6: SCBs Witnesses All- Time low NNPA levels in Q1FY24 (%)

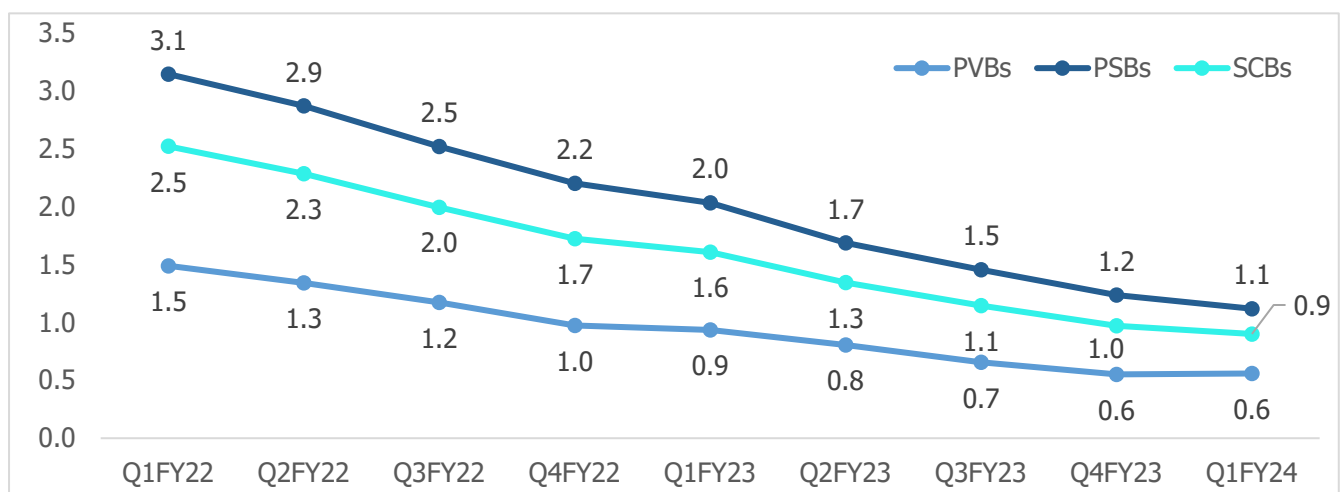


Source: RBI, * CareEdge Calculation for FY22/23/24, 30 SCBs (12 PSBs + 18 PVBs)

As of March 31, 2018, the NNPA ratio stood at 6% in FY18 which dropped to 0.9% as of June 30, 2023. It was attributed to an overall improvement in asset quality due to healthy recoveries, lower slippage, write-offs, creating provisions and more resolution & settlement with IBC 2020.

In Q1FY24, NNPA are at an all-time low, with data available with us from FY97 onwards. As mentioned earlier, before FY2004, the NPA recognition norms were less stringent. This indicates the robustness of the banking sector in India.

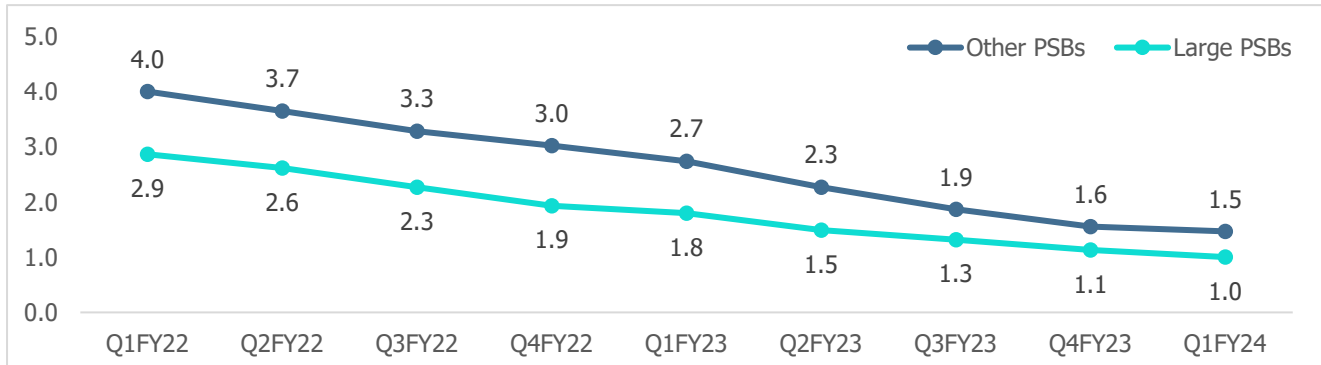
Figure 7: SCBs, PSBs, PVBs Net NPA Trend (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs and 18 PVBs (total 30 SCBs)

- Reflecting the improvement of GNPA and adequate provision levels. The NNPA ratio of SCBs also reduced significantly to 0.90% from 1.6% in Q1FY23. NNPA of PSBs dropped by 90 bps to 1.1% in Q1FY24 while PVBs reported a drop of 30 bps to 0.6%.

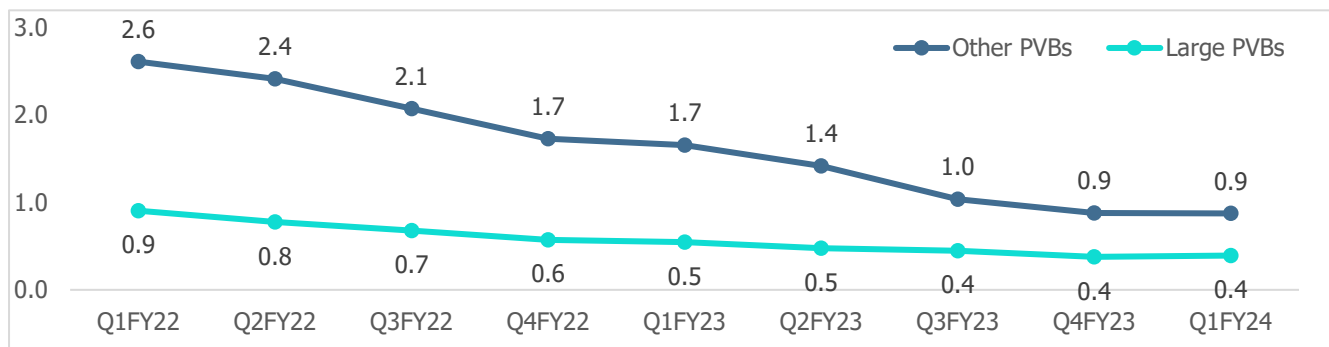
Figure 8: Large PSBs Vs. Other PSBs Net NPA Trend (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 12 PSBs (5 Large PSBs + 7 Other PSBs)

- The NNPA ratio of large PSBs also reduced significantly to 1.0% in Q1FY24 from 1.8% in Q1FY23, while other PSBs witnessed a higher reduction of 120 bps y-o-y to 1.5% in the quarter.

Figure 9: Large PVBs Vs. Other PVBs Net NPA Trend (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 18 PVBs (3 Large PVBs + 15 Other PVBs)

- Other PVBs' NNPA was reduced by 80 bps y-o-y to 1.7% in Q1FY24, while large PVBs reduced by 10 bps to 0.4% in Q1FY24.

Figure 10: Recoveries, upgrades, Write-Offs and Fresh Slippages (Rs. Lakh - Cr.)

PSBs	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.25	0.24	0.19	-21.1	-17.9
Write-Offs	0.23	0.29	0.22	-6.2	-25.0
Fresh Slippages	0.35	0.23	0.26	-27.1	14.4

Source: Bank Presentations, CareEdge Calculations, 12 PSBs (5 Large PSBs + 7 Other PSBs)

Large PSBs recoveries and upgrades came in at Rs. 0.12 lakh crore in Q1FY24 Vs. 0.17 lakh crore over a year ago. While write-offs were at Rs. 0.14 lakh crore Vs 0.12 lakh crore in Q1FY23.

Figure 11: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs. Lakh - Cr.)

PVBs	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.18	0.18	0.12	-33.2	-34.2
Write-Offs	0.08	0.18	0.09	11.9	-52.1
Fresh Slippages	0.27	0.21	0.22	-18.5	4.6

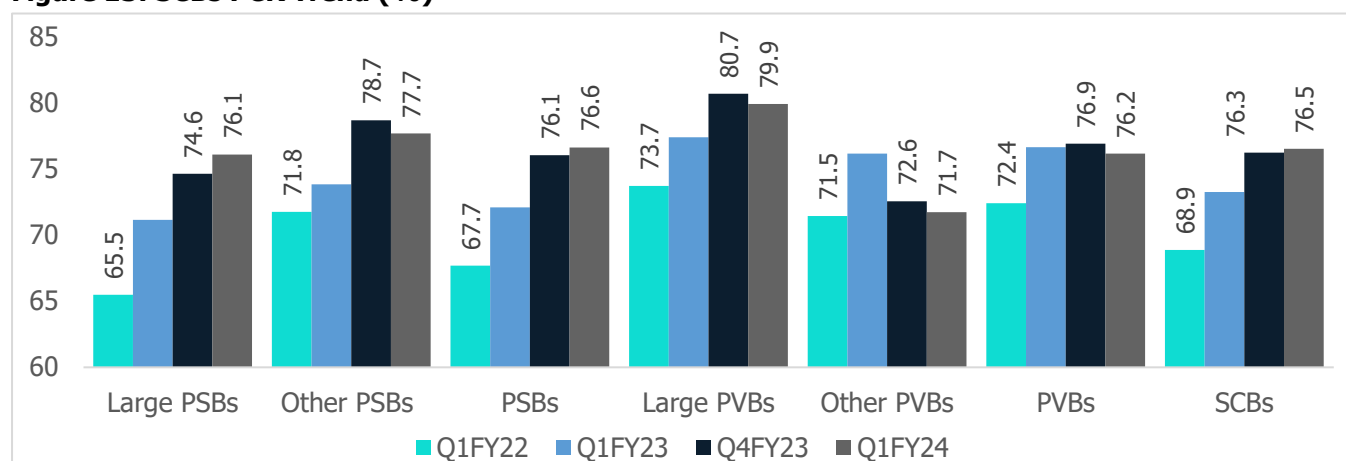
Source: Banks Presentation, CareEdge Calculations, Note 16 PVBs for slippages, 8 PVBs for recoveries, upgrades and write-offs

Figure 12: Select Banks' Restructured Portfolio (Rs. Lakh - Cr.) – Shows Significant Reduction

PSBs	June 30, 2022	June 30, 2023	y-o-y (%)	PVBs	June 30, 2022	June 30, 2023	y-o-y (%)
SBI	0.29	0.23	-21.3	Yes	0.06	0.05	-27.4
UBI	0.21	0.16	-22.9	HDFC Bank	0.11	0.04	-60.3
BoB	0.2	0.13	-33.7	ICICI	0.07	0.03	-60.1
PNB	0.15	0.11	-28.2	Axis	0.03	0.02	-43.9
BoI	0.1	0.1	-2.3	IndusInd	0.05	0.02	-61.8
IB	0.11	0.1	-7	Kotak	0.01	0.01	-43.9
CBI	0.08	0.06	-15.2				
BoM	0.05	0.03	-48.6				
UCO	0.03	0.03	-18.9				
PSB	0.03	0.02	-14.3				
Total	1.25	0.97	-22.4	Total	0.33	0.17	-48.5
% of Net Advances	1.9		1.3	% of Net Advances	0.9	0.4	

Source: Bank Presentations, CareEdge Calculations

Overall, restructuring 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 10 PSBs reduced by 22.4% y-o-y to Rs. 0.97 lakh crore as of June 30, 2023, meanwhile select six PVBs declined by 48.5% y-o-y to Rs. 0.17 lakh crore in the same period.

Provision Coverage Ratio (PCR)**Figure 13: SCBs PCR Trend (%)**Source: Ace Equity, Note – PCR calculation (Provisions = GNPA-NPAs), (PCR= Provisions/ NNPA)
Includes 12 PSBs (5 Large PSBs and 7 PSBs)

- The PCR of SCBs has been generally trending upwards since Q4FY21 and stood at 76.5% in Q1FY24. It also rose by 376 bps y-o-y in the quarter mainly driven by PSBs.
 - SCBs GNPA declined by 25.5% y-o-y in the quarter while accumulated provisions declined by 19.0% in the same period, resulting in higher PCR.
 - PSBs' PCR improved by 450 bps y-o-y to 76.6% in the quarter as the rate of reduction in GNPA was faster than accumulated provisions.
 - PVBs' PCR dropped by 50 bps y-o-y to 76.2% in the quarter.

Figure 14: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

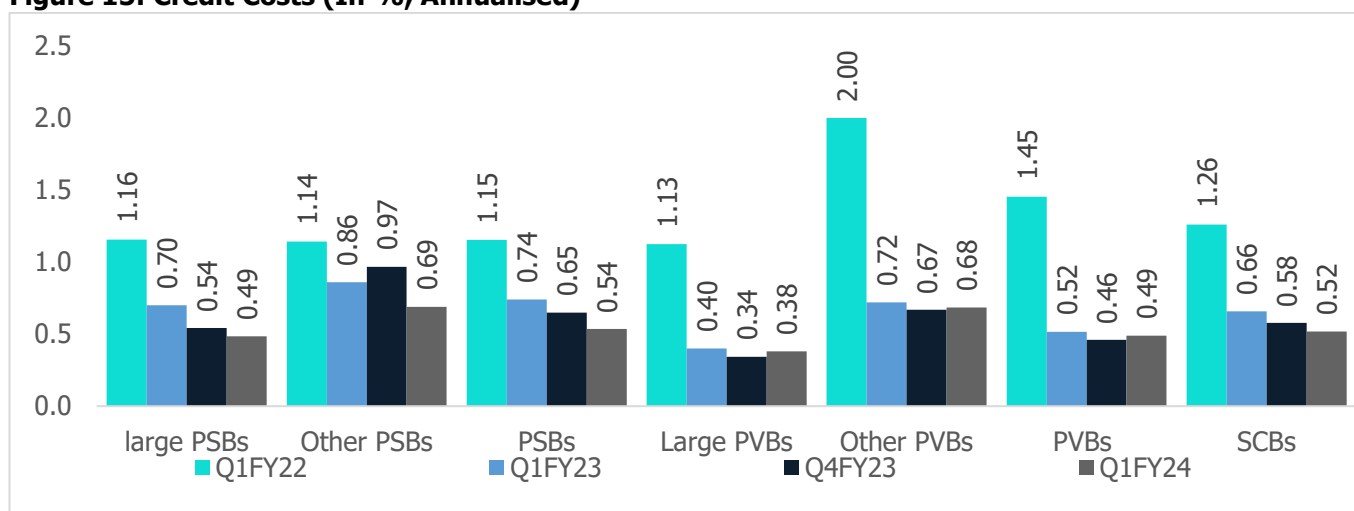
Credit Cost	Q1FY22	Q1FY23	Q4FY23	Q1FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.25	0.17	0.14	0.13	-23.3	-9.5
Other PSBs	0.09	0.07	0.09	0.06	-11.2	-28.0
PSBs	0.34	0.24	0.23	0.19	-19.8	-16.4
Large PVBs	0.11	0.05	0.05	0.05	10.6	12.5
Other PVBs	0.12	0.05	0.05	0.05	8.8	4.5
PVBs	0.23	0.09	0.10	0.10	9.7	8.3
SCBs	0.57	0.33	0.32	0.29	-11.3	-9.1

Source: Ace Equity, CareEdge Calculations, Note 12 PSBs (5 Large + 7 Others), 18 PVBs (3 Large + 15 others)

SCBs credit cost declined by 11.3% y-o-y to Rs. 0.29 lakh crore in Q1FY24 as the banks especially PSBs already hold a substantial buffer for provisions along with improvement in the asset quality which has necessitated lower incremental provisioning in the quarter. PSBs provisions dropped by 19.8% y-o-y to Rs. 0.19 lakh crore in Q1FY24, within this large PSBs reported a major drop in provisions for the quarter. PVBs provisions rose by 9.7% y-o-y in the quarter as it made standard provisions for growth of advances.

In the meanwhile, many of the banks have started discussions and initial actions on creating additional provisions which may be necessitated over a period of next five-six years to meet the requirements of provisioning for expected credit loss (ECL) as being contemplated by the regulators for the sector.

Credit cost (annualised) of SCBs declined by 16 bps to 0.52% in Q1FY24 and it has been generally trending down from 1.44% in Q4FY21. For PSBs, it reduced by 20 bps to 0.54% in the quarter, while for PVBs, it marginally dropped by 3 bps to 0.49% in the same period. Credit cost has witnessed a significant reduction over the last 6-8 quarters due to holding a substantial buffer for provisions and improvement in asset quality.

Figure 15: Credit Costs (In %, Annualised)

Source: Ace Equity, CareEdge Calculations, Note 12 PSBs (5 Large + 7 Others), 18 PVBs (3 Large + 15 others)

Conclusion

Credit offtake experienced robust growth of 16.2% in Q1FY24 and the outlook remains positive for FY24, driven by economic expansion, increased capital expenditure, the implementation of the PLI scheme, and a push for retail credit. CareEdge estimates that credit growth is likely to be in the range of 13.0%-13.5% for FY24, excluding the impact of the merger of HDFC with HDFC Bank.

The gross non-performing assets (GNPA) ratio of SCBs has reached pre-asset Quality Review (AQR) levels in Q1FY24. This trend is expected to continue in FY24 due to several factors, including healthy growth in advances driven by an uptick in economic activities, lower incremental slippages, and a reduction in restructured portfolios. Hence, the SCB GNPA ratio could improve to 2.90%-3.05% by FY24 end. NNPA ratio is at record low at 0.9% as of June 30, 2023 and is likely to trend even lower in the next few quarters as PSBs continue to report improved asset quality figures. Further SCBs also maintain a substantial buffer for provisions, which also creates a somewhat benign credit cost environment. Due to the sharp growth trends, the performance of unsecured loans also remains a key monitorable along with the MSME segment. Downside risks include an increase in crude oil prices, global economic slowdown, global monetary and liquidity tightening, and elevated interest rates.

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