Scheduled Commercial Banks - Healthy Profitability and All-time Low Net NPAs

September 29, 2023 | BFSI Research

Synopsis

- Net Interest Income (NII) of Scheduled Commercial Banks (SCBs) grew by 26.5% year-on-year (y-o-y) to Rs. 1.84 lakh crore in Q1FY24 due to healthy loan growth and a higher yield on advances over the year-ago period.
- The Net Interest Margin (NIM) of SCBs witnessed an improvement of 36 basis points (bps) y-o-y, reaching 3.27% in Q1FY24 due to faster repricing of loans, whereas deposit rates have not yet fully reflected the increased interest rates. In terms of sequential performance, it contracted by 2 bps due to a drop in the NIM of large PSBs. Though, NIM of Other PSBs and other PVBs expanded by 8 bps and 6 bps in the same period.
- SCBs reported a robust rise in advances at 16.7% y-o-y in Q1FY24 mainly driven by personal loans, NBFCs and MSMEs). SCBs witnessed a 13.5% y-o-y deposit growth, within this PVBs' deposits rose by 17.4% y-o-y.
- SCBs Pre-Provisioning Operating Profit (PPOP) grew by 42.8% (y-o-y) due to growth in Net Interest Income (NII), growth in treasury income, a low base, and lower growth in Operating Expenses (opex).
- The cost-to-income ratio of SCBs reduced by 333 bps y-o-y to 47.7% in Q1FY24 due to higher growth in NII than opex and robust growth in PSBs' treasury income and fee income of PVBs.
- Gross Non-Performing Assets (GNPAs) of 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. 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. The NNPA ratio of SCBs reduced to 0.9% from 1.6% in Q1FY23 which is an all-time low.
- 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. Meanwhile, SCBs credit cost (annualised) declined by 16 basis points (bps) y-o-y to 0.52% in Q1FY24.
- SCBs net profit grew by 68.9% y-o-y to Rs. 0.73 lakh crore for Q1FY24 due to robust growth in PPOP and lower provisions. PSB reported strong net profit growth of 124.8% y-o-y to Rs. 0.34 lakh crore in Q1FY24. Return on Assets (RoA, annualised) of SCBs improved by 44 bps y-o-y to 1.31% in Q1FY24. However, banks faced marginal pressure on a sequential basis due to rising cost of deposits and seasonality impact.
- SCBs were adequately capitalised in Q1FY24. PSBs' median Common Equity Tier- 1 (CET-1) ratio expanded by 90 bps y-o-y to 12.3% in the quarter due to robust growth in profitability, while median CAR expanded by 100 bps y-o-y to 15.9% on account of profitability and bond issuances.

Banks' Margin Trajectory Sees Strain as Deposits Cost Rise Sequentially

Movement in NII and NIM

Figure 1: NII (Rs. Lakh Cr.) and Growth (%)

NII	Q1FY24	Q1FY23 (y-o-y)	Q1FY24 (y-o-y)	Q1FY24 (q-o-q)
Large PSBs	0.74	11.3	25.3	-2.3
Other PSBs	0.25	13.7	29.3	3.8
PSBs	**0.99**	**11.9**	**26.3**	**-0.8**
Large PVBs	0.54	17.8	27.8	1.9
Other PVBs	0.31	16.4	24.9	3.6
PVBs	**0.85**	**17.3**	**26.7**	**2.5**
SCBs	**1.84**	**14.3**	**26.5**	**0.7**

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

NII of PSBs and PVBs grew by 26.7% and 26.3% y-o-y, respectively, in Q1FY24. The growth was driven by robust loan growth and higher yields on advances; however, it was partially offset by a rise in the cost of deposits. Transmission for the May 2022 - June 2023 period has been uneven. The increases in Weighted Average Domestic Term Deposit Rates (WADTDR) on fresh rupee deposits and Weighted Average Lending Rates (WALR) on fresh rupee loans were higher in the case of PSBs, while the increases in WADTDR on outstanding deposits and WALR on outstanding loans were higher for PVBs.

Figure 2: Changes in Yield on Advances and Movement in Cost of Funds

	Change in Yields - bps (Advances)		Change in Cost of Funds – bps	
Group	**y-o-y**	**q-o-q**	**y-o-y**	**q-o-q**
Large PSBs	162	14	101	28
Other PSBs	140	24	89	22
PSBs	**157**	**17**	**98**	**26**
Large PVBs	165	28	109	39
Other PVBs	142	40	98	36
PVBs	**157**	**32**	**105**	**38**
SCBs	**157**	**23**	**101**	**30**

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

Figure 3: Yield on Advances – PSBs (%)

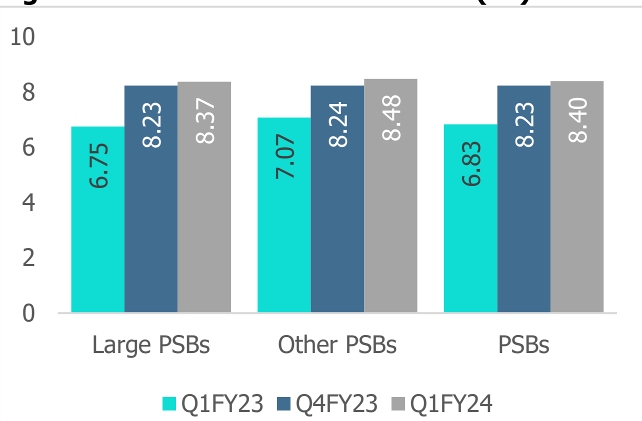


Figure 4: Yield on Advances – PVBs (%)

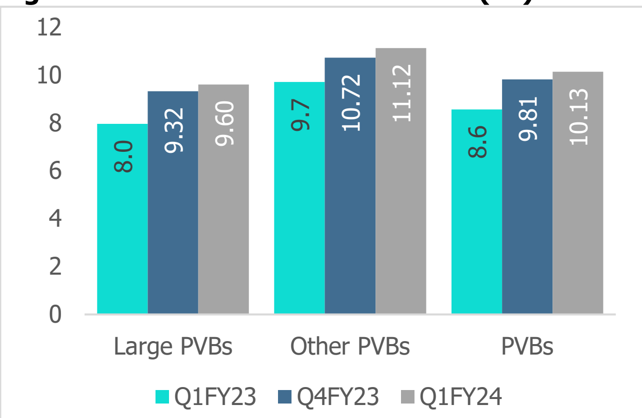


Figure 5: Cost of Funds – PSBs (%)

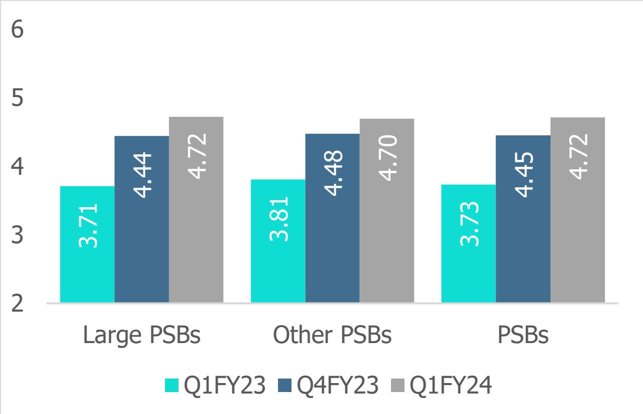
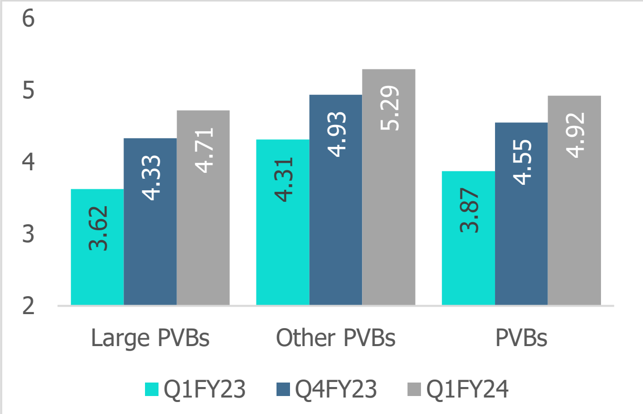


Figure 6: Cost of Funds – PVBs (%)



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

In terms of NII growth, other PSBs outperformed other segments in Q1FY24, registering a robust 29.3% y-o-y growth driven by a 16.4% y-o-y growth in advances.

- Interest income of SCBs rose by 34.7% y-o-y in Q1FY24 wherein PVBs rose by 36.1% and PSBs grew at 33.7% in the quarter. This was based on SCB's increase in advances by 16.7% y-o-y and an increase in yields by 157 bps y-o-y (from 7.5% in Q1FY23 to 9.1% in Q1FY24).
- Interest expenses of SCBs rose by 41.8% y-o-y in Q1FY24, wherein PVBs grew by 46.6% and PSBs by 39.1% in the same period. Deposits for SCBs grew by 13.5% y-o-y in the quarter, within this PVBs rose by 17.4% y-o-y while PSBs reported a slower growth at 10.9% y-o-y in the same period. The expansion in the cost of funds by 101 bps y-o-y (from 3.78% to 4.79%) can be attributed to a rise in deposit rates driven by an increase in policy rates along with a reduction in the CASA ratio (low-cost funds). PVBs' interest expenses increased at a higher pace compared to PSBs due to a higher increase in the mobilisation of deposits.

NIM of SCBs improved by 36 bps y-o-y at 3.27% in Q1FY23, within this, PSBs improved by 34 bps at 2.80%, whereas PVBs expanded at a similar rate and reached 4.08% in the quarter. In terms of sequential performance, overall margins were steady. However, pressure on NIM can be seen due to an increase in the cost of deposits and is expected to continue in Q2FY24. SCBs' yield on advances rose by 23 bps to 9.07% q-o-q while the cost of funds increased by 30 bps to 4.79% in Q1FY24. The increase in cost of funds can also be attributed to muted CASA ratio which contributed to rising cost of funds.

Figure 7: SCBs - NIM Trend (%)

	Q1 FY22	Q2 FY21	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	y-o-y	q-o-q
Large PSBs	2.43	2.47	2.53	2.45	2.46	2.66	2.85	2.88	2.78	0.32	-0.10
Other PSBs	2.32	2.42	2.46	2.25	2.44	2.71	2.84	2.77	2.85	0.41	0.08
PSBs	**2.40**	**2.46**	**2.51**	**2.40**	**2.46**	**2.67**	**2.85**	**2.85**	**2.80**	**0.34**	**-0.05**
Large PVBs	3.58	3.67	3.57	3.46	3.60	3.77	4.04	3.93	3.95	0.35	0.01
Other PVBs	3.61	3.47	3.71	3.74	3.79	3.89	4.01	4.07	4.13	0.34	0.06
PVBs	**3.73**	**3.66**	**3.69**	**3.62**	**3.73**	**3.88**	**4.03**	**4.05**	**4.08**	**0.35**	**0.03**
SCBs	**2.86**	**2.88**	**2.93**	**2.84**	**2.92**	**3.11**	**3.28**	**3.30**	**3.27**	**0.36**	**-0.02**

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

With improving assets quality and renewed business growth, NIM of other PSBs expanded by 41 bps y-o-y and 8 bps q-o-q to 2.85% in Q1FY24 whereas large PSBs rose by 32 bps y-o-y, while dropping by 10 bps q-o-q. NIM of PVBs expanded by 35 bps y-o-y and 3 bps q-o-q at 4.08% in Q1FY24 driven by strong NII growth, also aided by slower asset growth as compared to NII. Other PVBs NIM expanded by 6 bps at 4.13% in the quarter.

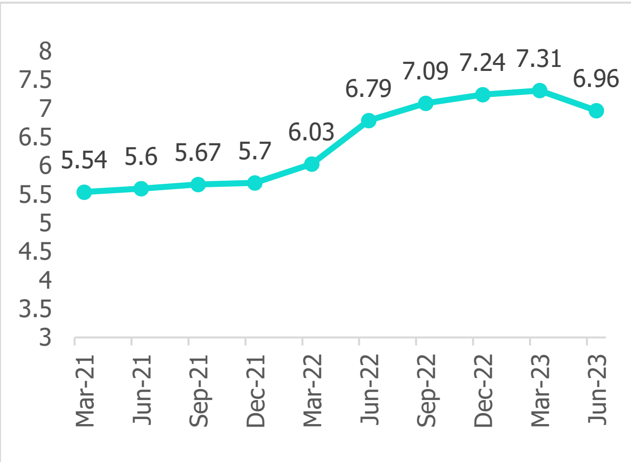
Figure 8: Movement in CASA Ratio (%)

CASA Ratio (%)	Q1FY23	Q4FY23	Q1FY24	y-o-y (Changes in bps)	q-o-q (Changes in bps)
Other PSBs	40.5	39.8	39.0	-146	-74
Large PSBs	41.5	39.9	38.8	-264	-101
PSBs	**41.2**	**39.8**	**38.9**	**-234**	**-94**
Large PVBs	45.6	45.5	43.4	219	-203
Other PVBs	44.3	41.9	40.5	-383	-142
PVBs	**45.2**	**44.2**	**42.4**	**-277**	**-182**
SCBs	**42.6**	**41.4**	**40.1**	**-244**	**-124**

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

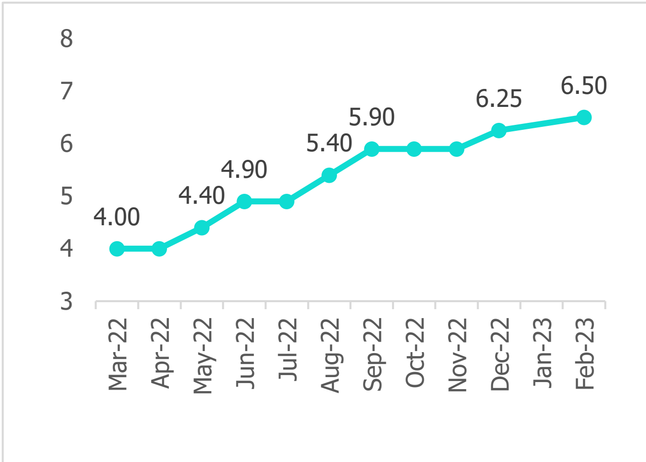
RBI has announced the withdrawal of Rs. 2,000 denomination notes in May 2023. Overall Rs. 3.62 lakh crore notes were in circulation as of March 31, 2023, out of which around 76% of notes have come back into the banking system as of June 30, 2023. Thus, it increased the liquidity in the banking system, and it is also likely to reduce the banking sector's dependence on short-term bulk deposits in the near term. Hence, the rate on short-term deposits is expected to be benign in Q2Y23. However, the imposition of additional CRR requirements on incremental deposits to absorb liquidity could create pressure on short-term rates in the second quarter.

Figure 9: 5-Year G-Sec Yield Trend (%)



Source: CMIE, Note – Weightage Average Rate (Yield)

Figure 10: Trend in Repo Rates (%)



Source: RBI

Movement in 1-Year Median Marginal Cost of Funds Based Lending Rate

Figure 11: Movement in MCLR (%)

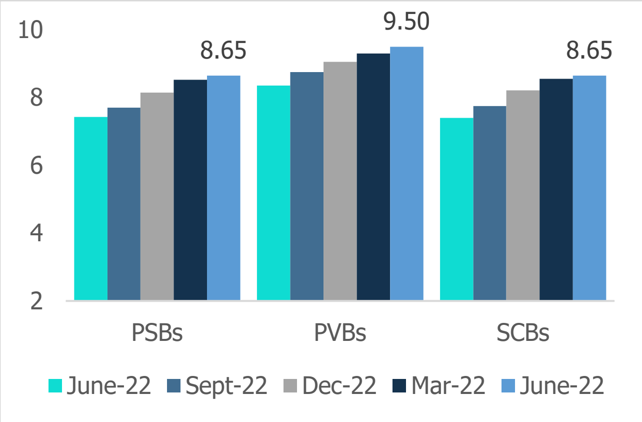
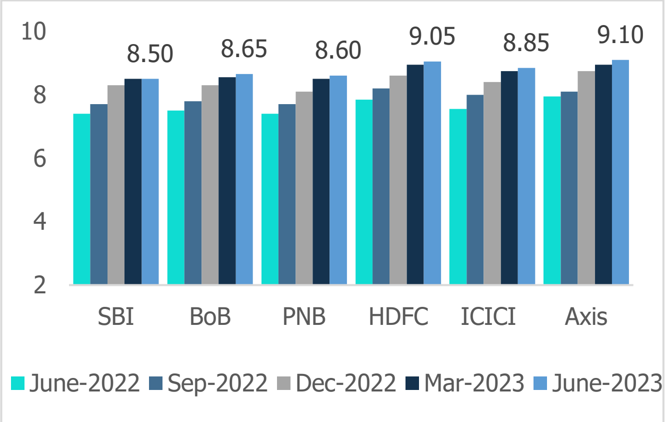


Figure 12: Movement in MCLR (%)



Source: RBI

Figure 13: Movement in Median MCLR changes

(changes)	SBI	BoB	PNB	PSBs	HDFC	ICICI	Axis	PVBs	SCBs
Median MCLR (%)	8.50	8.65	8.60	8.65	9.05	8.85	9.10	9.50	8.65
y-o-y (bps)	110	115	120	123	120	130	115	115	125
q-o-q (bps)	0	10	10	13	10	10	15	20	10

Source: RBI

On a cumulative basis, RBI increased the repo rate by 250 bps to 6.5% in FY23 which was accompanied by an increase in interest rates in the debt market. Accordingly, banks have realigned the interest rates which were usually reset within a one-year window and that has been reflected in lending rates. However, it has not fully reflected in deposit rates since these are usually not reset before maturity.

- Yield on 5-year G-sec rose by 17 bps y-o-y to 6.96% in June 2023 over a year ago due to an increase in the policy rates. The rise was lower than the repo rate of 250 bps. Nevertheless, if we compare this from December 2020, it rose by 181 bps.

PPOP Strong on y-o-y basis as Cost-to-Income Ratio Falls and Treasury Income Rises; Flattish q-o-q

	Figure 14: PPOP Growth (Rs. Lakh Crore)					Figure 15: Movement in PPOP Margin (%)				
	Q1 FY23	Q1 FY24	Q1FY23 (y-o-y)	Q1FY24 (y-o-y)	q-o-q	Q1 FY23	Q1 FY24	Q1FY23 (y-o-y)	Q1FY24 (y-o-y)	q-o-q
Large PSBs	0.33	0.51	-17.7	54.8	2.0	1.37	1.90	1.92	54	2
Other PSBs	0.12	0.17	-12.7	48.1	-7.0	1.47	2.13	1.96	50	-17
PSBs	0.45	0.68	-16.4	53.1	-0.4	1.40	1.96	1.93	53	-3
Large PVBs	0.32	0.42	4.5	32.2	0.3	2.70	3.10	3.06	36	-4
Other PVBs	0.15	0.21	-4.3	34.7	2.2	2.30	2.70	2.70	40	0
PVBs	0.47	0.62	1.4	33.0	0.9	2.56	2.96	2.93	38	-3
SCBs	0.91	1.31	-8.1	42.8	0.2	1.82	2.33	2.30	49	-3

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

PPOP of SCBs grew by 42.8% y-o-y to Rs. 1.31 lakh crore in Q1Y24, while the PPOP margin expanded by 49 bps y-o-y to 2.30% in Q1FY24.

- PPOP of PSBs rose at a robust pace of 53.1% y-o-y in the quarter driven by higher growth in NII than Opex, robust growth in treasury income, and a low base. Large PSBs' PPOP witnessed a growth of 54.8% in the quarter, outperforming other segments.
  - Treasury income of PSBs came in at Rs. 9,159 crore in Q1FY24 vs. a loss of 3,502 crore in Q1FY23. It was also higher from Rs.5,323 crore in Q4FY23.
- PVBs also reported a PPOP growth of 33.0% y-o-y in Q1FY24 driven by growth in NII and non-interest income.
  - Treasury income of PVBs came in at Rs. 3,781 crore in Q1FY24 vs. a loss of 539 crore in Q1FY23.
- PSBs' PPOP margin expanded by 53 bps to 1.93% in Q1FY24, meanwhile PVBs expanded by 38 bps to 2.93% in the quarter.
- In terms of sequential performance, SCBs' PPOP growth was muted due to seasonality impact, a rise in the cost of deposits, and a drop in the share of current account and savings account (CASA).

Figure 16: Cost to Income Ratio Reduces in the Quarter (y-o-y) – PSBs' Reduce Sequentially

	FY21		FY22		FY23				FY24	y-o-y (Bps)	q-o-q (bps)
	Q1	Q4	Q1	Q4	Q1	Q2	Q3	Q4	Q1		
Large PSBs	51.0	51.3	48.4	51.3	54.2	49.7	47.9	51.7	48.7	-549	-297
Other PSBs	49.1	52.1	49.6	49.5	53.6	47.3	48.2	50.6	48.6	-502	-204
PSBs	**50.5**	**51.5**	**48.7**	**50.9**	**54.1**	**49.1**	**47.9**	**51.4**	**48.7**	**-537**	**-272**
Large PVBs	34.2	39.9	38.6	41.8	43.8	41.4	39.8	41.8	43.3	-51	148
Other PVBs	46.2	49.9	46.5	53.2	54.5	53.0	53.4	52.2	52.3	-220	6
PVBs	**38.7**	**43.7**	**41.7**	**46.1**	**47.8**	**45.7**	**44.7**	**45.6**	**46.6**	**-118**	**94**
SCBs	**45.3**	**48.1**	**45.6**	**48.7**	**51.0**	**47.5**	**46.5**	**48.8**	**47.7**	**-333**	**-113**

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

Cost to Income ratio of SCBs reduced by 333 bps y-o-y to 47.7% in Q1FY24 due to higher growth in NII compared to opex growth coupled with robust growth in non-interest income. Banks had a higher cost to income in Q1FY23 as non-interest income was affected significantly due to Mark-to-Mark loss on investment portfolios particularly for PSBs due to a rise in the policy rates. Sequentially, SCBs' cost to income ratio dropped by 113 bps mainly driven by PSBs as their opex dropped in the quarter while PVBs' cost-to-income rose by 94 bps mainly driven by large PVBs. Despite the divergent trend, cost-to-income ratio of PSBs is still adverse compared to that of PVBs.

Income (Rs. Lakh, Cr.)

Figure 17: Interest Income

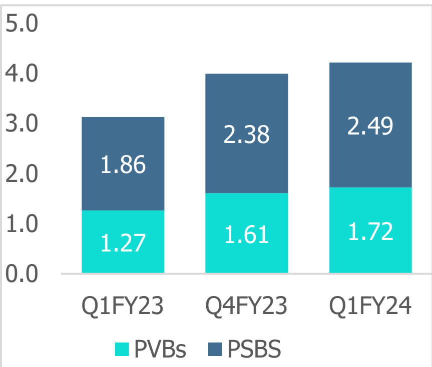


Figure 18: Non-Interest Income

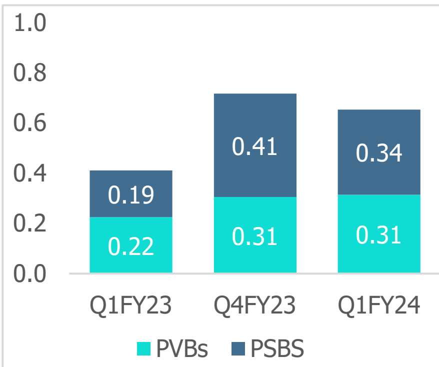
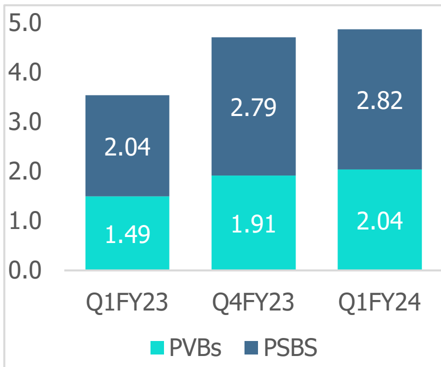


Figure 19: Total Income

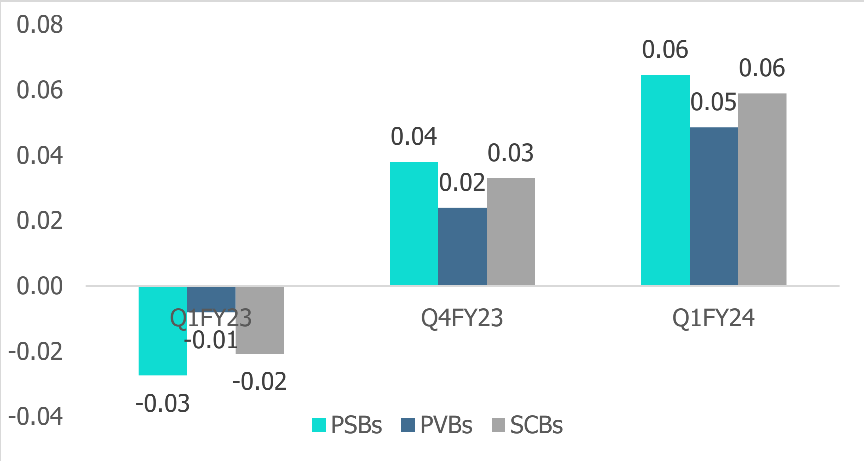


Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 12 PSBs and 18 PVBs

Total income of SCBs grew by 37.5% y-o-y to Rs. 4.86 lakh crore in Q1FY24 due to robust growth in advances, and a rise in the yield due to the repricing of loans and growth in non-interest income. Personal loans and Non-Banking Financial Services (NBFCs), Micro Small and Medium Enterprise (MSMEs) reported robust growth in Q1FY24. Interest income of SCBs grew by 34.7% y-o-y to Rs.4.21 lakh crore in Q1FY24, with growth in advances by 16.7% on a y-o-y basis and a rise in the yield on advances to 9.07% in Q1FY24.

Treasury Contribution to PPOP Margin Positive and Likely to Sustain

Figure 20: Treasury Income % of Total Assets



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 12 PSBs and 13 PVBs

PPOP expanded from 0.91 lakh crore in Q1FY23 to Rs. 1.3 lakh crore in Q1FY24. Meanwhile, treasury income of 25 SCBs came in at Rs.12,940 in Q1FY24 as compared to a loss of Rs.4,041 crore in the same quarter over a year ago on account of stability in interest rate which helped to increase the mark-to-market profit on AFS portfolio. It is also higher than Rs.7,157 crore in Q4FY23.

- PSBs reported a treasury income of Rs. 9,159 crore in Q1FY24 from a treasury loss of Rs.3,502 crore in the same quarter over a year ago. On the other hand, PVBs reported a treasury income of Rs. 3,781 crore in the quarter vs. a loss of Rs. 539 crore in Q1FY23s.
- SCBs treasury income as a percentage of total assets stood at 0.06% in the quarter which was higher than 0.3% in Q4FY23.

PSBs total income grew by 38.1% y-o-y to Rs.2.82 lakh crore in Q1FY24.

- Interest income of PSBs grew by 33.7% y-o-y to Rs. 2.49 lakh crore, meanwhile, advances rose by 16.0% y-o-y. The yield on advances rose by 157 bps y-o-y to 8.4% in Q1FY24 from 6.83% in Q1FY23.
- Non-interest income of PSBs increased by 82.5% y-o-y due to growth in treasury income. Large PSBs' treasury income expanded from a treasury loss of Rs. 3,580 crore in Q1FY23 to Rs.7,355 crore in Q1FY24 due to M-to-M gain on their investment portfolios, besides their fee income rose in low single digits.
- PSBs' treasury income stood at Rs. 9,159 crore in Q1FY24 vs. a loss of Rs. 3,502 crore in Q1FY23.

PVBs total income grew by 36.7% y-o-y to Rs.2.04 lakh crore in Q1FY24.

- PVBs reported robust growth in interest income at 38.5% y-o-y in Q1FY24 driven by 17.9% growth in advances and a rise in the yield on advances by 157 bps y-o-y to 10.1%.
- Fee income of 14 PVBs witnessed a robust growth of 20.2% y-o-y.

Operating Expenses (Rs. Lakh – Cr.)

Figure 21: Employee Expenses

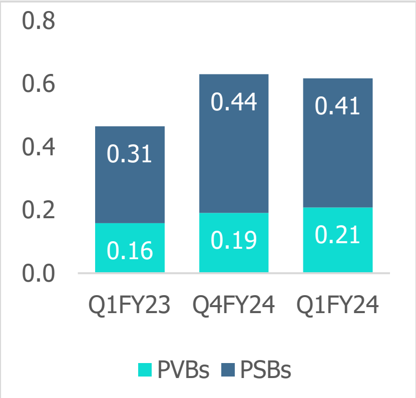


Figure 22: Other Op. Expenses

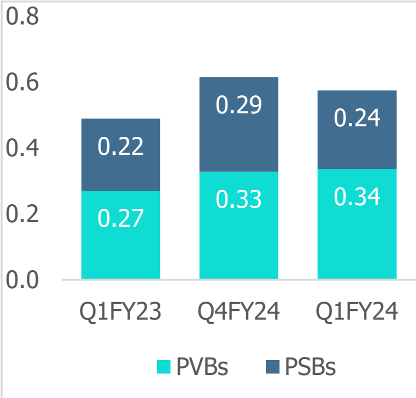
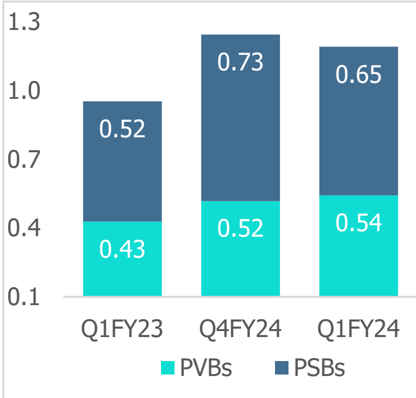


Figure 23: Total Op. Expenses



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

The opex of SCBs rose by 25.0% y-o-y to Rs. 1.19 lakh crore in Q1FY24, within this employee expenses rose by 32.8% y-o-y while other opex rose by 17.5% y-o-y.

- PSBs' employee expenses rose by 33.8% y-o-y due to bipartite wage and additional pension provisions.
- PVB employee expenses rose by 31.1% y-o-y in the quarter due to higher headcounts and wage inflation.
- Other expenses of SCBs rose by 17.5% in the quarter driven by other opex attributed to the addition of branches and robust growth in personal expenses. PVBs reported a much higher rise in other opex at 24.4% in the quarter as compared to 9.0% by PSBs due to rising distribution costs, rise in business volume and continued IT spending.

Asset Quality Improvement Continues

Figure 24: 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 GNPAs 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.

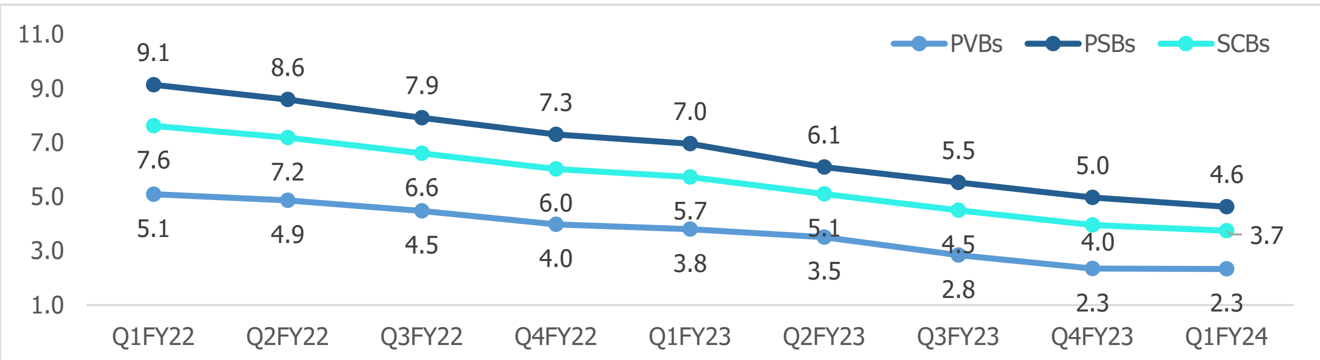
- GNPAs of PSBs reduced by 23.8% y-o-y to Rs. 4.05 lakh crore as of June 30, 2023 as slippages reduced significantly whereas write-offs were steady during the year and healthy recoveries & upgrades. Within this, other PSBs' GNPAs reduced by 26.9% y-o-y to Rs. 1.36 lakh crore as of June 30, 2023.
- PSB 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' GNPAs 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 GNPAs reduced by 47.8% y-o-y to Rs. 0.58 lakh crore. While large PVBs' GNPAs reduced by 4.4% y-o-y in the same period.

The NNPAs 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.

- NNPAs of PSBs reduced by 36.2% y-o-y to Rs. 0.95 lakh crore as of June 30, 2023. While NNPAs 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, NNPAs 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 GNPAs 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.

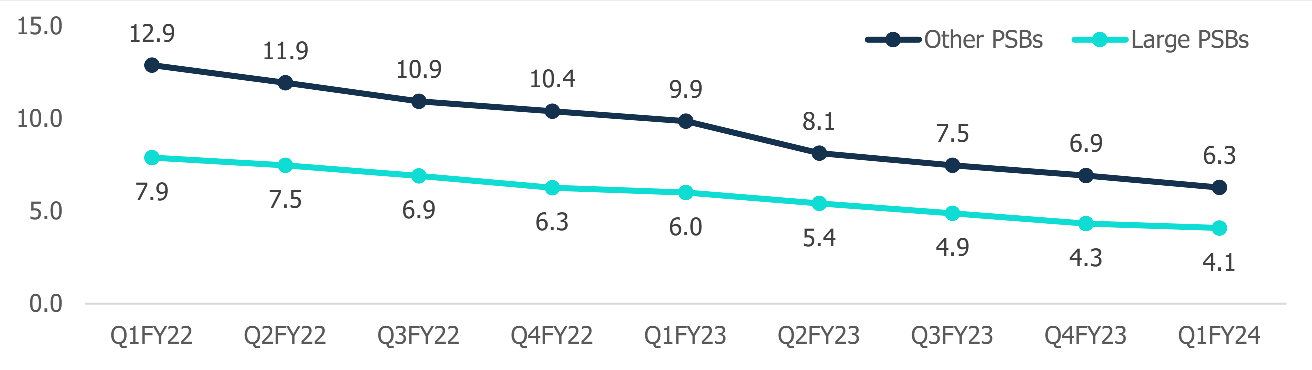
Figure 25: SCBs, PSBs PVBs – Gross NPAs Trend (%)



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

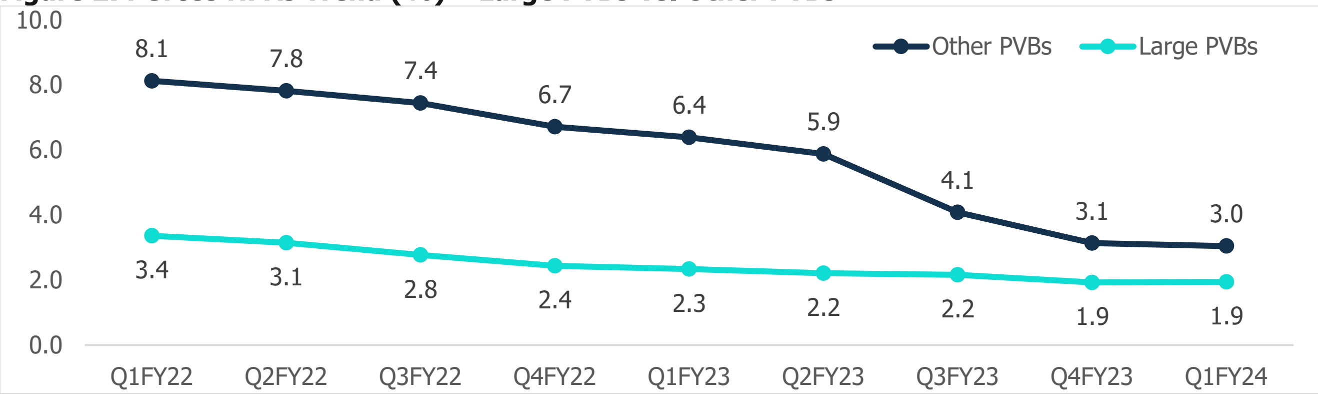
PSBs GNPA ratio reduced by 240 bps y-o-y to 4.6% as of June 30, 2023, within this large PSBs reduced by 360 bps y-o-y to 6.3% as of June 30, 2023.

Figure 26: Gross NPAs Trend (%) – Large PSBs Vs. Other PSBs



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

Figure 27: 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

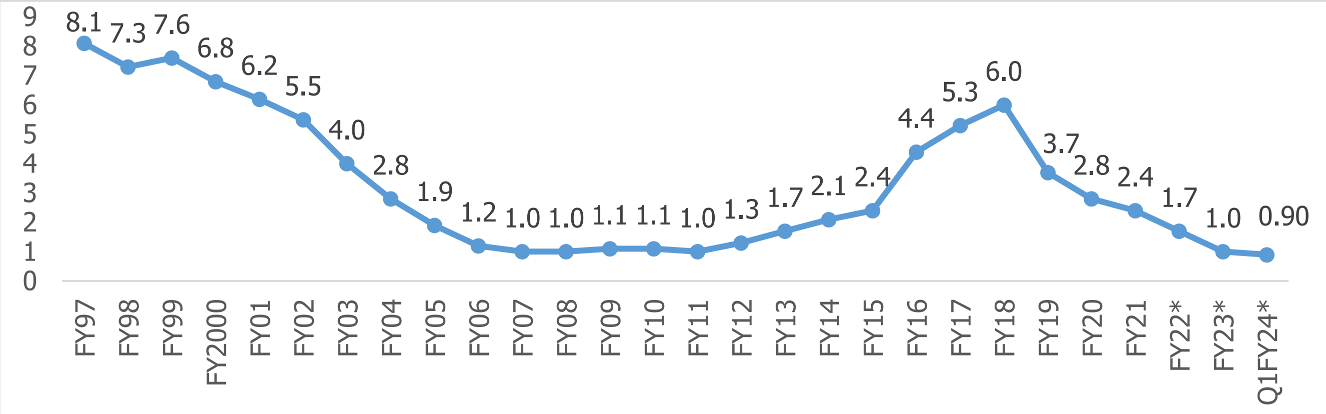
An asset becomes non-performing when it ceases to generate income for the bank. Earlier an asset was considered as NPA based on the concept of 'Past Due'. The specific period was reduced in a phased manner. An amount is considered as past due when it remains outstanding for 30 days beyond the due date. 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 28: 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 29: SCBs Witnesses All- Time low NNPA levels in Q1FY24 (%)

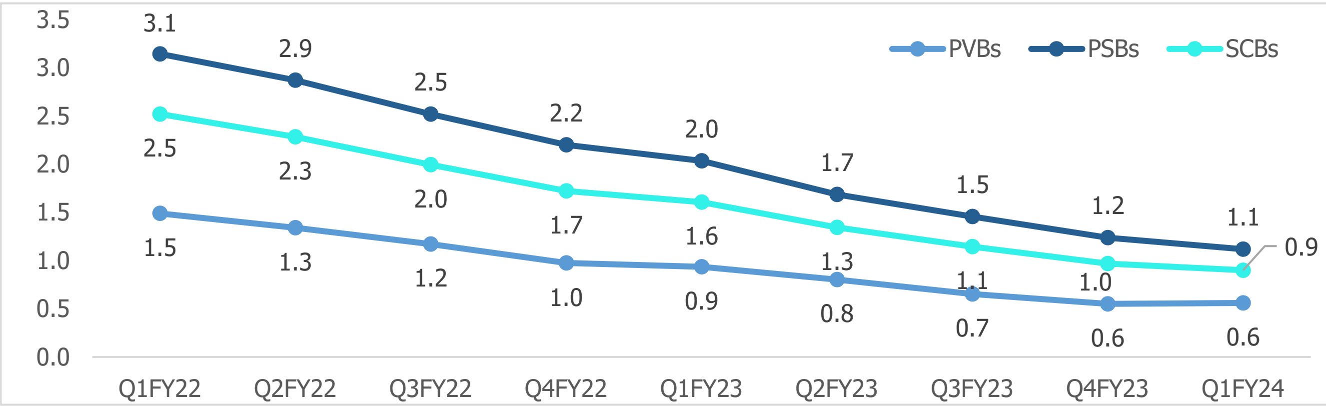


Source: RBI, * CareEdge Calculation for FY22/23/24, 30 SCBs (12 PSBs + 18 PVBs)

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, NNPAs 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.

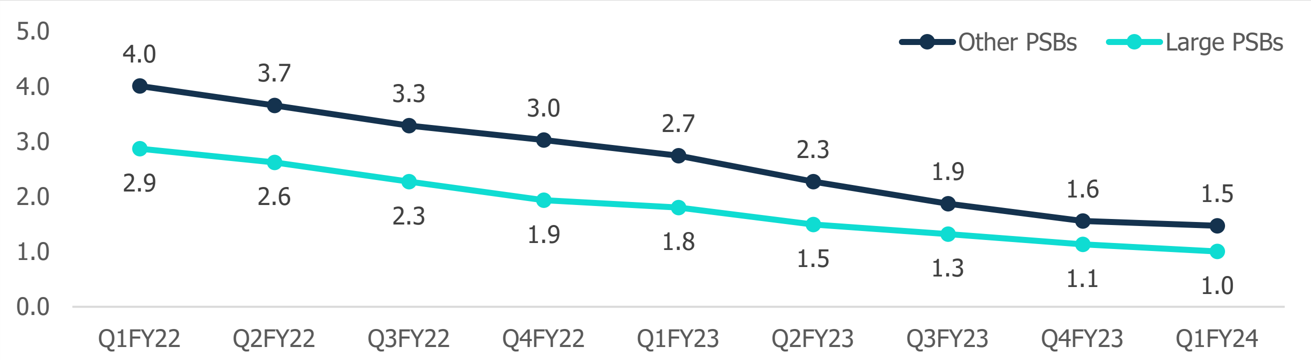
Figure 30: SCBs, PSBs, PVBs Net NPA Trend (%)



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

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

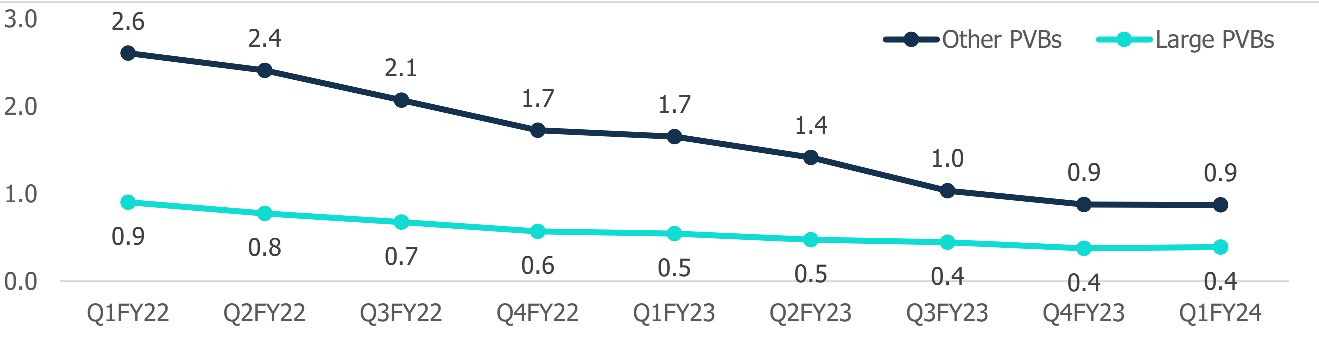
Figure 31: Large PSBs Vs. Other PSBs Net NPA Trend (%)



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 32: 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 33: 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 34: 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 35: Select Banks' Restructured Portfolio (Rs. Lakh - Cr.) – Shows Significant Reduction

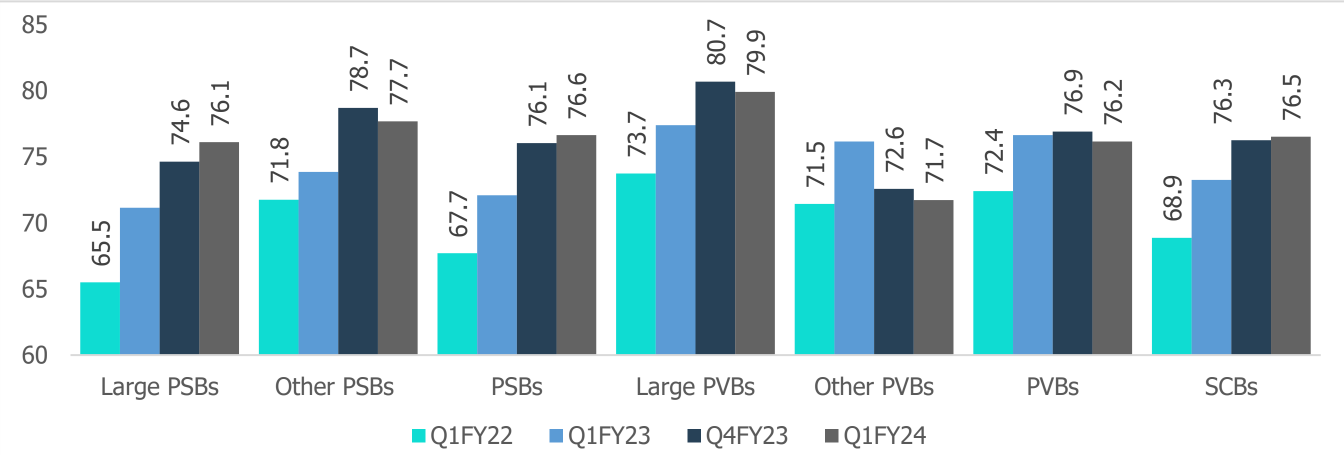
PSBs	June 30, 2022	June 30, 2023	y-o-y (%)	PVBs	June 30, 2022	June 30, 2023	y-o-y (%)
SBI	0.29	0.23	-21.3	Yes	0.06	0.05	-27.4
UBI	0.21	0.16	-22.9	HDFC Bank	0.11	0.04	-60.3
BoB	0.2	0.13	-33.7	ICICI	0.07	0.03	-60.1
PNB	0.15	0.11	-28.2	Axis	0.03	0.02	-43.9
BoI	0.1	0.1	-2.3	IndusInd	0.05	0.02	-61.8
IB	0.11	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 36: SCBs PCR Trend (%)



Source: Ace Equity, Note – PCR calculation (Provisions = GNPAs-NPAs), (PCR= Provisions/ NNPAs)
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 GNPAs 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 GNPAs was faster than accumulated provisions.

- PVBs' PCR dropped by 50 bps y-o-y to 76.2% in the quarter.

Figure 37: 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**

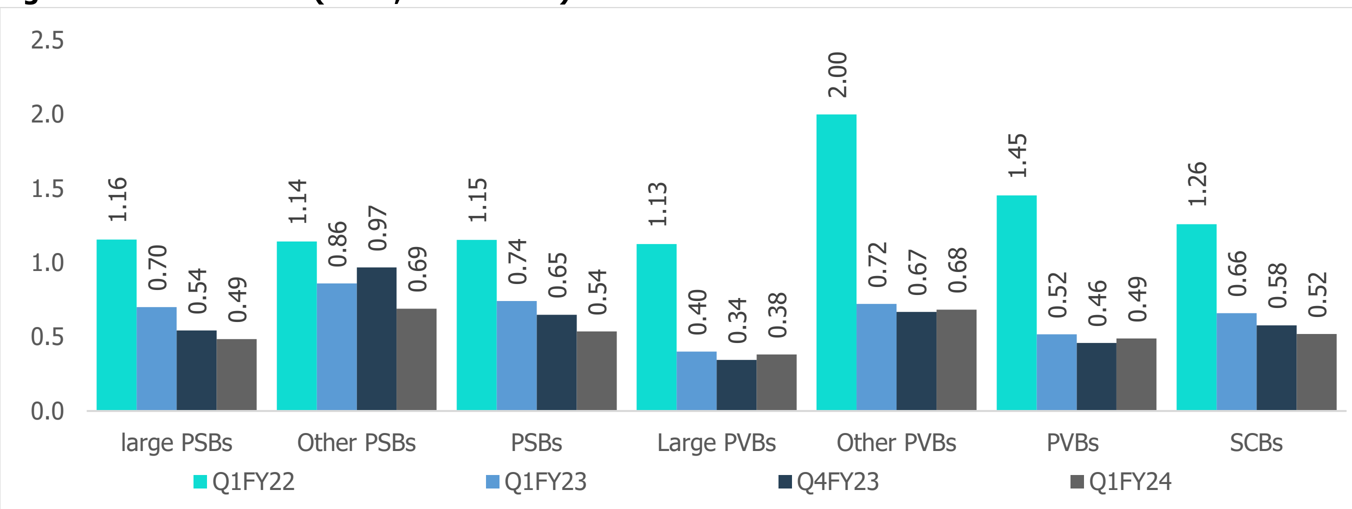
Source: Ace Equity, CareEdge Calculations, Note 12 PSBs (5 Large + 7 Others), 18 PVBs (3 Large + 15 others)

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 the 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 the 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.

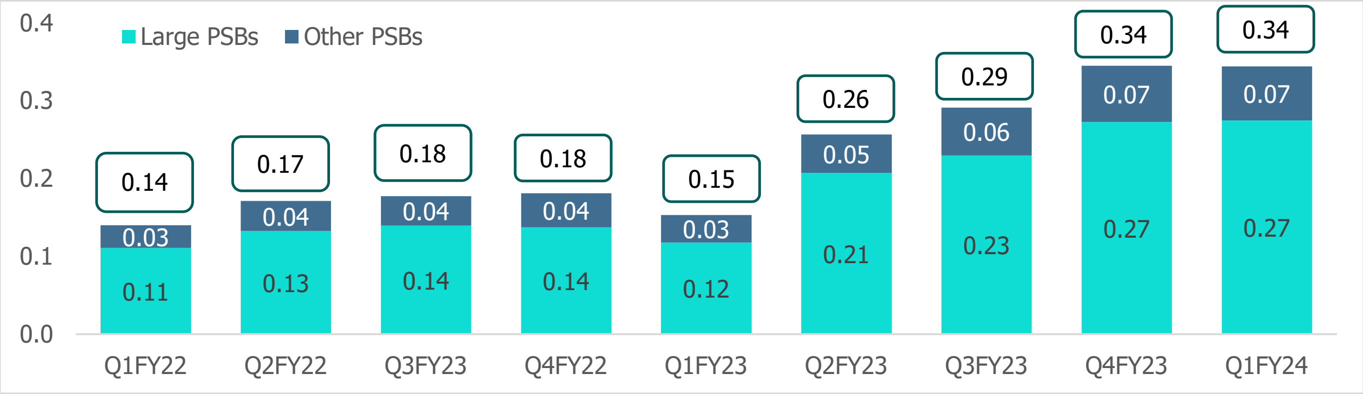
Figure 38: Credit Costs (In %, Annualised)



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

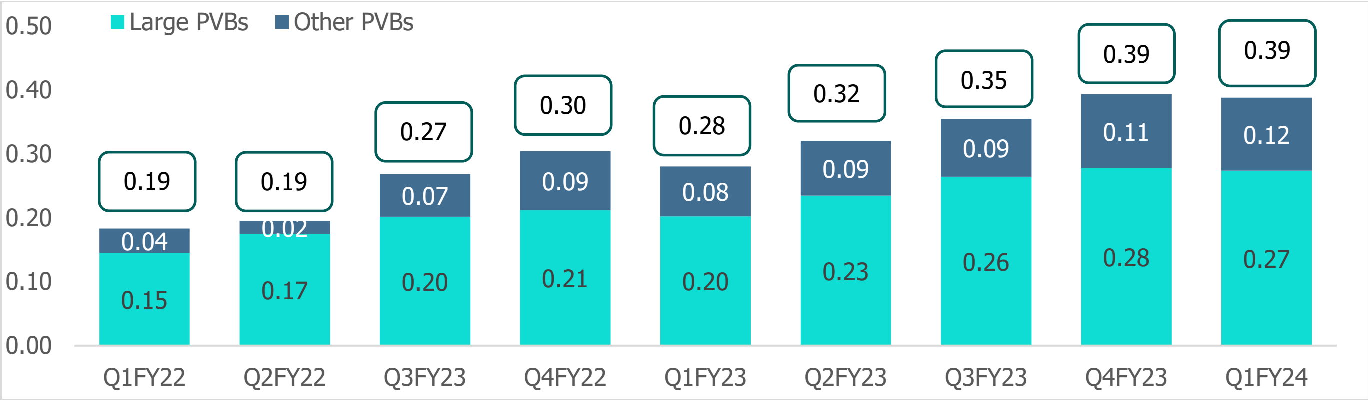
Net Profit Continues to Remain Elevated

Figure 39: PSBs' Net Profit Trend (Rs. Lakh, Cr.)



Source: Ace Equity, Note: Includes 12 PSBs (5 Large + 7 Others)

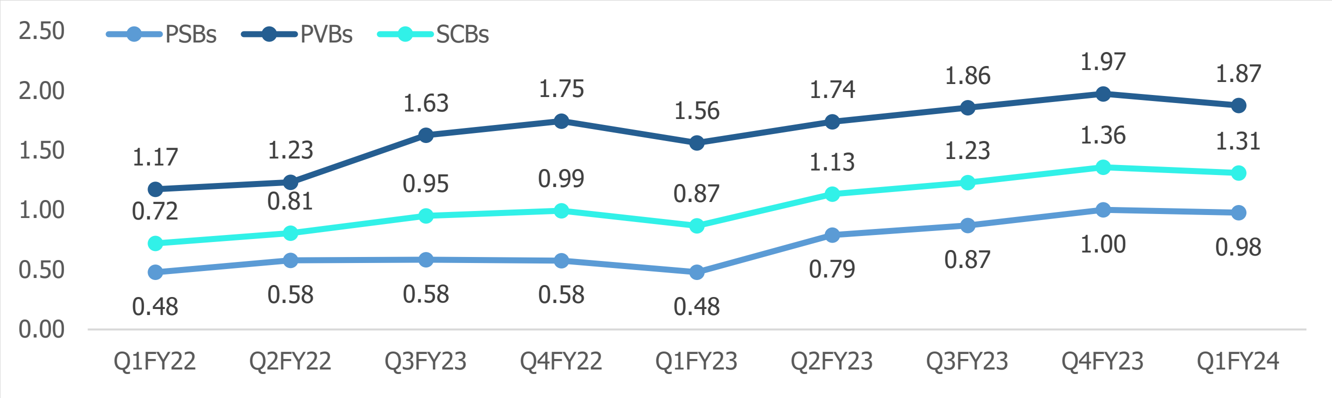
Figure 40: PVBs' Net Profit Trend (Rs. Lakh, Cr.)



Source: Ace Equity, Note: Includes 18 PVBs (3 Large + 15 Others)

- PSBs witnessed robust growth of 124.8% y-o-y in net profit to Rs. 0.34 lakh crore in the quarter due to PPOP growth and lower credit cost. PPOP grew by 53.1% y-o-y to Rs. 0.68 lakh crore in the quarter, driven by growth in NII and treasury income, while provisions dropped by 19.8% y-o-y in the same period. Large PSBs' net profit rose by 133.0% y-o-y while Other PSBs rose by 97.5%.
- PVBs' net profit rose by 38.4% to Rs. 0.39 lakh crore in Q1FY24 on account of robust growth in PPOP. In terms of sequential growth, the net profit of PVBs marginally declined by 1.4% due to the seasonality impact, besides the credit costs also increased- in the same period.

Figure 41: Movement of RoA for SCBs (annualised, %)

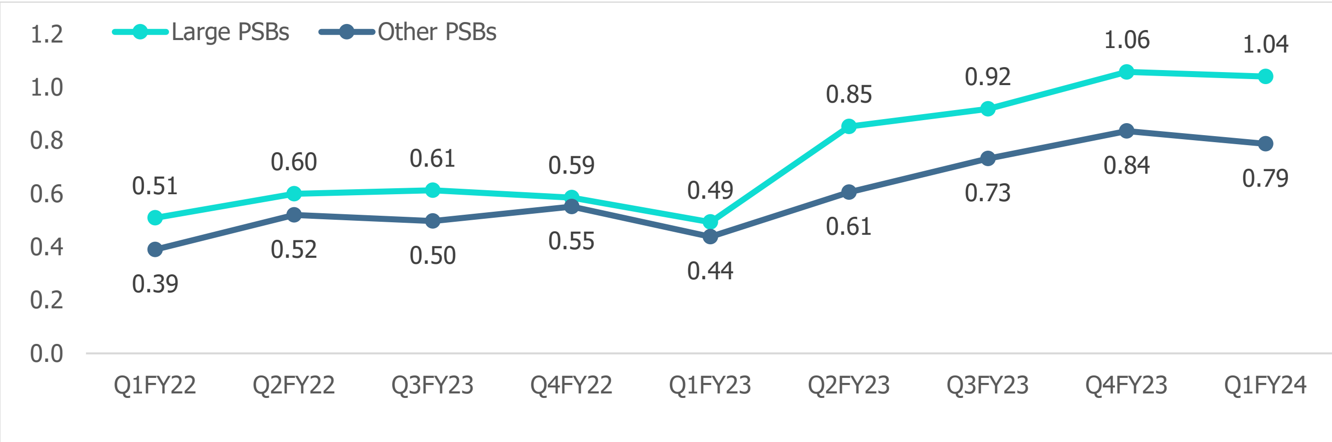


Source: Ace Equity, Bank filings, Note: Includes 12 PSBs (5 Large + 7 Other) and 18 PVBs (3 Large + 15 Others)

RoA of SCBs improved by 44 bps y-o-y to 1.31% in Q1FY24, also up from 0.48% in Q1FY22. It marginally declined by 5 bps on a sequential basis due to seasonal factors. Despite some softness in earnings (partly due to a higher base as well), headline RoA continues to be strong and much higher than the average of 26 quarters.

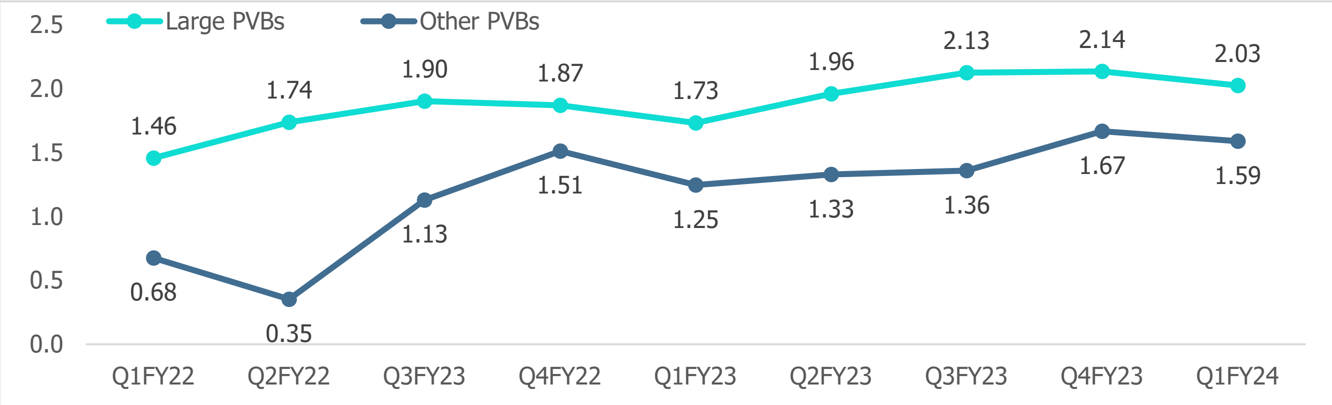
- PSBs' RoA improved by 50 bps y-o-y to 0.98% in Q1FY24 over a year ago. It was largely driven by large PSBs, expanding by 55 bps y-o-y. Besides, Other PSBs underperformed large PSBs in the quarter and their RoA expanded by 35 bps y-o-y as large PSBs reported higher growth in PPOP and higher decline in credit cost.
- PVBs' RoA expanded by 31 bps y-o-y to 1.87% in the quarter, however, it declined by 10 bps q-o-q as higher credit costs impacted the net profit, as well as seasonal factors.

Figure 42: Movement of RoA for PSBs (annualised, %)



Source: Ace Equity, Bank filings, Note: 12 PSBs (5 Large + 7 Other)

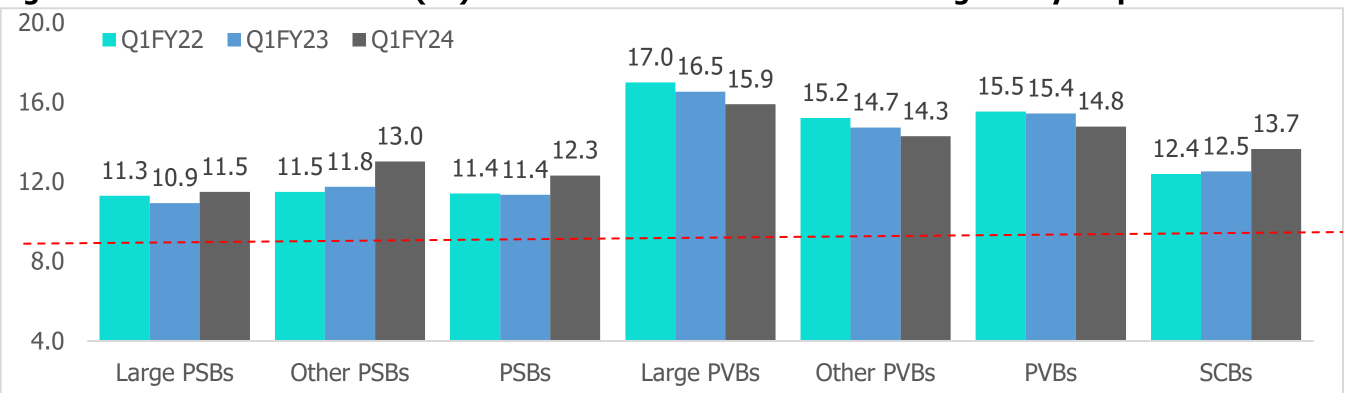
Figure 43: Movement of RoA for PVBs (annualised, %)



Source: Ace Equity, Bank filings, Note: 18 PSBs (3 Large + 15 Other)

Overall Capital Adequacy Improves in Q1FY24; PSBs Up, while PVBs Down

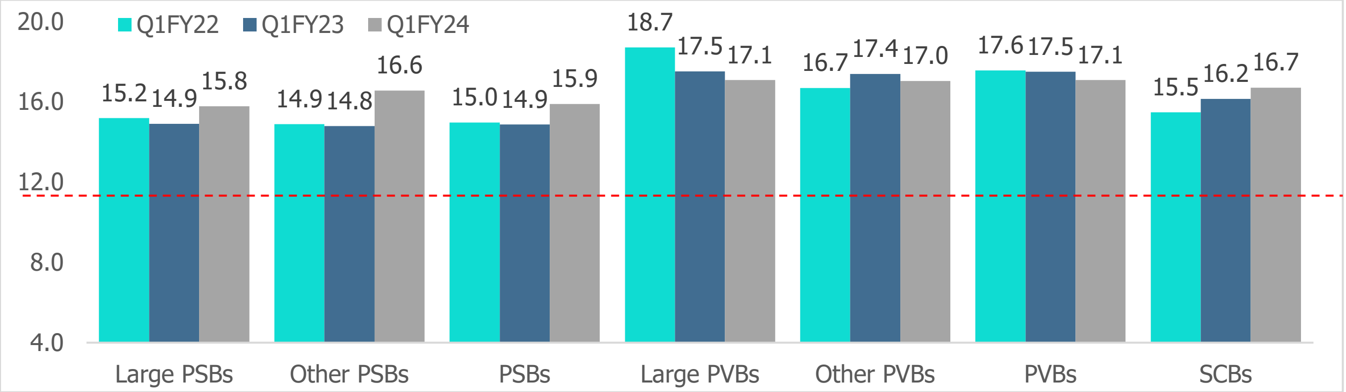
Figure 44: CET-1 Ratio Median (%) – Banks Stand Much Above than Regulatory Requirements



Source: Banks Presentations and Ace Equity Calculations; Note: 12 PSBs (5 Large + 7 others), and 17 PVBs (3 Large + 14 Others) used for Median calculation. Domestic Systemically Important Banks have to maintain a higher minimum ratio compared to other banks (SBI by 60 bps, HDFC and ICICI by 20 bps each).

- The Median Common Equity Tier 1 (CET-1) ratio of SCBs witnessed a healthy y-o-y expansion of 113 bps to 13.7% in Q1FY24 aided by strong growth in profitability which was mainly driven by PSBs.
  - PSBs' median CET-1 ratio improved by 90 bps y-o-y to 12.3% in Q1FY24 due to improved net profits.
  - PVBs' CET-1 ratio declined by 66 bps y-o-y due to robust growth in advances.
- The current CEI-1 levels are comfortably higher than regulatory requirements of 8.0% (including CCB of 2.5%)

Figure 45: CAR Median (%) – Banks Stand Much Above than Required Level



Source: Banks Presentations and Ace Equity Calculations; Note: 12 PSBs (5 Large + 7 others), and 17 PVBs (3 Large + 14 Others) used for Median calculation. Domestic Systemically Important Banks have to maintain a higher minimum ratio compared to other banks (SBI by 60 bps, HDFC and ICICI by 20 bps each).

- The median CAR of SCBs rose by 60 bps y-o-y to 16.7% in Q1FY24. It is much above the regulatory requirement of 11.5%, indicating a stable position.
  - PSBs median CAR expanded by 100 bps y-o-y to 15.9% for Q1FY24 on account of robust profitability and bond issuance.
  - PVBs median CAR dropped by 40 bps to 17.1% in the quarter.
- SCBs issued bonds between Q2FY23 and Q1FY24 period to improve their capital base for managing healthy credit growth.

Figure 46: Movement in CET-1 Ratio of Select Banks

Bank	Q1FY22	Q1FY23	Q1FY24
State Bank of India	9.90	9.72	10.19
Canara Bank	8.80	10.49	11.50
Bank of Baroda	11.30	11.24	11.94
Indian Bank	11.60	12.53	12.30
Punjab National Bank	11.60	10.94	10.85
HDFC Bank	17.20	16.67	16.90
ICICI Bank	17.00	16.54	15.90
Axis Bank	15.40	15.16	14.38

Source: Banks Presentations and Ace Equity Calculations; Note: 12 PSBs (5 Large + 7 others), Domestic Systemically Important Banks have to maintain a higher minimum ratio compared to other banks (SBI by 60 bps, HDFC and ICICI by 20 bps each).

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. It is important to consider that this growth would be coming off a high base in FY23, which might have a marginal impact on the growth rate. CareEdge estimates that credit growth is likely to be in the range of 13.0-13.5% for FY24, excluding the merger impact of HDFC with HDFC Bank.
- In Q1FY24, despite q-o-q moderation, NIMs have been higher on a y-o-y basis and NIMs for FY24 are likely to be flattish or incur a marginal decline on y-o-y basis due to a rise in deposits cost along with a reduction in the

share of low-cost CASA. Furthermore, as the CD ratio remains elevated, growth in the liability franchise would play a significant role in sustaining loan growth. The competition for deposits is likely to intensify even further, resulting in a rise in funding costs in the coming quarters as rates rise and CASA share reduces. NIMs could face further downside pressure from a higher-than-expected rise in the cost of deposits. The margin trajectory could witness pressure in later part of FY24 as competition would also cap the interest rates charged at a certain level.

- SCBs reported robust PPOP growth supported primarily by treasury income and growth in NII on a y-o-y basis, while sequentially the margins remained under pressure. As the margin trajectory has reversed, sequentially PPOP margin is likely to reduce marginally by around 5 bps in Q2FY24 due to strain on NIMs, and elevated operating expenses due to wage inflation and retail growth. Meanwhile, this is anticipated to be mitigated marginally as treasury income, especially in the PSBs is likely to remain healthy in FY24.
- SCBs GNPA ratio has reached pre-AQR levels in Q1FY24 and is expected to continue in FY24 due to 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. SCBs NNPA ratio is at an all-time low of 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 along with the MSME segment remains a key monitorable. Meanwhile, downside risks include an increase in crude oil prices, global economic slowdown, continued global monetary and liquidity tightening, and elevated interest rates.

Annexures

Note: Analysis based on 30 scheduled commercial banks (12 PSBs, and 18 PVBs)

Large PSBs	Bank of Baroda	Canara Bank	Indian Bank	Punjab National Bank	State Bank of India		
Other PSBs	Bank Of India	Bank Of Maharashtra	Central Bank of India	Indian Overseas Bank	Punjab & Sind Bank	UCO Bank	Union Bank of India
PSBs	Large PSBs and Others PSBs (Total 12 PSBs)						
Large PVBs	HDFC Bank	ICICI Bank	Axis Bank				
Other PVBs	Yes Bank	IDFC First Bank	RBL Bank	Kotak Mahindra Bank	IndusInd Bank	Federal Bank	South India Bank
	Karnataka Bank	Dhanlaxmi Bank	IDBI Bank	Bandhan Bank	J&K Bank	City Union Bank	Karur Vysya Bank
	DCB Bank						
PVBs	Large PVBs and Others PVBs (Total 18 Banks)						
SCBs	PSBs + PVBs (Total 30 Banks)						

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