Elevated Net Income and Low Credit Costs Sustains RoA in Q2FY24

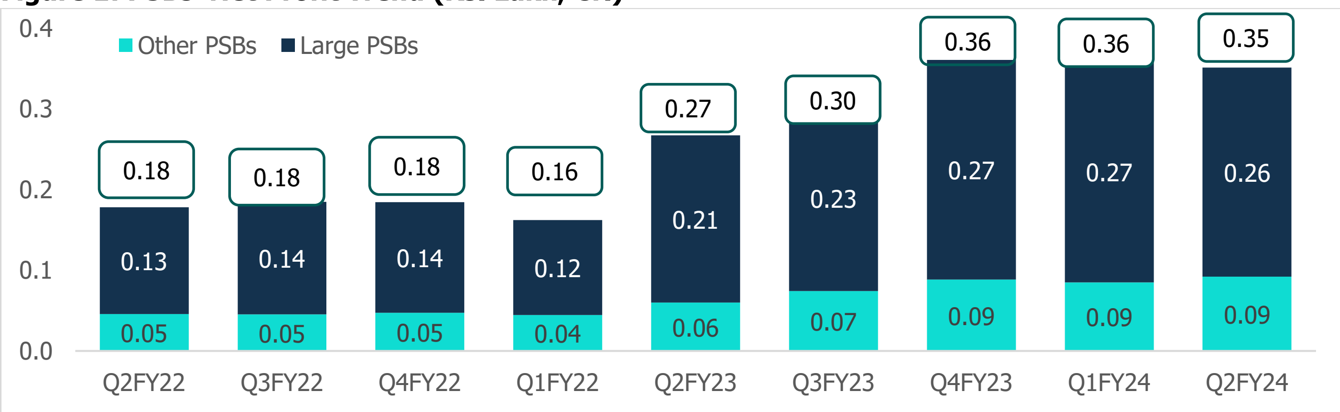
December 29, 2023 | BFSI Research

Synopsis

- Scheduled Commercial Banks' (SCBs) net profit grew by 33.4% y-o-y to Rs. 0.77 lakh crore for Q2FY24 due to robust growth in Pre-Provisioning Operating Profit (PPOP) and lower provisions.
    - Private Sector Banks (PVBs) posted robust growth of 35.1% y-o-y to Rs. 0.42 lakh crore in Q2FY24. Public Sector Banks (PSBs) too reported strong net profit growth of 31.4% y-o-y to Rs. 0.35 lakh crore.
- Return on Assets (RoA, annualised) of SCBs improved by 17 bps y-o-y to 1.28% in Q2FY24. However, banks faced marginal pressure and declined by 1 bps on a sequential basis due to higher growth in advances, rising cost of deposits, reduction in low-cost CASA deposits and seasonality impact.
- SCBs were adequately capitalised in Q2FY24. PSBs' median Common Equity Tier- 1 (CET-1) ratio expanded by 140 bps y-o-y to 13.7% in the quarter due to robust growth in profitability, while median CAR expanded by 87 bps y-o-y to 16.6% on account of profitability and accessing the debt market issuance.

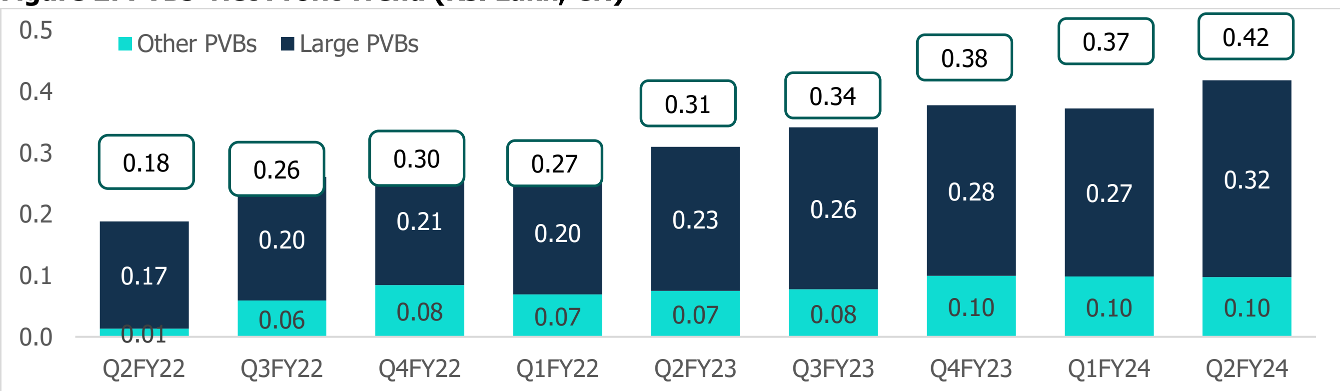
Net Profit Continues to Remain Elevated

Figure 1: PSBs' Net Profit Trend (Rs. Lakh, Cr.)



Source: Ace Equity, CareEdge Calculations; Note: Includes 14 PSBs (5 Large + 9 Others)

Figure 2: PVBs' Net Profit Trend (Rs. Lakh, Cr.)



Source: Ace Equity, CareEdge Calculations; Note: Includes 16 PVBs (3 Large + 13 Others)

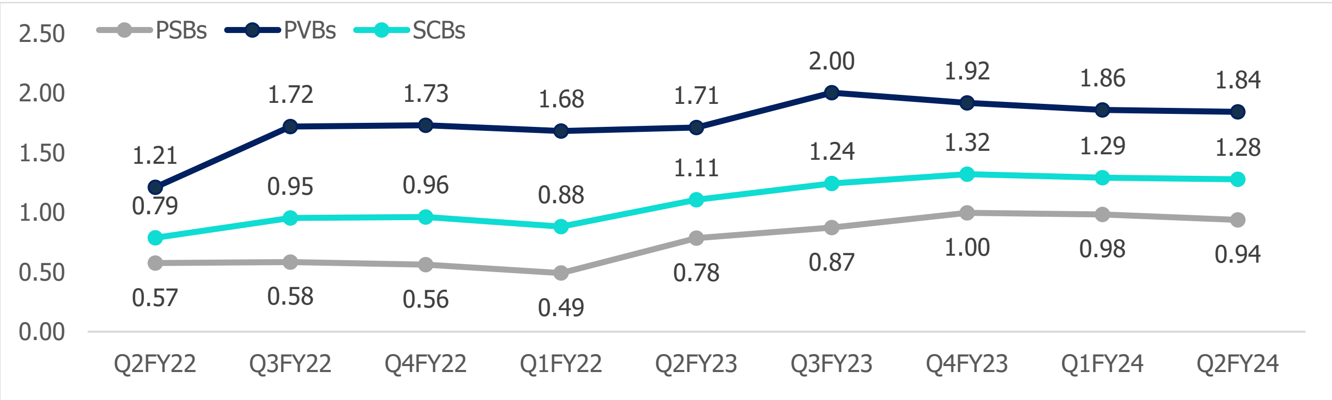
- Net profit for SCBs saw a robust growth of 33.4 % y-o-y to 7.7 lakh crore in the quarter driven mainly by strong NII growth and also impacted by HDFC merger.
  - PSBs witnessed robust growth of 31.4 % y-o-y in net profit to Rs. 0.35 lakh crore in the quarter due to PPOP growth and lower credit costs. PPOP grew by 6.5% y-o-y to Rs. 0.65 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 25.0% y-o-y while Other PSBs rose by 53.3%.
  - PVBs' net profit rose by 38.4% to Rs. 0.39 lakh crore in Q2FY24 on account of robust growth in PPOP.
- In terms of sequential growth, the net profit of PSBs marginally declined by 2.3% due as net interest income was flat compared to growing expenses, however PVBs saw sequential growth driven by merger impact.

Figure 3: Movement in PPOP Margin

	PPOP (Rs. Lakh Crore)			PPOP Margin (in %)		
	Q2FY24	**y-o-y**	**q-o-q**	**Q2FY24**	**y-o-y**	**q-o-q**
Large PSBs	0.46	5.4	-10.3	1.66	10	-26
Other PSBs	0.20	9.1	-1.1	1.99	5	-1
PSBs	**0.65**	**6.5**	**-7.7**	**1.77**	**-6**	**-19**
Large PVBs	0.46	23.8	9.2	2.81	-19	-25
Other PVBs	0.17	14.5	-2	2.51	0	-15
PVBs	**0.62**	**21.2**	**5.9**	**2.73**	**-12**	**-21**
SCBs	**1.28**	**13.2**	**-1.5**	**2.14**	**-5**	**-17**

Source: Ace Equity, Bank filings, Note: Includes 14 PSBs (5 Large + 9 Other) and 18 PVBs (3 Large + 13 Others)

Figure 4: Movement of RoA for SCBs (annualised, %)



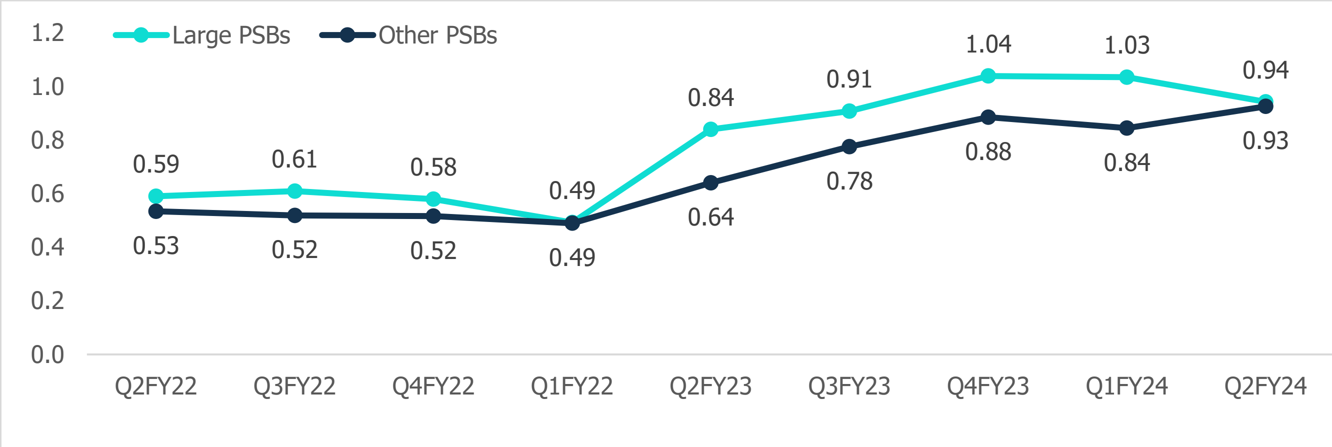
Source: Ace Equity, Bank filings, Note: Includes 14 PSBs (5 Large + 9 Other) and 18 PVBs (3 Large + 13 Others)

RoA of SCBs improved by 17 bps y-o-y to 1.28% in Q2FY24, also up from 48 bps in Q2FY22. However, it marginally declined by 1 bps on a sequential basis due to faster growing advances, rising deposit cost and higher employee provisions. Despite softness in earnings (partly due to higher base), headline RoA continues to be strong buttressed by lower credit costs.

- PSBs' RoA improved by 15 bps y-o-y to 0.94% in Q2FY24 over a year ago. It was largely driven by other PSBs, expanding by 29 bps y-o-y. Large PSBs underperformed other PSBs driven by higher employee provision costs in the quarter and their RoA expanded by 10 bps y-o-y as large PSBs reported higher growth in PPOP.

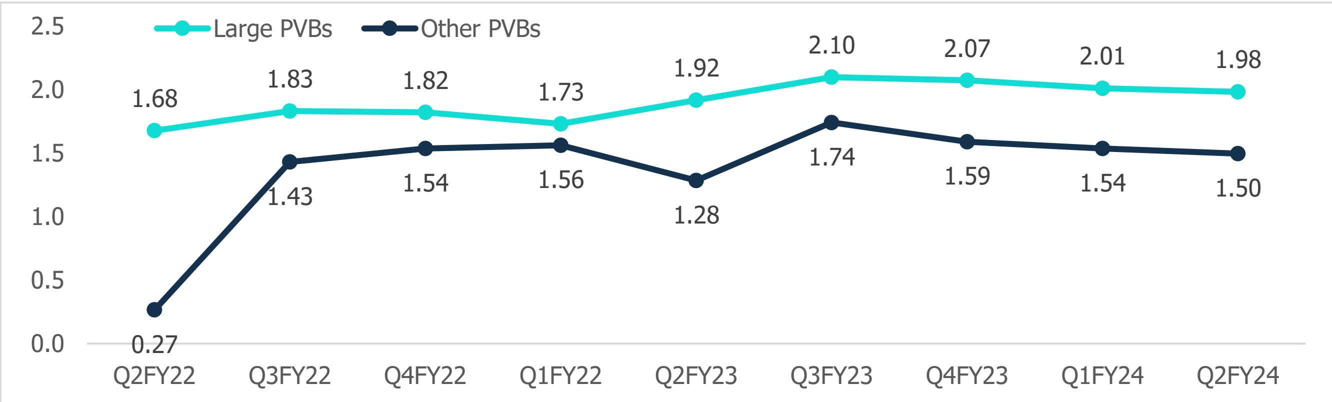
- PVBs' RoA expanded by 13 bps y-o-y to 1.84% in the quarter, however, it declined marginally by 2 bps q-o-q as higher credit costs impacted net profit and advances grew rapidly (partly attributable to the merger).

Figure 5: Movement of RoA for PSBs (annualised, %)



Source: Ace Equity, Bank filings, Note: 14 PSBs (5 Large + 9 Other)

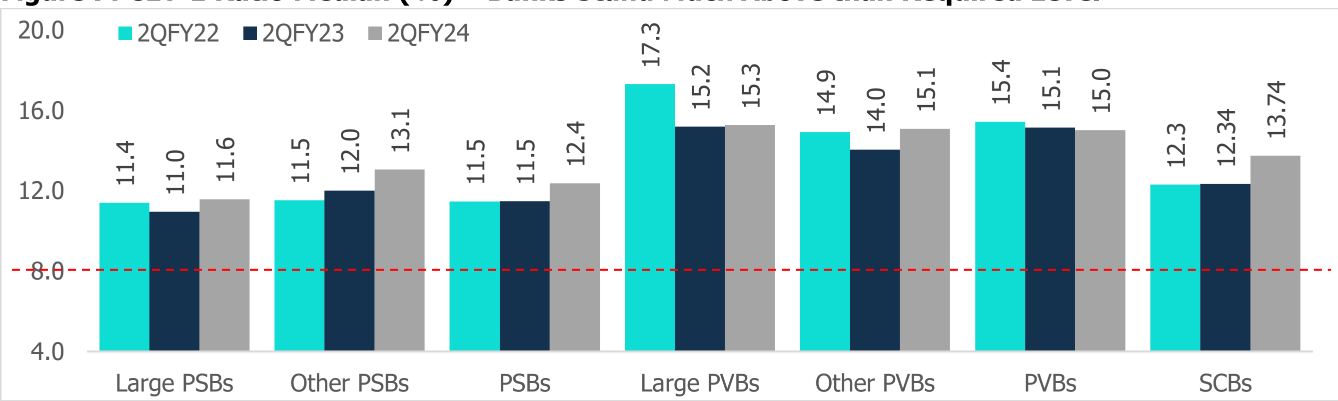
Figure 6: Movement of RoA for PVBs (annualised, %)



Source: Ace Equity, Bank filings, Note: 16 PSBs (3 Large + 13 Other)

Overall Capital Adequacy Improves in Q2FY24; PSBs Up, while PVBs Down

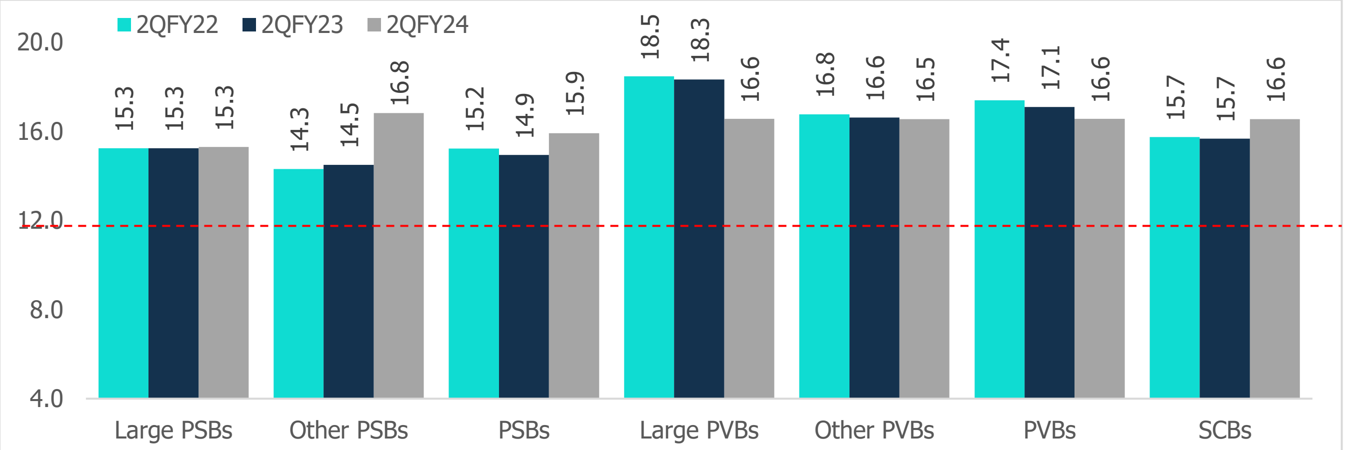
Figure 7: CET-1 Ratio Median (%) – Banks Stand Much Above than Required Level



Source: Banks Presentations and Ace Equity Calculations; Note: 16 PSBs (5 Large + 9 others), and 15 PVBs (3 Large + 12 Others) used for Median calculation. Systematic Important Banks have to maintain a minimum CET-1 ratio higher than other banks (SBI by 60 bps, HDFC Bank by 20 bps and ICICI Bank by 20 bps)

- The Median Common Equity Tier 1 (CET-1) ratio of SCBs witnessed a healthy y-o-y expansion of 140 bps to 13.7% in Q2FY24 aided by strong growth in profitability which was mainly driven by PSBs. PSBs' median CET-1 ratio improved by 89 bps y-o-y to 12.3% in Q2FY24 due to improved net profits. PVBs' CET-1 ratio declined by 15 bps y-o-y due to robust growth in advances.

Figure 8: CAR Median (%) – Banks Stand Much Above than Required Level Regulatory Requirement



Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 others), and 15 PVBs (3 Large + 12 Others) used for Median calculation. Systematic Important Banks have to maintain a minimum CAR ratio higher than other banks (SBI by 60 bps, HDFC Bank by 20 bps and ICICI Bank by 20 bps)

- The median CAR of SCBs rose by 87 bps y-o-y to 16.6% in Q2FY24 and remained above the regulatory requirement of 11.5%, indicating a stable position.
    - PSBs median CAR expanded by 98 bps y-o-y to 15.9% for Q2FY24 on account of robust profitability and bond issuance.
    - Meanwhile, PVBs median CAR dropped by 54 bps to 16.6% in the quarter. the CRAR of PVBs declined marginally (due to significant growth in advances) compared to capital.
- SCBs assessed the debt capital market between Q2FY23 and Q2FY24 period to improve their capital base for sustaining healthy credit growth.

Figure 9: Movement in PSBs' CET-1

Bank	Q2FY22	Q2FY23	Q2FY24	Q2FY23 (y-o-y, bps)	Q2FY24 (y-o-y, bps)
SBI	9.76	9.53	9.94	0.02	0.04
CB	10.10	11.14	11.58	0.15	0.04
BoB	11.39	10.95	11.57	0.02	0.06
IB	11.70	12.26	12.07	0.03	-0.02
PNB	11.60	10.88	10.23	-0.12	-0.06
UBI	10.20	10.67	13.05	0.28	0.22
BoI	13.40	12.97	12.60	-0.06	-0.03
CBI	11.53	11.62	12.14	0.05	0.04
IOB	12.80	12.11	13.81	0.08	0.14
BoM	11.40	12.00	12.85	0.13	0.07
PSB	12.30	12.65	14.53	0.18	0.15
UCO	11.37	11.25	13.74	0.21	0.22
J&K	11.04	11.34	11.68	0.06	0.03
IDBI	14.00	17.05	18.86	0.35	0.11

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

Figure 10: Movement in PVBs' CET-1

Bank	Q2FY22	Q2FY23	Q2FY24	Q2FY23 (y-o-y, bps)	Q2FY24 (y-o-y, bps)
HDFC	17.4	15.19	17.8	0.02	0.17
ICICI	17.3	15.61	15.26	-0.12	-0.02
Axis	15.8	15.14	14.56	-0.08	-0.04
Kotak	20.7	20.1	21.9	0.06	0.09
IndusInd	15.42	15.97	16.33	0.06	0.02
YES	11.5	11.7	13.1	0.14	0.12
IDFC First Bank	14.9	13.67	15.01	0.01	0.10
RBL	15.5	15.85	15.15	-0.02	-0.04
Federal	14.1	12.62	13.79	-0.02	0.09
SIB	11.7	12.33	13.17	0.13	0.07
Karnataka	12	12.34	13.11	0.09	0.06
Bandhan	19.5	18.4	18.2	-0.07	-0.01
KVB	17.04	16.42	15.19	-0.11	-0.07
Dhanlaxmi	10.98	10.08	10.56	-0.04	0.05
DCB	15.28	14.94	14.28	-0.07	-0.04

Source: Banks Presentations and Ace Equity Calculations; 17 PVBs (3 Large + 14 Others. Systematic Important Banks have to maintain a higher ratio than other banks (SBI by 60 bps, HDFC Bank by 20 bps and ICICI Bank by 20 bps)

Conclusion

SCBs net profit witnessed a robust growth of 33.4% y-o-y for Q2FY24 mainly driven by PPOP growth and lower credit costs. PVBs outperformed PSB in the quarter, which is partly attributable to the impact of the merger. RoA of SCBs witnessed a healthy improvement on a yearly basis. However, it is expected to face some pressure on a sequential basis due to a marginal drop in PPOP margins due to the rising cost of deposits and a reduction in low-cost CASA deposits. Overall, banks are in a better position in the current situation as they have been witnessing robust credit growth, continuous improvement in the asset quality (NNPA ratio at all-time low levels), lower requirement of the provisions due to buffer available for provisioning, lower incremental slippages, and reduction in restructured assets. SCBs were adequately capitalised in Q2FY24. Besides, many banks have announced capital raising plans to meet strong credit demand and maintain capital adequacy. Further, the recent RBI notification of an increase in risk weights by 25% on unsecured consumer credit (excluding housing, education, vehicle and by gold loans), is likely to reduce the pace of growth of unsecured loans while increasing the capital requirements. An initial back of the envelop calculations with certain assumptions suggest that the impact on capital adequacy i.e. CET-1 would be ~25-45bps. Banks have sufficient cushion to absorb this impact along with the impact of ECL computation and would likely not need to raise additional capital, which might vary for some smaller banks. However, RoA faces headwinds from tighter credit standards and the lagged pass-through to deposit rates.

Annexure

Note: Analysis based on 30 scheduled commercial banks (14 PSBs, and 16 PVBs). Prior period numbers would not be comparable to earlier reports on account of the reclassification of select banks.

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	IDBI Bank	UCO Bank	Union Bank of India
	Jammu & Kashmir Bank	Punjab & Sind Bank					
PSBs	Large PSBs and Others PSBs (Total 14 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	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank	
PVBs	Large PVBs and Others PVBs (Total 16 Banks)						
SCBs	PSBs + PVBs (Total 30 Banks)						

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Tejas Poojary	Lead Analyst – BFSI Research	tejas.poojary@careedge.in	+91 - 22 - 6754 3629 / +91-97699 93903
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect:

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | Noida | Pune

About Us:

CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd previously known as CARE Risk Solutions Pvt Ltd, and (II) CARE ESG Ratings Ltd, previously known as CARE Advisory Research and Training Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings Africa (Private) Limited in Mauritius, CARE Ratings South Africa (Pvt) Ltd, and CARE Ratings Nepal Limited.