Private Banks Hold a Steady NIM Sequentially

February 09, 2023 | BFSI Research

Synopsis

- Net Interest Income (NII) of Private Sector Banks (PVBs) grew by 16.8% year-on-year (y-o-y) to Rs. 0.85 lakh crore in Q3FY24 due to healthy loan growth, merger, and a higher yield on advances over the year-ago period.
    - PVBs reported a robust rise in advances at 32.5% y-o-y in Q3FY24 driven by NBFCs. Meanwhile, we witnessed a 27.1% y-o-y deposit growth for the quarter. (The increased growth in both credit and deposit is due to Merger impact)
    - The Credit and Deposit (C/D) ratio for PVBs stood at 80.7% as of December 31, 2023, expanding by ~330 bps y-o-y over a year ago due to widening credit-deposit growth and HDFC merger impact.
- The Net Interest Margin (NIM) PVBs contracted by 32 basis points (bps) y-o-y to 3.69% driven by a drop in the NIM of larger PVBs.
- In terms of PVBs sequential performance, NIIs grew by 3.4%, and NIMs reported an improvement of 1 bps, driven by other PVBs which saw an increase of 7bps.

Figure 1: NIM Movement (%)

Group	NIM (Q3FY24) (%)	y-o-y (bps)	q-o-q (bps)
Large PVBs	3.58	46	1
Othe PVBs	3.99	4	7
PVBs	3.69	32	1

Source: Ace Equity, Bank Filings, CareEdge Calculations

Movement of Net Interest Income and Net Interest Margin

Figure 2: NII and Growth

NII	Q3FY24 (Rs. Lakh Cr.)	Q3FY23 (y-o-y %)	Q3FY24 (y-o-y %)	Q3FY24 (q-o-q %)
Large PVBs	0.60	29.4	17.2	2.9
Othe PVBs	0.25	7.7	16.0	4.7
PVBs	0.84	22.1	16.8	3.4

Source: Ace Equity, Bank Filings, CareEdge Calculations, adjusting for the impact of merger, the NII growth would be 9.0% for this sector.

- NII of PVBs grew by 16.8% y-o-y, respectively, in Q3FY24. The growth was driven by the merger (for large PVBs) and robust loan growth.
- Meanwhile, sequentially, it reported a moderate growth of 3.4%, due to a higher drop in the yields on advances compared to cost of deposits. (The sequential downtick is driven by merger impact causing a lower base for cost of deposits and yields on advances)

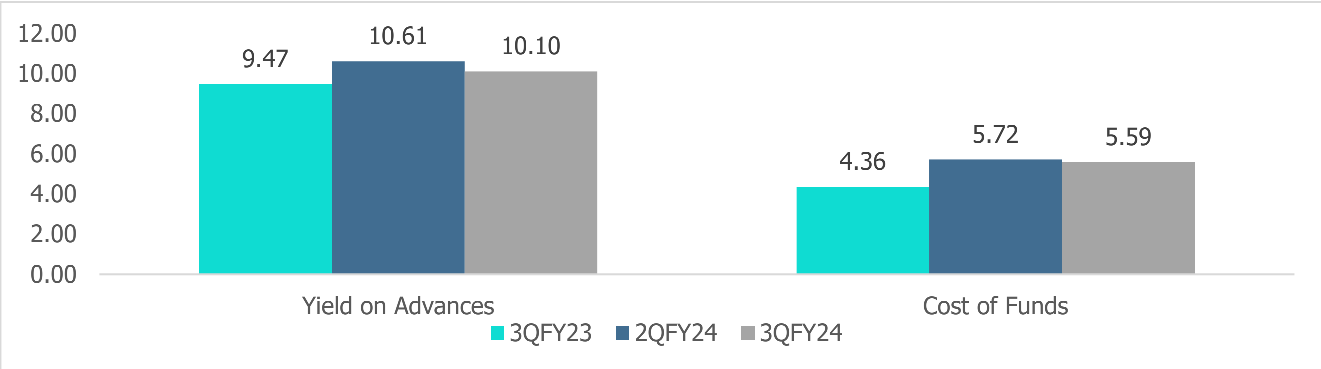
The HDFC Bank-HDFC Limited merger was effective from July 2023 onwards. HDFC Bank absorbed the balance sheet of HDFC Limited which, as a housing finance company, had comparatively lower NIMs given the loan portfolio and moderate liability profile (higher borrowings and less low-cost deposits).

Figure 3: 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**
PVBs	64	-51	123	-13

Source: Ace Equity, Bank Filings, CareEdge Calculations

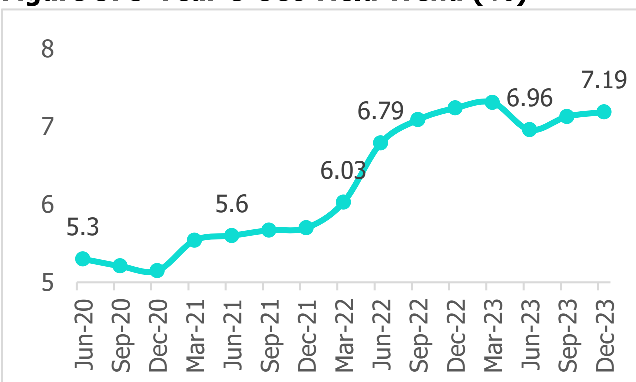
Figure 4: Yield on Advances and Cost of Funds – PVBs (%)



Source: Ace Equity, Bank Filings, CareEdge Calculations

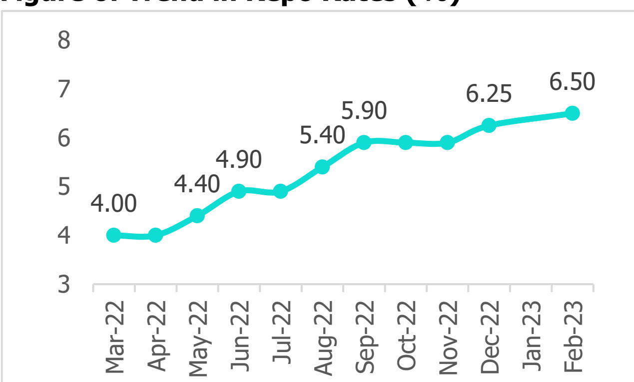
- In terms of NII PVBs growth in Q3FY24, registering a robust 16.8% y-o-y growth driven majorly by merger impact and advances growth.
    - Interest income of PVBs rose by 38.9% y-o-y in Q3FY24. This growth can be attributed to an increase in advances and yields. PVB's advances grew by 32.5% y-o-y. PVBs' yield on advances rose 64 bps y-o-y and sequentially declined 51 bps q-o-q (Driven by lower base last quarter driven by merger impact).
    - On the other hand, interest expenses of PVBs rose by 63.6% y-o-y in Q3FY24, the expansion in the cost of funds by 123 bps y-o-y can be attributed to a rise in term deposit rates, merger impact along with a reduction in the CASA ratio (low-cost funds).
- NIM of PVBs declined by 32 bps y-o-y at 3.69% in Q3FY24, which can be attributed to reduction in CASA ratio and merger impact. In terms of sequential performance, PVBs improved marginally by 1 bps driven by other PVBs which saw an improvement of 7 bps, and which offset the drop in the NIM of large PVBs.

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



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

Figure 6: Trend in Repo Rates (%)



Source: RBI

Figure 7: Movement in Median MCLR (One year, as of December end, Pre Rate Hike cycle)

	HDFC	ICICI	Axis	Indus.	Kotak	Yes	PVBs
Median MCLR (%)	9.20	9.00	9.25	10.35	9.35	10.50	**9.30**
y-o-y (bps)	60	60	50	40	70	75	**60**
q-o-q (bps)	5	5	10	5	5	25	**7**
Since March 2022 (bps)	105	85	115	110	100	80	**105**

Source: RBI

Figure 8: Movement in Repo, WATDR Fresh & O/S

	Repo Rate	WADTDR (Fresh Deposits)	WADTDR (Outstanding Deposits)
Rate as of Dec 2023	**6.50%**	**6.49%**	**6.83%**
q-o-q	0	13	7
y-o-y	60	17	94
Since April 2022	250	164	193
Since March 2020	210	29	99

Source: RBI

- On a cumulative basis, RBI increased the repo rate by 250 bps to 6.5% in FY23 accompanied by an increase in interest rates in the debt market. Accordingly, banks have realigned the lending rates. Yield on 5-year G-sec yield remained almost flat at 7.19% as of Dec 2023 over a year ago. The G-Sec trend was flattish compared to the repo rate rise of 60 bps y-o-y. Nevertheless, if we compare this from December 2020, it rose by 210 bps.

Conclusion

Credit offtake for PVBs experienced robust growth of 32.5% in Q3FY24 (driven by merger impact, personal loans and NBFCs) and the outlook remains positive for FY24. Deposit growth was also healthy primarily attributable to the growth in term deposits which have transitioned to a higher rate. However, CASA growth remained lethargic. Additionally, as the Credit to Deposit 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. Hence the NIM trajectory is expected to remain stressed and moderate even further in FY25 as competition would also cap the interest rates charged at a certain level.

The HDFC merger is also leading to tighter NIMs as typically NBFCs operate at lower NIM when compared to a bank and this effect is likely to persist given the size of HDFC's balance sheet. Furthermore, the recent RBI notification to all lenders increased the risk weights by 25% on unsecured consumer credit is a strong signalling impact to deter growth in the unsecured space. Hence growth in unsecured loans which is comparatively a higher-yielding product is likely to slow and consequently impact the credit growth as well as NIMs.

Annexure

Bank Groups							
Large PVBs	HDFC Bank	ICICI Bank	Axis Bank				
Other PVBs	Yes Bank	IDFC First Bank	RBL Bank	Kotak Mahindra	IndusInd	Federal Bank	South India
	Karnataka Bank	DCB	Karur Vysya				
PVBs	**Large PVBs and Others PVBs (Total 13 Banks)**						

Note: Analysis based on 13 scheduled commercial banks (13 PVBs).

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 I CIN: L67190MH1993PLC071691

Connect :

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I New Delhi I 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.

Celebrating 30 Years