

# Bank NIMs Continue to Experience Sequential Strain

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## Synopsis

- Net Interest Income (NII) of select Scheduled Commercial Banks (SCBs) compared to previous quarter, saw a relatively slower growth of 9.7% year-on-year (y-o-y) to Rs. 2.03 lakh crore in Q1FY25 driven by healthy credit growth, which was partially offset by rise in deposits costs and a dip in yields on advances.
  - SCBs reported a robust rise in advances at 18.1% y-o-y in Q1FY25 driven by the merger and personal loans.
  - Meanwhile, SCBs witnessed a 13.7% y-o-y deposit growth for the quarter. PVBs' deposits rose by 23.2% y-o-y while PSBs registered a slower pace of 9.0%. Deposit growth lagged credit growth with sluggish current account and saving account (CASA) growth (3.3% y-o-y), which was partially offset by the robust growth in Time Deposits (17.8% y-o-y). CASA ratio continued to decline and reached 32.3%.
  - The Credit and Deposit (C/D) ratio stood at 80.6% as of June 30, 2024, expanding by ~430 bps y-o-y over a year ago due to widening credit-deposit growth and HDFC merger impact.
- The Net Interest Margin (NIM) for SCBs dropped on a year-on-year basis by 13 bps and stood at 2.94%, as the rising cost of deposits along with slower growth in CASA impacted the NIM margin.

**Figure 1: NIM Movement (%)**

Group	NIM (Q1FY25) (%)	Y-o-Y (bps)	Q-o-Q (bps)
Large PSBs	2.70	-7	-9
Other PSBs	2.87	-4	-10
<b>PSBs</b>	<b>2.75</b>	<b>-6</b>	<b>-9</b>
Large PVBs	3.62	-7	3
Other PVBs	2.58	-20	2
<b>PVBs</b>	<b>3.20</b>	<b>-25</b>	<b>3</b>
<b>SCBs</b>	<b>2.94</b>	<b>-13</b>	<b>-4</b>

Source: Ace Equity, Bank Filings, CareEdge Calculations

## Movement of Net Interest Income and Net Interest Margin

**Figure 2: NII: PVBs outpaces PSBs**

NII	Q1FY25 (Rs. Lakh Cr.)	Q1FY25 (y-o-y %)	Q1FY25 (q-o-q %)
Large PSBs	0.79	6.5	-1.1
Other PSBs	0.31	0.2	-2.5
<b>PSBs</b>	<b>1.10</b>	<b>4.6</b>	<b>-1.5</b>
Large PVBs	0.63	16.8	2.6
Other PVBs	0.30	15.4	2.4
<b>PVBs</b>	<b>0.93</b>	<b>16.4</b>	<b>2.5</b>
<b>SCBs</b>	<b>2.03</b>	<b>9.7</b>	<b>0.3</b>

Source: Ace Equity, Bank Filings, CareEdge Calculations

- SCBs NII increased by 9.7% on y-o-y basis. PVBs witnessed a robust growth of 16.4%, on the other hand PSBs increased by 4.6%, in Q1FY25. The growth was driven by the merger, robust personal loan growth, which was offset by transmission of repo rates on deposits.
- In terms of NII growth, "Large PVBs" outperformed other segments in Q1FY25, registering a robust 16.8% y-o-y growth driven by merger impact.
  - Interest income of SCBs rose by 20.8% y-o-y in Q1FY25 within which PVBs rose by 29.1% and PSBs grew at a relatively slower pace of 15.1%. This growth can be attributed growth in yield on advances and robust credit growth. (SCB's advances grew by 18.1% y-o-y.)
  - On the other hand, interest expenses of SCBs rose by 27.0% y-o-y in Q1FY25 as we saw transmission of rates and comparatively slower growth of CASA, wherein PVBs grew by 40.3% (merger impact) and PSBs by 19.8%.
- Sequentially, SCBs NII increased marginally by 0.3%, within SCBs we saw divergence wherein PVBs witnessed a growth of 2.5%, however PSBs declined by 1.5%, in Q1FY25. The growth was driven by the merger, robust personal loan growth, however the offset was driven by transmission of repo rates on deposit.

**Figure 3: SCBs – NIM Trend (%): Reverting to Earlier Levels**

	FY23				FY24				FY25	y-o-y (bps)	q-o-q
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1		
Large PSBs	2.47	2.70	2.88	2.92	2.80	2.77	2.75	2.79	2.70	-0.07	-0.09
Other PSBs	2.53	2.88	3.06	3.01	3.12	2.91	2.87	2.97	2.87	-0.04	-0.10
<b>PSBs</b>	<b>2.49</b>	<b>2.75</b>	<b>2.93</b>	<b>2.95</b>	<b>2.88</b>	<b>2.81</b>	<b>2.79</b>	<b>2.84</b>	<b>2.75</b>	<b>-0.06</b>	<b>-0.09</b>
Large PVBs	3.61	3.86	4.10	4.06	3.98	3.89	3.63	3.59	3.62	-0.27	0.03
Other PVBs	2.90	2.96	3.02	3.06	2.97	2.78	2.52	2.56	2.58	-0.20	0.02
<b>PVBs</b>	<b>3.33</b>	<b>3.51</b>	<b>3.68</b>	<b>3.67</b>	<b>3.58</b>	<b>3.45</b>	<b>3.18</b>	<b>3.18</b>	<b>3.20</b>	<b>-0.25</b>	<b>0.03</b>
<b>SCBs</b>	<b>2.80</b>	<b>3.03</b>	<b>3.21</b>	<b>3.22</b>	<b>3.15</b>	<b>3.06</b>	<b>2.95</b>	<b>2.98</b>	<b>2.94</b>	<b>-0.13</b>	<b>-0.04</b>

Source: Ace Equity, Bank Filings, CareEdge Calculations

- NIMs of SCBs declined by 13 bps y-o-y at 2.94% in Q1FY25, while PSBs declined by 6 bps at 2.75%, and PVBs saw a comparatively steeper decline of 25 bps and reached 3.20% due to strong asset growth compared to NII growth which was driven significantly by transmission of repo rates on deposit rates along with slower CASA growth.
- In terms of sequential performance, SCBs dropped by 4 bps, wherein we saw a divergence in trend PSBs saw a downtick of 9 bps due to increasing deposits cost, however PVBs saw divergence and increased 3 bps as the major transmission of deposit rates was seen in last few quarters.

**Figure 4: Yield on Advances**

	HDFC	ICICI	Canara	SBI	Indian Bank	BOB
Yield on Advances (%)	8.40	9.80	8.66	8.83	8.69	8.99
q-o-q (bps)	0	(8)	(5)	(8)	(12)	(26)
y-o-y (bps)	30	(6)	23	5	16	9

Note: Data as per banks' presentations

**Figure 5: Cost of Deposit**

	HDFC	ICICI	Canara	SBI	Indian Bank	BOB
Cost of Deposits (%)	4.90	4.82	5.50	5.00	5.05	5.06
q-o-q (bps)	0	6	25	19	4	2
y-o-y (bps)	90	53	49	45	45	39

Note: Data as per banks' presentations

**Figure 6: Movement in CASA Ratio**

CASA Ratio (%)	Q1FY24	Q4FY24	Q1FY25	y-o-y (Changes in bps)	q-o-q (Changes in bps)
Large PSBs	39.9	37.8	37.0	-298	-85
Other PSBs	41.5	40.2	40.4	-111	18
<b>PSBs</b>	<b>39.3</b>	<b>38.5</b>	<b>37.9</b>	<b>-143</b>	<b>-58</b>
Large PVBs	43.4	40.4	38.9	-457	-154
Other PVBs	47.1	37.0	35.8	-1134	-122
<b>PVBs</b>	<b>44.6</b>	<b>39.3</b>	<b>37.9</b>	<b>-668</b>	<b>-145</b>
<b>SCBs</b>	<b>41.0</b>	<b>38.8</b>	<b>32.3</b>	<b>-314</b>	<b>-88</b>

Source: Ace Equity, Bank Filings, CareEdge Calculations

As term deposit rates are growing, we can see a shift within deposit ratio, wherein term deposits have seen a stronger growth compared to CASA, this has been one of the major concerns impacting cost of funds subsequently impacting NIMs.

### Conclusion

In Q1FY25, credit offtake has witnessed a robust 18.1% y-o-y surge driven by mergers, economic growth, capital expenditure, and retail credit promotion. Banks have thrived with strong credit demand, despite NIM pressure, increased funding costs, and high loan to deposit ratios amid intense deposit competition. Term deposit growth was healthy, but CASA decline impacted the cost of funds. With high Credit to Deposit ratios, expanding the liability franchise is crucial for sustaining loan growth. We expect that credit growth will trail deposit growth. Thus, intensified deposit competition will lead to further straining of NIM in upcoming quarters as interest rate competition persists.

### Annexure

Note: Analysis based on 29 scheduled commercial banks (14 PSBs, and 15 PVBs). Prior period numbers would not be comparable to earlier reports on account of reclassification of select banks.

Group	Banks						
<b>Large PSBs</b>	Bank of Baroda	Canara Bank	Indian Bank	Punjab National Bank	State Bank of India		
<b>Other PSBs</b>	Bank Of India	Bank Of Maharashtra	Central Bank of India	Indian Overseas Bank	IDBI Bank	Jammu & Kashmir Bank	Punjab & Sind Bank
	UCO Bank	Union Bank of India					
<b>PSBs</b>	<b>Large PSBs and Others PSBs (Total 14 PSBs)</b>						
<b>Large PVBs</b>	HDFC Bank	ICICI Bank	Axis Bank				
<b>Other PVBs</b>	Yes Bank	IDFC First Bank	RBL Bank	Kotak Mahindra Bank	IndusInd Bank	Federal Bank	South India Bank
	Karnataka Bank	Bandhan Bank	City Union Bank	DCB Bank	Karur Vysya Bank		
<b>PVBs</b>	<b>Large PVBs and Others PVBs (Total 16 Banks)</b>						
<b>SCBs</b>	<b>PSBs + PVBs (Total 29 Banks)</b>						

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