Overall Asset Quality Improves Despite Strain in Select Segments

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Synopsis

- Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs) decreased by 12.5% y-o-y to Rs 4.50 lakh crore as of September 30, 2024. Meanwhile, the GNPA ratio declined to 2.6% as of September 30, 2024, from 3.3% over a year ago.
    - Sequentially, GNPAs of SCBs reduced by 2.5% q-o-q to Rs 4.50 lakh crore, compared to Rs 4.62 lakh crore in the previous quarter. This reduction was primarily attributed to lower incremental slippages, steady write-offs, and recoveries in the current quarter.
- Net Non-Performing Assets (NNPAs) of SCBs reduced by 16.6% y-o-y to Rs 0.97 lakh crore as of September 30, 2024. The NNPA ratio of SCBs reduced to an all-time low of 0.6% from 0.8% in Q2FY24.
    - Sequentially, SCBs' NNPA saw a decline of 4 basis points (bps), due to the overall decline in the GNPA, a higher provision coverage ratio, and overall improvement in asset quality.
- SCBs credit cost (annualised) ratio increased by 4 bps y-o-y to 0.44% in Q2FY25. This increase can be attributed to rising delinquencies, particularly in the retail and microfinance sectors, as well as several regulatory provisions. The rise in credit costs is primarily driven by increasing provisions at select banks, which have raised their provisions from the microfinance business and unsecured lending business.
- Standard Restructured Assets for select nine PSBs reduced by 40.6% y-o-y to Rs 0.51 lakh crore as of September 30, 2024. Meanwhile, restructured assets of 11 select PVBs declined by 42.6% to Rs 0.12 lakh crore due to repayments made by the borrowers, an uptick in the economic activities and slipping some accounts into the NPAs. Restructured assets (Nine PSBs + Five PVBs) as a percentage of net advances stood at 0.8% as of September 30, 2024, dropping by approximately 45 bps over a year ago period.
- The Provision Coverage Ratio (PCR) of SCBs expanded by 140 bps y-o-y to 78.3% Q2FY25 mainly due to improvement in overall asset quality, increased provisions driven by the reduction in NPAs, and lower slippages compared to recoveries.

Figure 1: SCBs – Gross NPAs and Net NPAs Ratio Trend (%)

	FY23				FY24				FY25		(bps)	
Asset Quality	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**y- o-y**	**q-o-q**
Gross NPAs												
Large PSBs	6.0	5.4	4.9	4.3	4.1	3.8	3.5	3.2	3.1	2.8	-94	-24
Other PSBs	11.1	9.3	8.4	7.3	6.5	5.4	4.6	4.3	3.9	3.9	-145	-15
PSBs	**7.4**	**6.5**	**5.8**	**5.1**	**4.7**	**4.2**	**3.8**	**3.5**	**3.3**	**3.1**	-108	-22
Large PVBs	2.3	2.2	2.2	1.9	1.9	1.8	1.7	1.6	1.7	1.6	-19	-6
Other PVBs	4.7	4.5	2.8	2.7	2.7	2.6	2.7	2.2	2.2	2.3	-38	3
PVBs	**3.1**	**2.9**	**2.4**	**2.2**	**2.2**	**2.0**	**1.9**	**1.8**	**1.8**	**1.8**	-24	-3
SCBs	**5.8**	**5.2**	**4.6**	**4.1**	**3.8**	**3.3**	**3.0**	**2.8**	**2.7**	**2.6**	**-74**	**-14**
Net NPAs												
Large PSBs	1.8	1.5	1.3	1.1	1.0	0.9	0.8	0.7	0.7	0.6	-30	-10
Other PSBs	2.8	2.4	2.0	1.7	1.8	1.2	1.0	0.9	0.8	0.8	-40	**0**
PSBs	**2.1**	**1.7**	**1.5**	**1.3**	**1.2**	**1.0**	**0.8**	**0.8**	**0.7**	**0.6**	**-33**	**-7**
Large PVBs	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	3	1
Other PVBs	1.6	1.4	1.0	0.9	0.9	0.8	0.8	0.7	0.7	0.7	-15	-1
PVBs	**0.9**	**0.8**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**-2**	**0**
SCBs	**1.6**	**1.4**	**1.2**	**1.0**	**1.0**	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**	**-20**	**-4**

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

The GNPAs of SCBs reduced by 12.5% y-o-y to Rs 4.50 lakh crores as of September 30, 2024, vs. Rs 5.15 lakh crores in the year-ago period due to lower incremental slippages, steady write-offs, and recoveries. PSBs' "Recoveries & Upgrades" stood at Rs 0.16 lakh crore, compared to Rs 0.19 lakh crore in the previous year. Overall, the stress level of SCBs' has reduced on a y-o-y basis as the restructured book has decreased in Q2FY25.

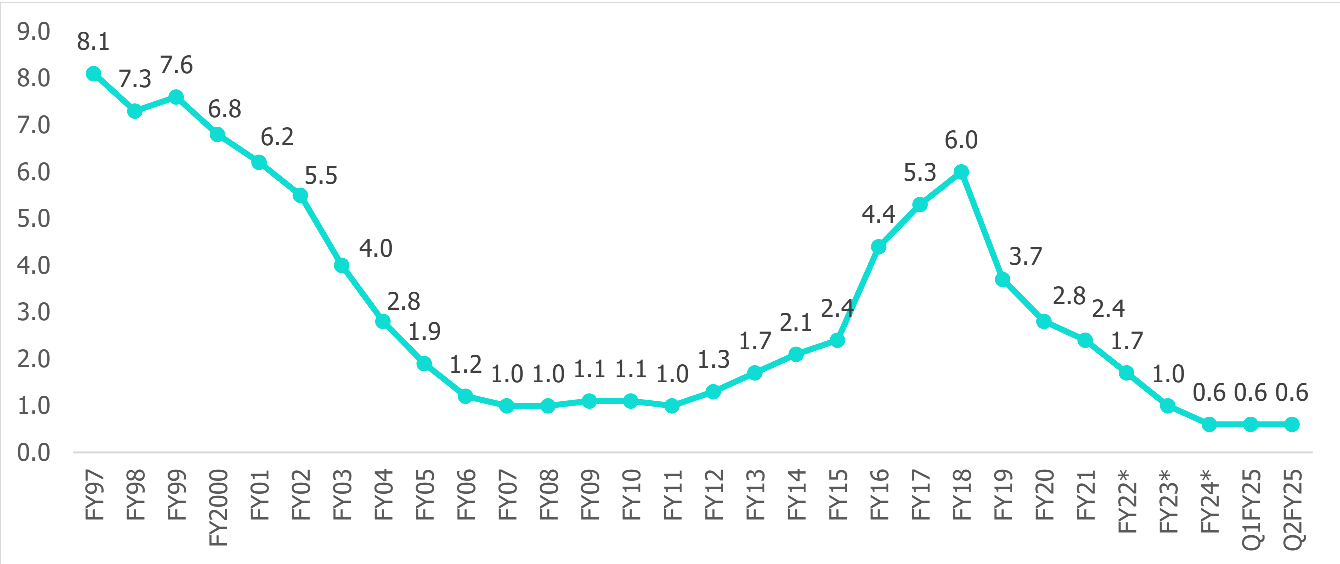
- GNPAs of PSBs reduced by 16.1% y-o-y to Rs 3.27 lakh crore as of September 30, 2024. Recoveries and slippage were comparatively steady during the year. The GNPA ratio of PSBs reduced by 108 bps y-o-y to 3.1% as of September 30, 2024. Other PSBs saw a reduction of 145 bps y-o-y to 3.9% as of September 30, 2024.
    - PSB slippages increased by 0.5% y-o-y to Rs 0.24 lakh crore in Q2FY25, majorly impacted due to slippages from large corporate accounts.
    - Meanwhile write-offs and recoveries declined from Rs 0.44 lakh crore last year to Rs 0.27 lakh crore in the quarter.
- PVBs' GNPAs decreased by 1.2% y-o-y to Rs. 1.22 lakh crore as of September 30, 2024. Meanwhile, PVBs witnessed a rise in slippages, which stood at 0.26 lakh crore in Q2FY25 compared to 0.23 lakh crore in Q2FY24. The GNPA ratio of PVBs reduced by 24 bps y-o-y to 1.8% as of September 30, 2024, while other PVBs saw a reduction of 38 bps y-o-y to 2.3% as of September 30, 2024.

Despite rising slippages, the GNPA of SCBs reduced significantly due to effective recoveries through IBC 2016 and overall improved economic conditions, which led to repayments by borrowers. The NNPAs of SCBs decreased by 16.6% y-o-y to Rs 0.97 lakh crores as of September 30, 2024, compared to Rs 1.17 lakh crores a year ago, reflecting the improvement of GNPAs and adequate provision levels. The NNPA ratio of SCBs also reduced significantly to 0.6% from 0.8% in Q2FY25. The NNPA ratio of PSBs dropped by 33 bps to 0.6% in Q2FY25, while PVBs remained flat at 0.5%. However, sequentially, we saw a marginal increase in large PVBs of 1 bps from Q1FY25.

- NNPAs of PSBs reduced by 25.2% y-o-y to Rs 0.64 lakh crore as of September 30, 2024, while NNPAs of PVBs increased by 7.4% y-o-y, driven by merger along with higher defaults seen in unsecured retail segments to Rs 0.33 lakh crore as of September 30, 2024. Within PSBs, the major reduction was in Large PSBs, which dropped by 25.2% y-o-y to Rs 0.64 lakh crore as asset quality improved driven by a rise in the share of MSME/Corporate advances rises for other PSBs banks. The NNPA ratio of large PSBs also reduced to 0.6% in Q2FY25 from 0.9% in Q2FY24, while other PSBs witnessed a significant reduction of 40 bps y-o-y to 0.8% in Q2FY25.
- The NNPAs of PVBs showed an increasing trend in Q2FY25 y-o-y, driven by large PVBs, which grew by 18.4% to 0.19 lakh crore. The NNPA ratio of other PVBs reduced by 15 bps y-o-y to 0.7% in Q2FY25, while large PVBs increased marginally by 3 bps to 0.4% in the same quarter. Sequentially, large PVBs increased by 1 bps, while other PVBs decreased by 1 bps.

Sequentially, GNPAs of SCBs reduced by 2.5% q-o-q, driven by a sharp improvement in asset quality of large PSBs which declined by 4.7% to Rs 2.16 lakh crore as of September 30, 2024. Overall, PSBs declined by 3.6%, whereas PVBs witnessed a marginal uptick of 0.8%. Write-offs saw a marginal downtick. The reduction in the absolute stock of GNPAs and rising advances has led to the GNPA ratio of SCBs reducing to 2.6% as of September 30, 2024. Overall, it has consistently improved over the last few years. However, we can see a sequential increase in PVBs driven by higher defaults in the retail and the microfinance segment.

Figure 2: NNPAs of SCBs Remain Flat at low Levels in Q2FY25 (%)



Source: RBI, * CareEdge Calculation Q2FY25, 30 SCBs (14 PSBs + 16 PVBs)

As of March 31, 2018, the NNPA ratio stood at 6.0% in FY18 which dropped to 0.6% as of September 30, 2024. 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 2016. Sequentially the NNPA ratio remained flat at 0.6% as compared to the previous quarter. This indicates a healthy asset portfolio of the banking sector as a whole.

Figure 3: Recoveries, upgrades, Write-Offs and Fresh Slippages (Rs. Lakh - Cr.)

PSBs	Q2FY24	Q1FY25	Q2FY25	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.15	0.13	0.11	-24.3	-12.3
Write-Offs	0.28	0.17	0.16	-45.1	-5.3
Fresh Slippages	0.24	0.24	0.24	0.5	0.5

Source: Bank Presentations, CareEdge Calculations, 14 PSBs (5 Large PSBs + 9 Other PSBs)

Figure 4: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs Lakh - Cr.)

PVBs	Q2FY24	Q1FY25	Q2FY25	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.14	0.09	0.11	-22.3	15.7
Write-Offs	0.09	0.08	0.11	23.5	35.5
Fresh Slippages	0.23	0.25	0.26	13.2	2.2

Source: Banks Presentation, CareEdge Calculations, Note 11 PVBs for slippages, 11 PVBs for recoveries, upgrades and write-offs

Figure 5: Select Banks' Restructured Portfolio (Rs. Lakh - Cr.) – Shows Reduction

PSBs	Sep 30, 2023	Sep 30, 2024	y-o-y (%)	PVBs	Sep 30, 2023	Sep 30, 2024	y-o-y (%)
SBI	0.27	0.15	-44.4	Yes	0.04	0.02	-52.8
UBI	0.15	0.11	-22.6	ICICI	0.04	0.03	-28.0
PNB	0.10	0.08	-23.0	Axis	0.02	0.01	-24.8
BoI	0.09	0.07	-25.3	IndusInd	0.02	0.01	-39.1
IB	0.10	0.07	-28.4	Kotak	0.01	0.00	-52.9
CBI	0.06	0.06	-5.8				
BoM	0.03	0.02	-38.0				
UCO	0.03	0.02	-32.7				
PSB	0.02	0.01	-50.5				
Total	**0.85**	**0.59**	**-30.8**	**Total**	**0.13**	**0.07**	**-39.5**
% of Net Advances	**0.9**	**0.8**		**% of Net Advances**	**0.3**	**0.2**	

Source: Bank Presentations, CareEdge Calculations

Overall, restructuring has been significantly reduced due to repayment by borrowers, an uptick in economic activities, and some accounts slipping into NPAs. The restructured portfolio for nine select PSBs reduced by 30.8% y-o-y to Rs 0.80 lakh crore as of September 30, 2024. Meanwhile, the restructured portfolio for five select PVBs declined by 39.5% y-o-y to Rs 0.20 lakh crore in the same period.

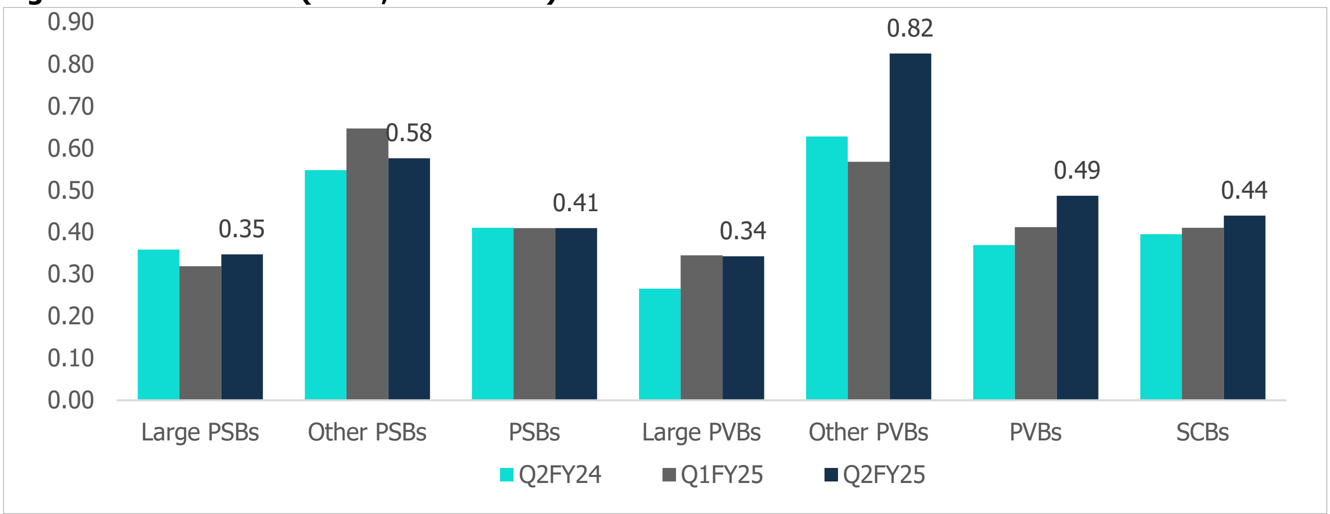
Figure 7: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

Credit Cost	Q1FY24	Q2FY24	Q1FY25	Q2FY25	y-o-y (%)	q-o-q (%)
Large PSBs	0.13	0.10	0.09	0.10	6.09	12.53
Other PSBs	0.07	0.06	0.07	0.07	15.94	-9.36
PSBs	**0.20**	**0.16**	**0.17**	**0.17**	**9.67**	**2.96**
Large PVBs	0.05	0.04	0.06	0.06	42.70	2.75
Other PVBs	0.04	0.04	0.04	0.06	55.15	49.77
PVBs	**0.09**	**0.08**	**0.10**	**0.12**	**48.76**	**22.23**
SCBs	**0.29**	**0.24**	**0.27**	**0.30**	**23.37**	**10.31**

Source: Ace Equity, CareEdge Calculations, Note 14 PSBs (5 Large + 9 Others), 16 PVBs (3 Large + 13 others)

SCBs credit cost increased by 23.3% y-o-y to Rs 0.29 lakh crore in Q2FY25, which can be attributed to incipient stress in the select segments. PSBs credit cost increased by 9.6% y-o-y to Rs 0.17 lakh crore in Q2FY25, with other PSBs reporting a major drop in provisions for the quarter. PVBs' credit cost increased by 48.8% y-o-y in the quarter as they made higher standard provisions for the growth of advances.

Figure 8: Credit Costs (In %, Annualised)

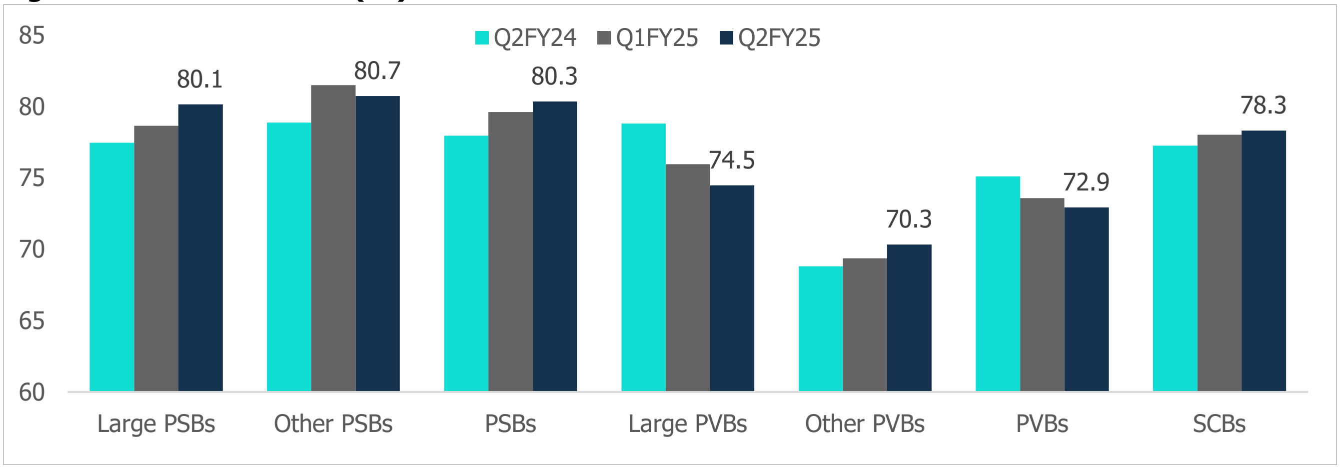


Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

Credit cost (annualised) of SCBs increased by 4 bps y-o-y to 0.44% in Q2FY25, compared to 0.39% in Q2FY24. For PVBs, it increased by 12 bps to 0.49% in the current quarter, while for PSBs, it remained flat to 0.41% during the same period. However, in the current quarter, we saw an increase in credit cost for PVBs by 20 bps, while the trend for PSBs remained flat.

Provision Coverage Ratio (PCR)

Figure 6: SCBs PCR Trend (%)



Source: Ace Equity, Note – PCR calculation (Provisions = GNPAs-NPAs), (PCR= Provisions/ NNPAs)
Includes 14 PSBs and 16 PVBs (a total of 30 SCBs), excludes technical write-offs

- The PCR of SCBs gradually increased over the quarters and stood at 78.3% in Q2FY25. It also rose by 0.4% y-o-y in the quarter, mainly driven by PSBs with a PCR of 80.3%
    - SCBs GNPAs declined by 12.5% y-o-y in the quarter while accumulated provisions declined by 11.3% in the same period, resulting in higher PCR.
    - PSBs' PCR improved by 230 bps y-o-y to 80.3% in the quarter as the rate of reduction in GNPAs was faster than accumulated provisions.
    - PVBs' PCR declined by 220 bps y-o-y to 70.3% in the quarter, as we saw an increase in GNPAs of PVBs driven by large PVBs.

Conclusion

Credit offtake experienced a growth of 11.8% (y-o-y) in Q2FY25 (driven by merger impact and high growth in personal loans) compared to 11.7% deposit growth. Asset quality continues to remain better than the pre-asset quality review (AQR) levels. This trend is expected to be maintained in Q3FY25 due to factors such as growth in advances, limited incremental slippages, and a reduction in the restructured portfolios.

Meanwhile, stress in select segments such as unsecured personal loans and MFIs has been visible. Credit costs are expected to increase, impacting profitability and leading to account loss. However, SCBs maintained a substantial buffer for provisions, creating a somewhat benign credit cost environment. The impending guidelines on LCR norms could strengthen the liquidity positions, improve credit risks of banks, and further tighten the regulatory framework and the operating performances of SCBs. Downside risks include an increase in crude oil prices, a global economic slowdown, global monetary and liquidity tightening, and elevated interest rates.

The RBI's proposed transition to the Expected Credit Loss (ECL) framework marks a significant shift from the incurred loss approach, aiming for more proactive and forward-looking provisioning. Private sector banks, particularly those with strong contingency provisions, are likely to experience a lower impact. This is a positive step towards enhancing the resilience and transparency of the banking sector.

Annexure

Figure 1(a): Gross NPAs and Net NPAs (In lakh crores)

	FY23				FY24				FY25		%	
Asset Quality	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**y- o-y**	**q-o-q**
Gross NPAs												
Large PSBs	3.45	3.25	3.03	2.79	2.69	2.55	2.44	2.34	2.27	2.16	-0.15	-0.05
Other PSBs	2.37	2.09	1.95	1.76	1.57	1.36	1.21	1.18	1.13	1.11	-0.18	-0.02
PSBs	**5.82**	**5.34**	**4.99**	**4.56**	**4.26**	**3.91**	**3.65**	**3.52**	**3.40**	**3.27**	-0.16	-0.04
Large PVBs	0.72	0.71	0.71	0.68	0.69	0.78	0.76	0.74	0.78	0.76	-0.02	-0.01
Other PVBs	0.71	0.68	0.44	0.42	0.44	0.46	0.48	0.42	0.43	0.46	0.00	0.05
PVBs	**1.43**	**1.39**	**1.16**	**1.1**	**1.13**	**1.24**	**1.24**	**1.16**	**1.21**	**1.22**	-0.01	0.01
SCBs	**7.25**	**6.73**	**6.14**	**5.66**	**5.4**	**5.15**	**4.89**	**4.68**	**4.62**	**4.50**	-0.13	-0.02
Net NPAs												
Large PSBs	1.00	0.86	0.79	0.71	0.64	0.57	0.53	0.49	0.48	0.43	-0.25	-0.11
Other PSBs	0.56	0.5	0.44	0.39	0.41	0.29	0.26	0.25	0.21	0.21	-0.25	0.03
PSBs	**1.55**	**1.36**	**1.22**	**1.1**	**1.05**	**0.86**	**0.79**	**0.74**	**0.69**	**0.64**	**-0.25**	**-0.07**

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

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 Indian Bank
	Karnataka Bank	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank	Dhanlaxmi Bank	
PVBs	Large PVBs and Others PVBs (Total 16 PSBs)						
SCBs	PSBs + PVBs (Total 30 Banks)						

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