

Cost to Income Reduction Aided by Treasury Gains

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Synopsis

- Pre-provision operating profit (PPOP) for Scheduled Commercial Banks (SCB) grew by 11.6% y-o-y to reach Rs 1.07 lakhs crore in Q2FY25. Sequentially, PPOP increased by 3.0%, aided by growth in other income, including treasury and fee income, despite moderation in Net Interest Income (NII). The PPOP margin for SCBs rose by 9 bps both y-o-y and sequentially, reaching 2.48%.
- The cost-to-income ratio of SCBs decreased by 0.78% to 46.7% in Q2FY25. Despite a drop in Net Interest Margin (NIM), strong treasury gains and lower operating expense growth compared to last year.

Figure 1: PPOP Rises on y-o-y as well as sequentially

	(Rs. Lakh Crore)		
	Q2FY25	y-o-y (%)	q-o-q (%)
Large PSBs	0.21	12.1	13.9
Other PSBs	0.20	25.3	12.4
PSBs	0.41	18.3	13.2
Large PVBs	0.52	14.5	4.3
Other PVBs	0.19	9.8	-0.3
PVBs	0.69	13.4	3.1
SCBs	1.10	15.2	6.7

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- In Q2FY25 (on a y-o-y basis), the total income of SCBs grew by 14.7%.
 - PPOP of SCBs grew by 15.2% y-o-y to Rs 1.10 lakh crore in Q2FY25, while PPOP margin rose by 9 bps.
 - PPOP for PSBs grew by 18.3% y-o-y, driven by higher other income. However, this growth was partly offset by an increase in deposit rates. On the other hand, Private Sector Banks (PVBs) reported slower PPOP growth of 13.4% y-o-y. The PPOP margin of PSBs increased by 18 bps y-o-y to 2.15% in Q2FY25. Meanwhile PVBs saw a marginal uptick of 2 bps y-o-y, reaching at 2.73% in the quarter.
 - Sequentially, SCBs saw a 6.7% increase in PPOP due to gains from mark-to-market (MTM) yields and higher fee income, which helped margins grow by 9 bps.

Figure 2: NIM Movement (%)

Group	NIM (Q2FY25) (%)	Y-o-Y (bps)	Q-o-Q (bps)
Large PSBs	2.78	-3	-8
Other PSBs	2.97	1	1
PSBs	2.87	-1	-4
Large PVBs	3.61	-28	-1
Other PVBs	2.32	-23	-2
PVBs	3.09	-26	-1
SCBs	3.00	-15	-2

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- The Interest income for SCBs grew by 12.5%, reaching Rs 3.49 lakh crore. However, the NIM declined by 15 bps y-o-y, falling to 3.00% in Q2FY25. This decline was due to higher funding costs, while the growth in yields from advances was relatively slower.

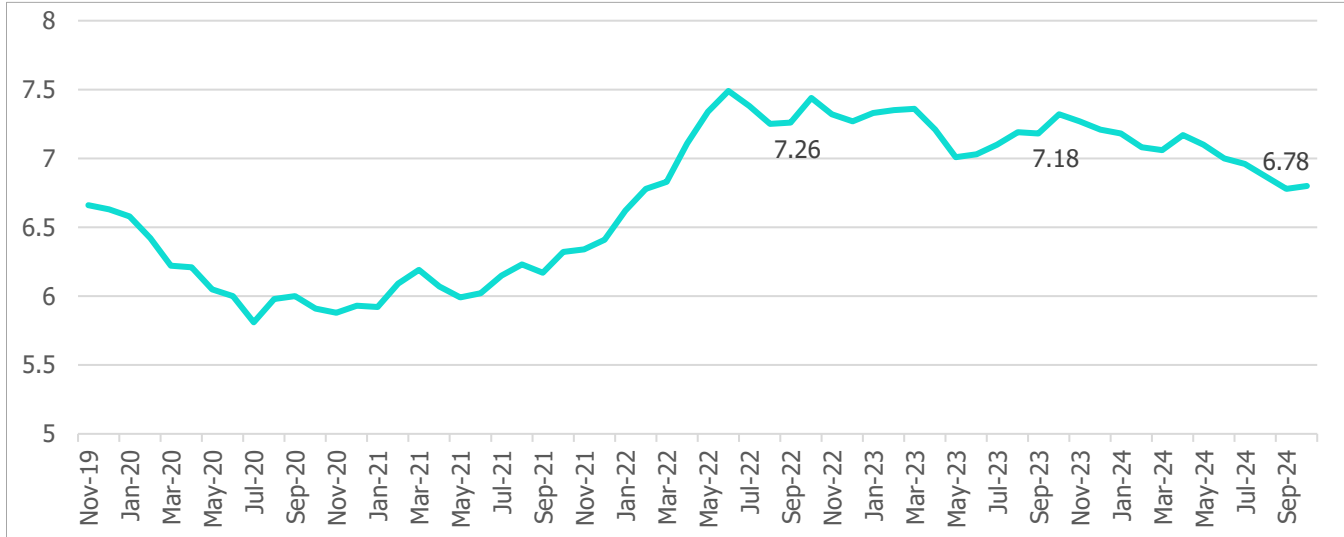
Figure 3: NII Movement (in Lakh Crores)

Group	NII (Q2FY25)	Y-o-Y (%)	Q-o-Q (%)
Large PSBs	0.28	6.8	0.1
Other PSBs	0.26	9.9	1.5
PSBs	0.55	8.3	0.8
Large PVBs	0.64	9.7	1.3
Other PVBs	0.27	9.2	0.8
PVBs	0.91	9.6	1.1
SCBs	1.46	9.1	1.0

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- NII growth in the current quarter saw an increase of 9.1% y-o-y and reached Rs. 1.46 lakh crores, driven majorly by advances loan growth, however, which was partially offset by an increase in deposit rates.
 - Meanwhile, the non-interest income of SCBs grew by 27.9% y-o-y driven majorly by market (M2M) gains seen in the current quarter.

Figure 4: Yield on Residual Maturity of Government of India (in %)



Source: CMIE; Note: Includes Monthly weighted average 10-year residual maturity period.

- The yield on 10-year Government of India bonds, as of September 2024 reduced by 40 bps and stood at 6.78% compared to 7.18% y-o-y, reflecting a recovery from the previous year's mark-to-market (M2M) losses. The reduction in bond yield over the past year, combined with improved treasury income, has helped the market absorb these fluctuations, contributing to the current stability.

Figure 4: Treasury Income as a % of Total assets (annualized)

Treasury Income as a % of Total Assets	Q2FY24	Q1FY25	Q2FY25
Large PSBs	0.05	0.13	0.27
Other PSBs	0.15	0.20	0.30
PSBs	0.08	0.16	0.28
Large PVBs	0.04	0.11	0.16
Other PVBs	0.11	0.12	0.16
PVBs	0.06	0.11	0.16
SCBs	0.07	0.13	0.21

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- The treasury income as a percentage of total assets for select SCBs witnessed an uptick of 14 bps from 0.07% in Q2FY24 to 0.21% in Q2FY25. PSBs have seen a significant rise, particularly large PSBs, while PVBs have shown more modest growth.

Figure 5: Cost to Income Ratio Reduces

	FY23			FY24				FY25		y-o-y (Bps)	q-o-q (bps)
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q		
Large PSBs	48.6	47.2	49.3	48.3	48.1	49.6	51.6	49.7	47.4	-66	-229
Other PSBs	47.3	47.7	49.0	45.2	50.1	49.3	55.2	49.2	47.5	-259	-169
PSBs	48.0	47.4	49.2	46.8	49.0	49.4	53.4	49.4	47.4	-158	-199
Large PVBs	41.4	39.8	41.8	43.3	42.7	42.4	40.3	42.0	41.4	-128	-60
Other PVBs	54.9	55.1	54.1	54.3	55.3	58.6	57.5	56.6	57.2	192	58.7
PVBs	45.6	44.5	45.6	46.8	46.5	47.3	45.4	46.5	46.2	-32	-30
SCBs	46.5	45.7	47.1	46.8	47.5	48.1	48.3	47.6	46.7	-78	-90

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- The cost-to-income ratio of SCBs reduced by 78 bps to 46.7% in Q2FY25. Despite a drop in NIM, treasury gains boosted total income. Additionally, operating expenses grew slower as compared to last year, partly due to one-off wage revision costs seen previously. Sequentially SCBs' cost-to-income ratio declined by nearly 90 bps, mainly driven majorly by PSBs robust gain in treasury income.

Income (Rs. Lakh, Cr.)

Figure 6: Interest Income

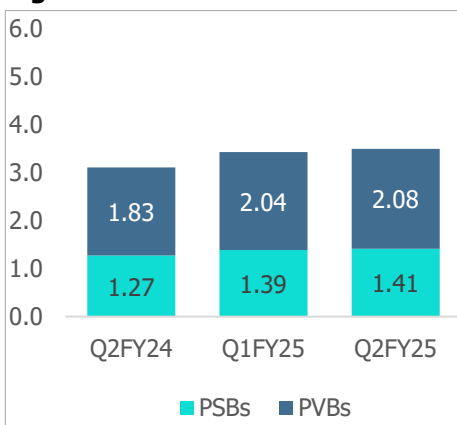


Figure 7: Non-Interest Income

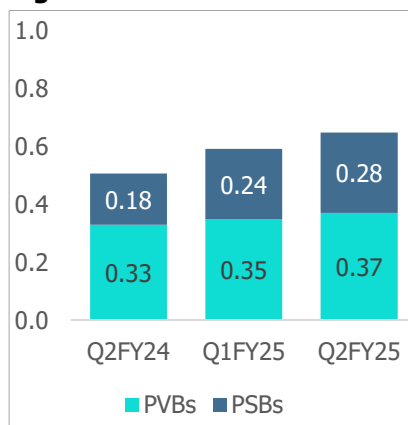
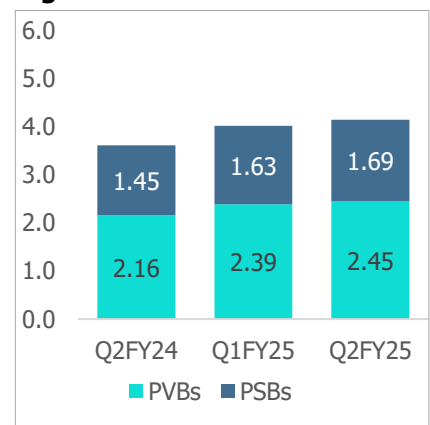


Figure 8: Total Income



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- Total income of SCBs grew by 14.7% y-o-y to Rs 4.14 lakh crore in Q2FY25 due to growth in advances, robust MTM gains along with growth in fee income.
 - Advances to Personal loans reported robust growth y-o-y in Q2FY25, which grew by 25%, followed by Agri and Service industry which grew around 16 and 17% each.
 - Interest income of SCBs grew by 12.5% y-o-y to Rs 3.49 lakh crore in Q2FY25, with growth in advances standing at 10.3% on a y-o-y basis.
 - other income of SCBs grew by 27.9%, driven majorly by MTM gains seen in the current quarter.

Figure 9: Yield on Advances

	HDFC	Kotak	IOB	UBI	CBI	BOM
Yield on Advances (%)	8.30	9.80	8.97	8.71	8.84	9.21
q-o-q (bps)	(10)	(8)	12	8	22	25
y-o-y (bps)	10	6	19	(10)	147	140

Source: Data as per banks' presentations

Figure 10: Cost of Deposits

	HDFC	Kotak	IOB	UBI	CBI	BOM
Cost of Deposits (%)	4.90	5.15	5.15	5.46	4.71	4.66
q-o-q (bps)	0	5	20	38	11	18
y-o-y (bps)	10	37	46	26	82	112

Source: Note: Data as per banks' presentations

- PSBs total income grew by 12.4% y-o-y to Rs 1.69 lakh crore in Q2FY25.
 - Interest income of PSBs grew by 11.1% y-o-y to Rs 1.41 lakh crore, meanwhile, advances rose by 11.9% y-o-y in the quarter.
 - The non-interest income of PSBs increased and saw robust growth of 56.8% driven by MTM gains seen by banks followed by strong growth in fee income.
- PVBs total income grew by 13.3% y-o-y to Rs 2.45 lakh crore in Q2FY25.
 - PVBs reported robust growth in interest income at 13.5% y-o-y in Q2FY25 driven by 9.2% growth in advances as we saw normalization from merger impact in the current quarter.

Operating Expenses (Rs. Lakh – Cr.)

Figure 11: Employee Expenses

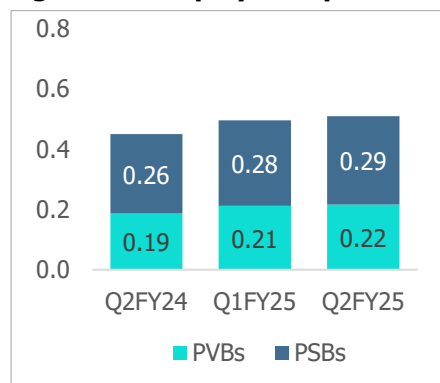


Figure 12: Other Op. Expenses

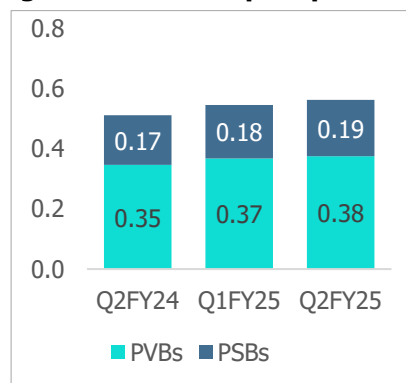
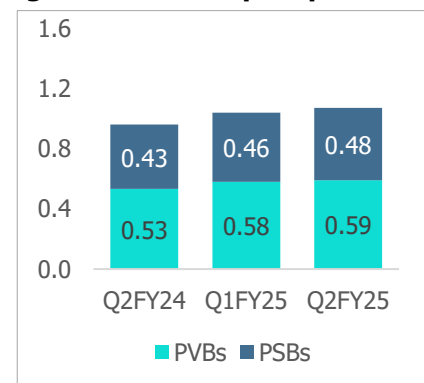


Figure 13: Total Op. Expenses



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 25 SCBs

- The Opex of SCBs rose by 11.6% y-o-y to Rs 1.07 lakh crore in Q2FY25. Employee expenses increased by 13.3% y-o-y, while other Opex grew by 10.1% y-o-y.
 - The Opex of SCBs increased by 11.6% y-o-y to Rs 1.07 lakh crore in Q2FY25. Within this, employee expenses grew by 13.3% y-o-y, while other opex rose by 10.1% y-o-y. This growth rate is higher compared to last year's Opex growth of 10.5%.
 - Employee expenses for PSBs increased by 11.6% y-o-y to Rs 0.29 lakh crore, which is slower compared to the 60.0% rise in the previous quarter. Meanwhile, PVBs saw a 15.7% y-o-y increase in employee expenses this quarter, driven by higher headcounts and rising wage inflation.
 - Other expenses of SCBs rose by 10.1% in the quarter, driven by the addition of branches. PSBs reported a marginally higher rise in other Opex at 13.5% in the quarter compared to 8.4% by PVBs driven by rising distribution costs, a rise in business volume and continued IT spending.

Conclusion

In Q2FY25, NIMs showed moderation, but banks continued to perform well with strong credit demand. This was despite pressure on NIMs, rising funding costs, and high loan-to-deposit ratios amid intense competition for deposits. While term deposit growth was healthy, a decline in CASA impacted the cost of funds.

Although NIM saw pressure, robust treasury income in PSBs and healthy fee income led to robust growth in PPOP y-o-y as well as sequentially, looking forward increase in pension provision, wage inflation in PSBs especially in PSBs and growing technology cost, the trajectory is likely to continue as growing technology costs, increasing operating expenses, pressure on NIMs and wage inflation can impact PPOP margins even further in coming quarters.

Annexure

Note: Analysis based on 25 scheduled commercial banks (11 PSBs, and 14 PVBs). Prior period numbers would not be comparable to earlier reports on account of the reclassification of select banks.

Group	Banks						
Large PSBs	Bank of Baroda	Punjab National Bank	Indian Bank				
Other PSBs	Union Bank of India	Bank Of Maharashtra	Central Bank of India	Indian Overseas Bank	IDBI Bank	Jammu & Kashmir Bank	Punjab & Sind Bank
	UCO Bank						
PSBs	Large PSBs and Others PSBs (Total 11 PSBs)						
Large PVBs	HDFC Bank	ICICI Bank	Axis Bank				
Other PVBs	Yes Bank	IDFC First Bank	RBL Bank	Kotak Mahindra Bank	Dhanlaxmi Bank	Federal Bank	South Indian Bank
	Karnataka Bank	Karur Vysya Bank	City Union Bank	DCB Bank			
PVBs	Large PVBs and Others PVBs (Total 14 Banks)						
SCBs	PSBs + PVBs (Total 25 Banks)						

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