Treasury Gains Support ROA Stability for Banks in Q2 FY25

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Synopsis

- Net Interest Income (NII) of select Scheduled Commercial Banks (SCBs) grew by 8.1% year-on-year (y-o-y) to Rs.2.05 lakh crore in Q2FY25, driven by healthy business growth. This was partially offset by a rising deposit costs and slower growth in yields on advances. Meanwhile, the Net Interest Margin (NIM) for SCBs decreased by 14 bps y-o-y to 2.90%, as the pace of increase in lending rates slowed, while the cost of deposits rose along with slower growth in CASA.
- Net Non-Performing Assets (NNPAs) of SCBs declined by 12.5% y-o-y. The NNPA ratio reached an all-time low of 0.6%, down from 0.8% in Q2FY24.
- The annualised credit costs for SCBs increased by 4 basis points y-o-y to 0.45% in Q2FY25. This rise is to be attributed to increasing delinquencies in the retail and microfinance sectors, as well as several regulatory provisions. The increase in credit costs is primarily driven by higher provisions at select private sector banks, which have raised their provisions from the microfinance business and unsecured lending business.
- Return on Assets (RoA, annualised) of SCBs increased by 8 bps y-o-y to 1.40% in Q2FY25, and inched up by 3 bps sequentially, driven by a rise in treasury incomes.

Movement of Net Interest Margin

Figure 1: NIM Movement (%)

Group	NIM (Q2FY25) (%)	Y-o-Y (bps)	Q-o-Q (bps)
Large PSBs	2.63	-9	-6
Other PSBs	2.86	-5	-4
PSBs	**2.69**	**-8**	**-6**
Large PVBs	3.61	-28	-1
Other PVBs	2.57	-22	-2
PVBs	**3.19**	**-26**	**-1**
SCBs	**2.90**	**-14**	**-4**

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

Movement of Net Interest Income

Figure 2: NII Growth

NII	Q2FY25 (Rs.Lakh Cr.)	Q2FY25 (y-o-y %)	Q2FY25 (q-o-q %)
Large PSBs	0.79	5.8	0.9
Other PSBs	0.32	8.8	0.3
PSBs	**1.12**	**6.7**	**0.7**
Large PVBs	0.64	9.7	1.3
Other PVBs	0.30	10.3	0.5
PVBs	**0.94**	**9.9**	**1.0**
SCBs	**2.05**	**8.1**	**0.9**

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

- SCBs NII increased by 8.1% on a y-o-y basis in Q2FY25. PVBs saw a growth of 9.9%, while PSBs increased by 6.7%. This growth was driven by advances, which was offset by an increase in deposit rates.
  - Interest income of SCBs rose by 14.7% y-o-y in Q2FY25, with PSBs rising by 15.8% and PVBs growing at a relatively slower pace of 13.4%. This growth can be attributed to an increase in yield on advances and credit growth. (SCB's advances grew by 11.8% y-o-y.)
  - On the other hand, interest expenses of SCBs rose by 18.5% y-o-y in Q2FY25 as term deposits witnessed an increase in rates and in the share of aggregate deposits, along with a comparatively slower growth of CASA. PVBs interest expenses grew by 16.9% and PSBs by 19.6%.
- Sequentially, in Q2FY25, SCBs NII increased marginally by 0.9%. Within SCBs, PVBs witnessed a growth of 1.0%, while PSBs increased by 0.7%. The growth was driven by higher interest rates, spreads, and better asset quality.

Figure 3: SCBs – NIM Trend (%)

	FY23			FY24				FY25		y-o-y	q-o-q
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		
Large PSBs	2.66	2.84	2.88	2.78	2.72	2.73	2.74	2.69	2.63	-0.09	-0.06
Other PSBs	2.88	3.06	3.01	3.12	2.91	2.87	2.97	2.90	2.86	-0.05	-0.04
PSBs	**2.72**	**2.90**	**2.91**	**2.87**	**2.77**	**2.77**	**2.80**	**2.75**	**2.69**	**-0.08**	**-0.06**
Large PVBs	3.86	4.10	4.06	3.98	3.89	3.63	3.59	3.62	3.61	-0.28	-0.01
Other PVBs	2.98	3.04	3.08	2.99	2.79	2.53	2.57	2.59	2.57	-0.22	-0.02
PVBs	**3.51**	**3.68**	**3.67**	**3.59**	**3.45**	**3.19**	**3.18**	**3.21**	**3.19**	**-0.26**	**-0.01**
SCBs	**3.01**	**3.19**	**3.20**	**3.14**	**3.04**	**2.94**	**2.96**	**2.94**	**2.90**	**-0.14**	**-0.04**

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

- NIMs of SCBs declined by 14 bps y-o-y at 2.90% in Q2FY25. This was due to muted NII growth, significantly driven by the transmission of repo rates on deposit rates, along with comparatively slower CASA growth. PSBs decline by 8 bps at 2.69%, while PVBs experienced a steeper decline of 26 bps to 3.19%, driven by stronger assets growth seen in PVBs.
- In terms of sequential performance, SCBs NIMs dropped by 4 bps. Within SCBs, PSBs saw a downtick of 6 bps, while, PVBs experienced a marginal decrease of 1 bps.

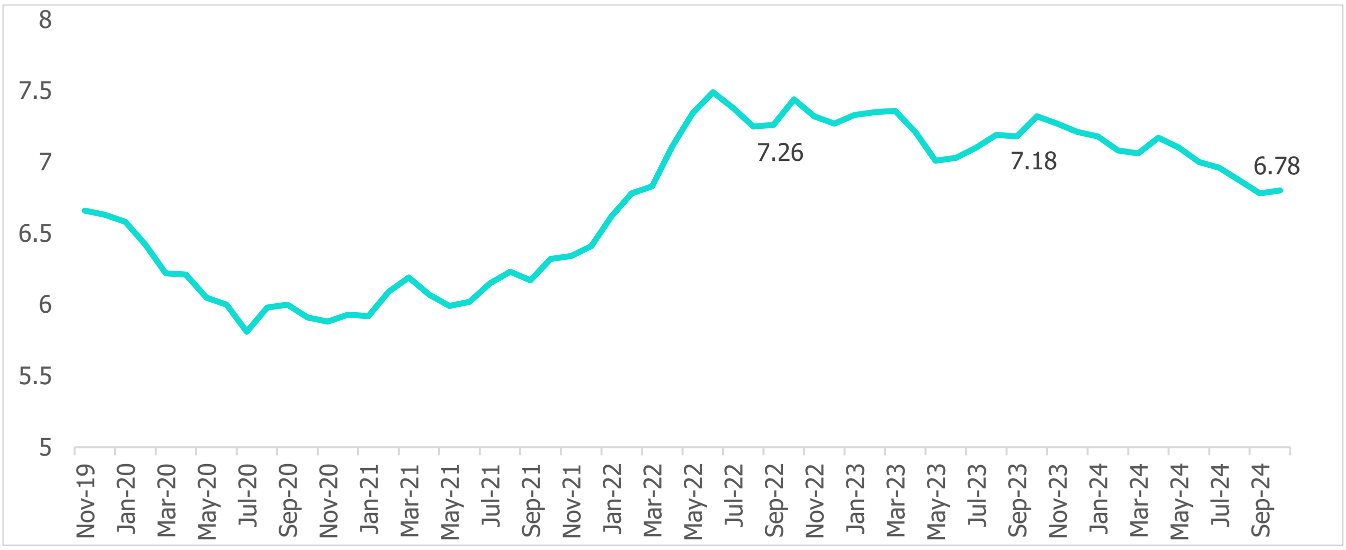
Figure 4: Movement in CASA Ratio

CASA Ratio (%)	Q2FY24	Q1FY25	Q2FY25	y-o-y (Changes in bps)	q-o-q (Changes in bps)
Large PSBs	38.1	37.0	36.5	-167	-50
Other PSBs	40.1	39.1	38.4	-168	-62
PSBs	**38.7**	**37.5**	**37.0**	**-167**	**-54**
Large PVBs	40.0	38.9	38.0	-198	-84
Other PVBs	37.8	35.8	35.6	-218	-16
PVBs	**39.3**	**37.9**	**37.3**	**-205**	**-63**
SCBs	**38.9**	**37.7**	**37.1**	**-180**	**-57**

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

As term deposit rates grow, we can see a shift within the deposit ratio, with term deposits experiencing a stronger growth of approx. 19% compared to CASA growth of 11.6%. CASA ratio has dropped by 180 bps in deposit share, impacting the cost of funds subsequently affecting NIMs.

Figure 5: 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 to 6.78% compared to 7.00% q-o-q, reflecting a recovery from the previous year's mark-to-market (MTM) 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 6: Treasury Income as a % of Total assets (annualised)

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 increased by 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.

Income (Rs. Lakh, Cr.)

Figure 7: Interest Income

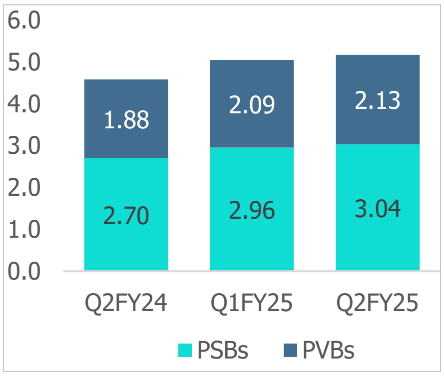


Figure 8: Non-Interest Income

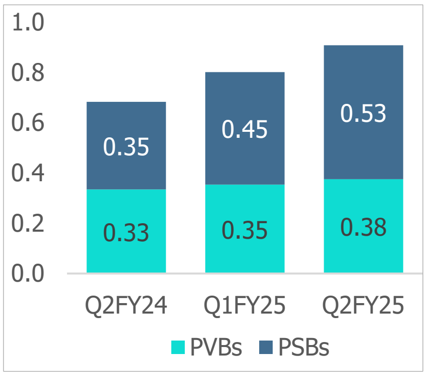
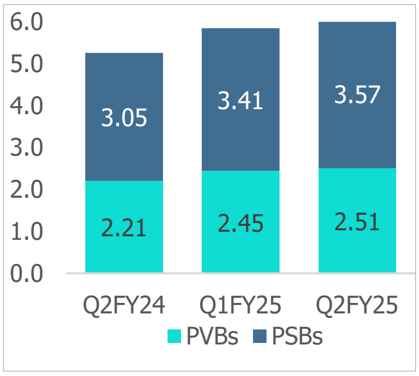


Figure 9: Total Income



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

- Total income of SCBs grew by 15.5% y-o-y to Rs.6.08 lakh crore in Q2FY25 due to growth in advances, robust MTM gains, and growth in fee income.
  - Advances in agriculture grew by 16%, followed by the service and personal industries, which grew around 14% and 13%, respectively.
  - Interest income of SCBs grew by 12.9% y-o-y to Rs 5.17 lakh crore in Q2FY25, with advances rising by 11.8% y-o-y.

Figure 10: Yield on Advances

	HDFC	ICICI	Canara	SBI	Indian Bank	BoB
Yield on Advances (%)	8.40	9.73	8.77	8.87	8.77	8.48
q-o-q (bps)	(10)	(7)	11	4	8	(7)
y-o-y (bps)	10	(8)	21	1	2	5

Figure 11: Cost of Deposit

	HDFC	ICICI	Canara	SBI	Indian Bank	BoB
Cost of Deposits (%)	4.90	4.88	5.70	5.03	5.13	5.12
q-o-q (bps)	0	4	0	3	8	6
y-o-y (bps)	10	35	35	38	24	20

Note: Data as per bank presentation

- PSBs total income grew by 16.9% y-o-y to Rs 3.57 lakh crore in Q2FY25.
  - Interest income of PSBs grew by 12.3% y-o-y to Rs 3.04 lakh crore, while advances rose by 13.4% y-o-y in the quarter.
  - Non-interest income of PSBs saw a robust uptick of 53.0% y-o-y, driven by strong MTM gains and growth in fee income.
- PVBs total income grew by 13.5% y-o-y to Rs 2.51 lakh crore in Q2FY25.
  - PVBs reported robust growth in interest income at 13.7% y-o-y, along with a growth of 12.4% in non-interest income for Q2FY25. Advances grew by 11.8% on y-o-y basis.

Operating Expenses (Rs. Lakh – Cr.)

Figure 12: Employee Expenses

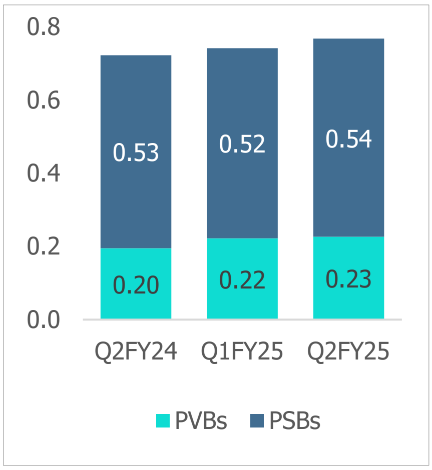


Figure 13: Other Op. Expenses

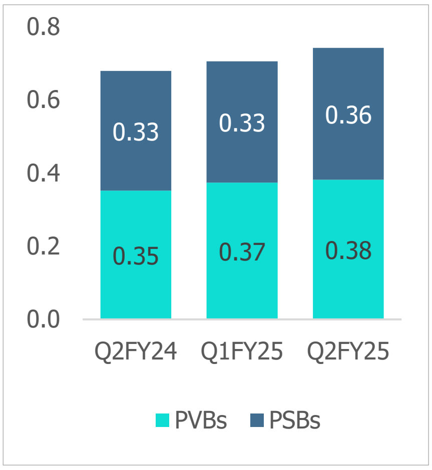
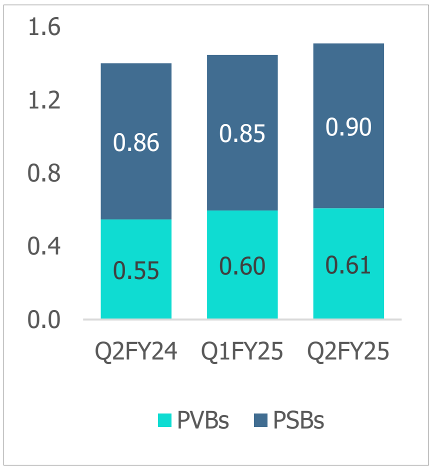


Figure 14: Total Op. Expenses



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

- The opex of SCBs rose by 7.7% y-o-y to Rs 1.51 lakh crore in Q2FY25. Employee expenses rose by 6.3% y-o-y, while other opex rose by 9.2% y-o-y.
  - PSBs' employee expenses rose by 5.4% y-o-y to Rs 0.85 lakh crore (slower compared to last quarter's growth of 42.8% y-o-y).
  - PVB employee expenses rose by 16.0% y-o-y in the quarter, driven by branch expansion and growing headcounts.
  - Other expenses of SCBs rose by 9.2% in the quarter, attributed to the addition of branches and tech spending. PVBs reported a higher rise in other opex at 8.6% in the quarter compared to 5.4% by PSBs, due to rising distribution costs, increased business volume, and continued IT spending.

Figure 15: Cost to Income Ratio Reduces

	FY23				FY24				FY25	y-o-y (Bps)	q-o-q (bps)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q		
Large PSBs	49.7	47.9	51.7	48.7	54.2	55.2	51.2	49.2	48.1	-613	-116
Other PSBs	47.4	47.8	49.5	45.9	50.0	50.2	54.9	49.6	48.2	-180	-142
PSBs	**49.0**	**47.8**	**51.0**	**47.9**	**53.0**	**53.8**	**52.3**	**49.3**	**48.1**	**-489**	**-123**
Large PVBs	41.4	39.8	41.8	43.3	42.7	42.4	40.3	42.0	41.4	-128	-60
Other PVBs	53.8	53.5	53.0	53.7	54.6	57.6	56.7	55.6	56.4	178	76
PVBs	**45.5**	**44.3**	**45.5**	**46.7**	**46.6**	**47.2**	**45.5**	**46.5**	**46.3**	**-29**	**-22**
SCBs	**47.5**	**46.3**	**48.7**	**47.4**	**50.1**	**50.7**	**49.2**	**48.0**	**47.3**	**-278**	**-73**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 30 SCBs

- The cost-to-income ratio of SCBs improved by 278 bps to 47.3% in Q2FY25. Despite a drop in NIM, treasury gains boosted total income. Additionally, operating expenses grew slower compared to last year, partly due to one-off wage revision costs seen previously. Sequentially, SCBs' cost-to-income ratio improved by nearly 73 bps, mainly driven majorly by PSB's robust gain in treasury income. However other PVBs deterioration majorly was driven by higher investments in expanding physical branches and digital infrastructure, along with increased provisions for potential loan losses, particularly in the microfinance segment.

Figure 16: SCBs – Gross and Net NPA 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 crore as of September 30, 2024, vs. Rs 5.15 lakh crore 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 y-o-y 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.

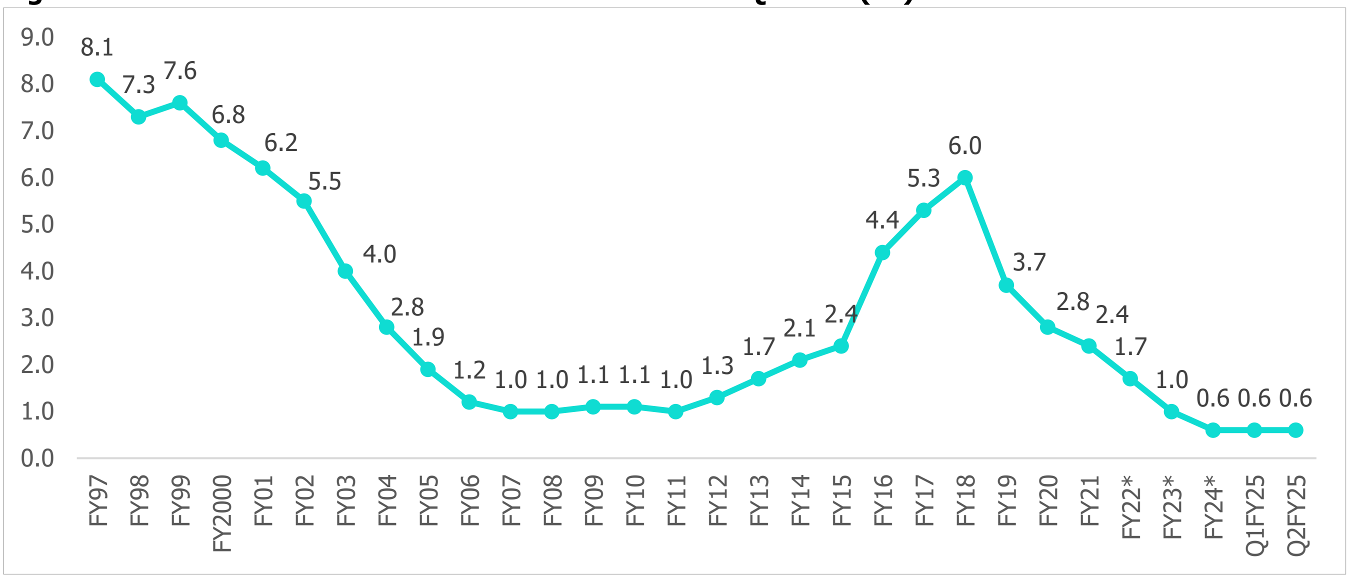
Despite rising slippages, the GNPA of SCBs reduced significantly due to effective recoveries through IBC 2016 and overall improved economic conditions, which led to repayments by borrowers. The NNPAs of SCBs decreased by 16.6% y-o-y to Rs 0.97 lakh crore as of September 30, 2024, compared to Rs 1.17 lakh crore 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. 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 microfinance segments.

Figure 17: 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. This improvement is attributed to overall better 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% compared to the previous quarter. This indicates a healthy asset portfolio in the banking sector.

Figure 18: 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 19: 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 20: 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 borrowers repayment, an uptick in economic activities, and some accounts slipping into NPAs. The restructured portfolio for nine select PSBs decreased 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.

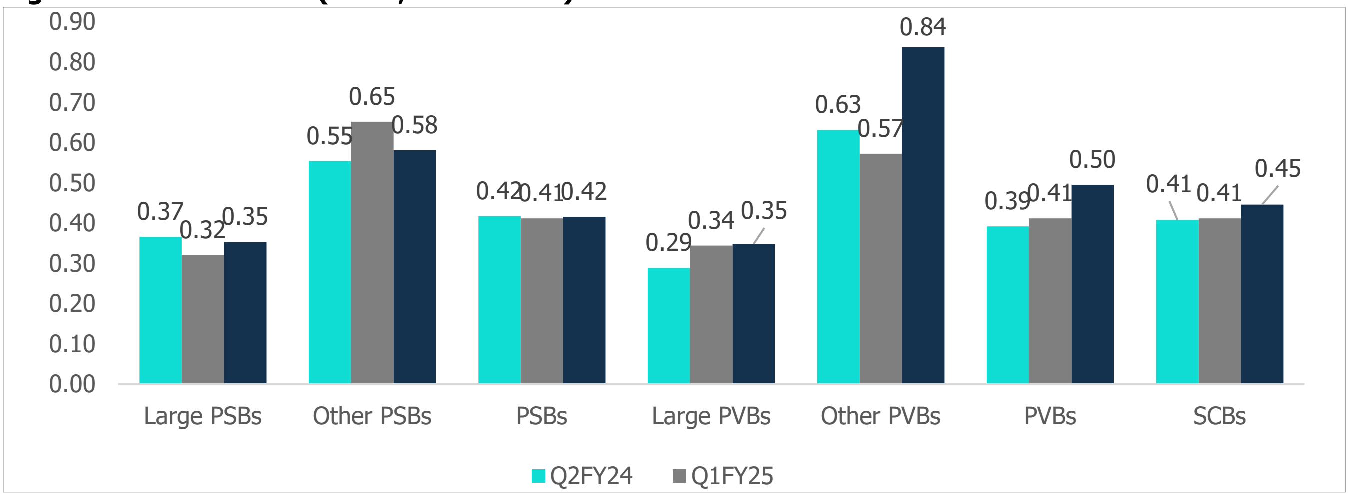
Figure 21: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

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)

SCB 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, mainly Unsecured loans, Credit Cards and MFI. 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 22: Credit Costs (In %, Annualised)

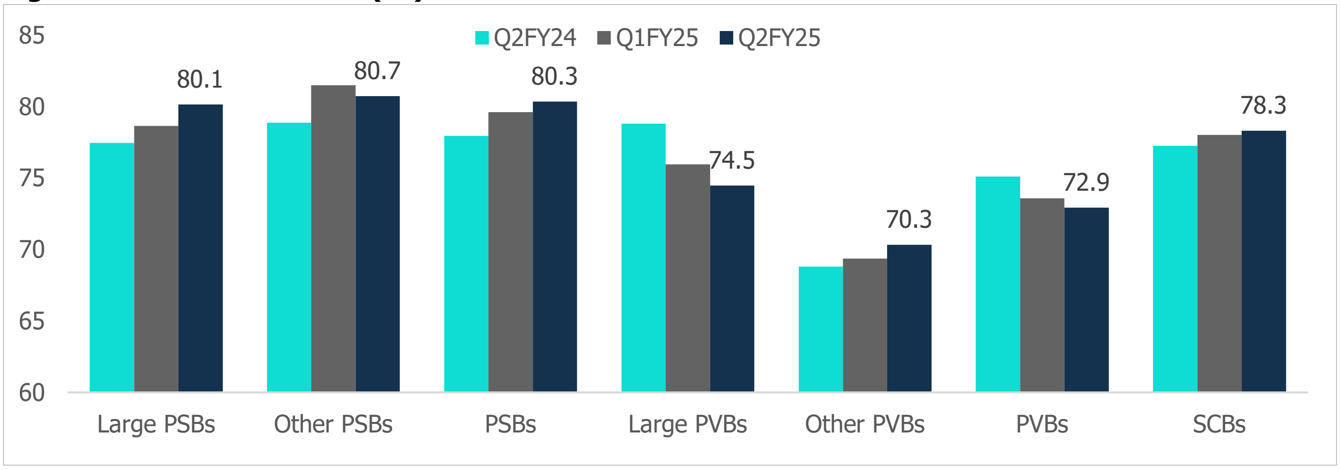


Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

Credit cost (annualised) of SCBs increased by 4 bps y-o-y to 0.45% in Q2FY25, compared to 0.41% 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)

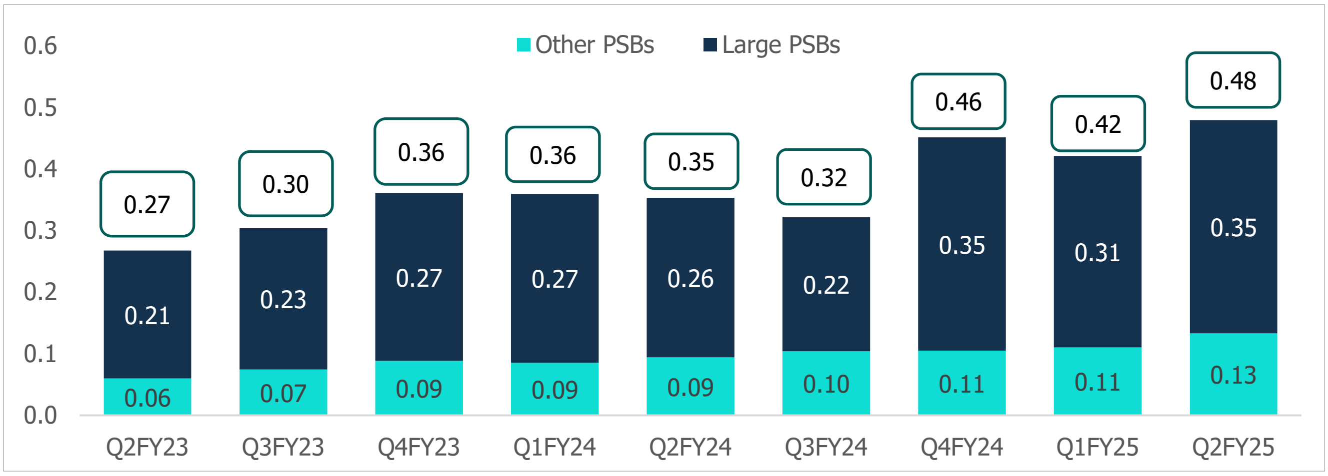
Figure 23: SCBs PCR Trend (%)



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.

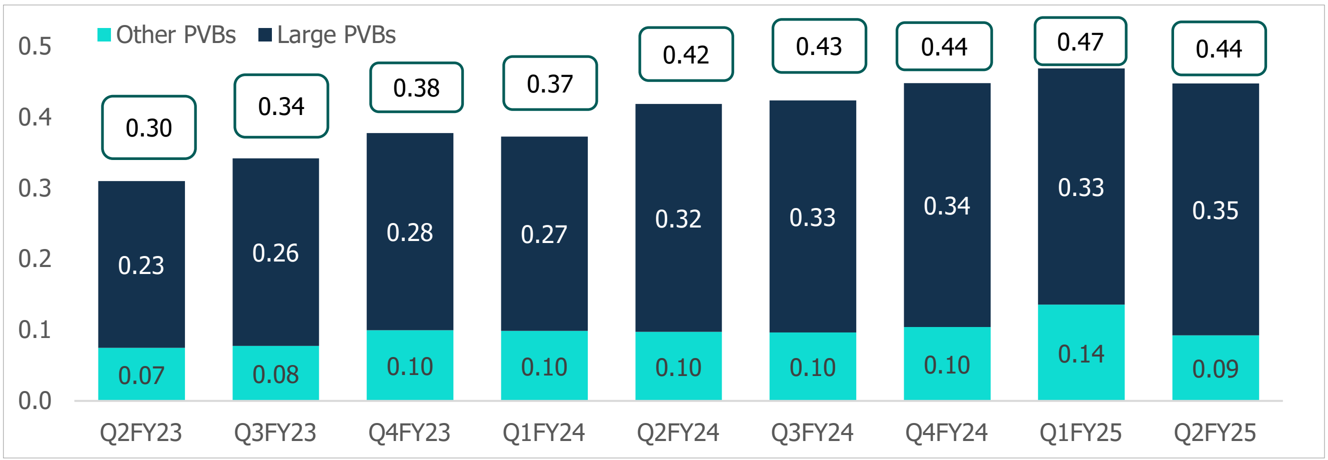
- The PCR of SCBs gradually increased over the quarters and stood at 78.3% in Q2FY25. It also rose by 0.4% y-o-y in the quarter, mainly driven by PSBs with a PCR of 80.3%
  - SCBs GNPAs declined by 12.5% y-o-y in the quarter while accumulated provisions declined by 11.3% in the same period, resulting 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.

Figure 24: PSBs' Net Profit Trend (Rs. Lakh, Cr.)



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

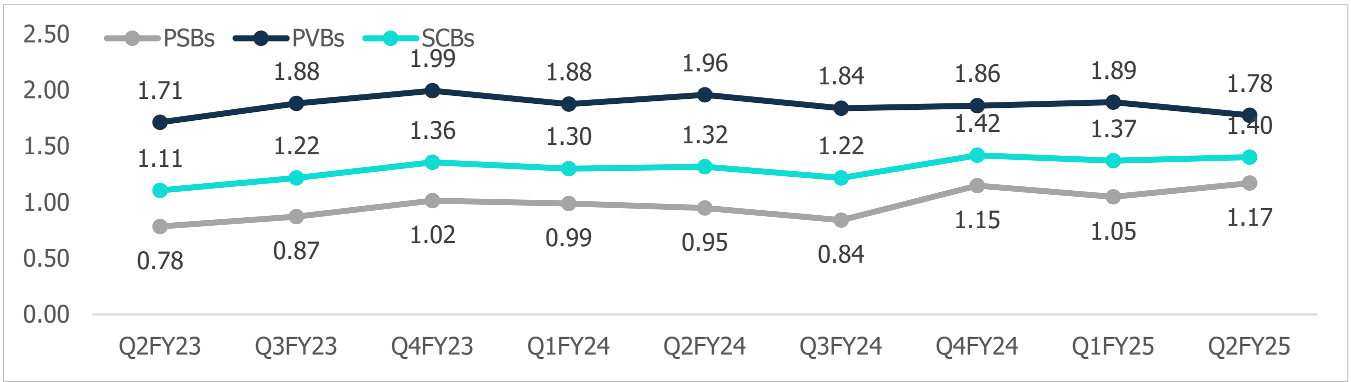
Figure 25: PVBs' Net Profit Trend (Rs. Lakh, Cr.)



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

- Net profit for SCBs saw robust growth of 20.1% y-o-y to Rs 0.92 lakh crore in the quarter owing to business growth, lower provisions and significant growth in treasury incomes. PSBs exhibited strong growth recording an increase of 35.6% to Rs. 0.47 lakhs crore, whereas PVBs saw a modest growth of 6.9% to Rs. 0.44 lakhs crore in Q2FY25. The slower growth in profits for PVBs can be attributed to the elevated slippages from the unsecured personal loans and microfinance lending which has led to higher provisions in select banks, and margin pressures.

Figure 26: Movement of RoA for SCBs (annualised, %)

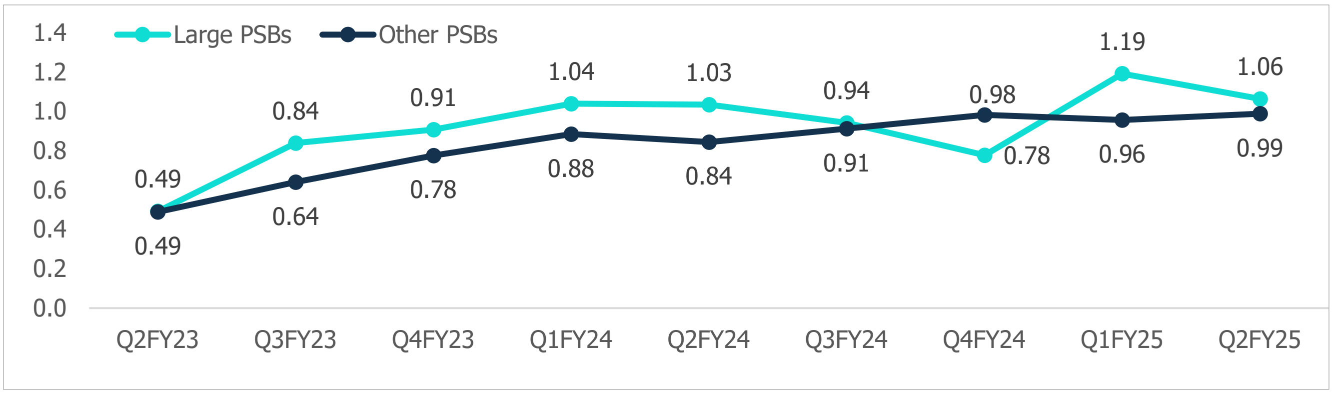


Source: Ace Equity, Bank filings, Note: Includes 14 PSBs (5 Large + 9 Other) and 16 PVBs (3 Large + 13 Others)

RoA of SCBs increased by 8 bps y-o-y to 1.40% in Q2FY25, meanwhile, it inched up by 3 bps sequentially driven by a significant rise in treasury income.

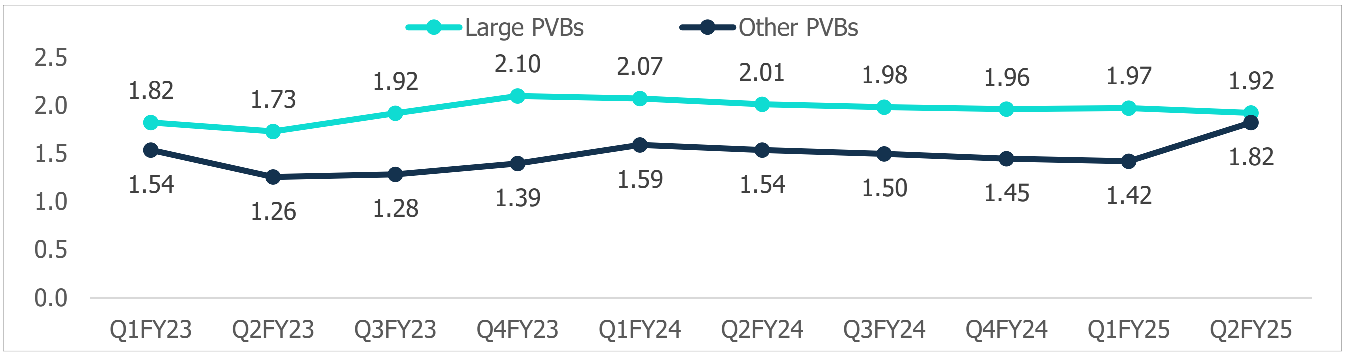
- PSBs' RoA improved by 22 bps y-o-y to 1.17% in Q2FY25 compared to previous year. This improvement was primarily driven by other PSBs, which expanded by 26 bps y-o-y and 19 bps q-o-q, supported by gains in treasury incomes and growth in advances.
- PVBs' RoA slipped by 18 bps y-o-y to 1.78% in the quarter driven by rising slippages and funding costs due to intense competition in attracting deposits along with merger impact which was partially offset by a rise in other income (fee as well as treasury due to subdued yields).

Figure 27: Movement of RoA for PSBs (annualised, %)



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

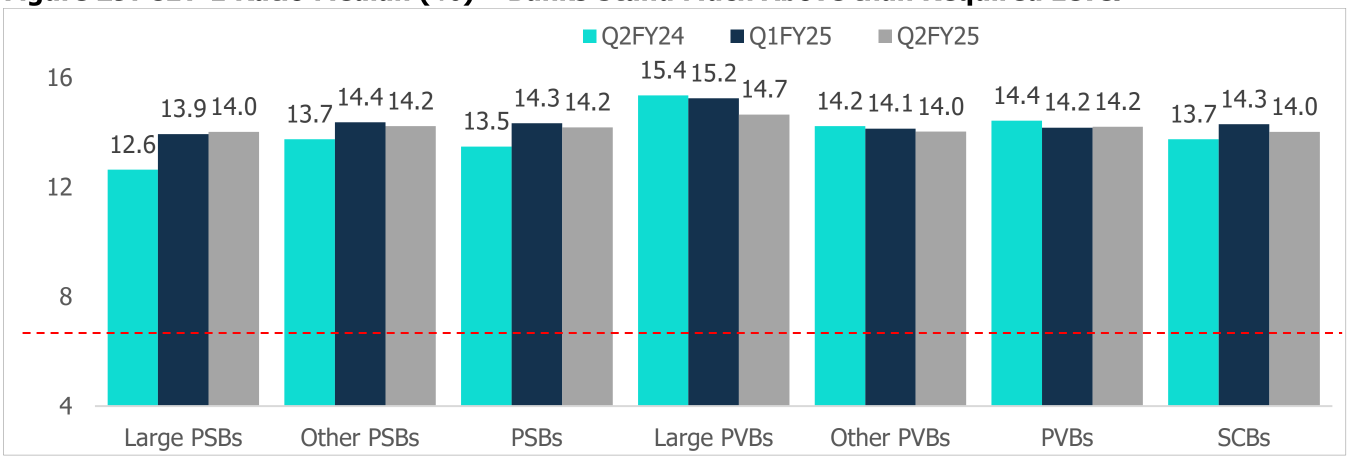
Figure 28: Movement of RoA for PVBs (annualised, %)



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

Overall Capital Adequacy dips marginally, but remains above the expected levels in Q2FY25

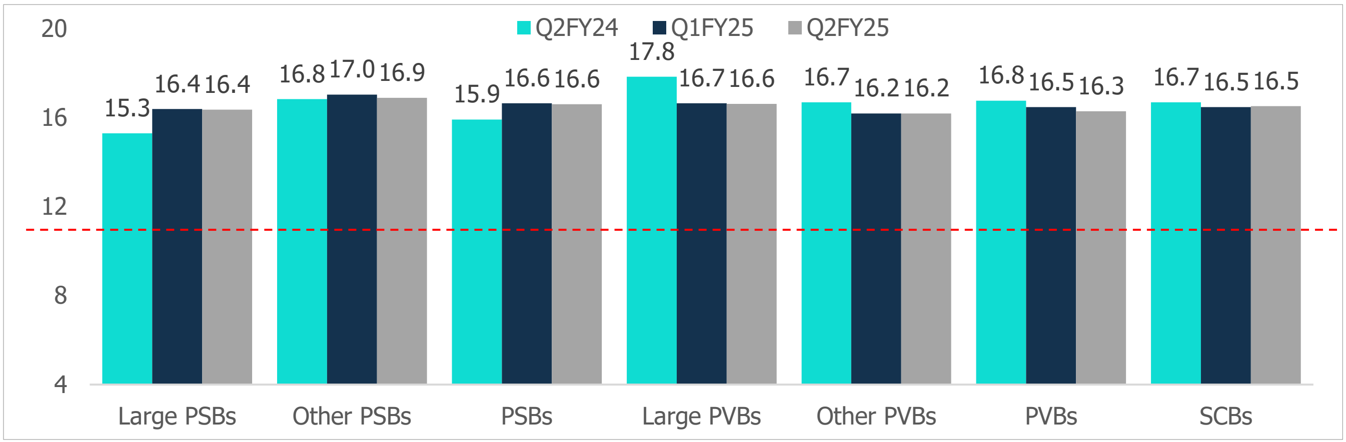
Figure 29: CET-1 Ratio Median (%) – Banks Stand Much Above than Required Level



Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 others), and 16 PVBs (3 Large + 13 Others) used for Median calculation.

- The Median Common Equity Tier 1 (CET-1) ratio of SCBs witnessed a y-o-y increase of 27 bps to 14.0% in Q2FY25, however, it sequentially declined by 28 bps which can be attributed to lending growth.

Figure 30: 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 16 PVBs (3 Large + 13 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 declined by 18 bps y-o-y to 16.5% in Q2FY25 and continued to remain well above the regulatory requirement of 11.5%, indicating a stable position. Sequentially the median CAR of SCBs remained flat at 16.5%. PSBs median CAR expanded by 84 bps y-o-y to 16.8% for Q2FY25 meanwhile, PVBs median CAR dropped by 48 bps to 16.3% y-o-y.

Figure 31: Movement in PSBs' CET-1

Bank	Q2FY24	Q1FY25	Q2FY25	(y-o-y, bps)	(q-o-q, bps)
SBI	11.78	11.78	11.32	-46	-46
CB	13.60	14.37	14.64	104	27
BoB	13.19	14.65	14.18	99	47
IB	12.63	13.93	14.01	138	8
PNB	12.02	13.04	13.63	161	59
UBI	14.57	15.14	15.22	65	8
BoI	13.35	14.29	14.18	83	-11
CBI	12.14	13.36	14.01	187	65
IOB	13.81	14.99	14.75	94	-24
BoM	13.72	13.40	13.13	-59	-27
PSB	14.53	14.80	14.55	2	-25
UCO	13.74	14.36	14.22	48	-14
J&K	11.68	12.81	12.70	102	-11
IDBI	18.86	20.26	19.89	103	-37

Source: Banks Presentations and Ace Equity Calculations; Note: 14 PSBs (5 Large + 9 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 32: Movement in PVBs' CET-1

Bank	Q2FY24	Q1FY25	Q2FY25	(y-o-y, bps)	(q-o-q, bps)
HDFC	17.80	17.30	17.80	0	50
ICICI	15.35	15.24	14.65	-70	-59

Axis	14.56	14.06	14.12	-44	6
Kotak	21.90	21.90	21.70	-20	-20
IndusInd	16.33	16.15	15.21	-112	-94
YES	13.10	13.30	13.20	10	-10
IDFC First Bank	13.49	13.34	13.84	35	50
RBL	15.15	13.85	14.19	-96	34
Federal	13.79	14.17	13.82	3	-35
SIB	14.22	16.71	16.63	241	-8
Karnataka	13.11	15.94	15.93	282	-1
Bandhan	18.20	14.10	13.60	-460	-50
KVB	15.19	15.58	15.39	20	-19
DCB	14.28	14.00	13.65	154	-26
Dhanlaxmi	10.56	12.36	12.10	-63	-35
City Union Bank	21.17	22.55	21.98	81	-57

Source: Banks Presentations and Ace Equity Calculations; 16 PVBs (3 Large + 13 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

- In Q2FY25, SCB credit growth (11.8%) saw a marginal outperformance compared to deposit growth (10.7%). This trend was driven by attractive deposit rates. The CASA ratio continued to decline, indicating a shift towards Time Deposits. Despite the slower growth NII and a drop in NIM, the banking sector remains resilient, adapting to changing market conditions. In the third quarter, NIM for PVBs is expected to be significantly impacted by an anticipated rate cut due to their higher share of benchmark loans. However, for both PVBs and PSBs, lower loan growth and the normalization of deposit rates, along with moderated G-sec yields, have offset some of the increases in rates.
- The gross non-performing assets (GNPA) ratio of SCBs has moved past the pre-asset quality review (AQR) levels from Q4FY24. As of September 30, 2024, the net non-performing assets ratio stands at a record low of 0.6%.
- Net Profit growth was primarily fuelled by moderate growth in advances and improved asset quality. However, elevated funding costs and slower growth in CASA deposits have impacted NIMs, affecting the profitability of banks. Additionally, regulatory changes and competitive constraints on interest rates have further pressured NIMs. NIMs are expected to remain under pressure in the coming quarters due to these competitive constraints and the norms on penal charges.
- The Margins will also be monitored as funding costs continue to remain elevated, and any potential rate cuts would likely dent lending rates. PSBs have outperformed PVBs, primarily driven by a lower base in net profits. This growth in PSBs is attributed to growth in business, gains from other income, and lower provisions compared to PVBs. SCBs have maintained an adequate capital adequacy ratio, with several banks reporting levels well above regulatory requirements. This strong capital position is further supported by ongoing plans to raise capital from the equity markets

Annexure

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

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

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