ROA Remains Stable Amid Rising Margin Pressures

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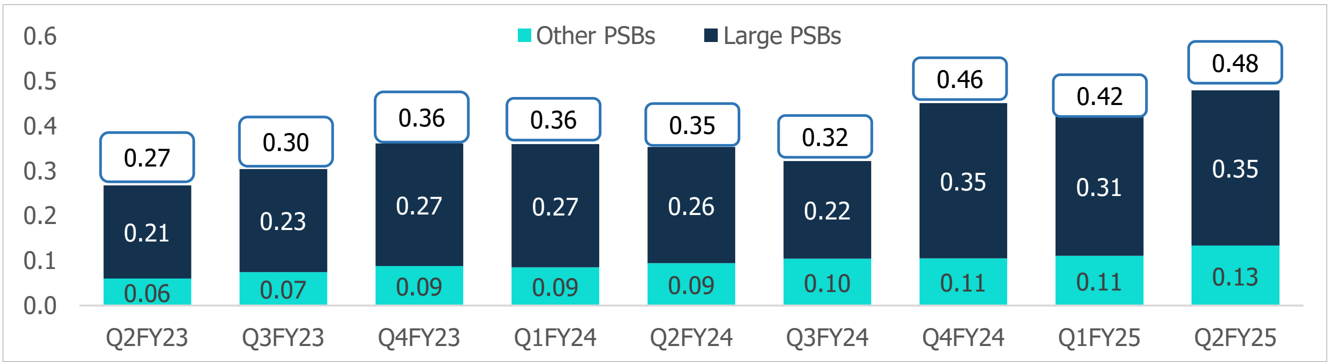
Synopsis

- Scheduled Commercial Banks' (SCBs) net profit grew by 20.1% y-o-y to Rs. 0.92 lakh crore for Q2FY25, driven by business growth, lower provisions and rise in treasury income led by the significant decline in closing treasury yields. - SCBs net profit grew by 4.2% to Rs. 0.92 lakh crore compared to Rs 0.89 lakh crore in the previous quarter.
    - Public Sector Banks (PSBs) grew faster than Private Sector Banks (PVBs), with y-o-y growth rates of 35.6% and 6.9%, respectively, reaching Rs. 0.47 lakh crore and Rs. 0.44 lakh crore in Q2FY25.
    - Return on Assets (RoA, annualised) 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 rise in treasury incomes.
- SCBs were adequately capitalised in Q2FY25 though the Capital Adequacy Ratio (CAR) declined by 18 bps y-o-y.
    - PSBs' median Common Equity Tier- 1 (CET-1) ratio expanded by 148 bps y-o-y to 13.7% driven by robust growth in profitability, however PVBs CET-1 ratio declined 22 bps y-o-y to 14.2% in Q2FY25.
    - For PSBs median CAR increased by 84 bps y-o-y to 16.8% as many PSBs have been raising capital, while for PVBs declined by 49 bps y-o-y to 16.3%.

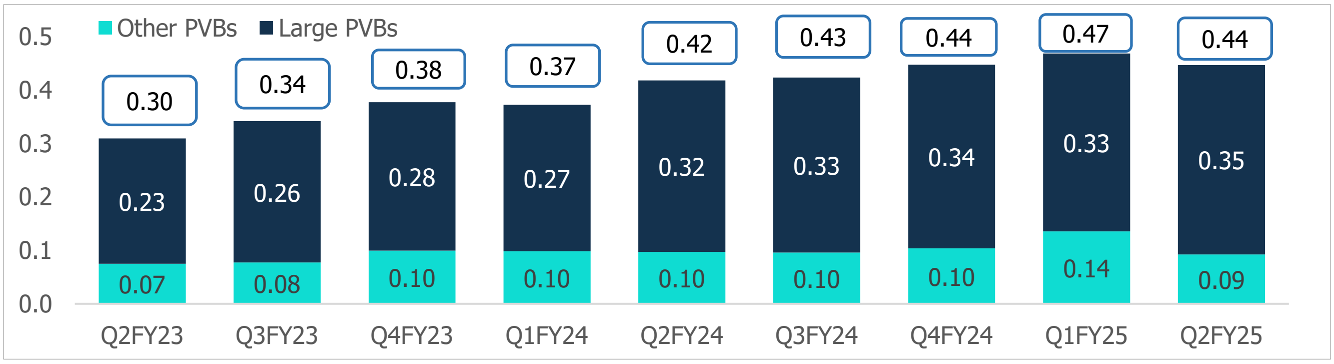
Net Profit Continues to Remain Elevated

Figure 1: PSBs' Net Profit Trend (Rs. Lakh, Cr.)



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

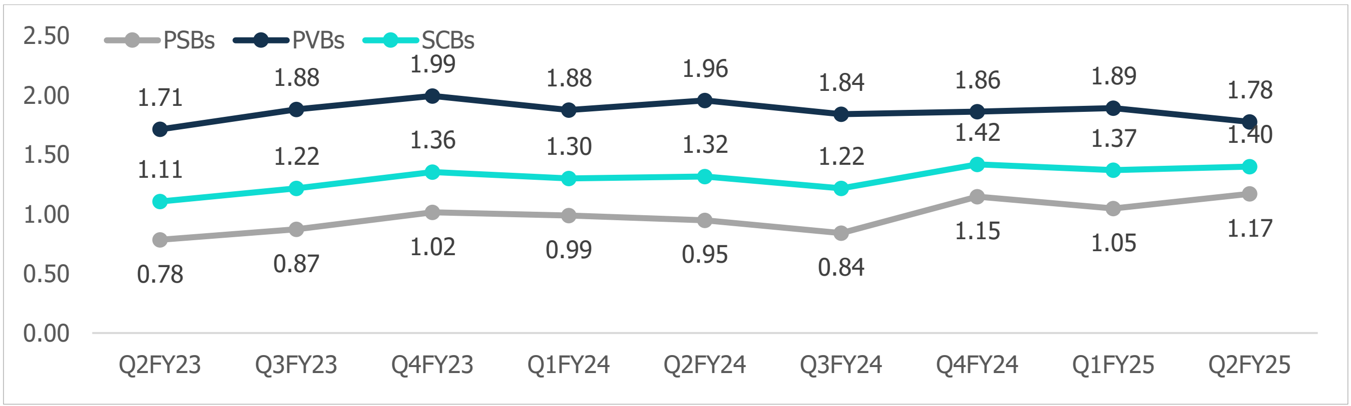
Figure 2: PVBs' Net Profit Trend (Rs. Lakh, Cr.)



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 robust growth recording an increase of 35.6% to Rs. 0.47 lakhs crores, 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 unsecured personal loans and microfinance lending which has led to higher provisions in select banks, and margin pressures.

Figure 3: Movement of RoA for SCBs (annualized, %)

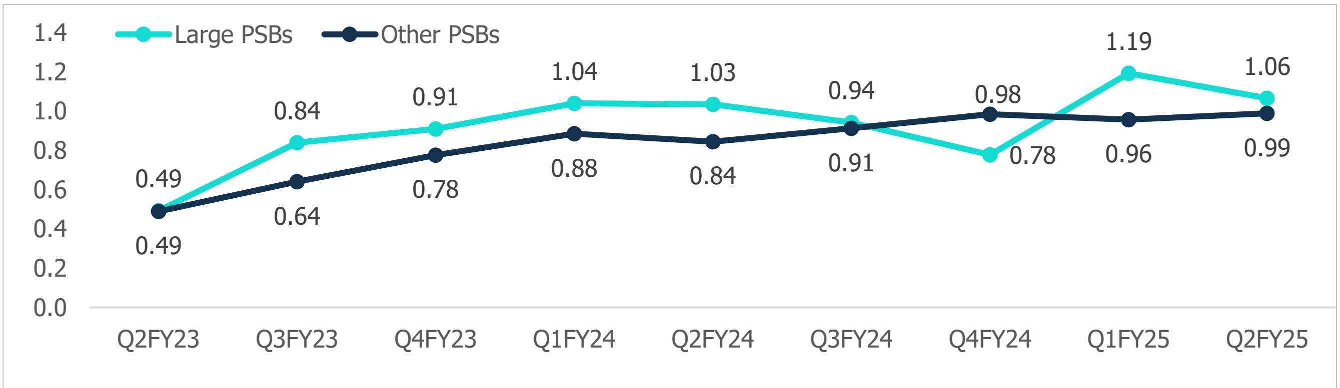


Source: Ace Equity, Bank filings, Note: Includes 14 PSBs (5 Large + 9 Other) and 16 PVBs (3 Large + 13 Others)

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.

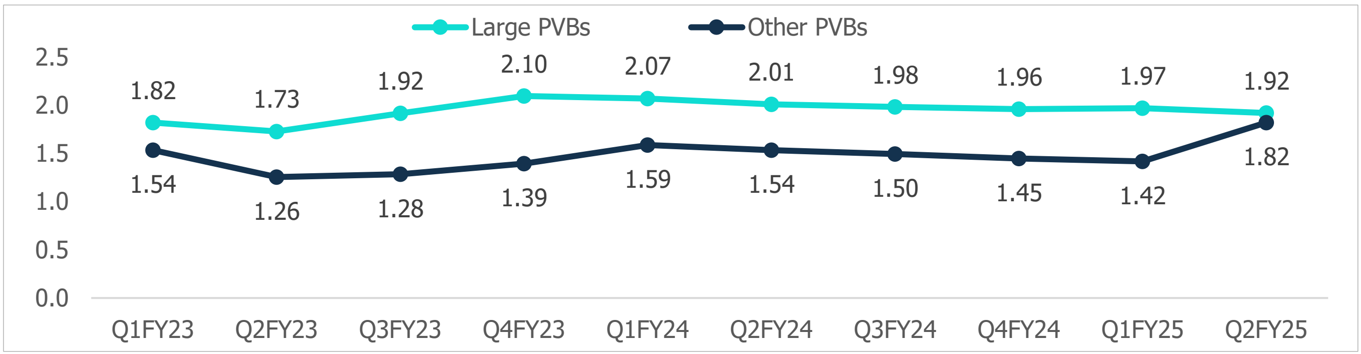
- PSBs' RoA improved by 22 bps y-o-y to 1.17% in Q2FY25 compared to previous year. This improvement was driven by other PSBs, which expanded by 26 bps y-o-y and 19 bps q-o-q, supported by gains in other income and growth in advances.
- PVBs' RoA slipped by 18 bps y-o-y to 1.78% in the quarter driven 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 4: Movement of RoA for PSBs (annualised, %)



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

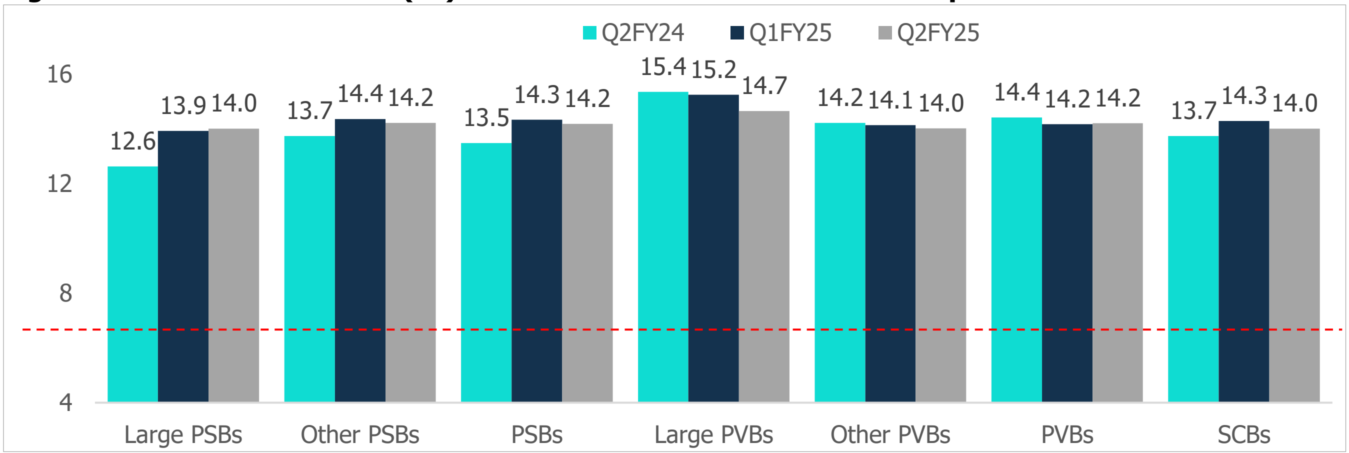
Figure 5: Movement of RoA for PVBs (annualised, %)



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

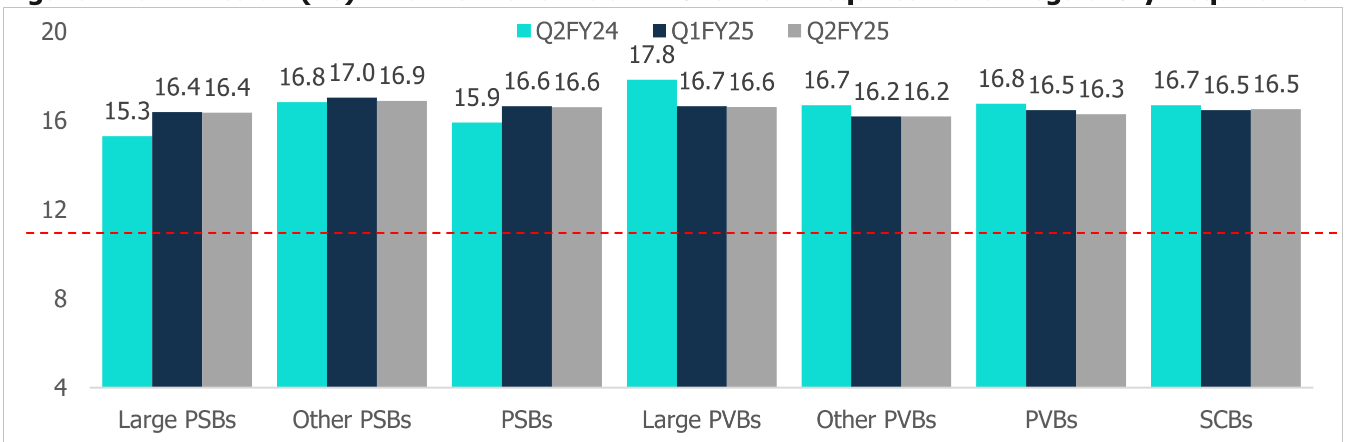
Figure 6: CET-1 Ratio Median (%) – Banks Stand Much Above than Required Level



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 7: 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 must 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 8: 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 must maintain a higher ratio than other banks (SBI by 60 bps, HDFC Bank by 20 bps and ICICI Bank by 20 bps)

Figure 9: 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 must 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, SCBs saw a growth in net profit by 20.1% y-o-y. This 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. These 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 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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