NIM Compression along with Improving Asset Quality Continues in Q4FY24

June 10, 2024 | BFSI Research

Synopsis

- In Q4FY24, the Scheduled Commercial Banks (SCBs) reported a robust rise in advances at 20.2% year-on-year (y-o-y) driven by merger and personal loans. The corporate sector too saw a gradual pickup, aided by MSMEs. Meanwhile, SCBs witnessed a 13.3% y-o-y deposit growth for the quarter. Deposit growth has continued to lag credit growth. Consequently, the Credit to Deposit (C/D) ratio stood at 80.01% as of March 31, 2024, expanding by ~416 bps y-o-y.
- Net Interest Income (NII) grew by 10.2% (y-o-y) due to healthy loan growth despite a decline in Net Interest Margin (NIM) by 16 bps.
- Net Non-Performing Assets (NNPAs) reduced by 23.8% y-o-y. The NNPA ratio of SCBs reduced to 0.6% which is an all-time low.
- SCB credit cost (annualised) declined by 10 basis points (bps) y-o-y to 0.54% as banks have been cleaning their balance sheets.
- Return on Assets (RoA, annualised) improved by 7 bps y-o-y to 1.39% owing to robust business growth, relative growth in other income (treasury and fee) and controlled provisions.
- SCBs were adequately capitalised. SCBs CET I Ratio came in at 14.2%, while the Capital Adequacy Ratio (CAR) came in at 16.6% in March 2024 end, compared to regulatory requirements of around 8% (Capital Conservation Buffer (CCB)) and 11.5% respectively.

Movement of Net Interest Income and Net Interest Margin

Figure 1: NII: PSBs outpace PVBs on an annual basis

NII	Q4FY24 (Rs. Lakh Cr.)	Q4FY24 (y-o-y %)	Q4FY24 (q-o-q %)
Large PSBs	0.79	5.1	3.9
Other PSBs	0.32	9.0	6.8
PSBs	**1.12**	**6.2**	**4.7**
Large PVBs	0.61	16.1	2.6
Other PVBs	0.29	14.1	4.8
PVBs	**0.91**	**15.5**	**3.3**
SCBs	**2.02**	**10.2**	**4.1**

Source: Ace Equity, Bank Filings, CareEdge Calculations

- NII of PSBs and PVBs grew by 6.2% and 15.5% y-o-y, respectively, in Q4FY24. The growth was driven by the merger, robust personal loan growth, and higher yields on advances compared to same period last year (normalising for HDFC merger impact, NII grew by 8.1% for PVBs). The corporate sector too saw a gradual pickup, aided by MSME growth.
- Sequentially, NII reported growth of 4.1% for SCBs, within SCBs NII of PSBs and PVBs was up by 4.7% and 3.3% respectively.

The HDFC Bank-HDFC Limited merger was effective from July 2023 onwards. HDFC Bank absorbed the balance sheet of HDFC Limited which, as a housing finance company, had comparatively lower NIM given the loan portfolio and moderate liability profile (higher borrowings and less low-cost deposits)

- In terms of NII growth, "Large PVBs" outperformed other segments in Q4FY24, registering a robust 16.1% y-o-y growth driven by merger impact.
  - Interest income of SCBs rose by 24.5% y-o-y in Q4FY24, while advances grew by 20.2% y-o-y. PVBs rose by 33.2% and PSBs grew at 19.0% in the quarter. This growth can be attributed to merger and an increase in advances and yields.
  - On the other hand, interest expenses of SCBs rose by 36.6% y-o-y in Q4FY24, wherein PVBs grew by 52.1% (merger impact) and PSBs by 28.6% as banks have transmitted interest rates on deposits.
- NIM of SCBs declined by 16 bps y-o-y at 3.12% in Q4FY24, within this, PSBs declined by 11 bps at 2.79%, whereas PVBs saw a higher decline of 33 bps and reached 3.67%.
- In terms of sequential performance, SCBs declined marginally by 1 bps 3.12%, wherein PVBs saw a downtick of 9 bps, however PSBs remained saw a marginal uptick of 3 bps. Although there has been an impact of lagged rates on deposits, the flattish performance can be attributed to robust growth in advances over the last quarter.

Figure 2: SCBs – NIM Trend (%): Reverting to Earlier Levels

	FY22	FY23				FY24				y-o-y (bps)	q-o-q (bps)
	Q4	Q1	Q2	Q3	Q4	Q1	QF	Q3	Q4		
Large PSBs	2.69	2.46	2.66	2.84	2.88	2.78	2.72	2.73	2.74	-14	0
Other PSBs	2.42	2.54	2.83	3.03	2.95	3.10	2.87	2.84	2.92	-3	9
PSBs	**2.61**	**2.48**	**2.71**	**2.89**	**2.90**	**2.87**	**2.76**	**2.76**	**2.79**	**-11**	**3**
Large PVBs	3.46	3.60	3.77	4.04	3.93	3.95	3.58	3.58	3.52	-41	-6
Other PVBs	3.85	3.88	3.92	4.16	4.12	4.07	4.22	4.20	4.02	-10	-18
PVBs	**3.59**	**3.69**	**3.82**	**4.08**	**3.99**	**3.99**	**3.77**	**3.75**	**3.67**	**-33**	**-9**
SCBs	**2.95**	**2.90**	**3.09**	**3.30**	**3.28**	**3.26**	**3.14**	**3.14**	**3.12**	**-16**	**-1**

Source: Ace Equity, Bank Filings, CareEdge Calculations

Figure 3: Movement in CASA Ratio

CASA Ratio (%)	Q4FY23	Q3FY24	Q4FY24	y-o-y (Changes in bps)	q-o-q (Changes in bps)
Large PSBs	40.7	37.9	37.8	-286	-8
Other PSBs	41.8	39.9	40.2	-163	29
PSBs	**40.3**	**38.4**	**38.5**	**-179**	**2**
Large PVBs	45.5	39.3	40.4	-507	113
Other PVBs	40.8	37.6	37.0	-380	-59
PVBs	**44.0**	**38.7**	**39.3**	**-469**	**59**
SCBs	**41.5**	**38.5**	**38.8**	**-271**	**22**

Source: Ace Equity, Bank Filings, CareEdge Calculations

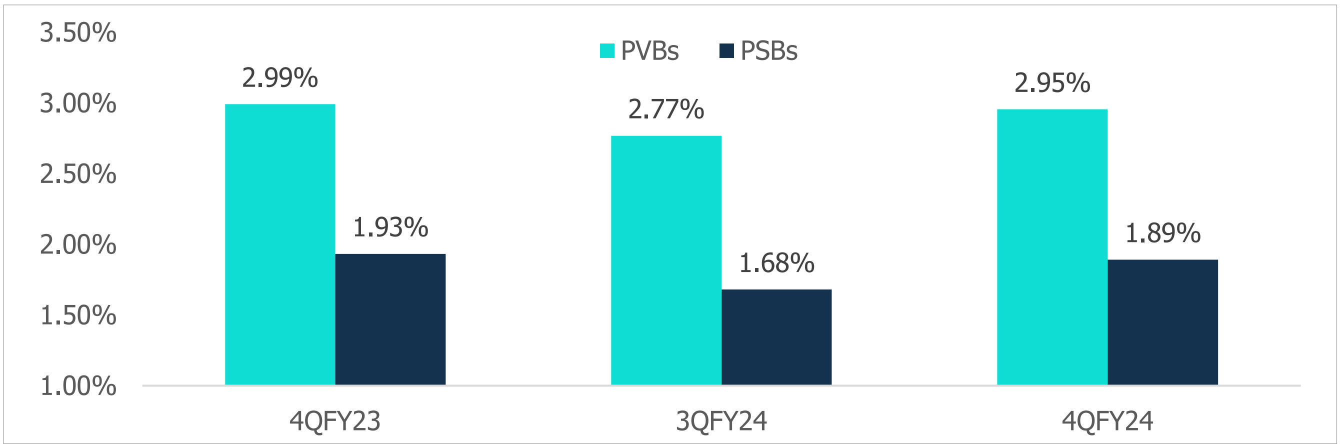
As deposit rates are growing, we can observe a shift within deposits, term deposits have seen a stronger growth compared to CASA, this has been one of the major concerns impacting cost of funds subsequently impacting NIM.

Figure 4: PPOP Witnesses an Increase

	(Rs. Lakh Crore)		
	Q4FY24	**y-o-y (%)**	**q-o-q (%)**
Large PSBs	0.55	10.3	23.3
Other PSBs	0.21	2.9	2.4
PSBs	**0.76**	**8.2**	**16.8**
Large PVBs	0.55	31.8	15.4
Other PVBs	0.18	5.8	6.8
PVBs	**0.73**	**24.2**	**13.2**
SCBs	**1.49**	**15.5**	**15.0**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 14 PSBs and 16 PVBs

Figure 5: PPOP Margin Increases Sequentially, however, Decreases Marginally y-o-y



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 14 PSBs and 16 PVBs

- PPOP of SCBs grew by 15.5% y-o-y to Rs. 1.49 lakh crore in Q4Y24, however PPOP margin dropped marginally.
  - PPOP of PSBs increased by 8.2% y-o-y in the quarter (compared uptick of 33.5% last year) mainly driven by higher growth in Interest expenses (as banks have transmitted interest rates on deposits). Within PSBs, Large PSBs' PPOP witnessed an uptick of 5% in the quarter, driven by normalisation in other income.
  - Meanwhile, Private Sector Banks reported a PPOP growth of 24.2% y-o-y in the quarter driven by merger and non-interest income growth.
  - PSBs' PPOP margin decreased by 4 bps y-o-y to 1.89% in Q4FY24, PVBs declined by similar pace of 4 bps y-o-y to 2.95% in the quarter.
  - Sequentially, we saw an increase of 15.0% in PPOP driven by robust growth in treasury, and stable fee income. PPOP margin increased by 19 bps and 21 bps for PVBs and PSBs respectively.

Figure 6: Cost to Income Ratio Reduces Sequentially

	FY22	FY23				FY24				y-o-y (Bps)	q-o-q (bps)
	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Large PSBs	48.2	54.2	49.7	47.9	51.7	48.7	54.2	55.2	51.2	-47	-400
Other PSBs	49.6	52.8	47.4	47.8	49.5	45.9	50.0	50.2	54.9	544	476
PSBs	**48.6**	**53.8**	**49.0**	**47.8**	**51.0**	**47.9**	**53.0**	**53.8**	**52.3**	**127**	**-145**
Large PVBs	41.8	43.7	41.4	39.8	41.8	43.3	42.7	42.4	40.3	-150	-211
Other PVBs	52.2	53.1	53.8	53.5	53.0	53.7	54.6	57.6	56.7	369	-89
PVBs	**45.3**	**46.9**	**45.5**	**44.3**	**45.5**	**46.7**	**46.6**	**47.2**	**45.5**	**-6**	**-178**
SCBs	**47.2**	**50.7**	**47.5**	**46.3**	**48.7**	**47.4**	**50.1**	**50.7**	**49.2**	**45**	**-156**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 14 PSBs and 16 PVBs

- Cost to Income ratio of SCBs increased by 45 bps y-o-y to 49.2% in Q4FY24 due to higher growth in opex, while the NII growth was slower (the number is not comparable due to the HDFC merger). Opex was elevated due to continued investments in branch expansion and technological upgradation.
- Sequentially as well, SCBs' cost-to-income ratio decreased by nearly 156 bps, mainly driven by PSBs as their opex normalised in the quarter and other income saw robust growth.

Income (Rs. Lakh, Cr.)

Figure 7: Interest Income

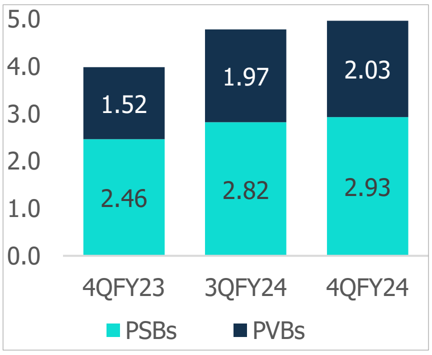


Figure 8: Non-Interest Income

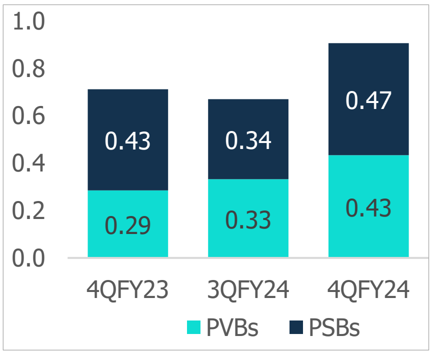
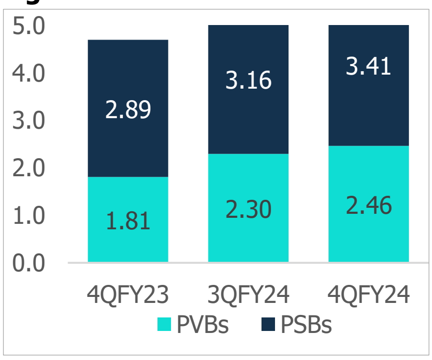


Figure 9: Total Income



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 14 PSBs and 16 PVBs

- Total income of SCBs grew by 24.9% y-o-y to Rs. 5.87 lakh crore in Q4FY24 due to robust growth in advances, rise in the yield due to repricing of loans and growth in non-interest income.
  - Interest income of SCBs grew by 24.5% y-o-y to Rs.4.96 lakh crore in Q4FY24, with growth in advances by 20.3% on a y-o-y basis and a rise in the yield on advances by 38 bps to 9.32% in Q4FY24.

Figure 10: Treasury Income to Total Assets Increases both sequentially and y-o-y,

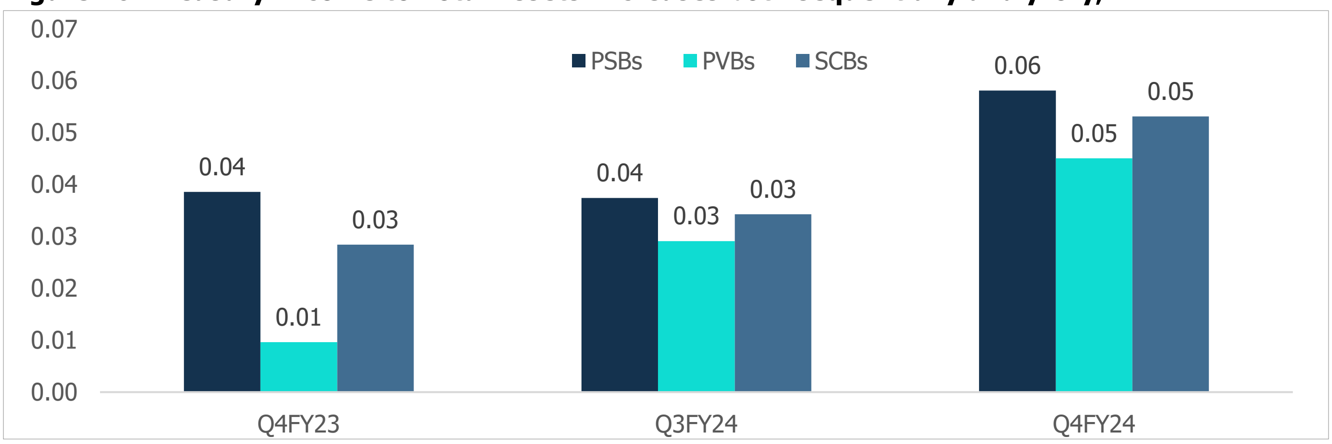
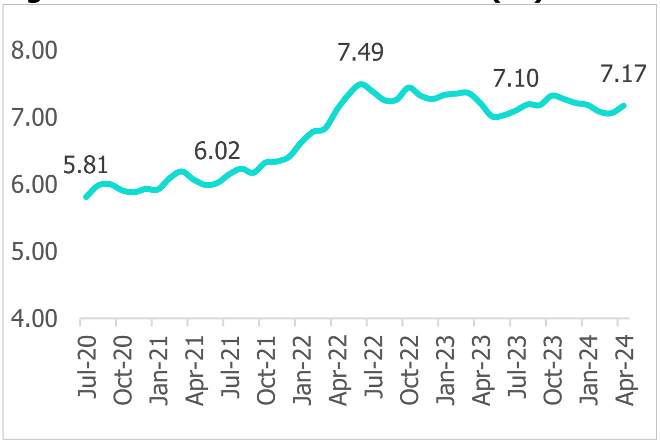
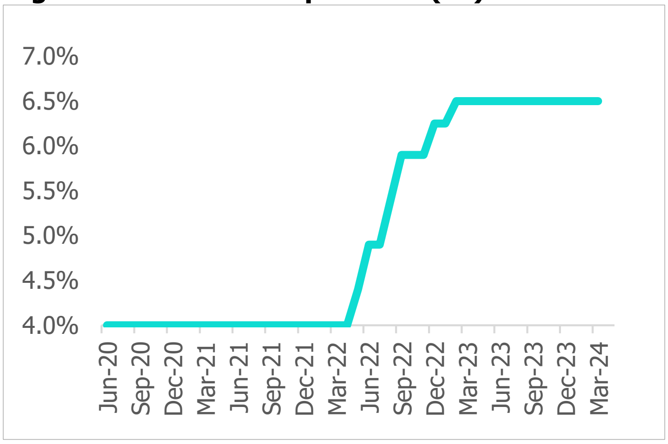


Figure 11: 5-Year G-Sec Yield Trend (%)



Source: CMIE, Note – Weightage Average Rate (Yield)

Figure 12: Trend in Repo Rates (%)



Source: RBI

- On a cumulative basis, RBI has increased the repo rate by 250 bps to 6.5%, as we saw an increase in interest rates flowing in the debt market, Accordingly, banks have realigned the lending rates. However, yield on 5-year G-sec yield dropped marginally by 4 bps to 7.17% as of Mar 2024, compared to the repo rate rise of 25 bps y-o-y. Yields have normalized from last year's spike due to rate hikes, leading to an uptick in treasury income.

Figure 13: Yield on Advances

	HDFC	ICICI	Indian Bank	Canara	SBI	BOB
Yield on Advances (%)	8.40	9.88	8.81	8.71	8.91	8.75
q-o-q (%)	0.10	0.09	0.03	0.11	0.03	0.24
y-o-y (%)	0.50	0.13	0.64	0.15	0.81	0.28

Figure 14: Cost of Deposits

	HDFC	ICICI	Canara	SBI	Indian Bank	BOB
Cost of Deposits (%)	4.90	4.82	5.50	4.81	5.01	5.06
q-o-q (%)	0	0.10	0.08	0.06	0.02	0.10
y-o-y (%)	1.20	0.84	0.71	0.82	0.68	0.63

Note: Data as per bank filings

- PSBs total income grew by 17.8% y-o-y to Rs.3.41 lakh crore in Q4FY24.
  - Interest income of PSBs grew by 19.0% y-o-y to Rs. 2.93 lakh crore, meanwhile, advances rose by 14.8% y-o-y. SCBs saw a stronger growth in cost of deposits compared to yields.
  - Non-interest income of PSBs increased by 10.9% y-o-y due to saw normalization in treasury income.
- PVBs total income grew by 36.2% y-o-y to Rs.2.46 lakh crore in Q4FY24.
  - PVBs reported robust growth in interest income at 33.2% y-o-y in Q4FY24 driven by 29.4% growth in advances due to the merger impact and rise in yields.

Operating Expenses (Rs. Lakh – Cr.)

Figure 15: Employee Expenses

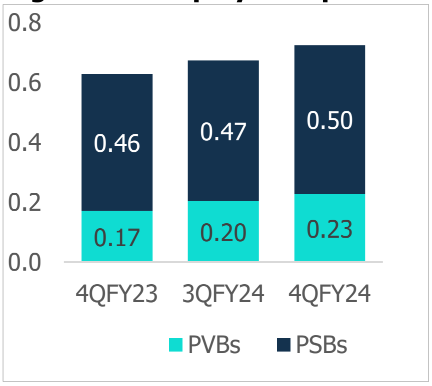


Figure 16: Other Op. Expenses

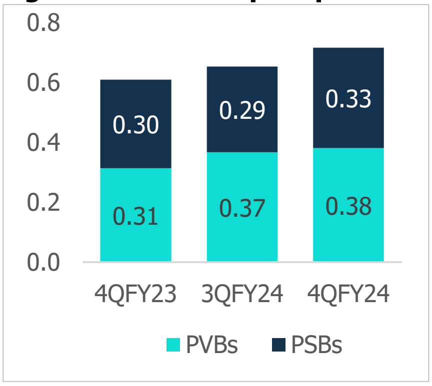
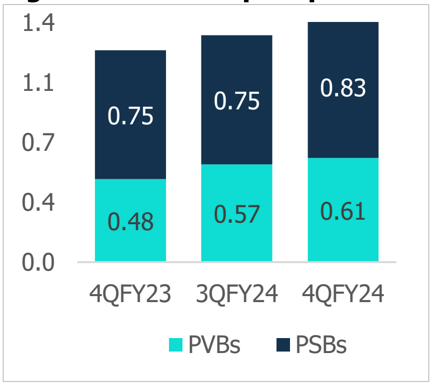


Figure 17: Total Op. Expenses



- The opex of SCBs rose by 16.3% y-o-y to Rs. 1.44 lakh crore in Q4FY24, within opex employee expenses rose by 15.2% y-o-y while other opex rose by 17.3% y-o-y.
  - PSBs' employee expenses rose by 8.5% y-o-y to 0.50 lakh crore (Slower compared to last quarter's growth of 18% y-o-y), driven by bipartite wage provisions and additional provisions for pensions.
  - PVB employee expenses rose by 33.2% y-o-y in the quarter due to higher headcounts, merger impact and wage inflation.
  - Other expenses of SCBs rose by 17.3% in the quarter driven by other operating expenses attributed to the addition of branches. PVBs reported a much higher rise in other opex at 21.5% in the quarter compared to 13.0% by PSBs due to rising distribution costs, rise in business volume and continued IT spending.

Figure 18: SCBs – Improving Gross NPAs and Net NPAs Trend (%)

Asset Quality	FY22	FY23				FY24				(bps)	
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	y- o-y	q-o-q
Gross NPAs											
Large PSBs	6.3	6.0	5.4	4.9	4.3	4.1	3.8	3.5	3.2	-113	-26
Other PSBs	11.6	11.1	9.3	8.4	7.3	6.5	5.4	4.6	4.3	-297	-24
PSBs	**7.7**	**7.4**	**6.5**	**5.8**	**5.1**	**4.7**	**4.2**	**3.8**	**3.5**	**-163**	**-26**
Large PVBs	2.4	2.3	2.2	2.2	1.9	1.9	1.8	1.7	1.6	-33	-7
Other PVBs	5.0	4.7	4.6	2.9	2.7	2.7	2.7	2.7	2.2	-52	-47
PVBs	**3.3**	**3.1**	**3.0**	**2.4**	**2.2**	**2.2**	**2.0**	**2.0**	**1.8**	**-40**	-18
SCBs	**6.1**	**5.8**	**5.2**	**4.6**	**4.1**	**3.8**	**3.3**	**3.0**	**2.8**	**-124**	-23
Net NPAs											
Large PSBs	2.0	1.8	1.5	1.3	1.1	1.0	0.9	0.8	0.7	51	2
Other PSBs	3.0	2.8	2.4	2.0	1.7	1.8	1.2	1.0	0.9	226	2
PSBs	**2.3**	**2.1**	**1.7**	**1.5**	**1.3**	**1.2**	**1.0**	**0.8**	**0.8**	**86**	**2**
Large PVBs	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	1	0
Other PVBs	1.7	1.6	1.4	1.0	0.9	0.9	0.8	0.8	0.7	8	7
PVBs	**0.9**	**0.9**	**0.8**	**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**3**	**1**
SCBs	**1.8**	**1.6**	**1.4**	**1.2**	**1.0**	**1.0**	**0.8**	**0.7**	**0.6**	**45**	**2**

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 21.1% y-o-y to Rs. 4.69 lakh crores as of March 31, 2024, vs. Rs. 5.66 lakh crores over a year ago due to lower slippages, steady write-offs, and decent recoveries in the year. PSBs' "Recoveries & Upgrades" from Q4FY23 to Q4FY24 (in the last four quarters) stood at Rs. 0.18 lakh crore as compared to 0.27 lakh crore in Q4FY24 to Q4FY23. Overall, the SCBs' stress level has reduced on a y-o-y basis as their outstanding Special Mentioned Accounts (SMAs) (especially large PSBs) have declined and the restructured book has also reduced in Q4FY24, indicative of improving asset quality.

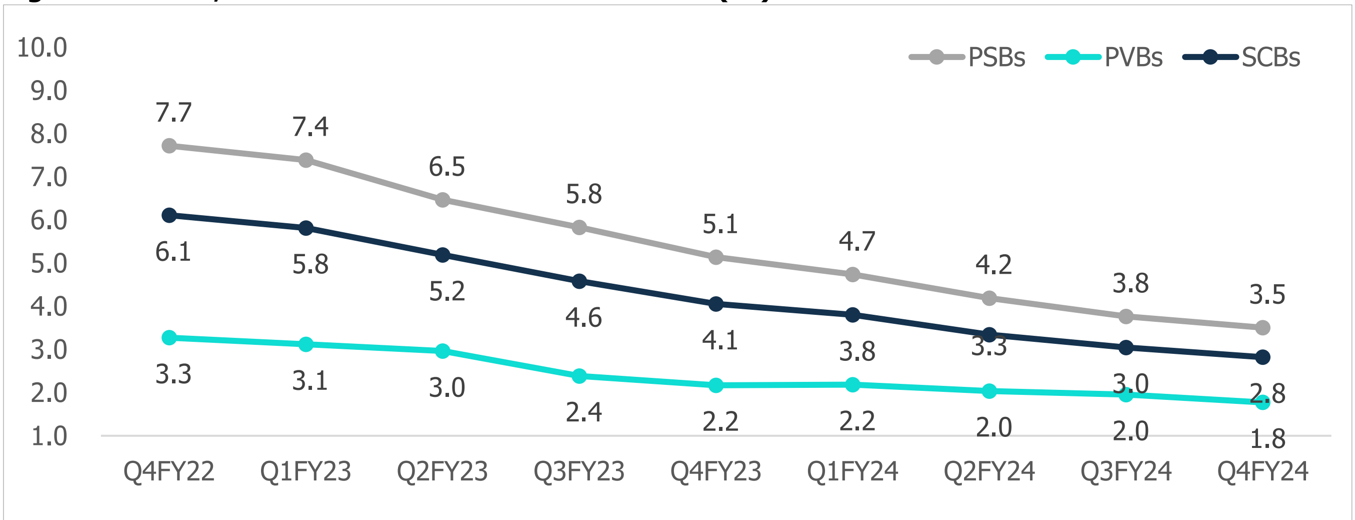
- GNPAs of PSBs reduced by 22.6% y-o-y to Rs. 3.52 lakh crore as of March 31, 2024, as write-offs reduced significantly whereas recoveries and slippage were comparatively steady during the year. Within PSBs, other PSBs' GNPAs reduced significantly by 32.9% y-o-y to Rs. 1.18 lakh crore as of March 31, 2024.
- PSB slippages reduced by 6.4% y-o-y to Rs. 0.23 lakh crore in Q4FY24. Also, write-offs and recoveries declined from Rs. 0.67 lakh crore last year to Rs. 0.34 lakh crore in the quarter.
- On the other hand, PVBs' GNPAs increased by 7.0% y-o-y to Rs. 1.16 lakh crore as of March 31, 2024. This was driven by merger impact, along with a minimal drop in Slippages, which stood at Rs 0.23 lakh crore in Q4FY24 compared to 0.24 lakh crore in Q4FY23.

NNPAs reduced by 23.8% y-o-y to Rs. 1.03 lakh crores as of Q4FY24, vs. Rs. 1.36 lakh crores over a year ago.

- NNPAs of PSBs reduced by 32.5% y-o-y to Rs. 0.74 lakh crore as of March 31, 2024. While NNPAs of PVBs increased by 12.4% y-o-y to Rs. 0.30 lakh crore as of March 31, 2024, due to merger impact, within PSBs the major reduction came from other PSBs which dropped by 35.9% y-o-y to Rs. 0.25 lakh crore as asset quality improved driven as share in MSME/Corporate advances rises for other PSBs banks.
- The NNPAs of PVBs showed an increasing trend in Q4FY24 y-o-y, driven by large PVBs which grew by 27.8% to 0.17 lakh crore, during the quarter this was mainly driven by merger impact.

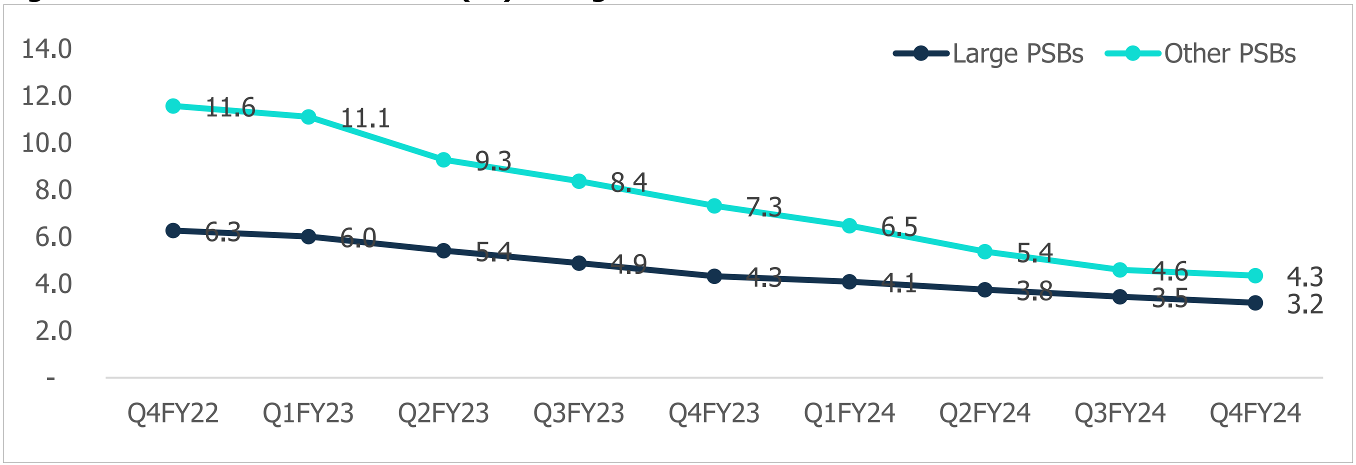
Sequentially GNPAs of SCBs reduced due to improvement in asset quality of other PSBs which progressed by 13.3% and reached 0.42 lakh crore as of March 31, 2024. NNPAs of SCBs reduced by 6.5% q-o-q, PSBs declined by 6.8.%, and PVBs saw a downtick of 5.6%. The reduction in the absolute stock of GNPAs and rising advances has led to the GNPA ratio of SCBs reducing to 2.8% as of March 31, 2024, from 4.1% a year ago. Overall, it has consistently improved over the last few years.

Figure 19: SCBs, PSBs PVBs – Gross NPA Ratio Trend (%)



Source: Ace Equity, CareEdge Calculations; Note: Includes 14 PSBs and 16 PVBs (total 30 SCBs)

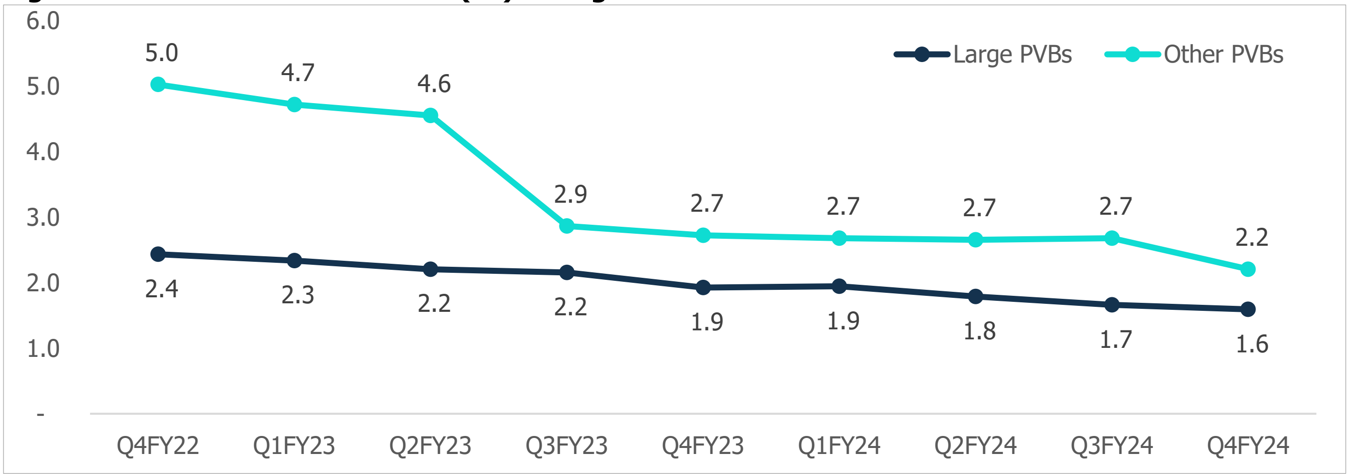
Figure 20: Gross NPA Ratio Trend (%) – Large PSBs Vs. Other PSBs



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

PSBs GNPA ratio reduced by 163 bps y-o-y to 3.7% as of March 31, 2024, within this other PSBs reduced by 297 bps y-o-y to 4.3% as of March 31, 2024.

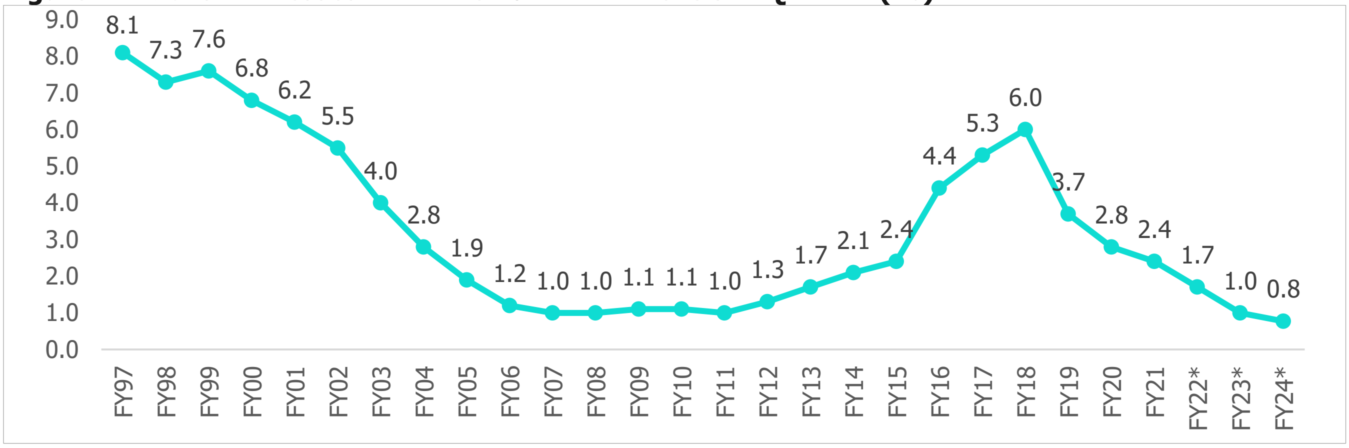
Figure 21: Gross NPA Ratio Trend (%) – Large PVBs Vs. Other PVBs



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

PVBs GNPA ratio reduced by 40 bps y-o-y to 1.8% as of March 31, 2024, within this other PVBs reduced by 52 bps y-o-y to 2.2% as of March 31, 2024.

Figure 22: SCBs Witnesses All- Time Low NNPA Levels in Q4FY24 (%)

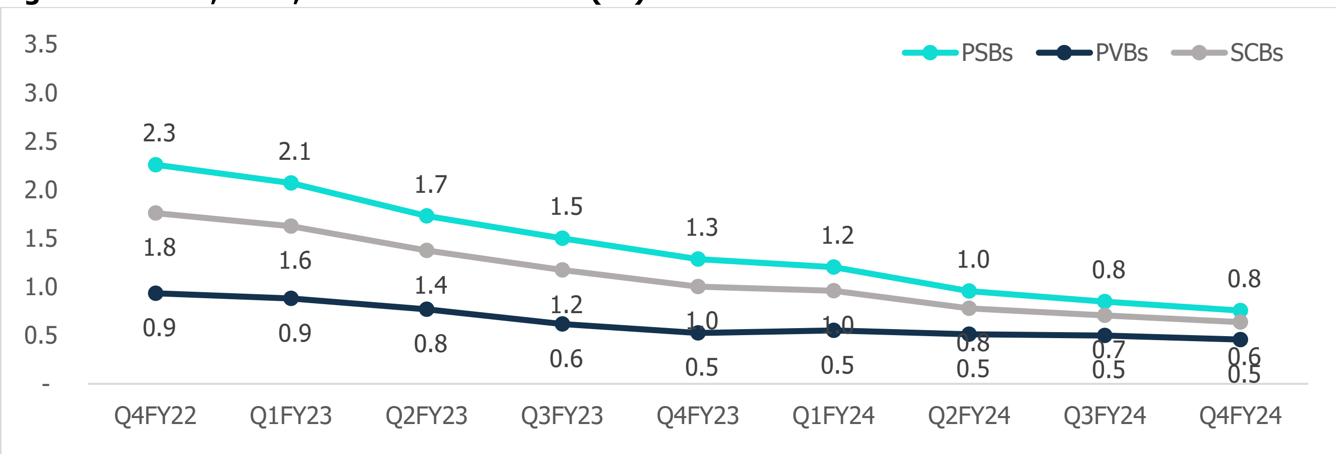


Source: RBI, * CareEdge Calculation for FY22/23/FY24, 30 SCBs (14 PSBs + 16 PVBs)

As of March 31, 2018, the NNPA ratio stood at 6% in FY18 which dropped to 0.6% as of March 31, 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.

Aiming to clean up the stressed balance sheets of banks, the RBI mandated stricter recognition requirements under Asset Quality Review. This led to the identification of elevated non-performing assets (NPAs) with many banks, especially PSBs, reporting losses. Many of the banks then fell into RBI's prompt corrective action (PCA) framework. Over a period, the underwriting standards of the banking industry has undergone a change. The banking sector is currently characterised by strong advances growth, high capital adequacies, record profitability and stable asset quality.

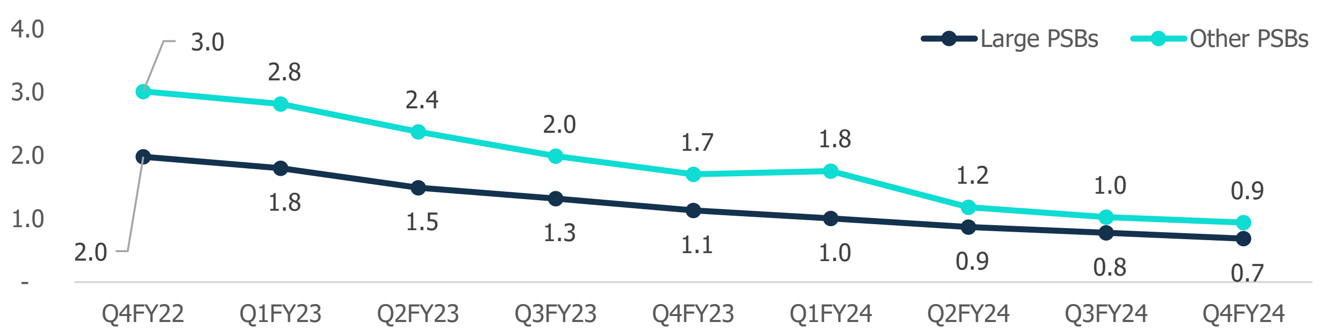
Figure 23: SCBs, PSBs, PVBs Net NPA Trend (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs and 16 PVBs (total 30 SCBs)

Reflecting the improvement of GNPAs and adequate provision levels. The NNPA ratio of SCBs also reduced significantly to 0.6% from 1.0% in Q4FY23. NNPAs of PSBs dropped by 53 bps to 0.8% in Q4FY24 while PVBs reported a drop of 7 bps to 0.5%.

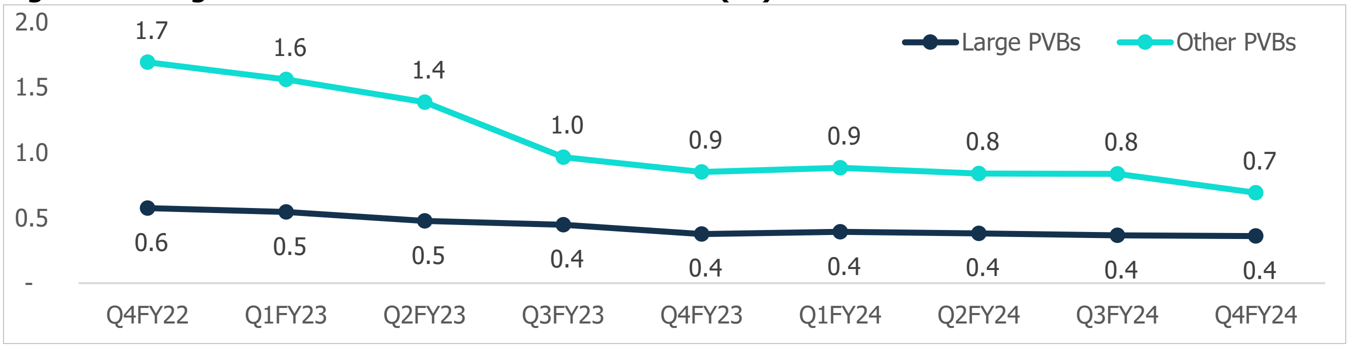
Figure 24: Large PSBs Vs. Other PSBs Net NPA Trend (%)



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

The NNPA ratio of large PSBs also reduced to 0.7% in Q4FY24 from 1.1% in Q4FY23, while other PSBs witnessed a higher reduction of 76 bps y-o-y to 0.9% for the same quarter.

Figure 25: Large PVBs Vs. Other PVBs Net NPA Trend (%)



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

Other PVBs' NNPA was reduced by 16 bps y-o-y to 0.7% in Q4FY24, while large PVBs dropped marginally by 2 bps to 0.4% in the same quarter.

Figure 26: Recoveries, upgrades, Write-Offs and Fresh Slippages (Rs. Lakh - Cr.)

PSBs	Q4FY23	Q3FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.12	0.15	0.13	12.6	-10.8
Write-Offs	0.40	0.27	0.17	-58.8	-39.5
Fresh Slippages	0.18	0.22	0.22	-6.4	14.8

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

Large PSB recoveries and upgrades came in at Rs. 0.13 lakh crore in Q4FY24 Vs. 0.12 lakh crore over a year ago. While write-offs were at Rs. 0.40 lakh crore Vs 0.17 lakh crore in Q4FY23.

Figure 27: Recoveries, Upgrades, Write-Offs and Fresh Slippages (Rs. Lakh - Cr.)

PVBs	Q4FY23	Q3FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.12	0.15	0.13	12.6	-10.8
Write-Offs	0.07	0.08	0.08	8.5	-5.7
Fresh Slippages	0.25	0.23	0.22	19.3	-3.4

Source: Banks Presentation, CareEdge Calculations, Note 16 PVBs for slippages, 9 PVBs for recoveries, upgrades and write-offs

Figure 28: Select Banks' Restructured Portfolio (Rs. Lakh - Cr.) – Shows Significant Reduction

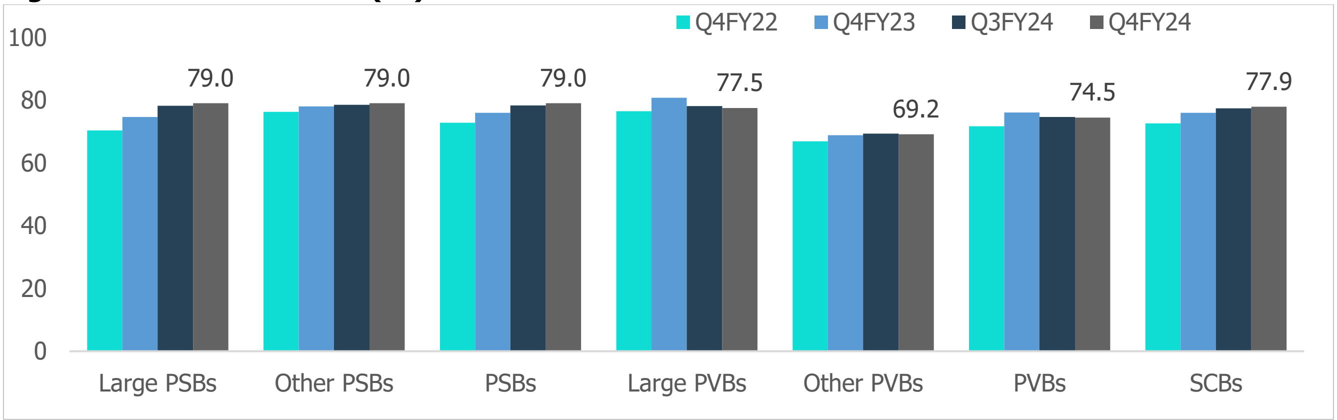
PSBs	Mar 31, 2023	Mar 31, 2024	y-o-y (%)	PVBs	Mar 31, 2023	Mar 31, 2024	y-o-y (%)
SBI	0.24	0.17	-28.9	Yes	0.05	0.05	0.0
UBI	0.18	0.13	-25.0	ICICI	0.05	0.03	-32.1
PNB	0.11	0.09	-17.3	Axis	0.02	0.02	-25.4
BoI	0.10	0.08	-24.0	IndusInd	0.02	0.004	-84.3
IB	0.11	0.09	-23.8	Kotak	0.01	0.004	-26.1
CBI	0.07	0.06	-4.6				
BoM	0.04	0.02	-45.9				
UCO	0.03	0.02	-21.8				
PSB	0.02	0.02	3.9				
Total	**0.91**	**0.70**	**-23.5**	**Total**	**0.14**	**0.10**	**-29.2**
% of Net Advances	1.7	1.30		% of Net Advances	0.8	0.5	

Source: Bank Presentations, CareEdge Calculations

Overall, restructuring has been reduced significantly due to repayment by borrowers, an uptick in economic activity and the slipping of some accounts into the NPAs. Restructured portfolio for select 9 PSBs reduced by 23.5% y-o-y to Rs. 0.70 lakh crore as of March 31, 2024. Meanwhile, select five PVBs declined by 29.2% y-o-y to Rs. 0.10 lakh crore in the same period.

Provision Coverage Ratio (PCR)

Figure 29: SCBs PCR Trend (%)



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

- The PCR of SCBs has been gradually increasing over the quarters and stood at 77.9% in Q3FY24. It also rose by 252 bps y-o-y in the quarter, mainly driven by PSBs.
  - SCBs GNPAs declined by 17.2% y-o-y in the quarter while accumulated provisions declined by 15.1% in the same period, resulting in higher PCR.
  - PSBs' PCR improved by 252 bps y-o-y to 77.9% in the quarter as the rate of reduction in GNPAs was faster than accumulated provisions.
  - PVBs' PCR improved by 16 bps y-o-y to 74.7% in the quarter, however large PVBs.

Figure 30: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

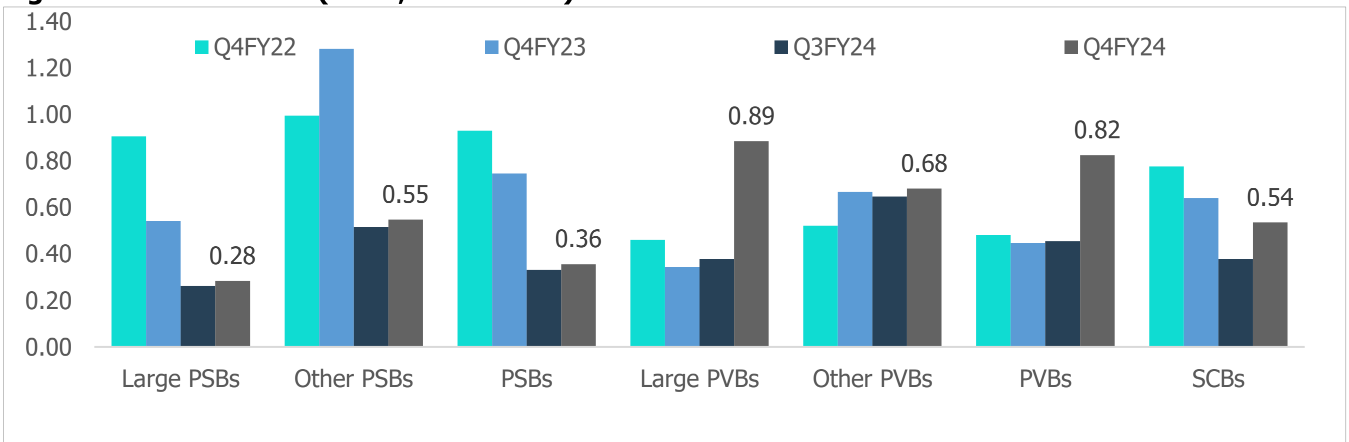
Credit Cost	Q4FY22	Q4FY23	Q4FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.21	0.14	0.07	0.08	-42.15	12.09
Other PSBs	0.09	0.13	0.05	0.06	-52.94	10.33
PSBs	**0.31**	**0.27**	**0.13**	**0.14**	**-47.26**	**11.34**
Large PVBs	0.05	0.05	0.06	0.15	234.32	144.91
Other PVBs	0.03	0.04	0.04	0.05	19.57	15.94
PVBs	**0.08**	**0.09**	**0.11**	**0.20**	**132.23**	**92.50**
SCBs	**0.39**	**0.36**	**0.23**	**0.35**	**-3.22**	**48.10**

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

SCBs credit cost declined by 3.22% y-o-y to Rs. 0.35 lakh crore in Q4FY24 as the banks especially PSBs already hold a substantial buffer for provisions along with improvement in the asset quality which has necessitated lower incremental provisioning in the quarter. PSB provisions dropped by 47.3% y-o-y to Rs. 0.14 lakh crore in Q4FY24, within this large PSBs reported a major drop in provisions for the quarter. PVB provisions increased by 132.2% y-o-y in the quarter as it made higher standard provisions for growth of advances also impacted due to merger.

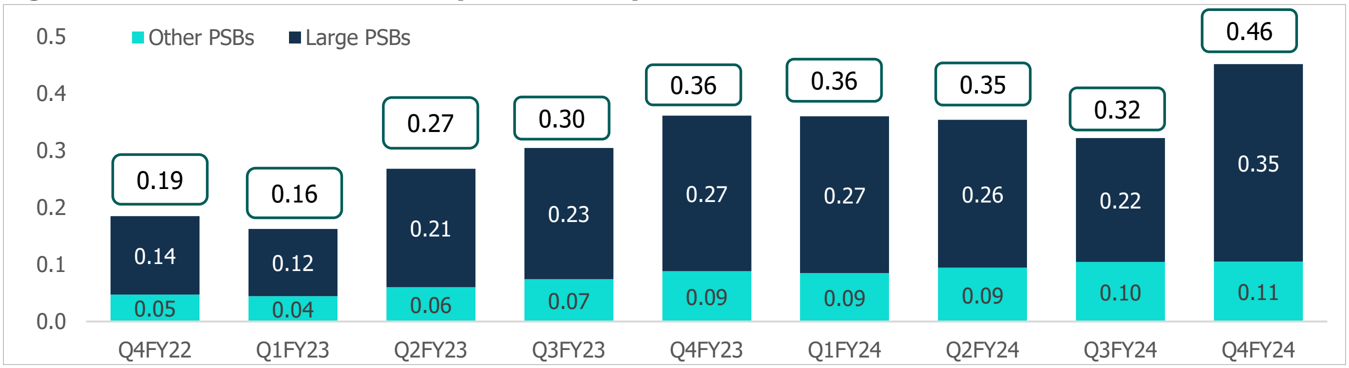
In the meanwhile, many of the banks have started discussions and initial actions on creating additional provisions which may be necessitated over the next five-six years to meet the requirements of provisioning for expected credit loss (ECL) as being contemplated by the regulators for the sector, also as per recent RBI notification, on unsecured loans and AIF, the cap on risky assets will play a positive role in improving asset quality even further in coming quarters. Credit cost (annualised) of SCBs declined by 11 bps y-o-y to 0.54% in Q4FY24 and it has been generally trending down from 1.44% in Q4FY21. For PVBs, however, in the current quarter it increased by 38 bps to 0.82% in the quarter driven by large one-off provision done in current quarter, while for PSBs, it dropped by 39 bps to 0.36% in the same period. Credit cost had witnessed a significant reduction over the last 6-8 quarters due to holding a buffer for provisions and improvement in asset quality. However, in the current quarter, we saw an increase in credit cost sequentially wherein PSBs increased by 2 bps and PVBs saw a rise of 37 bps.

Figure 31: Credit Costs (In %, Annualised)



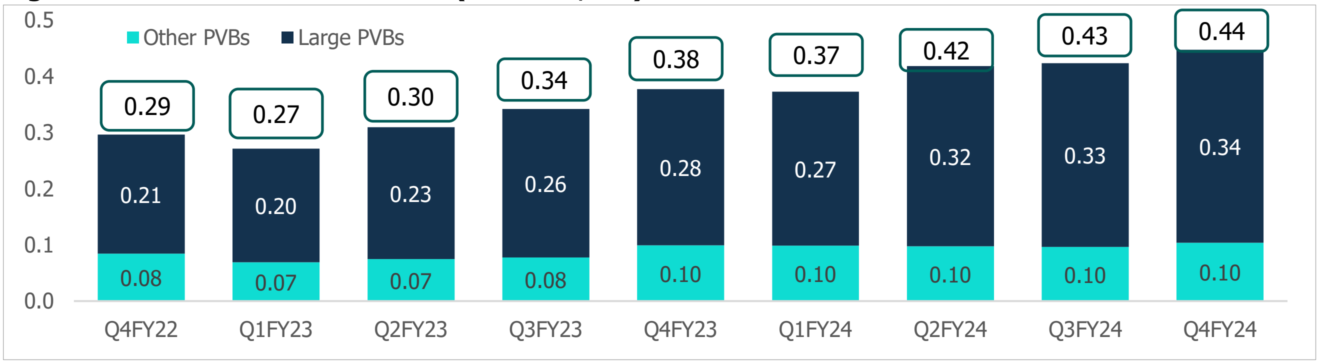
Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

Figure 32: PSBs' Net Profit Trend (Rs. Lakh, Cr.)



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

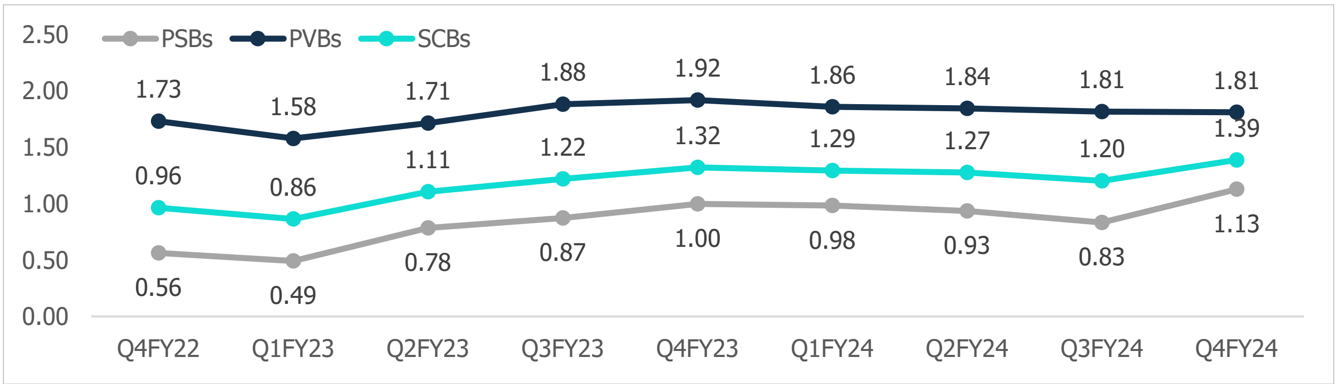
Figure 33: PVBs' Net Profit Trend (Rs. Lakh, Cr.)



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

- Net profit for SCBs saw a robust growth of 21.7% y-o-y to 0.90 lakh crore in the quarter owing to robust business growth, relative growth in other income (treasury and fee income) and controlled provisions. Both PVBs and PSBs exhibited strong growth, with PVBs recording an 18.6% increase to Rs.0.44 lakhs crore and PSBs registering a 25.0% surge to Rs. 0.46 Lakhs crores in Q4FY24.

Figure 34: Movement of RoA for SCBs (annualised, %)

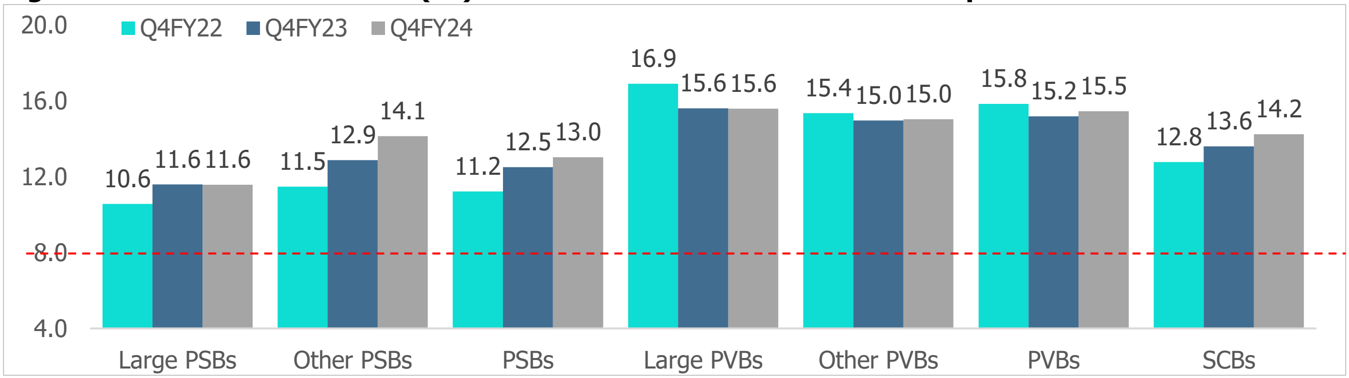


Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

RoA of SCBs improved by 7 bps y-o-y to 1.39% in Q4FY24 and increased by 18 bps sequentially driven by robust profitability and reduced provision.

- PSBs' RoA improved by 13 bps y-o-y to 1.13% in Q4FY24 compared to previous year. This improvement was primarily driven by Large PSBs, which expanded by 13 bps y-o-y and 29 bps q-o-q, largely supported by gains from treasury activities and fee income.
- PVBs' RoA declined by 11 bps y-o-y to 1.81% in the quarter mainly due to asset franchise experience robust growth, largely influenced by the impact of merger.

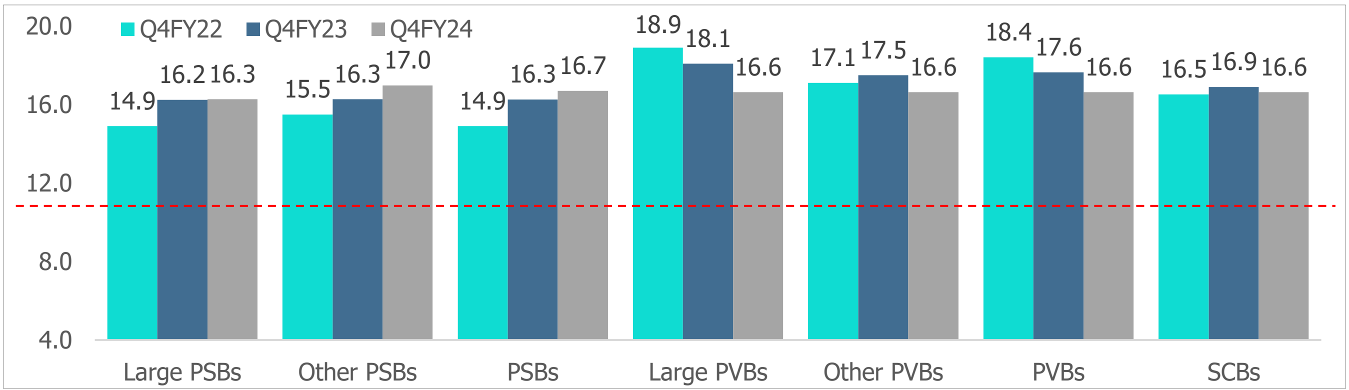
Overall Capital Adequacy dip marginally, remains above the Regulatory Requirement in Q4FY24.
Figure 35: CET-1 Ratio Median (%) – Banks Stand Much Above than Required Level



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 healthy y-o-y expansion of 64 bps to 14.2% in Q4FY24 aided by growth in profitability which was mainly driven by PSBs. PSBs' median CET-1 ratio improved by 52 bps y-o-y to 13.0% in Q4FY24 due to improved net profits. PVBs' CET-1 ratio improves by 28 bps y-o-y to 15.5% in Q4FY24 due to robust growth in advances.

Figure 36: 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 27 bps y-o-y to 16.6% in Q4FY24 and remained above the regulatory requirement of 11.5%, indicating a stable position.
  - PSBs median CAR expanded by 44 bps y-o-y to 16.7% for Q4FY24 on account of robust profitability and lower credit cost.

Meanwhile, PVBs median CAR dropped by 101 bps to 16.6% in the quarter. The CRAR of PVBs experienced a slight decline, primarily attributed to substantial advances growth, in comparison to capital.

Conclusion

- Q4FY24 saw a 20.2% y-o-y surge in credit offtake due to the merger, personal loans, and economic growth. CareEdge estimates the credit growth to be in the range of 14%-14.5% during FY25. With a high Credit to Deposit ratio, expanding the liability franchise remains crucial for sustaining loan growth. In Q4FY24, there was a y-o-y moderation in NIM but remained flat on sequential basis. NII growth moderated y-o-y across the board as cost of funds continued to rise, exerting pressure on NIM. We expect the trend to continue in Q1FY25.
- The gross non-performing assets (GNPA) ratio of SCBs has moved past the pre-asset quality review (AQR) levels in Q3FY24. This trend is expected to be maintained in Q1FY25 due to several factors, including healthy growth in advances driven by an uptick in economic activities, lower incremental slippages, and a reduction in restructured portfolios. NNPA ratio is at a record low at 0.6.% as of March 31, 2024.
- The SCB GNPA ratio is projected to improve to 2.1%-2.4% by FY25 end driven by moderation in slippages, corporate deleveraging leading to improved financials, some level of slippage from the retail book, and a declining trend in the stock of GNPAs.
- However, credit costs are expected to moderately increase impacting profitability and loss of accounts for banks if RBI's proposed provisioning norms for projects under construction are implemented. The impact of incremental provisioning for public banks would be 0.2% and 0.1% on private banks between FY25 and FY27. (Refer for further details: RBI's Draft Regulations on Project)
- Due to the sharp growth trends and last quarter's RBI notification, the performance of unsecured loans also remains a key monitorable along with the MSME segment. Downside risks include an increase in crude oil prices, global economic slowdown, global monetary and liquidity tightening, and elevated interest rates.
- SCBs witnessed a significant y-o-y surge in net profit for Q4FY24, driven by growing NII and reduced credit costs. PSBs outperformed PVBs in Q4FY24, mainly due to a lower base in net profits, supported by business growth and gains from treasury activities.
- Despite the pressure on Net Interest Margin (NIM) and proposed stricter lending regulations by the RBI, banks are likely to sustain RoA buoyed by robust credit growth and improvement in asset quality.

Annexure

Note: Analysis based on 30 scheduled commercial banks (14 PSBs, and 16 PVBs). Prior period numbers not comparable to earlier reports on account of 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	Dhanlaxmi Bank	Bandhan Bank	City Union Bank	DCB Bank	Karur Vysya Bank	
PVBs	**Large PVBs and Others PVBs (Total 16 Banks)**						
SCBs	**PSBs + PVBs (Total 30 Banks)**						

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