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Performance of Banks: Q1 FY18

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-22-67543489

Darshini Kansara
Research Analyst
darshini.kansara@careratings.com
91-22-6754 3679

Mradul Mishra
mradul.mishra@careratings.com
91-022-6754 3515

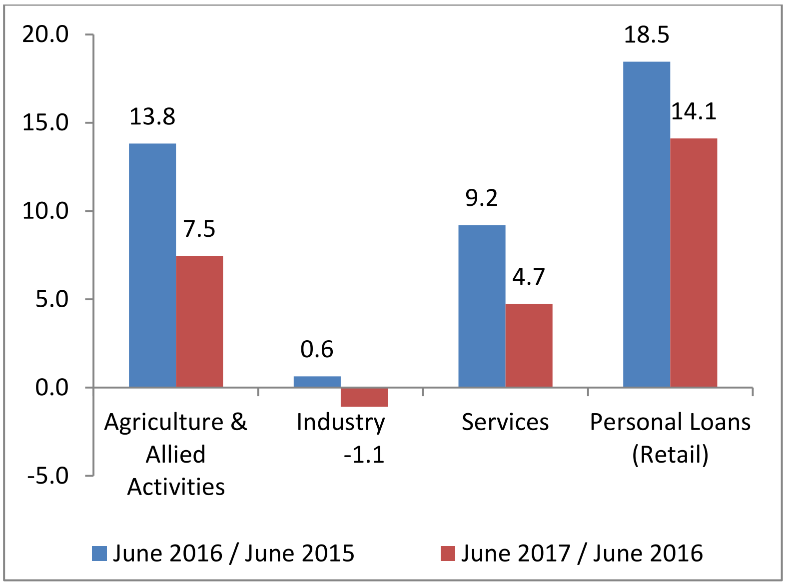
Note: The following study involves analysis of 24 banks (14 – private banks and 10 public sector banks) that announced results on or before August 7, 2017.

The Banking system continued to remain under stress in Q1 FY18 on back of slowdown in growth in credit and deposits. Also, the industrial activity between June 2016 and June 2017 was lower compared with activity between June 2016 and June 2015 which can be viewed in Chart 1 which provides information on growth in credit to different sectors.

The NPA reconciliation process was to be completed by March 2017; however NPAs continue to be high as of June 2017. This may be on account of two factors:

- The NPA reconciliation process is still going on
- New (incremental) NPAs are still being generated

Chart 1: Growth in Bank Credit (y-o-y)



Source: Reserve Bank of India

Outstanding bank credit to agriculture and allied activities, services, industry (micro, small, medium and large) as well as retail sector (personal loans) registered lower growth rates on a y-o-y basis as of June 2017 vis-à-vis a June 2016. Growth in credit to manufacturing continues to be negative which is a concern as it reflects modest activity. Also at the policy level, the RBI had lowered the repo rate by 25 bps between June 2016 and June 2017 which was reflected in a fall of almost 65 bps in the deposit rates and 110 bps in the MCLR. (Table 1)

The performance of this sample of banks should be viewed against this background.

Table 1: Average Deposit & Lending rates (%)

	Jun-15	Jun-16	Jun-17
Base rate	9.85	9.50	9.35
MCLR	-	9.03	7.93
Term Deposit Rate >1 Year	8.25	7.25	6.58
Repo rate	7.25	6.50	6.25

Source: Reserve Bank of India

Table 2: Performance of banks (Q1)

24 Banks (Rs Cr)	Jun-15	Jun-16	Jun-17	Growth (%)	
				Q1 FY16	Q1 FY17
Interest income	113,329	118,795	122,781	4.8	3.4
Other income	15,610	19,622	23,986	25.7	22.2
Interest Expenses	75,613	78,505	78,046	3.8	-0.6
Operating expenses	24,187	28,357	31,863	17.2	12.4
Provisions and contingencies	10,949	17,430	21,415	59.2	22.9
Net profit	12,210	9,485	10,609	-22.3	11.8
Gross NPAs	132,007	265,124	333,605	100.8	25.8
NPA ratio	3.92	6.96	8.07		

Source: AceEquity

Interest income

- As of June 30 2017, the average MCLR rate was lower by about 110 bps at 7.93% in Q1 FY18. Further, there was a decline in growth in bank credit in Q1-FY18 i.e. June over March (-2.3% over March compared with -0.3% last year). On a year on year basis too growth in credit was 6% against 9% last year. This led to the decline in Interest income of banks during Q1 FY18 to 3.4% from 4.8% in the same period last year. Also, the average base rate was at 9.35%, 15 bps lower than the average base rate as on June 30 2016.

Other income

- Banks have been making treasury profits during the quarter thus registering healthy other income in Q1 FY17. The average yield on 10-years GSec have come down from an average of 6.86% in March 2017 to 6.51% in June 2017.

Interest expense

- Interest expense of banks declined by about 0.6% y-o-y in Q1 FY18 on back of lower term deposit rates (>1 year). Average term deposit rates for banks fell by about 70 basis points to 6.58% in Q1 FY18. This was the main driving force as overall deposits did witness higher growth of 11.1% (9.1%) on y---y basis for the banking system.

Provisions and Contingencies

- Provisions have continued to increase however at a lower rate of about 23% in Q1 FY18 on top of about 59% in Q1 FY17. NPAs were to be reconciled by March 2017. However banks have still witnessed increased NPAs which could be on account of 2 reasons; one – the NPA reconciliation process is still in progress or new NPAs are being generated.

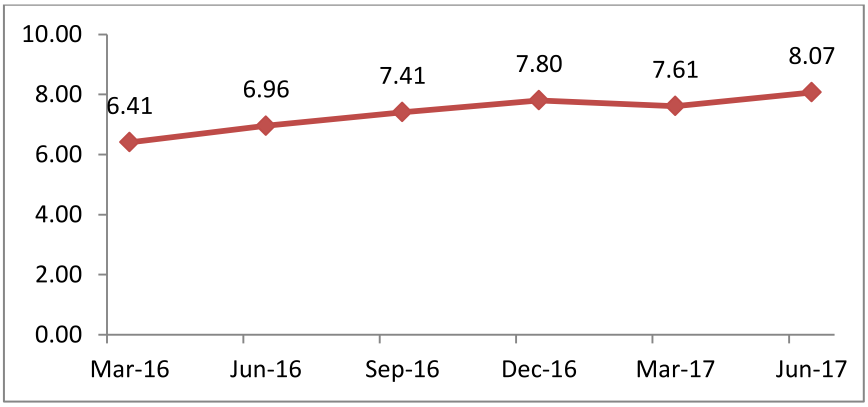
Net Profits

- Net profits registered a positive growth of about 11.8% in Q1 FY18 after posting a sharp de-growth in Q1 FY17. This can be attributed to higher growth in NII by 11.1%, lower growth in operating costs and provisions.

NPAs

- Gross NPAs increased at a much lower rate in Q1 FY18 as compared to Q1 FY17 as many banks have been cautious in lending on account of higher stressed assets in the past few quarters.
- NPA ratio increased to 8.07% in Q1 FY18 from 6.96% in Q1 FY17.
- Also, gross bank credit for major sectors increased at a slower pace of about 4.4% y-o-y to Rs 69.2 trillion as of June 2017 while in June 2016, the gross bank credit for major sectors increased by a higher rate of 7.3% y-o-y to Rs 66.3 trillion.

Chart 2: NPA ratio (24 banks)



Source: AceEquity

Chart 3: NPA ratio – Public Banks (10 banks)

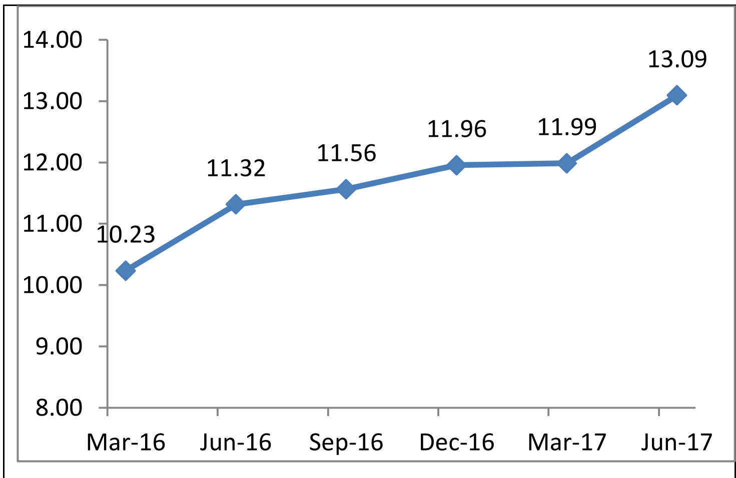
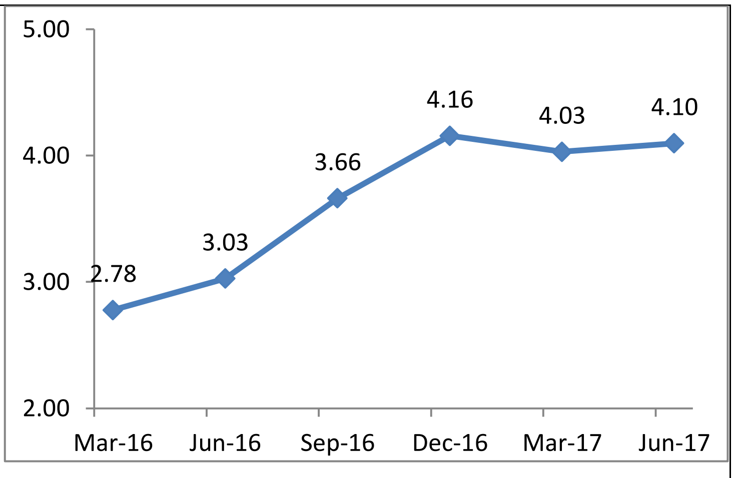


Chart 4: NPA ratio – Private Banks (14 banks)



Source: AceEquity

- ***It is to be noted that the NPA ratio of Public sector banks (PSBs) are nearly 3 times that of the private banks as of June 2017. NPA ratio of PSBs stood at 13.09% while that of private banks stood at 4.10% at the end of Q1 FY18.***

Conclusions:

- Overall volume of business of banks has still to pick up. This will be depend a lot on how the economy fares.
- Gross NPAs recorded in Q1 FY18 show a 25.8% increase over Q1 FY17, much lower than the growth registered during the same period last year. However, the gross NPAs of 24 banks under consideration are still significant at about Rs 3,334 billion as of June 2017 which is worrisome.
- Public sector banks appear to be definitely more stressed than private banks.

CORPORATE OFFICE:
CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022; CIN: L67190MH1993PLC071691
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

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