

Banking performance: Q3-FY18

The performance of banks continues to be stressed in Q3-FY18 as revealed by the performance of a sample of 30 banks which includes 13 PSBs and 17 private banks. Profits are under strain and the NPA issue continues to pressurize banks.

Highlights

- *Growth in interest income in Q3-FY18 was 8.9% as against 2.3% in interest expenditure. This may be attributed to a combination of higher growth in bank credit this year which was 10.7% for the system compared with 4.7% last year. Growth in deposits was lower at 4% compared with 14.6% last year.*
- *NII has increased by 22.4% against negative growth last year. This may be attributed to both higher growth in credit and lower decrease in lending rates compared with deposits which grew at a lower rate while deposit rates were lowered to a greater extent.*
- *A major setback for banks was the decline in other income which is primarily due to the rise in yields on investments which affected the P & L due to the MTM losses that were booked. It may be pointed out that in December yields increased when the government announced an enhancement in its borrowing programme.*
- *Growth in operating expenses was 10.7% which is lower than that of 16.7% last year.*
- *Provisions increased sharply by 69.1% as against decline last year.*
- *Net profit growth decline to a loss from a profit position in Q3-FY17.*
- *Gross NPAs continued to increase by 34.5% in Q3-FY18 on top of 59.3% last year.*
- *NPA ratio touched 9.45% from 8.34% in Dec 2016. It does appear that the NPA issue is still not sorted out at the macro level in terms of **recognition as well as accretion.***

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The performance was driven mainly by the PSBs which witnessed a lower overall performance compared with private banks.

Table 1: Performance of 30 banks in third quarter: 2015-2017 (Rs cr)

30 banks	Rs crore			Growth (%)	
	Dec-15	Dec-16	Dec-17	Dec-16	Dec-17
Interest earned	183,028	190,520	207,436	4.1	8.9
Other income	27,154	37,668	34,026	38.7	-9.7
Interest expended	123,482	128,321	131,293	3.9	2.3
Operating expenses	41,255	48,156	53,327	16.7	10.7
Provisions	37,331	36,193	61,200	-3.0	69.1
Tax	3,471	5,281	(4,213)	52.2	-179.8
Net Profit	4,644	10,237	(154)	120.4	-101.5
Gross NPAs	326,079	519,282	698,668	59.3	34.5
NPA ratio	5.50	8.34	9.45		
NII	59,546	62,199	76,143	4.5	22.4

Source: ACE Equity

Comparison between PSBs and private banks

Table 2: Growth in various indicators

	PSBs (13)	Private (17)	All (30)
Interest earned	8.6	9.3	8.9
Other income	-14.7	-2.3	-9.7
Interest expended	1.4	4.3	2.3
Operating expenses	10.0	12.0	10.7
Provisions	91.3	6.8	69.1
Tax	*	4.4	*
Net Profit	*	11.9	*
Gross NPAs	36.4	25.1	34.5
NPA ratio	12.4	4.1	9.4
NII	26.8	16.9	22.4

*: Extreme values: change in signs

- Private Banks maintained the Gross NPA ratio at 4.15% over 2016 which was however higher than 2.51% in 2015.
- Private Banks also witnessed higher growth in both interest income and expenses while PSBs were affected more perceptibly by the decline in other income.
- PSBs witnessed higher growth in NII.
- Growth in operating expenses was almost on par, with PSBs being slightly higher.
- Private banks have witnessed growth in net profit while PSBs have witnessed a loss of around Rs 11,000 cr as provisions were above Rs 51,000 cr.

Observations

It does appear that the worst may not yet be over for PSBs with regards to NPAs and March 2018 would be the next touch point that will provide further guidance.

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