Banks' Q1 net profit growth estimated at 47% as lending stays strong

According to Bloomberg's data on analysts' estimates, net profits of the 12 listed banks in Q1FY23 will grow 47 per cent YoY and shrink 7.8 per cent sequentially

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(Photo: Reuters)

With increases in lending rates, high credit growth, and lower credit costs, banks are likely to report a significant rise in net interest income (NII) and profits year-on-year (YoY) in the quarter ended June 2022 (Q1FY23).

Sequentially, however, they may show flat growth in NII and a drop in the bottom line over the March 2022 quarter (Q4FY22) because treasury profits took a hit due to yields hardening.

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NII will rise 11.6 per cent YoY but fall 0.3 per cent sequentially.

Financial services group Nomura said bank lending spreads had bounced back with the 90 basis point repo rate hike, initially through new loans, while the reset in the stocks of loans will be visible in Q2. Lending rates on new loans have increased 35 basis points month-on month, while new loan spreads are up 15 basis points. On the stock of loans, lending rates are higher by 7 basis points month-on-month, while spreads are up 3 basis points.

JM Financial Institutional Securities Ltd in a note said the earnings of banks under its coverage were estimated to grow 17.3 per cent, albeit on a low base of Q122, which was affected by the second wave of Covid-19.

Headline credit growth for the system (13 per cent YoY as of June 17, 2022) is also driven by a low base though sequential growth of 2.2 per cent to date in FY23 is encouraging.

Seconding JM's assessment, domestic brokerage Emkay Global in a note said strong credit growth and lower loan provisions (LLP) would support profitability, partly offset by higher operational expenditure/mark-to-market (MTM) hits on investments.

	NII (₹ cr) Q1FY23	Chg % QoQ	Chg % YoY	PAT (₹ cr) Q1FY23	Chg % QoQ	Chg % YoY
Private sector banks	77,129	2.8	17.2	23,895	-7.9	55.0
Public sector banks	52,491	-3.2	4.4	10,078	-7.5	30.7
Total	129,619	0.3	11.6	33,973	-7.8	46.9

Source: Capitaline

The yield on the 10-year government of India benchmark bond rose sharply to 7.43 per cent on June 30, 2022, from 6.86 per cent on March 31, 2022. Banks would have to provide for erosion in the price of bonds such as MTM losses.

Aniket Dani, director, CRISIL Research, said with faster and sharper increases in interest rates, yield movements on treasury would negatively impact profitability on account of one-time MTM losses.

As for asset quality, the books of banking entities are in better shape with gross non-performing assets (GNPAs) and net NPAs improving from pre-pandemic levels. Plus, they have increased provisions for impaired portfolios, including restructured accounts.

GNPAs were at 5.7 per cent and net NPAs at 1.7 per cent, with the provision coverage ratio (PCR) of 86.8 per cent at the end of March 2022, according to the RBI data.

Fresh slippages have broadly been brought under control. Still a close watch on the behaviour of restructured loans is necessary.

CARE Ratings said there was a possibility of increased slippages from sectors that were relatively exposed to the pandemic because support measures were wound up and interest rates rose.