

Banks Performance Update – Q3 FY19

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Note: The following study includes analysis of 35 banks (18 – public sector banks and 17 private banks) that announced results on or before February 11, 2019.

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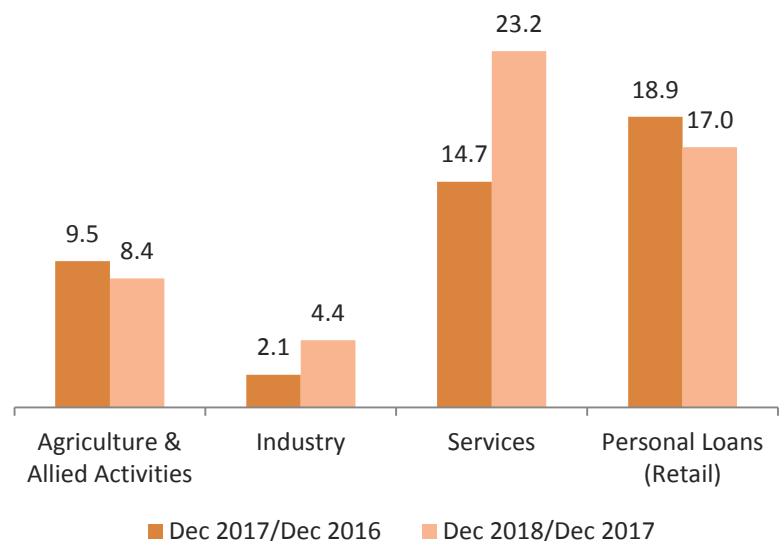
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The NPA situation in the Indian banking system has been stabilizing as can be seen in Q3 FY19. There has been an improvement in growth in credit and deposits. Net profits, however, continue to remain under pressure.

Also, there was improvement in credit to industry as well as services on y-o-y basis for December 2018 over December 2017. Growth in credit to services rose sharply while that to Agriculture & allied activities remained marginally lower during the period. *Chart 1* provides information on growth in credit to different sectors.

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



Source: Reserve Bank of India

Growth in credit to industry and services has picked up during Q3 FY19 post the initial glitches faced by the implementation of Goods and Service Tax (GST) (in July 2017) as well as various rate revisions that followed which also reflects to an extent with improved industrial activity. Also, personal loans (retail) have registered a double-digit growth showing improved consumption in the country.

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

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Table 1: Average Deposit & Lending rates (%)

	Dec-16	Dec-17	Dec-18
Base rate	9.48	9.15	9.20
MCLR	8.83	7.85	8.35
Term Deposit Rate >1 Year	6.80	6.38	6.88
Repo rate	6.25	6.00	6.50

Source: Reserve Bank of India

Table 2: Performance of Banks – Aggregate (Q3)

35 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	212,849	228,380	261,197	7.3	14.4
Other Income	41,960	37,504	40,259	-10.6	7.3
Total Income	254,809	265,884	301,456	4.3	13.4
Interest Expenses	144,531	146,513	166,221	1.4	13.5
Net Interest Income (NII)	68,318	81,867	94,976	19.8	16.0
Operating Expenses	53,414	58,997	69,117	10.5	17.2
Provisions and contingencies	41,505	71,008	62,449	71.1	-12.1
Net Profit	10,243	(4,905)	392	*	*
Gross NPAs	638,735	832,953	902,853	30.4	8.4
Gross NPA ratio	9.11	10.23	10.04		

Note: *movement from profit/loss to loss/profit

Source: AceEquity

Table 3: Performance of Private Banks (Q3)

17 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	67,335	73,841	93,262	9.7	26.3
Other Income	15,136	14,809	18,212	-2.2	23.0
Total Income	82,471	88,650	111,474	7.5	25.7
Interest Expenses	40,215	42,090	54,256	4.7	28.9
Net Interest Income (NII)	27,120	31,751	39,006	17.1	22.8
Operating Expenses	18,399	20,823	25,380	13.2	21.9
Provisions and contingencies	9,416	9,842	12,466	4.5	26.7
Net Profit	9,938	11,162	11,501	12.3	3.0
Gross NPAs	85,922	106,144	128,098	23.5	20.7
Gross NPA ratio	4.15	4.19	4.16		

Source: AceEquity

Table 4: Performance of Public Sector Banks (PSBs) (Q3)

18 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	145,514	154,539	167,936	6.2	8.7
Other Income	26,824	22,695	22,047	-15.4	-2.9
Total Income	172,338	177,234	189,982	2.8	7.2
Interest Expenses	104,315	104,423	111,965	0.1	7.2
Net Interest Income (NII)	41,198	50,116	55,971	21.6	11.7
Operating Expenses	35,015	38,174	43,737	9.0	14.6
Provisions and contingencies	32,089	61,167	49,983	90.6	-18.3
Net Profit	305	(16,067)	(11,109)	*	*
Gross NPAs	552,813	726,809	774,756	31.5	6.6
Gross NPA ratio	11.19	12.95	13.09		

Note: * movement from profit/loss to loss/profit

Source: AceEquity

Interest Income

- Interest income of all banks witnessed an increase of 14.4% in Q3 FY19 vis-à-vis an increase of about 7.3% in Q3 FY18 on account of a sharp growth in interest income of Private banks that registered a sharp double-digit growth of 26.3% during the same period. Also, interest income of PSBs witnessed a growth of 8.7% in Q3 FY19, higher than that in Q3 FY18. Higher interest income was backed by higher weighted average lending rates (WALR) of all scheduled commercial banks (SCBs) that stood at 9.88% p.a. in November 2018 vis-à-vis 9.56% in November 2017.

Interest Expense

- Interest expense of banks increased by 13.5% in Q3 FY19 mainly led by the private banks that registered a double-digit growth of about 29% in their interest expenses during the quarter vis-à-vis a nominal growth of about 4.7% growth witnessed a year ago. For PSBs as well, interest expense witnessed an increase of over 7% during the same period. This was mainly on account of about 10% growth in deposits for the system as a whole during October-November 2019 vis-à-vis 5.8% growth during October-November 2017.

Net Interest Income (NII)

- NII for all banks continued to register double-digit growth of 16% on a y-o-y basis in Q3 FY19, however, slower as compared with 19.8% growth witnessed in Q3 FY18. The growth mainly came from the NII earned by Private Banks that grew by about 22.8% y-o-y in Q3 FY19 while NII of private banks grew by only about 11.7% during the same period vis-à-vis a growth of about 22.6% witnessed a year ago.

Operating expenses

- Operating expenses for all the banks grew at a higher rate of 17.2% as against 10.5% last year. Operating expenses for both PSBs (14.6% y-o-y) and private banks (21.9% y-o-y) witnessed high double-digit growth during Q3 FY19 vis-à-vis Q3 FY18.

Provisions

- Aggregate provisions and contingencies for the sample banks witnessed a y-o-y decline of over 12% to around Rs 62,449 crore in Q3 FY19 compared with a provision of Rs 71,008 crore in Q3 FY18. While growth was higher in case of Private Banks, the decline was driven by PSBs (Rs 49,983 crore) which accounted for 80% of the total provisions made during the quarter. Comparatively lower recognition of NPAs by the PSBs has led to this decline during the quarter.

Net Profit

- With the PSBs registering huge losses in Q3 FY19, cumulative net profit of all banks stood at meagre Rs 392 crore during the quarter FY19. Also, Private Banks witnessed only a marginal growth of about 3% in profits during Q3 FY19 vis-à-vis growth of over 12% in net profits during corresponding period previous year.

Capital Adequacy Ratio (CAR) Basel III

- The Basel III norm stipulates a capital to risk weighted assets ratio of 8%. However, as per RBI norms, the SCBs are required to maintain a CAR of 9%.

Table 4: Distribution of banks by capital adequacy ratio

Ratio	PSBs	Private banks	All
< 9%	1	1	2
9 - 10%	3	0	3
Above 10%	14	16	30

NPAs

- Gross NPAs increased, however at a comparatively lower rate of about 8.4% in Q3 FY19 vis-à-vis a double-digit growth of 30.4% Q3 FY18. This could be due to lower incremental NPAs being generated. However it is still not clear if all legacy NPAs have been recognized by all banks. Another quarter of moderation in growth of NPAs could indicate that the recognition cycle is over.
- Gross NPAs stood at Rs 9.03 lakh crore as of December 2018 of which Rs 7.75 lakh crore resided in PSBs and Rs 1.28 lakh crore in Private Banks.
- NPA ratio decreased marginally to 10.04% in Q3 FY19 from 10.23% in Q3 FY18.
- ***It is to be noted that the NPAs of Public sector banks (PSBs) is above thrice that of the private banks as of December 2018. NPA ratio of PSBs stood at 13.09% while that of private banks stood at 4.16% at the end of Q3 FY19.***

Appendix

Bank-wise NPAs (Private Banks)

(% of Gross NPAs)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
AU Small Finance Bank Ltd.	2.83	2.01	2.17	2.03	2.09
Axis Bank Ltd.	5.28	6.77	6.52	5.96	5.75
Bandhan Bank Ltd.	1.67	1.25	1.26	1.29	2.41
City Union Bank Ltd.	3.30	3.03	3.02	2.85	2.91
DCB Bank Ltd.	1.89	1.79	1.86	1.84	1.92
Dhanlaxmi Bank Ltd.	6.96	7.35	8.94	7.81	8.11
HDFC Bank Ltd.	1.29	1.30	1.33	1.33	1.38
ICICI Bank Ltd.	8.55	9.90	9.65	9.30	8.54
IDFC First Bank Ltd.	5.62	3.31	3.24	1.63	1.97
IndusInd Bank Ltd.	1.16	1.17	1.15	1.09	1.13
Kotak Mahindra Bank Ltd.	2.31	2.22	2.17	2.15	2.07
RBL Bank Ltd.	1.56	1.40	1.40	1.40	1.38
The Federal Bank Ltd.	2.52	3.00	3.00	3.11	3.14
The Jammu & Kashmir Bank Ltd.	10.08	9.96	9.83	9.00	9.94
The Karnataka Bank Ltd.	3.97	4.92	4.72	4.66	4.45
The Lakshmi Vilas Bank Ltd.	5.66	9.98	10.73	12.31	13.95
The South Indian Bank Ltd.	3.40	3.59	4.54	4.61	4.88
Yes Bank Ltd.	1.72	1.28	1.31	1.60	2.10

Source: AceEquity

2. Bank-wise NPAs (Public Sector Banks – PSBs)

(% of Gross NPAs)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Allahabad Bank	14.38	15.96	15.97	17.53	17.81
Bank Of Baroda	11.31	12.26	12.46	11.78	11.01
Bank Of India	16.93	16.58	16.66	16.36	16.31
Bank Of Maharashtra	19.05	19.48	21.18	18.64	17.31
Canara Bank	10.38	11.84	11.05	10.56	10.25
Central Bank Of India	18.08	21.48	22.17	21.48	20.64
Dena Bank	19.56	22.04	22.69	23.64	19.77
IDBI Bank Ltd.	24.72	27.95	30.78	31.78	29.67
Indian Bank	6.27	7.37	7.20	7.16	7.46
Indian Overseas Bank	21.95	25.28	25.64	24.73	23.76
Oriental Bank Of Commerce	16.95	17.63	17.89	17.24	15.82
Punjab National Bank	12.11	18.38	18.26	17.16	16.33
State Bank Of India	10.35	10.91	10.69	9.95	8.71
Syndicate Bank	9.62	11.53	12.59	12.98	12.54
UCO Bank	20.64	24.64	25.71	25.37	27.39
Union Bank Of India	13.03	15.73	16.00	15.74	15.66
United Bank of India	20.10	24.10	22.73	22.69	21.27
Vijaya Bank	6.17	6.34	6.19	5.86	6.14

Source: AceEquity

Bank-wise Provisions (Private Banks)

(Rs Crore)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
AU Small Finance Bank Ltd.	31	30	35	35	32
Axis Bank Ltd.	2,811	7,180	3,338	2,927	3,055
Bandhan Bank Ltd.	123	109	80	124	378
City Union Bank Ltd.	86	86	78	68	79
DCB Bank Ltd.	34	39	33	32	40
Dhanlaxmi Bank Ltd.	48	80	65	(18)	20
HDFC Bank Ltd.	1,351	1,541	1,629	1,820	2,212
ICICI Bank Ltd.	3,570	6,626	5,971	3,994	4,244
IDFC First Bank Ltd.	109	242	34	601	213
IndusInd Bank Ltd.	236	336	350	590	607
Kotak Mahindra Bank Ltd.	213	307	470	354	(32)
RBL Bank Ltd.	82	113	140	140	161
The Federal Bank Ltd.	162	372	199	289	190
The Jammu & Kashmir Bank Ltd.	250	251	255	172	253
The Karnataka Bank Ltd.	196	542	222	193	209
The Lakshmi Vilas Bank Ltd.	85	921	162	205	431
The South Indian Bank Ltd.	154	149	232	205	203
Yes Bank Ltd.	421	400	626	940	550

Source: AceEquity

Bank-wise Provisions (Public Sector Banks - PSBs)

(Rs Crore)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Allahabad Bank	2,413	4,783	2,763	2,356	1,495
Bank Of Baroda	3,427	6,672	2,166	2,430	2,794
Bank Of India	4,900	6,674	2,564	3,343	9,001
Bank Of Maharashtra	1,474	2,041	1,633	858	4,422
Canara Bank	2,674	9,075	2,582	2,835	1,977
Central Bank Of India	3,427	3,971	2,768	1,983	1,812
Dena Bank	1,099	1,991	1,119	868	414
IDBI Bank Ltd.	4,659	10,544	5,236	6,580	6,531
Indian Bank	918	1,546	1,030	1,004	924
Indian Overseas Bank	1,640	6,775	2,401	2,017	2,075
Oriental Bank Of Commerce	2,712	2,335	1,539	1,074	3,720
Punjab National Bank	4,467	20,353	5,758	9,758	2,754
State Bank Of India	18,876	28,096	19,228	12,092	6,006
Syndicate Bank	2,090	3,937	2,327	2,217	497
UCO Bank	1,385	2,239	1,807	1,643	1,400
Union Bank Of India	3,254	5,668	2,229	1,656	1,617
United Bank of India	1,074	1,385	856	1,481	1,967
Vijaya Bank	677	556	659	589	578

Source: AceEquity