

Banks Performance Update – Q4 FY19

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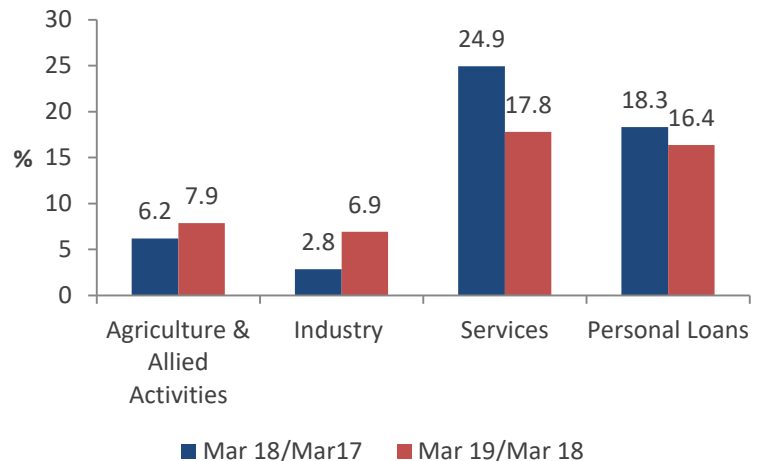
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Note: The following study includes 34 banks (16 – public sector banks and 18 private banks) that announced results on or before May 22, 2019.

The NPA situation in the Indian banking system has improved in Q4FY19. There has been an improvement in growth in credit and deposits. While some private banks have reported losses, overall the net profits of private banks have surged while public sector banks (PSB) remain under pressure, thus impinging the overall banking sector profits during the quarter under review.

Outstanding bank credit to industry as well as agriculture and allied services rose on y-o-y basis for March 2019 over March 2018. Credit deployment to services eased from 24.9% as of Mar-18 to 17.8% while that towards personal loan 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 Growth %)



Source: Reserve Bank of India

Though the outstanding credit deployed to housing has risen, moderation in growth of credit to personal loans came on account of substantial decline in credit deployment towards consumer durables. Growth in service sector credit was led by the growth in credit extended to the NBFCs as given the liquidity crisis there was an effort made to increase the bank credit flow into the sector.

The effect of the recent rate cut (in Feb-19) by the RBI, on the SCBs' term deposits and savings rates is yet to come into effect. As the central bank raised the repo rate (in Jun-18 and Aug-18), the banks were quick to transmit it to their lending rates.

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Table 1: Average Deposit & Lending rates (%)

Month	Base Rate	MCLR	Term Deposit Rate >1 Year	Repo Rate
Mar-17	9.35	9.35	6.75	6.25
Mar-18	9.05	9.08	6.5	6
Mar-19	9.18	9.18	6.875	6

Source: Reserve Bank of India

Table 2: Performance of Banks – Aggregate (Q4)

32 Banks (Rs Cr)	Q4FY17	Q4FY18	Q4FY19	Growth (%)	
				Q4FY18	Q4FY19
Interest Income	205,667	218,891	253,069	6.4%	15.6%
Other Income	40,114	42,620	45,284	6.2%	6.3%
Total Income	245,780	261,511	298,353	6.4%	14.1%
Interest Expenses	131,540	139,177	157,337	5.8%	13.0%
Net Interest Income (NII)	74,127	79,714	95,732	7.5%	20.1%
Operating Expenses	51,733	61,549	69,847	19.0%	13.5%
Provisions and contingencies	49,633	113,547	86,827	128.8%	-23.5%
Net Profit	10,463	(33,933)	(10,672)	*	*
Gross NPAs	585,756	846,147	759,692	44.5%	-10.2%
Gross NPA ratio	8.46	10.65	8.56		

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

Source: AceEquity

Table 3: Performance of Private Banks (Q4)

18 Banks (Rs Crore)	Q4FY17	Q4FY18	Q4FY19	Growth (%)	
				Q4FY18	Q4FY19
Interest Income	69,901	78,888	98,798	12.9%	25.2%
Other Income	14,724	18,623	18,511	26.5%	-0.6%
Total Income	84,625	97,511	117,309	15.2%	20.3%
Interest Expenses	39,438	44,650	56,665	13.2%	26.9%
Net Interest Income (NII)	30,463	34,238	42,133	12.4%	23.1%
Operating Expenses	19,885	22,996	27,630	15.6%	20.1%
Provisions and contingencies	9,477	18,797	18,023	98.4%	-4.1%
Net Profit	10,913	8,126	10,506	-25.5%	29.3%
Gross NPAs	91,968	125,933	128,920	36.9%	2.4%
Gross NPA ratio	4.05%	4.61%	3.94%		

Source: AceEquity

Table 4: Performance of Public Sector Banks (PSBs) (Q4)

15 Banks (Rs Crore)	Q4FY17	Q4FY18	Q4FY19	Growth (%)	
				Q4FY18	Q4FY19
Interest Income	135,765	140,003	154,270	3.1%	10.2%
Other Income	25,390	23,997	26,774	-5.5%	11.6%
Total Income	161,155	164,000	181,044	1.8%	10.4%
Interest Expenses	92,101	94,527	100,671	2.6%	6.5%
Net Interest Income (NII)	43,664	45,476	53,599	4.2%	17.9%
Operating Expenses	31,848	38,553	42,217	21.1%	9.5%
Provisions and contingencies	40,156	94,749	68,804	136.0%	-27.4%
Net Profit	(450)	(42,059)	(21,178)	*	*
Gross NPAs	493,789	720,214	630,771	45.9%	-12.4%
Gross NPA ratio	10.61%	13.81%	11.25%		

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

Source: AceEquity

Interest Income

- Interest income of all banks witnessed an increase of 15.6% in Q4FY19 vis-à-vis an increase of about 6.4% in Q4FY18 on account of a sharp growth in interest income of Private banks that registered a sharp double-digit growth of 25.2% during the quarter. Interest income of PSBs witnessed a significant growth of 10.2% in Q4 FY19, as against 3.1% in Q4 FY18.
- Higher interest income was backed by higher weighted average lending rates (WALR) for fresh loans of all scheduled commercial banks (SCBs). The WALR of SCBs has been higher than their year ago level since Aug-18 onwards. In Feb-19 WALR stood at 9.81% p.a. which is 26 bps higher than 9.55% p.a. in Feb-18. Further the systemic credit growth stood at a 5 year high of 13.26% as on Mar-19, which has propelled the interest income of the SCBs.

Interest Expense

- Interest expense of banks increased by 13% at Rs 157,337 cr in Q4FY19 as compared with 6.1% at Rs 139,177 cr in Q4FY18.
- The growth was majorly led by the 26.9% growth in interest expense of private banks during the quarter. For PSBs interest expense grew at 6.5% during the quarter as against 2.6% in the year ago period.
- The higher interest expense partly towards interest payments on borrowings made by banks as the deposits and savings rates of SCBs have remained sticky. However there was about 10% y-o-y rise in aggregate deposits in the banking system as on Mar-19. Deposit growth stood at 6.2% as on Mar-18.

Total Income

- Total Income of Banks rose by 14.1 % on y-o-y basis to Rs 298,353 cr during Q4FY19 on account of 15.6% rise in the interest income and 6.3% rise in the other income. In Q4FY18, the overall total income of banks stood at Rs 261,511 cr.
- Total income of private banks grew by 20.3% and that of PSBs grew by 10.4% for the quarter under review.
- The other income component for PSBs 11.6 % for the quarter owing to a low base. The other income of PSBs recorded (-) 5.5% decline in the year ago quarter.

Net Interest Income (NII)

- NII for all banks registered a double-digit growth of 20.1% on a y-o-y basis in Q4FY19, which is substantially higher than the 7.5% growth witnessed in Q4FY18. The aggregate NII of banks grew on account of a marked rise in the interest income.
- For the quarter under review, NII for 34 banks stood at Rs 95,732 cr as compared with Rs 79,714 cr recorded in the year ago quarter. The overall rise in NII of SCBs has come on account of higher growth in interest income recorded by the public banks.
- The growth in NII earned by Private Banks stood at 23.1% y-o-y in Q4FY19 while that of PSBs grew by 17.9% during the same period vis-à-vis a growth of about 12.4% and 4.2% respectively, witnessed a year ago. Though the interest income growth of private banks was sharp, there was an equal rise in their interest expenses.
- Despite the sharp growth in private banks' NII, PSBs continue to hold a greater share in the overall NII at 56% in Q4FY18.

Operating expenses

- Growth in operating expenses of banks moderated from 19.0% in Q4FY18 to 13.5% in Q4FY19.
- Operating expenses of private banks recorded 20.1% growth during the quarter, higher than 15.6% growth in the corresponding period previous year. PSBs registered 9.5% growth in their operating expenses, lower than 21.1% growth recorded in Q4FY18.

Provisions

- Overall provisions and contingences stood at Rs 86,827 cr for Q4FY19 as compared with Rs 113,547 cr in the year ago quarter. Provisions made by both private banks and PSBs declined substantially on account of decline in the amount of Gross NPAs.
- Provisions by Private Banks went down by (-) 4.1% as compared with the 98% rise recorded in the year ago period. PSBs registered (-) 27.4% decline in the provisions made as against the 136% growth recorded in the previous year. In value terms, provisions by private banks stood at Rs 18,023 cr and those by PSBs at Rs 68,804 for Q4FY19.
- The banks had to provide more in Q4FY18 due to the RBI framework on classification of stressed assets given in the February 12 circular. Further, during the same quarter (Q4FY19) the banks had reported MTM losses, which led to higher provisions. For Q4FY19, while provisions by some banks have risen, on an aggregate level there is a contraction in provisions.

Net Profit

- SCBs recorded a net loss of (-) Rs 10,672 cr in Q4FY19 as compared with the net loss of (-) Rs 33,933 cr recorded in the corresponding period previous year.
- Profits of private banks grew sharply by 29.3% on y-o-y basis on account of a low base effect as the in the year ago quarter private banks reported 25.5% decline in their net profits. Net Profit of private banks stood at Rs 10,506 cr for Q4FY19, as compared with Rs 8,126 cr recorded in Q4FY18. The rise in credit disbursements as well as rising lending rates (WALR) coupled with sticky deposit rates has helped banks register a sharp growth in their profits.
- Public Sector banks however continued to post losses at (-) Rs 21,178 cr for the quarter under review as against (-) Rs 42,059 cr in the year ago quarter. The amount of loss however had contracted substantially due to decline in their Gross NPA levels and subsequent contraction in provisions.
- From the sample of private banks considered, only two private banks recorded net loss to the tune of (-) Rs 1,724 cr during Q4FY19. Amongst the PSBs, 10 banks posted net loss to the tune of (-) Rs 22,765 cr.

Gross NPAs

- NPA situation in the banks has moderated as the Gross NPA declined by 10% to Rs 759,692 cr in Q4FY19 as compared with RS 846,147 cr (44.5%y-o-y growth) recorded in Q4 quarter previous year. Correspondingly, the Gross NPA ratio has improved to 8.56% during the quarter as compared with 10.65% in Q4FY18.
- Gross NPA of private banks rose marginally by 2.4% for Q4FY19 and stood at Rs 128,920 cr as compared with Rs 125,933 cr (37% Y-o-Y growth) in the year ago quarter. The Gross NPA ratio eased from 4.61% in the year ago quarter to 3.94% in Q4FY19.
- PSBs registered a considerable decline of (-) 12.4% in their Gross NPA which stood at Rs 630,771 cr during Q4FY19 as compared with Rs 720,214 cr (46% y-o-y growth) in the corresponding quarter previous year. PSBs witnessed easing of the Gross NPA ratio from 13.81% in Q4FY18 to 11.25% in Q4FY19.

Important Financial Ratios

Net Interest Margin (NIM)

Table 5: Net Interest Margin (NIM %) of Banks

Quarter	All	Private*	PSU
Q4FY17	3.09	3.94	2.68
Q4FY18	2.94	3.84	2.50
Q4FY19	3.20	3.93	2.80

*Excluding Dhanlaxmi Bank

Source: AceEquity, CARE Ratings Calculations

- NIM ratio of banks improved from 2.94% in Q4FY18 to 3.20 in Q4FY19, owing to rise in the NII of the SCBs.
- Despite recording a double digit growth in NII, private banks recorded only a marginal improvement in their NIM which stood at 3.93% during the quarter as compared with 3.84% in the year ago quarter.

- NIMs of PSUs rose to 2.80% in the quarter as compared with 2.50% recorded in the year ago period. This can be attributed to moderation in the growth of PSBs' average earning assets and a rise in the growth of their NII.

Provision Coverage Ratio (PCR)

- Provision coverage ratio has increased across all banks. PSBs reported a marked rise in their PCR for the quarter as 10 of the 16 PSB under review recorded PCR above 70%. Most private banks on the other hand recorded PCR below 70%. A total of 4 banks have PCR above 80% for the quarter under review.
- The NPA levels of PSBs have moderated, but they take up a large part of the overall Gross NPA and hence the PCR of most PSBs remains in the above 70% range.

Table 6: Provision Coverage Ratio % range of Banks

PCR % Range	All	Private Banks*	PSBs
Less than 70%	16	12	4
70-80%	13	3	10
Greater than 80%	4	2	2

* Excluding Bandhan Bank

Source: AceEquity

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%.
- While none of the banks reported CAR below 9%, majority of the banks reported CAR in the range of 9% to 15%. All of the PSBs were in this range. Majority of the private banks recorded CAR above 15%, with one private bank registering 29.2% CAR for the quarter. (Appendix Table A.5)

Table 7: CAR % range of Banks

CAR % Range	All	Private Banks*	PSBs
9-15%	23	7	16
Greater than 15%	10	10	-

* Excluding AU Small Finance Bank

Source: AceEquity

Return on Assets (RoA)

- Overall RoA for public and private banks improved from (-) 0.82% in Q4FY18 to (-) 0.22% in Q4FY18 owing to sharp rise in the profits of private banks.
- Private Banks recorded marginal improvement in RoA at 0.41% for the quarter as compared with 0.40% recorded in the corresponding quarter previous year. RoA for PSBs remained under pressure and stood at (-) 0.94 for Q4FY19. However it has improved from a year ago level of (-) 2.04% owing to contraction in the net losses of PSBs.
- Credit to the agriculture and allied services are deployed majorly by the PSBs. The overall asset quality of PSBs is a concern as agriculture services is characterised by seasonal income and other uncertainties, owing to which their RoA remains

under pressure. Further the PSBs are hosts to government policies on financial inclusion and also are the focal points of priority sector lending, to which the PSBs devote a major part of their income resources.

- The private banks on the other hand have higher exposure to the urban salaried customer base, which enables them to maintain their asset quality and consequentially to deliver a better RoA.

Table 8: RoA (%) for Banks

Quarter	All	Pvt	Pub
Q4FY17	-0.29	0.64	-0.02
Q4FY18	-0.82	0.40	-2.04
Q4FY19	-0.22	0.41	-0.94

Source: AceEquity, CARE Ratings Calculations

Appendix

Table A.1: Bank-wise NPAs (Private Banks)

% Gross NPA	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
AU Small Finance Bank Ltd.	2.03	2.01	2.17	2.09	2.04
Axis Bank Ltd.	5.96	6.77	6.52	5.75	5.26
Bandhan Bank Ltd.	1.29	1.25	1.26	2.41	2.04
City Union Bank Ltd.	2.85	3.03	3.02	2.91	2.95
DCB Bank Ltd.	1.84	1.79	1.86	1.92	1.84
Dhanlaxmi Bank Ltd.	7.81	7.35	8.94	8.11	7.47
HDFC Bank Ltd.	1.33	1.30	1.33	1.38	1.36
ICICI Bank Ltd.	9.30	9.90	9.65	8.54	7.38
IDFC First Bank Ltd.	1.63	3.31	3.24	1.97	2.43
IndusInd bank	1.17	1.15	1.09	1.13	2.10
Karur Vysya Bank Ltd.	7.70	6.56	7.44	8.49	8.79
Kotak Mahindra Bank Ltd.	2.15	2.22	2.17	2.07	2.14
RBL Bank Ltd.	1.40	1.40	1.40	1.38	1.38
The Federal Bank Ltd.	3.11	3.00	3.00	3.14	2.92
The Jammu & Kashmir Bank Ltd.	9.00	9.96	9.83	9.94	8.97
The Karnataka Bank Ltd.	4.66	4.92	4.72	4.45	4.41
The South Indian Bank Ltd.	4.61	3.59	4.54	4.88	4.92
Yes Bank Ltd.	1.60	1.28	1.31	2.10	3.22

Source: AceEquity

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

%Gross NPA	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Allahabad Bank	15.96	15.97	17.53	17.81	17.55
Andhra Bank	17.09	16.69	16.36	16.68	16.21
Bank of Baroda	12.26	12.46	11.78	11.01	9.61
Bank Of India	16.58	16.66	16.36	16.31	15.84
Bank Of Maharashtra	19.48	21.18	18.64	17.31	16.40
Canara Bank	11.84	11.05	10.56	10.25	8.83
Central Bank Of India	21.48	22.17	21.48	20.64	19.29
Corporation Bank	17.35	17.44	17.46	17.36	15.35
Indian Bank	7.37	7.20	7.16	7.46	7.11
Indian Overseas Bank	25.28	25.64	24.73	23.76	21.97
Oriental Bank Of Commerce	17.63	17.89	17.24	15.82	12.66
State Bank Of India	10.91	10.69	9.95	8.71	7.53
Syndicate Bank	11.53	12.59	12.98	12.54	11.37
UCO Bank	24.64	25.71	25.37	27.39	25.00
Union Bank Of India	15.73	16.00	15.74	15.66	14.98
United Bank of India	24.10	22.73	22.69	21.27	16.48

Source: AceEquity

Table A.3: Bank-wise Provision Coverage Ratio (Private Banks)*

Provisions Coverage %	Q4FY17	Q4FY18	Q4FY19
AU Small Finance Bank Ltd.	-	37.20	37.40
Axis Bank Ltd.	65.00	65.00	77.00
DCB Bank Ltd.	73.80	75.72	78.77
Dhanlaxmi Bank Ltd.	79.99	80.02	84.72
HDFC Bank Ltd.	-	-	71.00
ICICI Bank Ltd.	53.60	60.50	80.70
IDFC First Bank Ltd.	61.00	70.00	55.90
IndusInd Bank	58.00	56.00	43.00
Karur Vysya Bank Ltd.	57.83	56.50	56.86
Kotak Mahindra Bank Ltd.	-	56.50	65.40
RBL Bank Ltd.	59.58	57.57	65.30
The Federal Bank Ltd.	71.75	65.00	67.00
The Jammu & Kashmir Bank Ltd.	66.88	65.83	64.30
The Karnataka Bank Ltd.	54.00	54.56	58.45
The South Indian Bank Ltd.	55.10	41.20	42.46
Yes Bank Ltd.	46.90	50.00	43.10
City Union	61.00	64.00	63.00

*Excluding Bandhan Bank

Source: AceEquity

Table A.4: Bank-wise Provision Coverage Ratio (Public Sector Banks - PSBs)

Provisions Coverage%	Q4FY17	Q4FY18	Q4FY19
Allahabad Bank	50.11	62.91	79.85
Andhra Bank	51.03	60.90	73.84
Bank Of Baroda	66.83	67.21	78.68
Bank Of India	61.47	65.85	76.95
Bank Of Maharashtra	44.48	58.71	81.49
Canara Bank	55.62	58.06	68.13
Central Bank Of India	58.43	63.31	76.86
Corporation Bank	55.17	63.65	83.30
Indian Bank	58.14	64.27	65.72
Indian Overseas Bank	53.63	59.45	71.39
Oriental Bank Of Commerce	53.61	64.07	75.84
State Bank Of India	65.95	66.17	78.73
Syndicate Bank	56.37	60.71	66.43
UCO Bank	61.17	61.38	74.93
Union Bank Of India	51.41	57.16	66.24
United Bank of India	56.45	53.48	72.94

Source: AceEquity

Table A.5: Bank-wise Capital Adequacy Ratio (Private Banks)

CAR %	31 st Mar 2017		31 st Mar 2018		31 st Mar 2019	
	CAR	Tier I	CAR	Tier I	CAR	Tier I
AU Small Finance Bank Ltd.*	23.04	-	19.31	18.40	19.31	16.00
Axis Bank Ltd.	14.95	11.87	16.57	13.04	15.84	12.54
Bandhan Bank Ltd.	26.36	24.76	31.48	30.28	29.20	27.90
City Union	15.83	15.36	16.22	15.79	15.55	15.03
DCB Bank Ltd.	13.76	11.87	16.47	12.72	16.81	13.10
Dhanlaxmi Bank Ltd.	10.26	9.01	13.87	10.60	13.90	10.57
HDFC Bank Ltd.	14.60	12.80	14.80	13.20	17.10	15.80
ICICI Bank Ltd.	17.39	14.35	18.42	15.92	16.89	15.09
IDFC First Bank Ltd.	18.90	18.50	18.00	17.50	15.47	15.27
IndusInd Bank	15.31	14.72	15.03	14.58	14.16	13.70
Karur Vysya Bank Ltd.	12.54	11.85	14.43	13.92	16.00	-
Kotak Mahindra Bank Ltd.	16.77	15.90	18.22	17.80	17.45	16.90
RBL Bank Ltd.	13.72	11.40	15.33	13.61	13.46	11.84
The Federal Bank Ltd.	12.39	11.81	14.70	14.18	14.14	13.38
The Jammu & Kashmir Bank Ltd.	10.80	8.70	11.42	9.24	12.46	10.60
The Karnataka Bank Ltd.	13.30	12.21	12.04	11.29	13.17	11.17
The South Indian Bank Ltd.	12.37	10.90	12.70	10.40	12.61	10.00
Yes Bank Ltd.	17.00	13.30	18.40	13.20	16.50	11.30

*CAR as per Basel II Norms

Source: AceEquity

Table A.6: Bank-wise Capital Adequacy Ratio (Public Sector Banks - PSBs)

CAR %	Q4FY17		Q4FY18		Q4FY19	
	CAR	Tier I	CAR	Tier I	CAR	Tier I
Allahabad Bank	11.45	8.49	8.69	6.69	12.51	9.68
Andhra Bank	12.38	9.17	11.00	7.44	13.68	10.38
Bank of Baroda	12.24	9.94	12.13	10.46	13.42	11.55
Bank Of India	12.14	8.90	12.94	9.73	14.19	11.07
Bank Of Maharashtra	11.18	9.01	11.00	9.00	11.86	9.91
Canara Bank	12.86	9.77	13.22	10.30	11.90	9.03
Central Bank Of India	10.95	8.62	9.04	7.01	9.61	7.49
Corporation Bank	13.64	12.20	12.55	11.33	12.30	10.52
Indian Bank	10.50	8.21	9.25	7.17	13.21	11.29
Indian Overseas Bank	11.64	8.88	10.50	7.61	10.20	7.85
Oriental Bank Of Commerce	13.11	10.35	12.60	10.36	12.73	9.98
State Bank Of India	12.03	9.26	12.24	9.41	12.72	10.65
Syndicate Bank	10.93	8.27	10.94	8.96	14.23	11.36
UCO Bank	11.79	9.02	11.46	9.03	10.70	8.64
Union Bank Of India	11.14	8.94	12.62	9.87	11.78	9.48
United Bank of India	11.32	8.90	12.30	10.52	13.00	10.14

Source: AceEquity