

## Banks Performance Update – Q1 FY19

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*Note: The following study includes analysis of 35 banks (18 – private banks and 17 public sector banks) that announced results on or before August 10, 2018.*

**Contact:**  
**Madan Sabnavis**  
Chief Economist  
Madan.sabnavis@careratings.com  
+91-22- 6754 3489

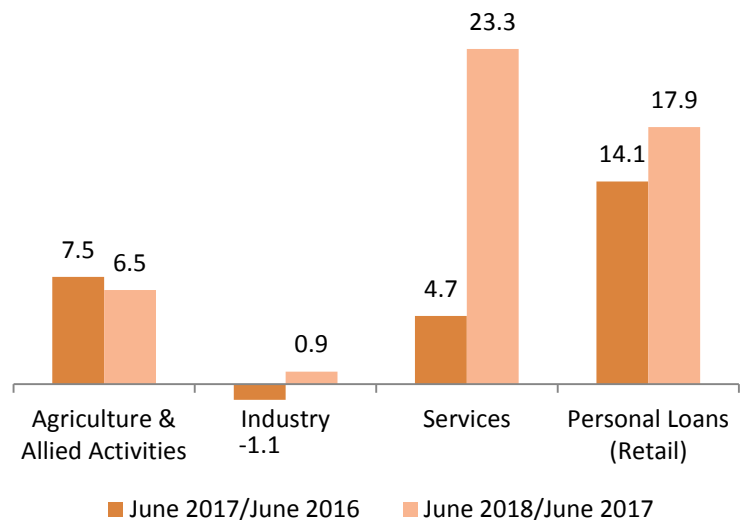
**Darshini Kansara**  
Deputy Manager – Industry Research  
darshini.kansara@careratings.com  
+91-22-6754 36379

**Mradul Mishra (Media Contact)**  
mradul.mishra@careratings.com  
+91-22-6754 3515

The NPA situation in the Indian banking system has been stabilizing as can be seen in Q1 FY19. There has been an improvement in growth in credit and deposits. However, net profits continue to remain under pressure.

Also, there was improvement in credit to industry as well as personal loans (retail) on y-o-y basis for June 2018 over June 2017 while that for services rose sharply. 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

Outstanding bank credit (except for agriculture and allied activities) for service industry, industry (micro, small, medium and large) as well as retail sector (personal loans) registered a higher growth rate between June 2018 and June 2017 vis-à-vis a lower growth between June 2016 and June 2017. Growth in credit to manufacturing has picked up post the initial glitches faced by the implementation of Goods and Service Tax (GST) (in July 2017) which also reflects to an extent with improved industrial activity.

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

**Table 1: Average Deposit & Lending rates (%)**

	Jun-16	Jun-17	Jun-18
Base rate	9.50	9.35	9.08
MCLR	9.03	7.93	7.93
Term Deposit Rate >1 Year	7.30	6.58	6.63
Repo rate	6.50	6.25	6.25

Source: Reserve Bank of India

**Table 2: Performance of Banks (Q1)**

35 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	200,670	216,612	237,222	7.9	9.5
Other Income	32,169	38,958	35,024	21.1	-10.1
<b>Total Income</b>	<b>232,839</b>	<b>255,571</b>	<b>272,246</b>	<b>9.8</b>	<b>6.5</b>
Interest Expenses	134,628	143,551	149,158	6.6	3.9
<b>Net Interest Income (NII)</b>	<b>66,042</b>	<b>73,062</b>	<b>88,064</b>	<b>10.6</b>	<b>20.5</b>
Operating Expenses	47,773	54,301	60,900	13.7	12.2
Provisions and contingencies	33,499	39,707	65,953	18.5	66.1
<b>Net Profit</b>	<b>11,383</b>	<b>12,161</b>	<b>(2,244)</b>	<b>6.8</b>	<b>*</b>
<b>Gross NPAs</b>	<b>541,762</b>	<b>717,208</b>	<b>871,603</b>	<b>32.4</b>	<b>21.5</b>
<b>NPA ratio</b>	<b>8.11</b>	<b>9.59</b>	<b>10.59</b>		

Note: \*Huge losses

Source: AceEquity

**Table 3: Performance of Private Banks (Old and New) (Q1)**

18 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	65,659	70,805	82,952	7.8	17.2
Other Income	13,196	15,593	16,687	18.2	7.0
<b>Total Income</b>	<b>78,856</b>	<b>86,397</b>	<b>99,639</b>	<b>9.6</b>	<b>15.3</b>
Interest Expenses	39,494	40,634	48,452	2.9	19.2
<b>Net Interest Income (NII)</b>	<b>26,166</b>	<b>30,170</b>	<b>34,500</b>	<b>15.3</b>	<b>14.4</b>
Operating Expenses	17,090	20,073	22,615	17.5	12.7
Provisions and contingencies	7,175	8,872	14,261	23.7	60.7
<b>Net Profit</b>	<b>10,905</b>	<b>11,745</b>	<b>9,562</b>	<b>7.7</b>	<b>-18.6</b>
<b>Gross NPAs</b>	<b>61,983</b>	<b>96,417</b>	<b>128,944</b>	<b>55.6</b>	<b>33.7</b>
<b>NPA ratio</b>	<b>3.02</b>	<b>4.05</b>	<b>4.48</b>		

Source: AceEquity

Table 4: Performance of Public Sector Banks (PSBs) (Q1)

17 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	135,010	145,807	154,270	8.0	5.8
Other Income	18,973	23,366	18,337	23.2	-21.5
<b>Total Income</b>	<b>153,983</b>	<b>169,173</b>	<b>172,607</b>	<b>9.9</b>	<b>2.0</b>
Interest Expenses	95,134	102,916	100,706	8.2	-2.1
<b>Net Interest Income (NII)</b>	<b>39,876</b>	<b>42,891</b>	<b>53,563</b>	<b>7.6</b>	<b>24.9</b>
Operating Expenses	30,682	34,228	38,285	11.6	11.9
Provisions and contingencies	26,324	30,835	51,692	17.1	67.6
<b>Net Profit</b>	<b>478</b>	<b>416</b>	<b>(11,806)</b>	<b>-12.9</b>	<b>*</b>
<b>Gross NPAs</b>	<b>479,779</b>	<b>620,791</b>	<b>742,659</b>	<b>29.4</b>	<b>19.6</b>
<b>NPA ratio</b>	<b>10.38</b>	<b>12.17</b>	<b>13.88</b>		

Note: \*Huge losses

Source: AceEquity

### Interest Income

- Interest income of all banks witnessed an increase of about 9.5% in Q1 FY19 vis-à-vis an increase of about 7.9% in Q1 FY18 on account of a sharp growth in interest income of Private banks that registered a growth of over 17% during the same period. PSBs witnessed a growth of just about 5.8% in Q1 FY19 which was lower than that in Q1 FY18. It does look like that their lending operations had slowed down on account of a combination of NPA and capital challenges.

### Interest Expense

- Interest expense of banks increased but at a slower rate of 3.9% in Q1 FY19 mainly led by the public banks that registered a decline of about 2.1% in their interest expenses during the quarter vis-à-vis about 8.2% growth witnessed a year ago, while for private banks interest expense witnessed a sharp increase of over 19% during the same period. A part of the reason was the slowdown in growth in deposits during this period for the system as a whole from 10.6% to 7.6%. Therefore, even as the interest rate on term deposits showed a very marginal increase overall costs grew at a much lower rate.

### Net Interest Income (NII)

- NII for all banks increased by about 20.5% on a y-o-y basis in Q1 FY19 compared with 10.6% growth witnessed in Q1 FY18. The growth mainly came from the NII earned by Public Sector Banks (PSBs) that grew by about 25% y-o-y in Q1 FY19 while NII of private banks remained largely range bound during the same period.

### Operating expenses

- Operating expenses for all the banks grew at a lower rate of 12.2% as against 13.7% last year. Interestingly the growth rate was lower compared with last year for private banks while it was marginally higher for PSBs.

## Provisions

- Provisions and contingencies for the sample banks increased by around Rs 26,000 crore in Q1 FY19 compared with Q1 FY18. While growth was higher in both the sets of banks, the increase was driven by PSBs which accounted for almost Rs 21,000 cr of the total increase. Higher recognition of NPAs has led to these provisions being made.

## Net Profit

- With the PSBs registering losses in Q1 FY19 after marginal profits in the previous two years, cumulative net loss of all banks stood at Rs 2,244 crore as of Q1 FY19 vis-à-vis a growth of about 6.8% witnessed a year ago. Private Banks witnessed a decline of over 18.5% in net profits during the quarter.

## NPAs

- Gross NPAs increased however at a comparatively lower rate in Q1 FY19 as compared to Q1 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 8.71 lakh crore as of June 2018 of which Rs 1.29 lakh crore resided in private banks and Rs 7.42 lakh crore in PSBs.
- NPA ratio increased to 10.59% in Q1 FY19 from 9.59% in Q1 FY18.
- ***It is to be noted that the NPAs of Public sector banks (PSBs) is above thrice that of the private banks as of June 2018. NPA ratio of PSBs stood at 13.88% while that of private banks stood at 4.48% at the end of Q1 FY19.***

**Table 5A: Bank-wise NPAs (Private Banks-1)**

(% of Gross NPAs)	FY17				FY18				FY19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
AU Small Finance Bank Ltd.	NA	2.43	2.75	1.89	2.98	3.08	2.83	2.01	2.17
City Union Bank Ltd.	2.62	2.69	2.98	2.83	3.05	3.07	3.30	3.03	3.02
Dhanlaxmi Bank Ltd.	7.02	6.86	7.59	4.78	5.62	6.11	6.96	7.35	8.94
Karur Vysya Bank Ltd.	1.79	2.29	2.66	3.58	4.27	4.83	5.94	6.56	7.44
RBL Bank Ltd.	1.13	1.10	1.06	1.20	1.46	1.44	1.56	1.40	1.40
The Federal Bank Ltd.	2.92	2.78	2.77	2.33	2.42	2.39	2.52	3.00	3.00
The Jammu & Kashmir Bank Ltd.	9.31	11.33	11.84	11.20	10.79	10.87	10.08	9.96	9.83
The Karnataka Bank Ltd.	3.92	3.64	4.30	4.21	4.34	4.13	3.97	4.92	4.72
The Lakshmi Vilas Bank Ltd.	2.14	2.70	2.78	2.67	3.78	5.50	5.66	9.98	10.73
The South Indian Bank Ltd.	3.96	3.96	3.98	2.45	3.61	3.57	3.40	3.59	4.54

Note: NA – Not available

Source: AceEquity

**Table 5B: Bank-wise NPAs (Private Banks-2)**

(% of Gross NPAs)	FY17				FY18				FY19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Axis Bank Ltd.	2.54	4.17	5.22	5.04	5.03	5.90	5.28	6.77	6.52
DCB Bank Ltd.	1.72	1.75	1.55	1.59	1.74	1.80	1.89	1.79	1.86
HDFC Bank Ltd.	1.04	1.02	1.05	1.05	1.24	1.26	1.29	1.30	1.33
ICICI Bank Ltd.	5.28	6.12	7.91	7.89	7.99	7.87	7.82	8.84	8.81
IDFC Bank Ltd.	6.09	5.96	7.03	2.99	4.13	3.92	5.62	3.31	3.24
IndusInd Bank Ltd.	0.91	0.90	0.94	0.93	1.09	1.08	1.16	1.17	1.15
Kotak Mahindra Bank Ltd.	2.50	2.49	2.42	2.59	2.58	2.47	2.31	2.22	2.17
Yes Bank Ltd.	0.79	0.83	0.85	1.52	0.97	1.82	1.72	1.28	1.31

Source: AceEquity

**Table 6: Bank-wise NPAs (Public Sector Banks – PSBs)**

(% of Gross NPAs)	FY17				FY18				FY19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Bank Of Baroda	11.15	11.35	11.40	10.46	11.40	11.16	11.31	12.26	12.46
Bank Of India	13.38	13.45	13.38	13.22	13.05	12.62	16.93	16.58	16.66
Bank Of Maharashtra	12.64	14.08	15.08	16.93	18.59	18.54	19.05	19.48	21.18
Canara Bank	9.71	9.81	9.97	9.63	10.56	10.51	10.38	11.84	11.05
Central Bank Of India	13.52	13.70	14.14	17.81	18.23	17.27	18.08	21.48	22.17
Dena Bank	11.88	13.79	14.79	16.27	17.37	17.23	19.56	22.04	22.69
Indian Bank	6.97	7.28	7.69	7.47	7.21	6.67	6.27	7.37	7.20
Indian Overseas Bank	20.48	21.77	22.42	22.39	23.60	22.73	21.95	25.28	25.64
Oriental Bank Of Commerce	11.45	12.36	13.80	13.73	14.83	16.30	16.95	17.63	17.89
Punjab & Sind Bank	7.23	8.63	9.40	10.45	11.33	11.25	10.95	11.19	10.55
Punjab National Bank	13.75	13.63	13.70	12.53	13.66	13.31	12.11	18.38	18.26
State Bank Of India	6.94	7.14	7.23	6.90	9.97	9.83	10.35	10.91	10.69
Syndicate Bank	7.53	7.72	8.69	8.50	9.96	9.39	9.62	11.53	12.59
UCO Bank	17.19	16.51	17.18	17.12	19.87	19.74	20.64	24.64	25.71
Union Bank Of India	10.16	10.73	11.70	11.17	12.63	12.35	13.03	15.73	16.00
United Bank of India	14.29	16.26	15.98	15.53	17.17	18.80	20.10	24.10	22.73
Vijaya Bank	7.31	7.07	6.98	6.59	7.30	7.06	6.17	6.34	6.19

Source: AceEquity

**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 | Fax: +91-22-6754 3457

E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

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