Net Interest Income to Show Stable Growth in Q4FY22

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Synopsis

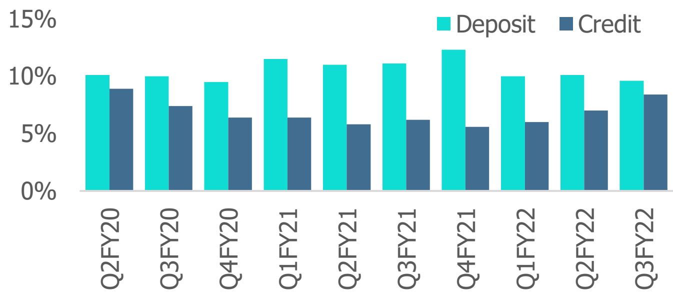
- Credit offtake, which was muted in the earlier part of FY22, has improved in Q4. Banks reduced their lending rates at a slower pace compared to their borrowing rates, thereby maintaining the spread.
- Net Interest Income (NII) growth in Q4FY22 is likely to be aided by healthy traction in credit growth and a low base of Q4FY21, with public sector banks (PSB) expected to grow faster than private banks (PVB)s.

Overview

Growth in deposits has consistently outpaced growth in credit since June 2019. Due to sluggish demand, disruptions caused by the Covid-19 pandemic and balance sheet deleveraging by large corporates, the credit growth had been muted. Further, it is also reflective of macro adjustments such as cleaning up of non-performing assets (NPAs) (resolution via Insolvency and Bankruptcy Code (IBC) and write-offs), the release of subsidies to Central Public Sector Units (CPSUs), etc.

The credit offtake has improved recently as business activities are picking up and corporates are showing interest in re-leveraging. Credit growth has continued to be bolstered by retail/personal and micro, small and medium enterprises (MSME) segments. Aggregate credit of the scheduled commercial banks (SCBs) rose by 8.5% year-on-year (y-o-y) and expanded by 201 bps y-o-y as of March 11, 2022, up from 6.5% in the year ago period (as on March 12, 2021).

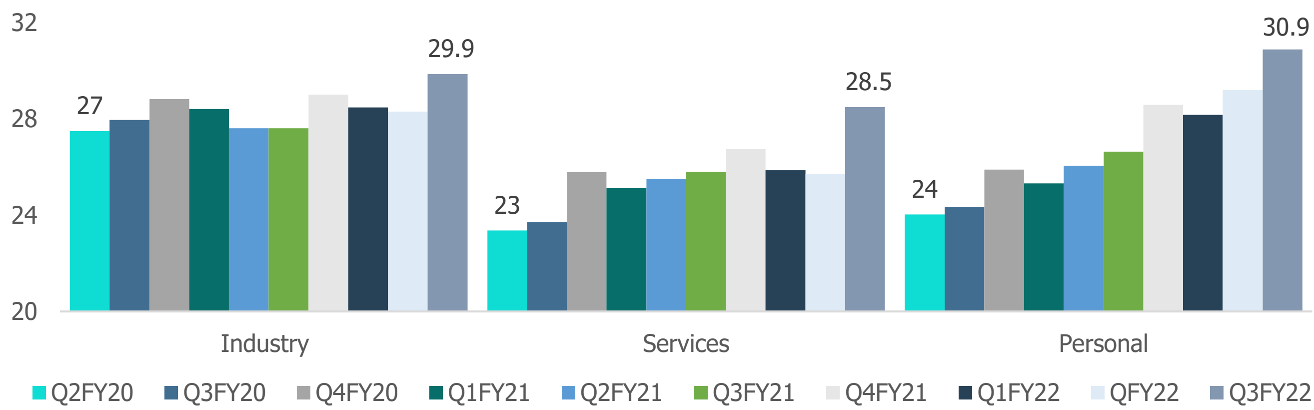
Figure 1: SCBs: Growth in Deposits & Credit (%)



Source: RBI

PVBs have outpaced the public PSBs in terms of deposit growth and credit off-take. The business (or advances) growth of small finance banks (SFBs) that has also been slowing over the same period has been significantly larger given the small base of the segment.

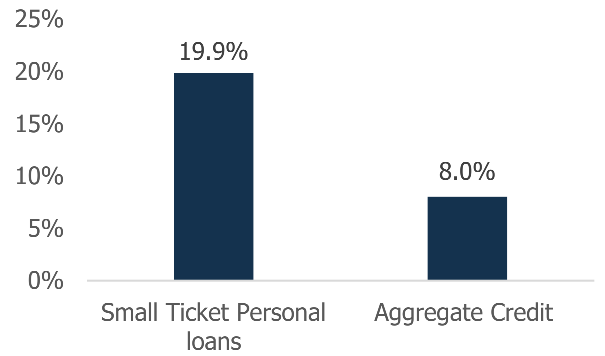
Figure 2: Segmental Movement in O/s Credit (Rs lakh crore)



Source: RBI

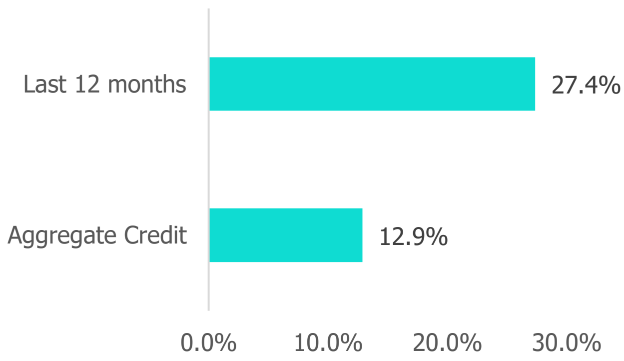
As can be seen in figure 2, the Personal loans segment has witnessed significant growth over the period and has overtaken the Industry segment to become the dominant segment. The bulk of the growth within the personal segment has been in small-ticket personal loans. Growth has been picking up in FY22 with Personal loans maintaining a double-digit growth rate and Industry moving up from almost zero to mid-single digits.

Figure 3: February 2022: Small Ticket vs. Aggregate Credit Growth



Source: RBI

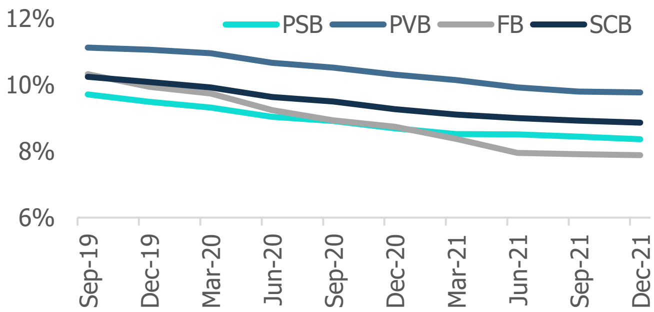
Figure 4: February 2022 – Small-ticket Loans: Share in Credit



Source: RBI

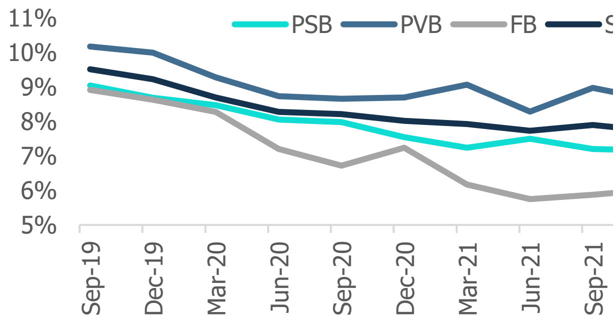
Small-ticket personal loans have grown at around two times the aggregate growth and the growth in personal loans. Further, the share of small-ticket personal loans has touched 12.9% of the overall banking credit. However, if we look at the share in the credit over the last 12 months, it has doubled to 27.4%. This growth can be attributed to changing consumer preferences, ease of access to credit, and increased usage of digital platforms.

Figure 5: Movement in WALR O/s Loans



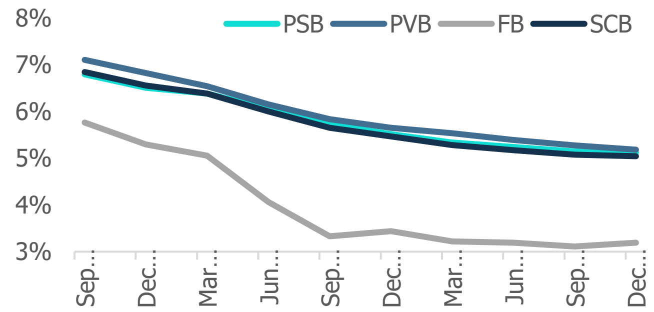
Source: RBI

Figure 6: Movement in WALR Fresh Loans



Source: RBI

Figure 7: Movement in WADTDR



Source: RBI

The interest rates have trended lower. The decline in PSBs has been more than PVBs, and PVB rates continue to be significantly higher compared to those in PSBs. Banks reduced their lending rates at a slower pace compared to their borrowing rates, thereby maintaining their spread. Both PSBs and PVBs pay deposit holders at broadly similar rates. However, PVBs charge a higher lending rate, resulting in larger spreads.

Commentary on Expected Growth in Q4FY22 NII

While the interest rate scenario has been turning and overall market liquidity has been going down, banks have been able to grow their NII. NII y-o-y growth in Q4FY22 is likely to be aided by healthy traction in credit growth and a low base of Q4FY21. After witnessing modest credit growth in the recent years, the outlook for bank credit growth has been positive due to economic expansion, a rise in government and private capex (especially, capex for renewables and production linked incentive (PLI) schemes), extended ECLGS support, inflation of commodity prices, and retail credit push coupled with the fact that the third wave of Covid-19 (omicron) was not as severe as the first two.

The credit growth at FY22-end stood at 9.6% (SCB growth rate as of March 25, 2022). The Retail loan segment is expected to continue to grow at a faster rate than the Industry segment. Further, the Industry segment has turned positive after a period of stagnation.

Figure 8: Estimated NII

					Growth (%)	
	Q3FY21	Q4FY21	Q3FY22	Q4FY22E	y-o-y	q-o-q
PSB	72,684	64,584	77,331	80,854	25.19	4.56
PVB	53,188	54,358	60,542	60,598	11.48	0.09
SFB	1,659	1,530	1,982	2,010	31.38	1.38
SCB	1,27,532	1,20,471	1,39,856	1,43,462	19.08	2.58

Source: Bank filings, CareEdge Calculations

The decline in the interest income in Q4FY21 can primarily be attributed to the Supreme Court directing banks to credit or adjust the interest charged on loan accounts that were under a moratorium that resulted in interest reversals affecting the top line and a fall in interest rates. Recognising delinquencies post Supreme Court order, GNPAs increased and restricted the growth of interest income negatively impacting the top line in Q4FY21.

In Q4FY21, the negative impact on PSBs was higher compared with the PVBs. Consequently, the positive impact in Q4FY22 would also be higher for PSBs (base effect) compared with PVBs. Net interest income would also be benefitted from lower slippages (smaller income reversals) and a continued shift towards retail.

The medium-term prospects look promising with diminished corporate stress and increased provisioning levels across banks. The ongoing Russia-Ukraine war is likely to have a limited impact on the credit growth in India due to liquidity available in the market. Further, if the current situation of an increase in prices of oil and commodities and exchange rate volatility, is examined, the immediate impact seems unlikely. However, if these levels persist, adverse impact be anticipated albeit with some lag. Higher input prices and a worsening working capital cycle, especially for MSMEs, may result in an increase in short-term financing. Given the status of the inflation and the stance taken by the Monetary Policy Committee of the RBI, the interest rate scenario would need to be monitored for any impact in FY23.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91-22-6754 3582 / +91-81080 07676
Aditya Acharekar	Associate Director – BFSI Ratings	aditya.acharekar@careedge.in	+91-22-6754 3528 / +91-98190 13971
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91-22-6754 3519 / +91-90049 52514
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91-22-6754 3596

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 I CIN: L67190MH1993PLC071691

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