Higher write-offs and recoveries help bank post lower gross NPAs in FY21

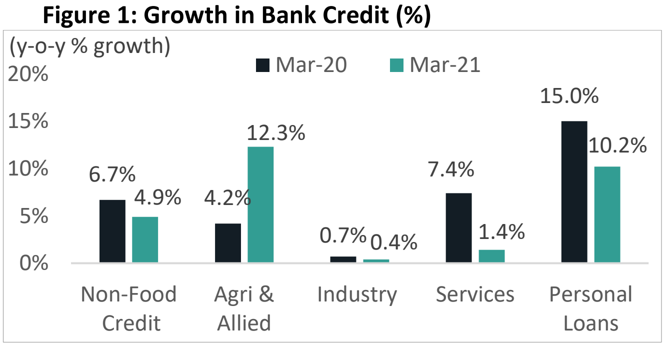
July 12, 2021 I BFSI Research

Note: The following study includes 30 Scheduled Commercial Banks (SCBs) (12 public sector banks (PSBs) and 18 private sector banks (PVBs)) for Q4FY21 financial performance analysis. Please note that the Q4FY20 numbers of PSBs which include Canara Bank, Indian Bank, Punjab National Bank and Union Bank of India are of the pre-amalgamated period, hence, not comparable with post amalgamation financials (Syndicate Bank merged with Canara Bank, Allahabad Bank with Indian Bank, Oriental Bank Of Commerce and United Bank of India with Punjab National Bank, Andhra Bank and Corporation Bank with Union Bank of India).

Major Highlights

- Aggregate interest income recorded flat growth during Q4FY19 to Q4FY21 owing to falling interest rates.
- Falling deposit interest rate in Q4FY21 led to a decline in deposit cost (interest expense) which resulted in 95 bps decline in WADTDR of SCBs in March 2021 compared with previous year.
- The total income of SCBs registered CAGR of 6.6% for the last two years owing to faster growth in other income.
- The reported GNPA ratio of the SCBs decreased to Rs.8.2 lakh crore in the quarter ended March 2021 as compared with the year-ago period (Rs.8.8 lakh crore in Q4FY20), due to recoveries and higher write-offs made by multiple banks. As per the financial disclosures made by the SCBs, loans written-off accounted for more than Rs.70,000 crore in the quarter ended March 2021, this has led to an improvement in the asset quality (GNPA reduction) of the SCBs.
- During September 2020, the Honourable Supreme Court of India had ordered all banks to not classify Covid-19-related defaults as NPAs until further notice. However, on March 23, 2021, the Honourable Supreme Court of India has lifted ban on NPA classification. With the asset classification standstill been lifted in March 2021, the GNPA ratio of SCBs settled at 7.5% in March 2021 as compared with 8.5% in the quarter ended March 2020 which was largely driven by PSBs.
- All SCBs reported CAR higher than the minimum regulatory requirement as on March 31, 2021.

Figure 1: Growth in Bank Credit (%)



Note: Data account for 33 SCBs accounting for about 90% of the Non-food credit deployed; Source: RBI

- The overall bank credit growth in March 2021 slowed to 5.6% (on y-o-y basis) vs. a growth of 6.1% in March 2020 (refer figure 3). The credit growth has been slower on account of the continued risk aversion and pandemic caused slowdown in the economy. However, agriculture and personal loans segments have been the key drivers of bank credit (growth in low double digits of both segments). On the other hand, industry and services segments have witnessed subdued credit growth at around 1% y-o-y as of March 2021.

Figure 2: Average Deposit & Lending Rates of SCBs (%)

Month	TDR<1 yr	WALR#	WALR (O/S loan)
Jan-20	6.62	9.52	10.33
Feb-20	6.56	9.46	10.31
Mar-20	6.46	8.97	10.20
Jan-21	5.57	8.21	9.56
Feb-21	5.55	8.21	9.51
Mar-21	5.51	8.26	9.42

Figure 3: SCBs Deposits & Credit (y-o-y growth %)

Month	Demand Deposits	Time Deposits	Aggregate Deposits	Bank Credit@
Mar-19	10.3%	10.0%	10.0%	13.3%
Mar-20	7.0%	8.1%	7.9%	6.1%
Mar-21	15.1%	10.9%	11.4%	5.6%

*Mean # On fresh rupee loans, TDR-Term Deposit Rate, WALR- Weighted Average Lending Rate; @: Bank credit growth accounts for 32 SCBs; Source: RBI, CMIE

Net Interest Income (NII)

Figure 4: Interest Income

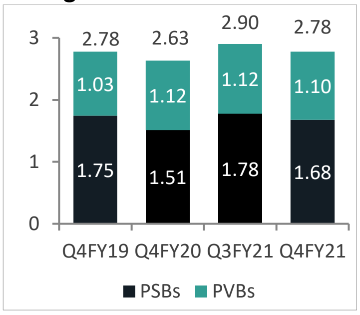


Figure 5: Interest Expenses

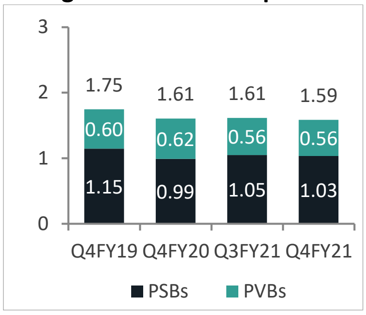
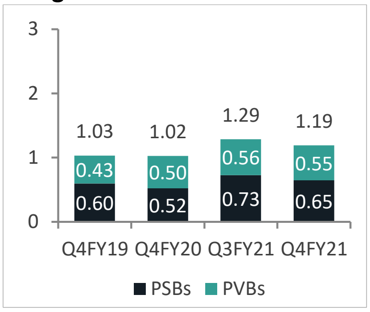


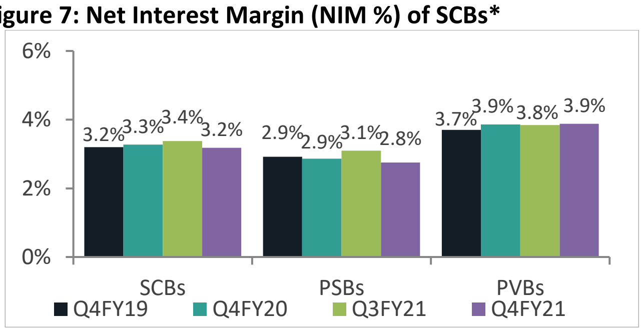
Figure 6: Net Interest Income



Note: (i) Figures in lakh crore; (ii) The Q4FY20 numbers of PSBs which includes Canara Bank, Indian Bank, Punjab National Bank and Union Bank of India are of pre-amalgamated period, Source: Ace Equity, CARE Ratings Calculations

- NII of SCBs grew at CAGR of 7.5% between Q4FY19 and Q4FY21 *(the Q4FY21 numbers of PSBs which includes Canara Bank, Indian Bank, Punjab National Bank and Union Bank of India are not comparable with the year-ago level as the figures are of pre-amalgamated period)*. However, NII growth of SCBs has been lower compared with Q3FY21, this can be ascribed to:
  - The decline in the interest income in Q4FY21 was mainly owing to the fall in interest rates. Also, as the Supreme Court directed banks to credit or adjust the interest charged on loan accounts that were under moratorium resulted in interest reversals affecting the top line. Furthermore, recognising delinquencies post Supreme Court order, gross NPAs increased from Rs.7.4 lakh crore in Q3FY21 to Rs.8.2 lakh crore in Q4FY21 restricted the growth of interest income negatively impacting the top-line.
  - The rate cuts by the RBI in May 2020 and the consequential transmission to the end-borrowers by banks led to low-weighted average lending rates (WALR) (refer Figure 2). Moreover, the WALR (for fresh loans) of all SCBs has been the lowest in January and February 2021 as per the data released by RBI (for the duration between September 2014 and February 2021), however, WALR has increased marginally in March 2021 and April 2021. Additionally, the rate cuts would work more effectively when credit growth picks up substantially, as banks have been selective in giving fresh loans due to asset quality concerns especially to corporate segment. Also, the borrowers have remained risk-averse and unwilling to raise debt. However, the spreads between TDR (TDR accounts for around 88.0% of total bank deposits) and WALR of SCBs (for fresh loans) increased by 24 bps (275 bps in March 2021 as against 251 bps in March 2020), led by increase in spreads of PVBs (330 bps in March 2021 against 259 bps in March 2020).
  - Spreads between TDR and WALR for outstanding loans remained high and further increased to 391 bps in March 2021 as against 374 bps in March 2020 (340 bps in March 2019) with increase in the spreads of both PSBs and PVBs (PSBs - 321 bps in March 2021 vs. 307 bps in March 2020 and 304 bps in March 2019; PVBs 461 bps in March 2021 vs. 441 bps in March 2020 and 376 bps in March 2019) which supported growth in net interest income (CAGR of 7.5% during Q4FY19 and Q4FY21).
  - Due to liquidity surplus in the banking system and to ensure better transmission of rate cuts, banks slashed deposit rates which resulted in 95 bps decline in WADTDR (Weighted Average Domestic Term Deposit Rates) of SCBs in March 2021 (decline by 89 bps for PSBs and 101 bps for PVBs) compared with 55 bps decline in March 2020 (26 bps increase in March 2019). This led to decline in the deposit cost (interest expense) by a CAGR of -4.7% during Q4FY19 and Q4FY21. On the other hand, as given in the "Minutes of the Monetary Policy Committee Meeting, June 2 to 4, 2021", the excess money that banks parked with RBI as credit growth remained anaemic, gave banks lower return as nominal broad money growth, i.e., money multiplier adjusted for reverse repo remained low.

Figure 7: Net Interest Margin (NIM %) of SCBs*

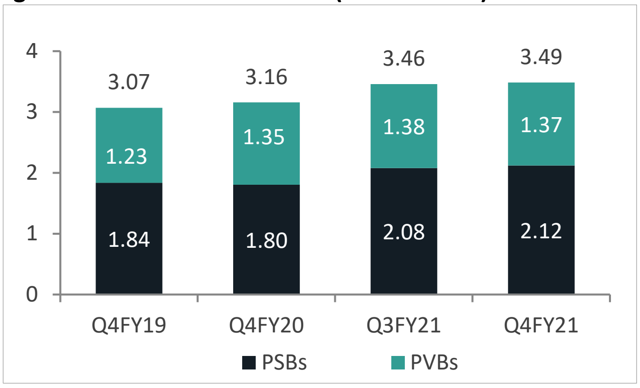


* NIM% reported for the set of 12 PSBs and 18 PVBs for the quarters under review, Source: Ace Equity, CARE Ratings Calculations

- NIMs of PSBs declined marginally by 10 bps compared with Q4FY19 due to pressure on interest income, while PVBs recorded an improvement of 20 bps, as the transmission of rate cut was faster to the depositors as compared to the borrowers.
- The profit margins of the SCBs have registered slower growth due to rise in credit cost of banks such as Union Bank of India, Bank of Baroda, SBI along with few others owing to recognition of delinquencies.

Total Income

Figure 8: Total Income of SCBs (in lakh crore)



* NIM% reported for the set of 12 PSBs and 18 PVBs for the quarters under review, Source: Ace Equity, CARE Ratings Calculations

- Total income of SCBs registered CAGR of 6.6% for the last two years, i.e., an increase from Rs.3.07 lakh crore in Q4FY19 to Rs.3.49 lakh crore in Q4FY21 (Rs.3.46 lakh crore in Q3FY21), owing to faster growth in other income.
- However, other income which includes fee income, profit on sale of investments (as volatility in bond yields led to higher trading gains), etc., accounts for just 20.0% share of the total income (14.0% share in Q3FY21). It witnessed a higher CAGR of around 20.0% during Q4FY19 and Q4FY21, whereas interest income accounts for around 80.0% share of the total income posted a flat growth during the same period.

Operating Expenses

Figure 9: Employee Costs

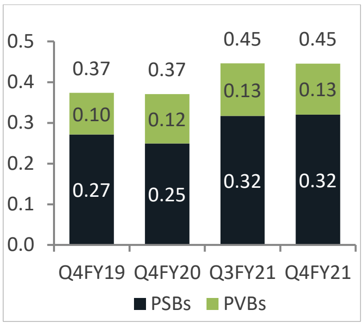


Figure 10: Other Expenses

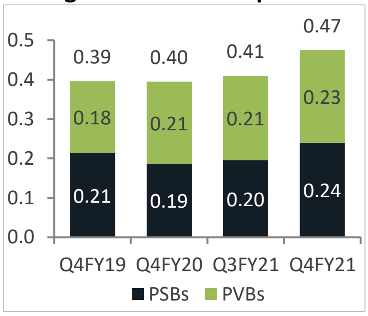
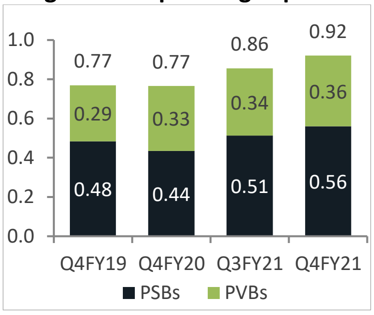


Figure 11: Operating Expenses



Note: Figures in lakh crore; Source: Ace Equity, CARE Ratings Calculations

- The operating expenses of SCBs increased by around Rs.6,000 crore as compared with the previous quarter Q3FY21 due to an increase in other expenses. The increase in other expenses during the quarter was led by re-opening of a significant number of bank branches and operations returning to normalcy.
- The other expenses (which include consulting services, postage and stationery, and expenses associated with buildings and other fixed assets) account for 52.0% share of operating expenses posted CAGR of 9.4% over Q4FY19 and Q4FY21, whereas the balance 48.0% share of operating expenses accounts for employee costs that grew at a CAGR of 9.2% during Q4FY19 and Q4FY21.
- SBI which accounts for around 30.0% of the SCBs employee cost had revised wages of the employees during March-end quarter (effective from April 2020). This resulted in a y-o-y increase in employee costs of SBI by 11.2%, whereas the other expenses witnessed 22.0% y-o-y growth in Q4FY21.
- Additionally, the employee expenses of Canara Bank and Bank of Baroda each accounting for 7.0% share of employee costs of SCBs along with Punjab National Bank and HDFC Bank (each accounting for 6.0% share, respectively, of employee costs of SCBs) grew at a CAGR of 23.7%, -3.2%, -10.5% and 13.6%, respectively, during the last two years. The negative growth of Bank of Baroda and Punjab National Bank was on account of the merger effect. Whereas, Union Bank of India (accounting for 5.0%), IDFC First Bank (accounting for 3.0%) and IndusInd Bank (accounting for 3.0%) grew at CAGR of 8.4%, 43.0% and 15.5% during Q4FY19 and Q4FY21.
- Other expenses of HDFC Bank (14.0% share of all SCBs), ICICI Bank (8.0%), Axis Bank (8.0%), Bank of Baroda (5.0%) and Union Bank of India (5.0%) grew at a CAGR of 13.6%, 13.4%, 9.6%, 0.5% and 5.6%, respectively, between Q4FY19 and Q4FY21. Furthermore, the bank branch rationalisation due to merger of ten public sector banks to create four large banks resulted in an increase in other expenses.

Figure 12: Movement of cost to income ratio

Cost to Income Ratio (%)	Q4FY19	Q4FY20	Q3FY21	Q4FY21
PSBs	54.2%	53.6%	50.0%	51.5%
PVBs	45.3%	44.8%	41.8%	44.5%
SCBs	50.5%	49.4%	46.4%	48.5%

Source: CARE Ratings Calculations

- Cost to income ratio of SCBs improved by 200 bps in Q4FY21 compared with Q4FY19 mainly owing to increase in growth of other income by around 20.0% during the same period.

Asset Quality: Movement in Non-Performing Assets

Figure 13: Gross NPAs & Net NPAs

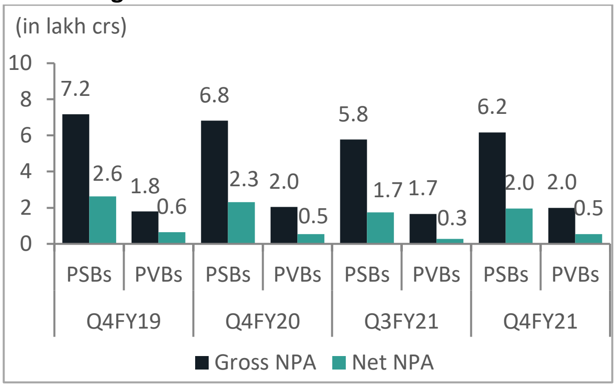
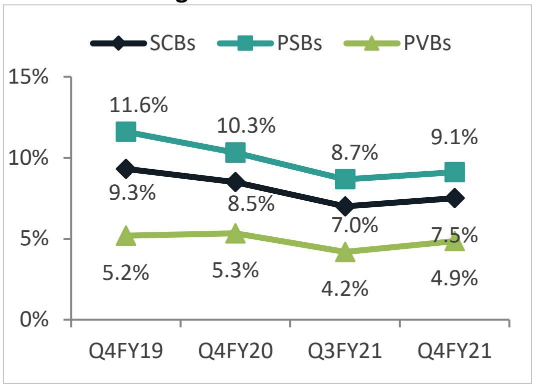


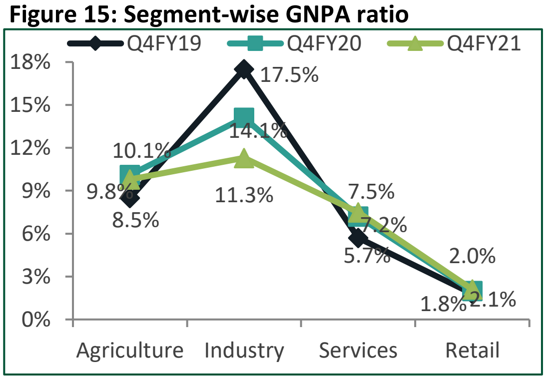
Figure 14: GNPA ratio



Source: Ace Equity, CARE Ratings Calculations

- The gross NPAs of SCBs decreased to Rs.8.2 lakh crore in the quarter ended March 2021 as compared with the year-ago period (Rs.8.8 lakh crore in Q4FY20). The GNPAs of PSBs contracted between March 2019 and March 2021. Among PSBs, the State Bank of India (SBI) which accounts for the highest share at around 20.0% of the GNPAs of PSBs in Q4FY21 reported the highest asset quality improvement, with a decline in GNPA ratio to 5.0% in March 2021 vs. 6.2% in March 2020.
- Similarly, net NPAs of SCBs also shrank to Rs.2.5 lakh crore in Q4FY21 from Rs.2.8 lakh crore in Q4FY20 reflecting higher provisioning/recoveries during the period.
- During September 2020, the Honourable Supreme Court of India had ordered all banks to not classify Covid-19-related defaults as NPAs until further notice. However, on March 23, 2021, the Honourable Supreme Court of India has lifted ban on NPA classification.
- With the asset classification standstill been lifted in March 2021, the GNPA ratio of SCBs settled at 7.5% in March 2021 as compared with 8.5% in the quarter ended March 2020 which was largely driven by PSBs. On an overall basis, PSBs accounting for around 76.0% share of GNPAs of SCBs have experienced a drop in the GNPA ratio to 9.1% in the quarter ended March 2021 against 10.3% in the year-ago period. Reviewing the sectoral GNPA for the system (as per RBI's Financial Stability Report), asset quality improved noticeably with a decline in GNPA ratio of two major sectors, i.e., agriculture, and industry by end of Q4FY21 (GNPA ratio for agriculture declined from 10.1% in Q4FY20 to 9.8% in Q4FY21 and industrial GNPA ratio declined from 14.1% in Q4FY20 to 11.3% in Q4FY21). Agricultural segment was supported by favourable monsoons, good harvest season and government measures during the year. Within industry, a broad-based decline in GNPA ratio was visible across all major sub-sectors of which infrastructure segment that accounts for the highest share at around 37.0% in March 2021 posted a decline in GNPA ratio from 13.1% in Q4FY20 to 11.5% in Q4FY21. Services and retail sectors witnessed an increase in GNPA ratio from 7.2% and 2.0%, respectively, in Q4FY20 to 7.5% and 2.1% in Q4Y21.

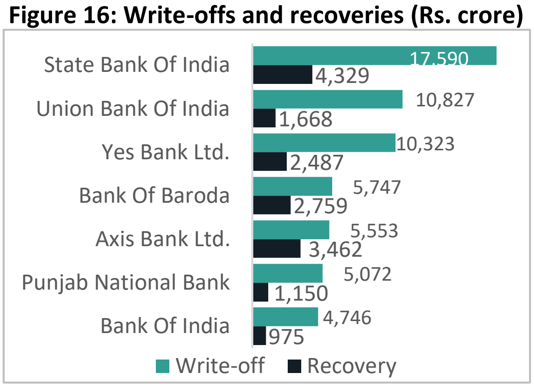
Figure 15: Segment-wise GNPA ratio



Source: RBI

- As per the financial disclosures made by the SCBs, loans written-off accounted for more than Rs.70,000 crore in the quarter ended March-2021, this has led to an improvement in the asset quality (GNPA reduction) of the SCBs. Wherein, banks with higher write-offs include SBI (Rs.17,590 crore), followed by Union Bank of India, Yes Bank, Bank of Baroda, Axis Bank, Punjab National Bank, Bank of India and ICICI Bank.
- The asset quality improvement was further supported by recoveries made by banks. Of all the banks, data on recoveries from write-off account as disclosed by 19 banks add up to Rs.28,420 crore compared with Rs.18,775 crore in Q3FY21.

Figure 16: Write-offs and recoveries (Rs. crore)

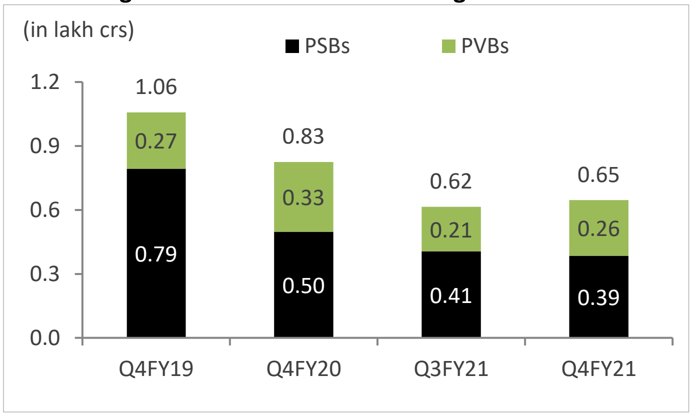


Source: Company Reports

- As per RBI's macro stress test, the GNPA ratio of all SCBs may increase to 9.80% under the baseline scenario by March 2022 and may further increase to 10.36% and 11.22% under medium stress, and severe stress scenarios (as given in 'Financial Stability Report' released by RBI). Under the baseline scenario, PSBs' GNPA ratio may increase to 12.52% by March 2022, which is an improvement as compared with earlier estimate given by RBI in January 2021 (previously RBI had estimated the GNPA ratio would increase to 16.2% by September 2021) is a reflective of various regulatory support by government/RBI, while the GNPA ratio of PVBs may increase to 5.82% under the baseline scenario by March 2022 and may further increase to 6.04% and 6.46% under medium stress and severe stress scenarios. The stress test assessment has been done considering the upliftment of ban on asset classification and using the reported asset quality position as on March 2021 of banks. While the underlying assumptions for such assessments are an estimation based on the current scenario, it indicates that the need for SCBs is to be mindful of the asset quality and take appropriate steps such as to shore up capital in an anticipation of more provisioning in the following quarters led by increasing stress in the wake of the second wave of the covid-19 pandemic.
- On the other hand, the GNPAs in the near term could also be lower than expected if we assume (i) higher write-offs and recoveries are made by SCBs; (ii) one-time restructuring scheme for MSMMEs, (iii) some amount of stressed assets moved to NARCL, (iv) liquidity under ECLGS scheme could support the MSMEs, and (v) lower than anticipated impact of second wave of the covid-19 pandemic.

Provisions

Figure 17: Provisions and contingencies



Source: Ace Equity, CARE Ratings Calculations

- Provisions of SCBs in the March-end quarter declined to Rs.0.65 lakh crore compared with year-ago level of Rs.0.82 lakh crore due to decline in GNPA, however, increased from Rs.0.62 lakh crore reported in December 2020 led by increase in provisioning made by PVBs.
- The public banks account for around 60% share of all SCBs, with SBI alone accounting for around 17% (Rs.11,051 crore) share followed by Punjab National Bank (Rs.4,686 lakh crore), Canara Bank (Rs.4,134 crore), Union Bank of India (Rs.3,904 crore) and Bank of Baroda (3,586). Amongst PVBs (40% share), Yes Bank (Rs.5,240), HDFC Bank (Rs.4,694) and Axis Bank (Rs.3295) account for the highest share in provisioning.
- Previously, following the outbreak of Covid-19, RBI had mandated all banks to make 10% additional provisioning over a period of two quarters (5% each in March and June 2020 quarters) on loan accounts where moratorium benefit had been extended, which resulted in banks providing higher additional provisions beyond the RBI's mandatory rate during both the quarters (provisioning of Rs.0.33 lakh crore by PVBs and Rs.0.50 lakh crore by PSBs in March 2020; and in the quarter ended June 2020 PVBs made provisioning of Rs.0.25 lakh crore and PSBs- Rs.0.38 lakh crore).
- Considering the slippages of 13 banks based on the data availability as per disclosures made by banks, the slippages account for more than Rs.1.2 lakh crore of which Punjab National Bank reported Rs.23,185 crore followed by SBI (Rs.21,934 crore), Union bank of India (Rs. 14,687 crore) and Canara Bank (Rs.14,495 crore), which shows stress is quite high. In the coming quarters, provisions of SCBs are likely to remain elevated on account of recognition of stressed assets which could impact the financial performance.

Provision Coverage Ratio (PCR)

Figure 18: PCR% range of SCBs as at end of March 2021

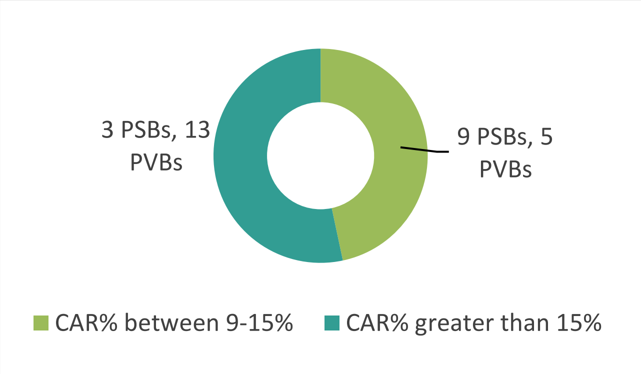
PCR % Range	All	PSBs	PVB*
Less than 70%	6	0	6
70-80%	10	1	9
Greater than 80%	13	11	2

*Excluding Bandhan Bank, Source: Ace Equity

- The average PCR for the SCBs considered in the analysis stands at around 77.0% at the end of March 2021, against 75.0% in the year-ago period reflecting higher provisioning done by SCBs.
- Over half of the SCBs under review had reported PCR less than 80% as at end of March 2021. Most PVBs have reported fall in their PCR at the end of Q4FY21.
- The PSBs have recorded considerably higher PCR during Q4FY21 as compared with the same quarter previous year.
- Of the 17 PVBs considered, 'The South Indian Bank Ltd' reported lower PCR at 58.7%, while the remaining banks recorded considerably higher PCR during Q4FY21. However, 'The South Indian Bank Ltd' PCR has shown improvement in the March-end quarter compared with the previous year (54.2%) owing to increase in recoveries and upgradation during this period.

Capital Adequacy Ratio (CAR) under Basel III

Figure 19: CAR% range of SCBs as at end of March 2021

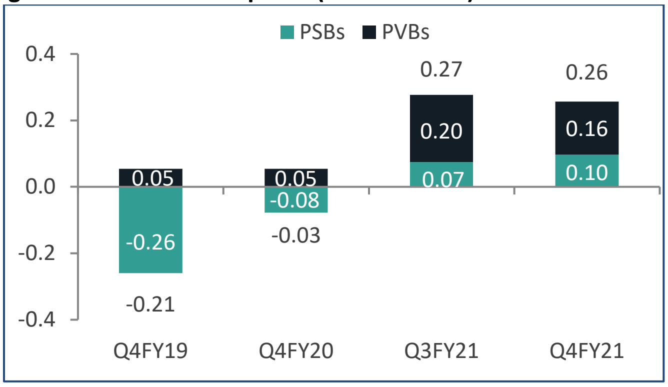


*Excluding AU Small Finance Bank; Source: Banks performance results, Ace Equity

- In view of the continuing stress on account of Covid-19, RBI, on September 29, 2020, deferred the implementation of the last tranche of 0.625% of the Capital Conservation Buffer (CCB) from September 30, 2020, to April 1, 2021. Previously, as per Basel III regulations, all SCBs were required to maintain a CAR of 11.5% from March 31, 2020 onwards (CAR of 9.0% along with capital conservation buffer (CCB) of 2.5%). However, from April 1, 2021, banks will be required to maintain a minimum CAR of 11.50%.
- Furthermore, systemically important banks need to maintain an additional requirement of over and above the 10.875% CAR (which includes SBI: 0.6%, HDFC: 0.2% and ICICI Bank: 0.2%).
- Additionally, owing to the challenging business environment and expectations of severe stress scenario, banks have been increasing their capital base, as listed below:
  - In January 2021, SBI raised US $600 million through overseas bonds. During the same month, Bank of Baroda, Bank of India, Punjab National Bank and Canara Bank raised Rs.764 crore, Rs.750 crore, Rs.495 crore and Rs.180 crore, respectively, through AT1 bonds.
  - In April 2021, IDFC First Bank raised Rs.3,000 crore equity capital through QIP.
  - In May 2021, Punjab National Bank raised Rs.1,800 crore via QIP.
  - During FY22, Bank of India plans to raise Rs.4,800 crore through issuance of equity (Rs.3,000 crore) and Basel III compliant Tier-2 bonds (Rs.1,800 crore) and Canara Bank is planning to raise up to Rs 3,400 crore by issuing fresh Additional Tier-I bonds (AT1). Also, Union Bank of India plans to raise AT 1 and/or Tier 2 bonds not exceeding Rs.6,200 and equity capital not exceeding Rs.3,500 crore.
- Moreover, as per RBI's Financial Stability Report released on July 1, 2021, Tier I (CET-1) capital ratio of SCBs may decline from 12.78% in March 2021 to 12.58% under the baseline scenario and further to 11.76% under the medium stress scenario and 10.73% under severe stress scenarios by March 2022.

Net Profit

Figure 20: Trend of net profit (Rs lakh crore)

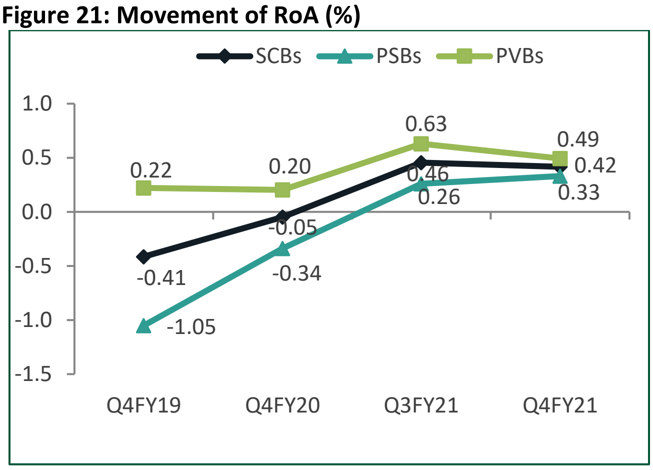


Note: The Q4FY20 numbers of PSBs which includes Canara Bank, Indian Bank, Punjab National Bank and Union Bank of India are of pre-amalgamated period. Source: Ace Equity, CARE Ratings Calculations

- The overall aggregate net profit of SCBs has been higher as compared with the previous year. However, the SCBs registered slower growth compared with Q3FY21 due to rise in credit cost of banks such as Union Bank of India, Bank of Baroda, SBI along with few others owing to bad loans written off.
- As can be seen in the figure 20, PSBs recorded significant growth in its net profit during the quarter under review partially owing to decline in provisioning during the quarter (Rs.0.50 lakh crore in Q4FY20 to Rs.0.39 lakh crore in Q4FY21). Amongst PSBs, Punjab & Sind Bank, SBI and Indian Bank reported significant profit as compared with the previous year. Punjab & Sind Bank recorded profit of Rs.161 crore compared with loss of Rs.2,376 crore in the previous quarter, similarly, SBI and Indian Bank posted profit of Rs.6,451 crore and Rs.1,709 crore, respectively, compared with profit of Rs.5,196 crore and Rs.514 crore in Q3FY21.

Return on Assets (RoA)

Figure 21: Movement of RoA (%)

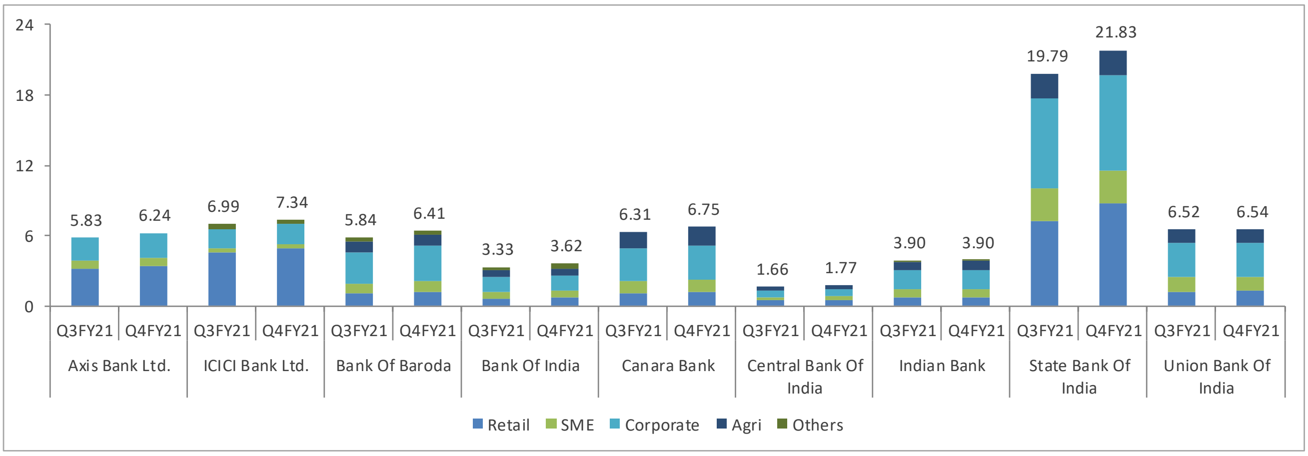


Source: Ace Equity, CARE Ratings Calculations

- The RoA for PSBs has improved from -0.05% in Q4FY20 to 0.42% in quarter under review.
- The RoA for SCBs improved significantly from Q4FY20 to Q4FY21 owing to subdued y-o-y provisioning requirements. Also, this was partially supported by restructuring of accounts under Resolution 2.0 announced by the RBI. However, the profit margins of the SCBs have been lower compared with previous quarter mainly due to higher slippages.

Total Advances

Figure 22: Composition of total advances (in Rs lakh crore)



Source: Company Reports

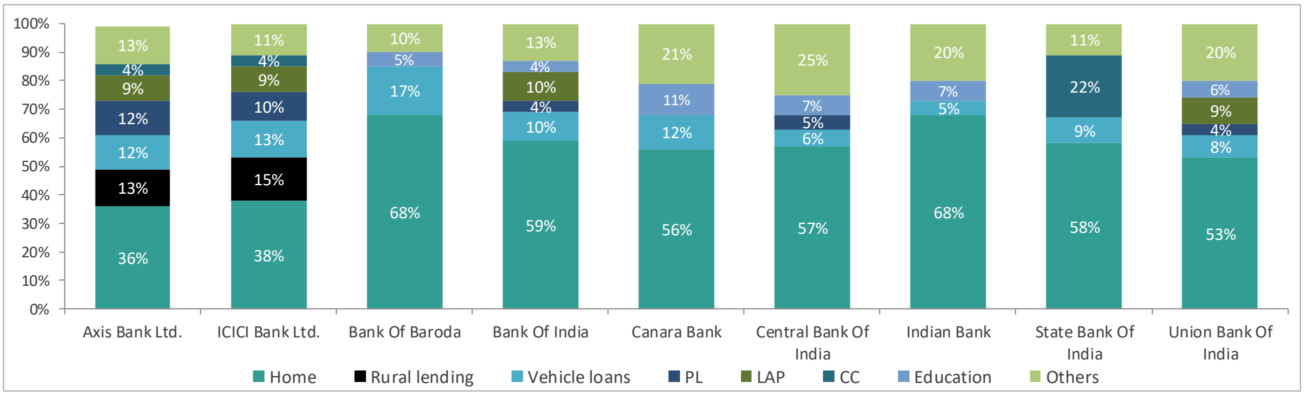
The sample set of SCBs considered here accounts for around 63% of the total advances at the end of March 2021, of which corporate segment accounts for the highest share at around 36% which is lower compared with previous quarter due to deleveraging (vs. 42% in Q3FY20) followed by retail segment (33% in Q4FY21 vs. 34% in Q3FY21), SME (13% in Q4FY21 and 11% in Q3FY21) and balance being accounted by the agricultural sector. SBI alone accounts for the largest share at around 23% amongst all SCBs with 32% exposure to retail and 34% to corporate segment; while SME accounts for 11% and rest towards agricultural segment. The retail segment for the sample set considered here registered highest growth rate (around 15% y-o-y) as compared with other segments.

Majority of the SME growth can be attributed to the ECLGS scheme which was instrumental in improving the activity level during the pandemic time. Under the ECLGS scheme banks have disbursed Rs.2.69 lakh crore until June 2021, which is around 90.0% of ambitious Rs.3.0 lakh crore. Furthermore, on June 28, 2021, the government has provided an additional Rs 1.5 lakh crore for ECLGS, up from the Rs.3 lakh crore in order to mitigate the distress caused by Covid-19-induced lockdown.

The retail segment growth has been lower as compared to the growth registered in the previous year due to slow growth in housing loan segment (the growth rate was lower by 480 bps as compared with March 2020). Among the retail portfolio of SCBs, housing loan continues to remain the single-largest segment at around 54%, followed by vehicle loans (around 10%) (Refer Figure 23). Housing loan segment grew by 9.1% in March 2021 as compared with a growth of 15.4% in the year-ago period. Despite the retail credit push and concession on home loan interest rates (also the benefit announced by government of Maharashtra on March 08, 2021, and expired on March 31, 2021 to reduce 1.0% of stamp duty if the property is bought in the name of women), there was a reduction in housing loan growth.

Amongst all banks SBI has higher exposure towards personal unsecured loan segment (~58% share amongst the SCBs considered in Figure 23 and 30% share of the overall system) that includes credit card outstanding and other personal loan segment accounting for around 31.0% share of the total retail portfolio of SBI. This segment grew at 23.1% in Q4FY21 of SBI compared with 24.8% in Q4FY20. In value terms it has increased to Rs.2.69 lakh crore from Rs.2.19 lakh crore in March 2020 (Rs.1.75 lakh crore in March 2019), the growth in the past one year was mainly owing to cash crunch due to the disruption caused by Covid-19 (job losses/ salary cut/ Covid-19 treatment). Whereas, the overall system growth for personal unsecured loan was 12.9% in Q4FY21 compared with 19.4% in the previous year, which means personal unsecured loan segment of SBI grew at a faster rate than the system.

Figure 23: Retail portfolio mix (%) – Q4FY21



Source: Company Reports

Concluding remarks and outlook:

The financials of the SCBs for all four quarters of FY21 have been different compared with the same period in the last two years, as during the financial year ended FY21, SCBs remained risk averse due to the pandemic-led uncertainty. During FY21, SCBs were selective with their credit portfolios due to asset quality concerns. The overall bank credit growth remained slower throughout the financial year ended FY21. The credit growth further deteriorated during first week of April and witnessed growth of 5.3% and the trend continued till the previous month ended June 2021. This can be ascribed to the risk aversion and regional lockdown imposed by states this year to curb the spread of coronavirus amid the second wave of the pandemic that started in April 2021 and continued in May 2021. However, many states have declared relaxation in lockdown or imposed partial lockdown since June 2021, the result of this on bank credit would be known after reviewing the additions in bank credit by first half of the financial year end FY22. Additionally, despite the low base effect of the previous year (as the country was in a complete lockdown last year) the credit growth grew at a slower pace. Considering the above reasons, SCBs are expected to witness slower to muted profitability with some pressure on asset quality in Q1FY22 amidst the second wave of the pandemic.

Going forward, we would have to review the credit flow of banks as government has further provided supportive measures that would help improve bank credit (e.g., rate cuts, extension in TLTRO, additions to the ECLGS scheme, liquidity support along with special liquidity facility (announced on June 04, 2021) of Rs.16,000 crore to be provided to

SIDBI for on-lending over and above Rs.15,000 crore which was provided in April 2021 would help support disbursements in MSME segment and on-tap liquidity window of Rs.50,000 crore for health care infrastructure to boost provision of immediate liquidity for Covid-related health care infrastructure and services in the country). On the other hand, deposit growth increased faster at 11.4% compared with the last three years where deposit registered growth between 8% and 11%. As in the unforeseen pandemic situation, deposits are considered as safer financial instrument as one can receive predictable returns.

The credit growth for FY22 is likely to remain in low double digit on the back of muted economic activity which could further delay the anticipated pick-up in credit growth, apart from the likely impact on asset quality. Also, sector’s medium-term prospects, however, look promising with diminished corporate stress and increased provisioning levels across banks. Retail loan segment is expected to do well as compared with industry and service segment; supported by retail credit push. However, Covid-19 pandemic-led credit losses could increase if localised lockdown measures persist and changed consumption patterns could negatively affect certain sectors downsizing of specific sectors. Thus, credit losses could increase if economic conditions deteriorate, or government support measures are less effective than anticipated. Other downside risks include partial/complete lockdown in key states, which may impact the industrial as well as service segments. Additionally, the credit growth will be supported by ECLGS scheme that has been extended till September 2021 (disbursement extended till December 31, 2021).

Appendix

Table A.1: Bank-wise Gross NPAs (PSB) in %

Public Sector Banks (PSB)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Of Baroda	9.61	10.28	10.25	10.43	9.40	9.39	9.14	8.48	8.87
Bank Of India	15.84	16.50	16.31	16.30	14.78	13.91	13.79	13.25	13.77
Bank Of Maharashtra	16.40	17.90	16.86	16.77	16.40	10.93	8.81	7.69	7.23
Canara Bank	8.83	8.77	8.68	8.36	8.21	8.84	8.23	7.46	8.93
Central Bank Of India	19.29	19.93	19.89	19.99	18.92	18.10	17.36	16.30	16.55
Indian Bank	7.11	7.33	7.20	7.20	6.87	10.90	9.89	9.04	9.85
Indian Overseas Bank	21.97	22.53	20.00	17.12	14.78	13.90	13.04	12.19	11.69
Punjab & Sind Bank	11.83	12.88	13.64	13.58	14.18	14.34	14.06	13.14	13.76
Punjab National Bank	15.50	16.49	16.76	16.30	14.21	14.11	13.43	12.99	14.12
State Bank Of India	7.53	7.53	7.19	6.94	6.15	5.44	5.28	4.77	4.98
UCO Bank	25.00	24.85	21.87	19.45	16.77	14.38	11.62	9.80	9.59
Union Bank Of India	14.98	15.18	15.24	14.86	14.15	14.95	14.71	13.49	13.74

Note: The data for March 2020 exclude merged Banks as financial results released only for standalone; Source: Ace Equity

Table A.2: Bank-wise Gross NPAs (PVB) in %

Private Sector Banks (PVB)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Axis Bank Ltd.	5.26	5.25	5.03	5.00	4.86	4.72	4.18	3.44	3.70
Bandhan Bank Ltd.	2.04	2.02	1.76	1.93	1.48	1.43	1.18	7.10	6.81
City Union Bank Ltd.	2.95	3.34	3.41	3.50	4.09	3.90	3.44	2.94	5.11
DCB Bank Ltd.	1.84	1.96	2.09	2.15	2.46	2.44	2.27	1.96	4.09
Dhanlaxmi Bank Ltd.	7.47	7.61	7.06	7.13	5.90	6.89	6.36	5.78	9.23
HDFC Bank Ltd.	1.36	1.40	1.38	1.42	1.26	1.36	1.08	0.81	1.32
ICICI Bank Ltd.	7.38	7.21	6.90	6.39	5.53	5.99	5.63	4.72	5.33
IDBI Bank Ltd.	27.47	29.12	29.43	28.72	27.53	26.81	25.08	23.52	22.37
IDFC First Bank Ltd.	2.43	2.66	2.62	2.83	2.60	1.99	1.62	1.33	4.15
IndusInd Bank Ltd.	2.10	2.15	2.19	2.18	2.45	2.53	2.21	1.74	2.67
Karur Vysya Bank Ltd.	8.79	9.17	8.89	8.92	8.68	8.34	7.93	7.37	7.85
Kotak Mahindra Bank Ltd.	2.14	2.19	2.32	2.46	2.25	2.70	2.55	2.26	3.25
RBL Bank Ltd.	1.38	1.38	2.60	3.33	3.62	3.45	3.34	1.84	4.34
The Federal Bank Ltd.	2.92	2.99	3.07	2.99	2.84	2.96	2.84	2.71	3.41
The Jammu & Kashmir Bank Ltd.	8.97	8.48	10.64	11.10	10.97	10.73	8.87	8.71	9.67
The Karnataka Bank Ltd.	4.41	4.55	4.78	4.99	4.82	4.64	3.97	3.16	4.91
The South Indian Bank Ltd.	4.92	4.96	4.92	4.96	4.98	4.93	4.87	4.90	6.97
Yes Bank Ltd.	3.22	5.01	7.39	18.87	16.80	17.30	16.90	15.36	15.41

Source: Ace Equity

Table A.3: Bank-wise Provision Coverage Ratio (PSB) in %

Public Sector Banks (PSB)	Q4FY19	Q4FY20	Q3FY21	Q4FY21
Bank Of Baroda	78.7	81.3	85.5	81.8
Bank Of India	77.2	83.7	89.3	86.2
Bank Of Maharashtra	81.5	84.0	90.0	89.9
Canara Bank	68.1	77.0	84.9	79.7
Central Bank Of India	76.9	77.3	84.2	82.5
Indian Bank	65.7	73.1	86.5	82.1
Indian Overseas Bank	71.4	86.9	91.9	90.3
Punjab & Sind Bank	59.5	66.7	88.0	82.9
Punjab National Bank	74.5	79.0	85.2	80.1
State Bank Of India	78.7	83.6	90.2	87.8
UCO Bank	74.9	85.5	91.2	88.4
Union Bank Of India	66.2	73.6	86.2	81.3

Source: Ace Equity

Table A.4: Bank-wise Provision Coverage Ratio (PVBs) in %

Private Sector Banks (PVBs)	Q4FY19	Q4FY20	Q3FY21	Q4FY21
Axis Bank Ltd.	63.0	65.0	79.0	64.0
City Union Bank Ltd.	78.8	70.8	73.0	62.4
DCB Bank Ltd.	84.7	89.9	84.3	74.2
Dhanlaxmi Bank Ltd.	71.0	72.0	92.7	74.2
HDFC Bank Ltd.	82.9	86.8	72.0	77.7
ICICI Bank Ltd.	80.7	93.7	86.0	96.9
IDBI Bank Ltd.	48.2	64.5	97.1	65.0
IDFC First Bank Ltd.	43.0	63.0	75.1	72.7
IndusInd Bank Ltd.	56.9	68.9	87.0	72.7
Karur Vysya Bank Ltd.	65.4	69.0	77.4	63.0
Kotak Mahindra Bank Ltd.	65.3	64.0	78.4	72.2
RBL Bank Ltd.	67.0	72.5	86.4	65.1
The Federal Bank Ltd.	64.3	78.6	77.1	82.0
The Jammu & Kashmir Bank Ltd.	58.5	64.7	83.7	70.1
The Karnataka Bank Ltd.	42.5	54.2	80.5	58.7
The South Indian Bank Ltd.	43.1	73.8	72.0	78.6
Yes Bank Ltd.	77.0	83.0	76.8	72.0

*Excluding Bandhan Bank; Source: Ace Equity

Table A.5: Bank-wise Capital Adequacy Ratio (PSB) in %

Public Sector Banks (PSB)	Q4FY19	Q4FY20	Q3FY21	Q4FY21
Bank Of Baroda	13.42	13.30	12.93	14.99
Bank Of India	14.19	13.10	12.51	14.93
Bank Of Maharashtra	11.86	11.86	13.65	14.49
Canara Bank	11.90	13.65	13.69	13.18
Central Bank Of India	9.61	11.72	12.39	14.81
Indian Bank	13.21	14.12	14.06	15.71
Indian Overseas Bank	10.20	10.72	11.49	15.32
Punjab & Sind Bank	10.93	12.76	16.39	17.06
Punjab National Bank	9.73	14.14	13.88	14.32
State Bank Of India	12.72	13.06	14.50	13.74
UCO Bank	10.70	11.70	12.08	13.74
Union Bank Of India	11.78	12.81	12.98	12.56

Source: Ace Equity

Table A.6: Bank-wise Capital Adequacy Ratio (PVBs) in %

Private Sector Banks (PVBs)*	Q4FY19	Q4FY20	Q3FY21	Q4FY21
Axis Bank Ltd.	15.84	17.53	18.68	19.12
Bandhan Bank Ltd.	29.20	27.43	26.17	23.47
City Union Bank Ltd.	15.55	16.76	17.39	19.52
DCB Bank Ltd.	16.81	17.75	18.32	19.67
Dhanlaxmi Bank Ltd.	13.90	14.41	14.16	14.47
HDFC Bank Ltd.	17.10	18.50	18.90	18.80
ICICI Bank Ltd.	16.89	16.11	18.04	19.12
IDBI Bank Ltd.	11.58	13.31	14.77	15.59
IDFC First Bank Ltd.	15.47	13.38	14.33	13.77
IndusInd Bank Ltd.	14.16	15.04	16.34	17.38
Karur Vysya Bank Ltd.	16.00	17.17	18.52	18.98
Kotak Mahindra Bank Ltd.	17.45	17.89	21.54	22.26
RBL Bank Ltd.	13.46	16.45	17.33	17.50
The Federal Bank Ltd.	14.14	14.35	14.31	14.62
The Jammu & Kashmir Bank Ltd.	12.46	11.40	11.77	12.20
The Karnataka Bank Ltd.	13.17	12.66	13.83	14.85
The South Indian Bank Ltd.	12.61	13.40	14.47	15.42
Yes Bank Ltd.	16.50	8.50	19.40	17.50

Source: Ace Equity

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