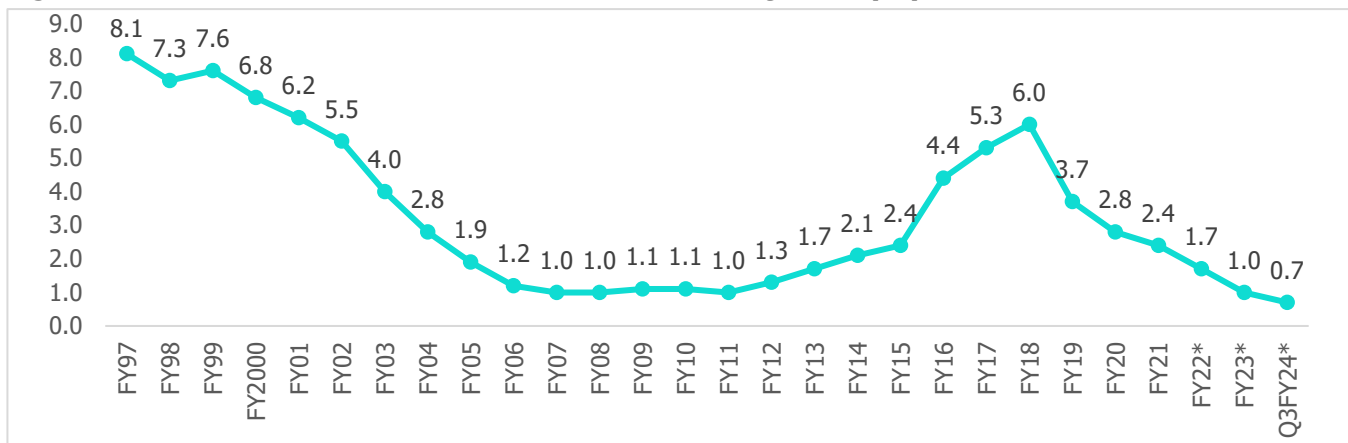


SCBs Witness All-Time Low Net Non-Performing Asset Levels

March 4, 2024 | BFSI Research

- Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs) reduced by 21.1% y-o-y to Rs. 4.85 lakh crore as of December 31, 2023, due to lower slippages, steady recoveries & upgrades, and some write-offs. Meanwhile, advances grew by 20.3% y-o-y in the same period. The GNPA ratio of SCBs reduced to 3.0% as of December 31, 2023, from 4.6% over a year ago.
- Net Non-Performing Assets (NNPAs) of SCBs reduced by 28.1% y-o-y to Rs. 1.09 lakh crore as of December 31, 2023. The NNPA ratio of SCBs reduced to 0.7% from 1.2% in Q3FY23 which is an all-time low.
- Restructured assets for select 10 PSBs reduced by 16.6% y-o-y to Rs. 0.97 lakh crore as of December 31, 2023. Meanwhile, restructured assets of selected five Private Banks (PVBs) declined by 37.6% to Rs. 0.11 lakh crore due to repayments made by the borrowers, an uptick in the economic activities and slipping some accounts into the NPAs. Restructured assets (Ten PSBs + Five PVBs) as a percentage of net advances stood at 0.8% as of December 31, 2023, dropping by approximately 50 bps over a year ago period.
- The Provision Coverage Ratio (PCR) of SCBs expanded by 289 bps y-o-y to 77.4% Q3FY24 mainly due to improvement in overall asset quality.
- SCBs credit cost (annualised) declined by 35 basis points (bps) y-o-y to 0.38% in Q3FY24. Besides, it has been generally trending down from 0.87% in Q3FY22. Public Sector Banks (PSBs) have been holding substantial buffers for provisions over the last 6-8 quarters along with continuous improvement in the asset quality required a lower level of incremental provisioning, resulting in lower credit cost.

Figure 1: SCBs Witnesses All- Time Low NNPA Levels in Q3FY24 (%)



Source: RBI,* CareEdge Calculation for Q3FY24, 30 SCBs (14 PSBs + 16 PVBs)

As of March 31, 2018, the NNPA ratio stood at 6% in FY18 which dropped to 0.7% as of December 31, 2023. It was attributed to an overall improvement in asset quality due to healthy recoveries, lower slippage, write-offs, creating provisions and more resolution & settlement with IBC 2016.

Figure 2: SCBs – Improving Gross NPAs and Net NPAs Trend (Rs. Lakh – Cr)

Asset Quality	FY22		FY23				FY24			(%)	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	y-o-y	q-o-q
Gross NPAs											
PSBs	6.06	5.93	5.82	5.34	4.99	4.56	4.32	3.86	3.61	-27.7	-6.5
PVBs	1.53	1.43	1.43	1.40	1.16	1.11	1.14	1.24	1.24	7.0	-0.1
SCBs	7.59	7.36	7.26	6.73	6.15	5.66	5.45	5.10	4.85	-21.1	-4.9
Net NPAs											
PSBs	1.75	1.62	1.55	1.36	1.22	1.10	1.05	0.85	0.78	-36.4	-8.0
PVBs	0.45	0.40	0.39	0.36	0.30	0.26	0.28	0.31	0.31	6.5	1.7
SCBs	2.20	2.02	1.95	1.72	1.52	1.36	1.33	1.16	1.09	-28.1	-5.4

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

The GNPA of SCBs reduced by 21.1% y-o-y to Rs. 4.85 lakh crores as of December 31, 2023, vs. Rs. 6.15 lakh crores over a year ago due to lower slippages, steady write-offs, and decent recoveries in the quarter. PSBs' "Recoveries & Upgrades" from Q3FY23 to Q3FY24 (in the last four quarters) stood at Rs. 0.14 lakh crore as compared to 0.13 lakh crore¹ in Q3FY22 to Q3FY23. Overall, the SCBs' stress level has reduced on a y-o-y basis as their outstanding Special Mentioned Accounts (SMAs) (especially large PSBs) have declined and the restructured book has also reduced in Q3FY24, indicative of improving asset quality.

- GNPA of PSBs reduced by 27.7% y-o-y to Rs. 3.61 lakh crore as of December 31, 2023, as write-offs reduced significantly whereas recoveries and slippage were comparatively steady during the year. Within PSBs, other PSBs' GNPA reduced by 40.3% y-o-y to Rs. 1.17 lakh crore as of December 31, 2023, resulting in an improvement in assets.
- PSB slippages reduced by 16.6% y-o-y to Rs. 0.20 lakh crore in Q3FY24. Also, write-offs and recoveries declined from Rs. 0.35 lakh crore last year to Rs. 0.27 lakh crore in the quarter.
- On the other hand, PVBs' GNPA increased by 7.0% y-o-y to Rs. 1.24 lakh crore as of December 31, 2023. This was driven mainly by merger impact, which offset the drop in slippages, which stood at 0.22 lakh crore in Q3FY24 compared to 0.25 lakh crore in Q3FY23.

The NNPA of SCBs reduced by 28.1% y-o-y to Rs. 1.09 lakh crores as of December 31, 2023, vs. Rs. 1.52 lakh crores over a The NNPA year ago.

- NNPA of PSBs reduced by 36.4% y-o-y to Rs. 0.78 lakh crore as of December 31, 2023., within this the major reduction came from other PSBs which dropped by 43.3% y-o-y to Rs. 0.25 lakh crore as asset quality improved driven as share in MSME/Corporate advances rises for other PSBs banks.
- The NNPA of PVBs showed an increasing trend in Q3FY24 y-o-y by 6.5% respectively, during the quarter this was mainly driven by merger impact.

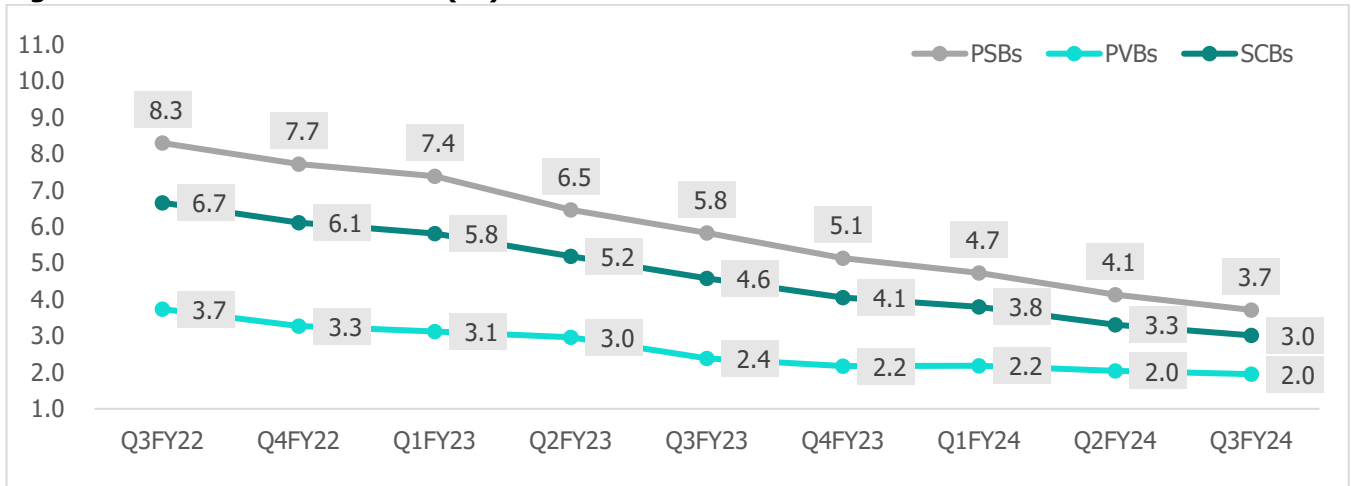
Sequentially GNPA of SCBs reduced by 5.4% q-o-q, although PSBs saw a decline, the trend was marginally offset by the positive trend seen in other PVBs which was driven by drop in asset quality. NNPA of SCBs reduced by

¹ Note: 13 PVBs for slippages, 9 PVBs for recoveries, upgrades, and write-offs, 14 PSBs (5 Large PSBs + 9 Other PSBs)

5.4% q-o-q, PSBs declined by 8.0%, and PVBs saw an uptick of 1.7%. (Merger impact along with drop in Asset quality for PSBs). Write-offs saw a marginal downtick; however, slippages saw a marginal downtick.

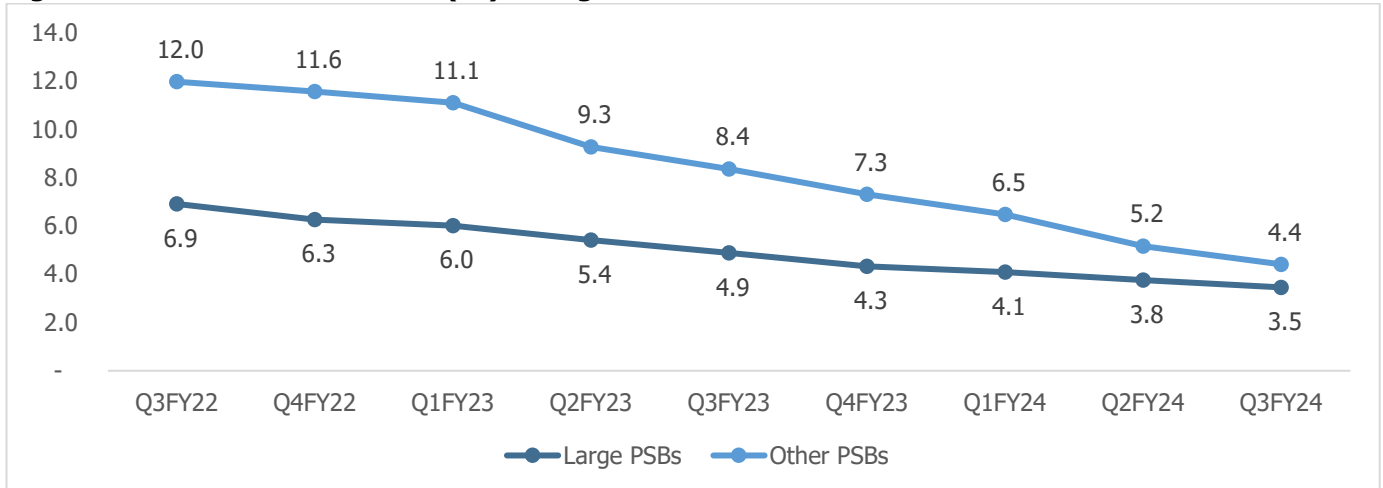
The reduction in the absolute stock of GNPA's along with rising advances has led to the GNPA ratio of SCBs reducing to 3.0% as of December 31, 2023, from 4.6% a year ago. Overall, it has been showing a consistent improvement over the last few years.

Figure 3: Gross NPA Ratio Trend (%)



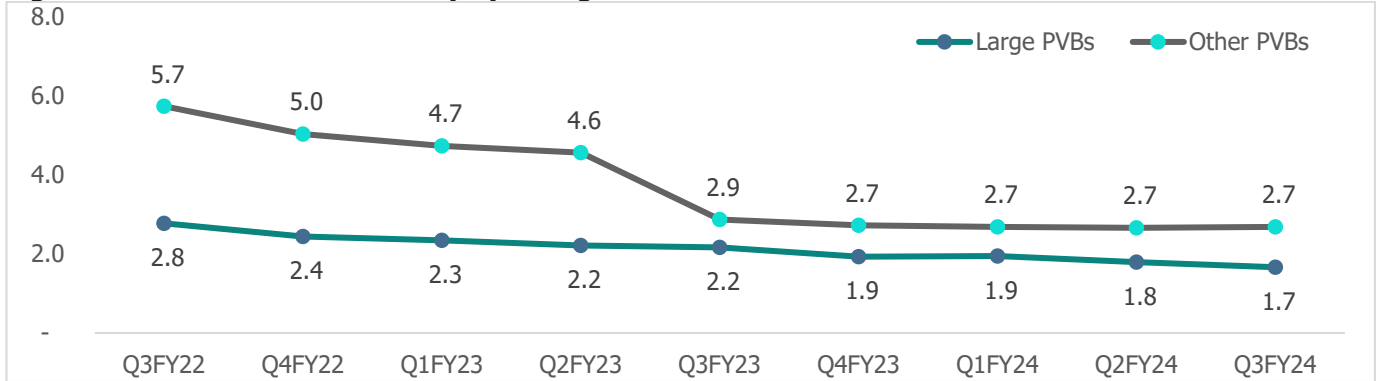
Source: Ace Equity, CareEdge Calculations; Note: Includes 14 PSBs and 16 PVBs (total 30 SCBs)

Figure 4: Gross NPA Ratio Trend (%) – Large PSBs Vs. Other PSBs



Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large PSBs + 9 Other PSBs)

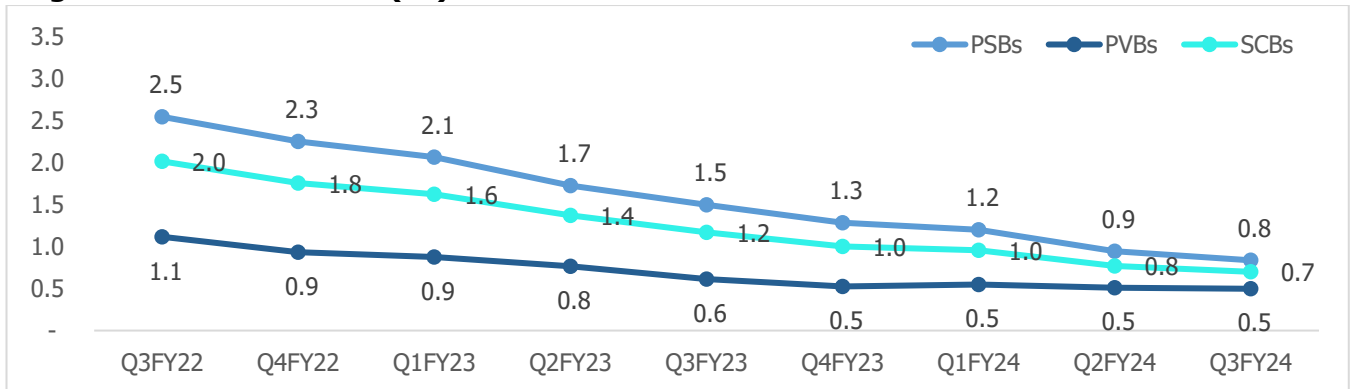
Figure 5: Gross NPA Ratio Trend (%) – Large PVBs Vs. Other PVBs



Source: Ace Equity, CareEdge Calculations, Note: Includes 18 PVBs (3 Large PVBs + 15 Other PVBs)

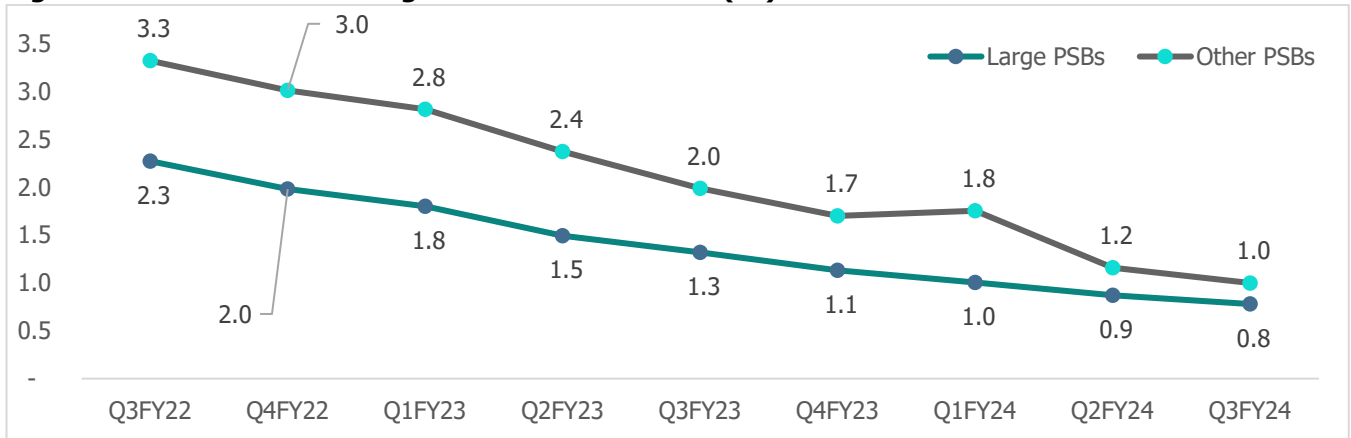
- The overall GNPA Ratio of SCBs has seen a declining trend in last few quarters and stood at 3.0% as on December 31,2023.
- PSBs GNPA ratio reduced by 212 bps y-o-y to 3.7% as of December 31, 2023, within this other PSBs saw a steep decline by 395 bps y-o-y to 4.4% as of December 31, 2023, as we see an improvement in asset quality for PSBs.
- PVBs GNPA ratio reduced by 44 bps y-o-y to 2.0% as of December 31, 2023, within this large PVBs reduced by 50 bps y-o-y to 1.7% as of December 31, 2023.

Figure 6: Net NPA Trend (%)



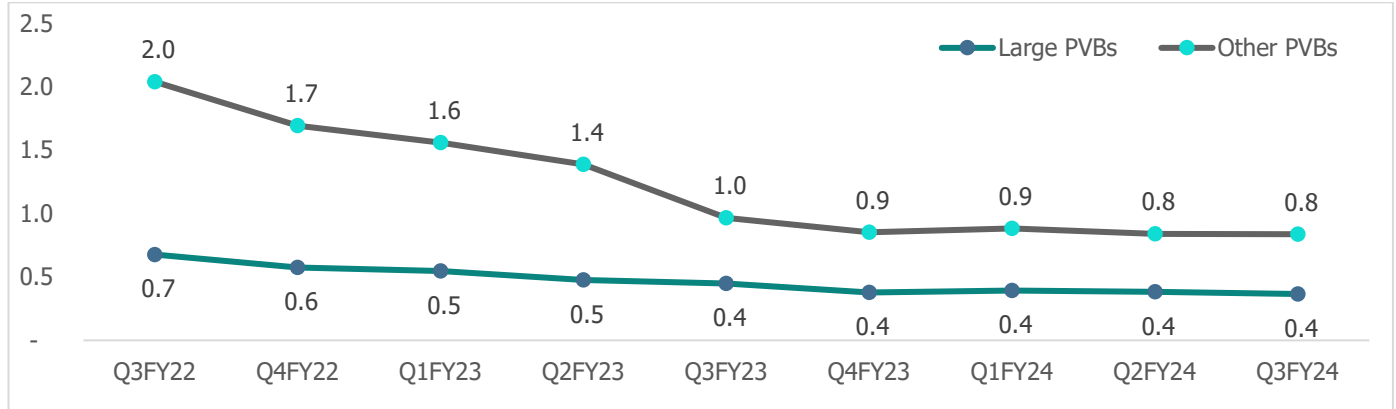
Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs and 16 PVBs (total 30 SCBs)

Figure 7: Net NPA Trend - Large PSBs Vs. Other PSBs (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large PSBs + 9 Other PSBs)

Figure 8: Net NPA Trend - Large PVBs Vs. Other PVBs (%)



Source: Ace Equity, CareEdge Calculations, Note: Includes 16 PVBs (3 Large PVBs + 13 Other PVBs)

- Reflecting the improvement of GNPA's and adequate provision levels. The NNPA ratio of SCBs also reduced significantly to 0.7% from 1.2% in Q3Y23. NNPA's of PSBs dropped by 66 bps to 0.8% in Q3FY24 while PVBs reported a drop of 12 bps to 0.5%.
- The NNPA ratio of large PSBs also reduced to 0.8% in Q3FY24 from 1.3% in Q3FY23, while other PSBs witnessed a higher reduction of 99 bps y-o-y to 1.0% for the same quarter.
- Other PVBs' NNPA was reduced by 13 bps y-o-y to 0.8% in Q3FY24, while large PVBs were reduced by 8 bps to 0.4% in the same quarter.

Figure 10: Recoveries, upgrades, Write-Offs and Slippages (Rs. Lakh - Cr.)

PSBs	Q3FY23	Q2FY24	Q3FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.14	0.20	0.13	-8.6	-35.1
Write-Offs	0.35	0.28	0.27	-21.8	-4.3
Slippages	0.23	0.24	0.20	-16.6	-18.2

Source: Bank Presentations, CareEdge Calculations, 14 PSBs (5 Large PSBs + 9 Other PSBs)

Large PSB recoveries and upgrades came in at Rs. 0.18 lakh crore in Q3FY24 Vs. 0.21 lakh crore over a year ago. While write-offs were at Rs. 0.34 lakh crore Vs 0.29 lakh crore in Q3FY23.

Figure 11: Recoveries, Upgrades, Write-Offs and Slippages (Rs. Lakh - Cr.)

PVBs	Q3FY23	Q2FY24	Q3FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.12	0.14	0.15	23.9	8.7
Write-Offs	0.08	0.09	0.08	5.9	-6.5
Slippages	0.25	0.23	0.22	-10.9	-1.1

Source: Banks Presentation, CareEdge Calculations, Note 13 PVBs for slippages, 9 PVBs for recoveries, upgrades and write-offs

Figure 12: Select Banks’ Restructured Portfolio (Rs. Lakh - Cr.) – Shows Significant Reduction

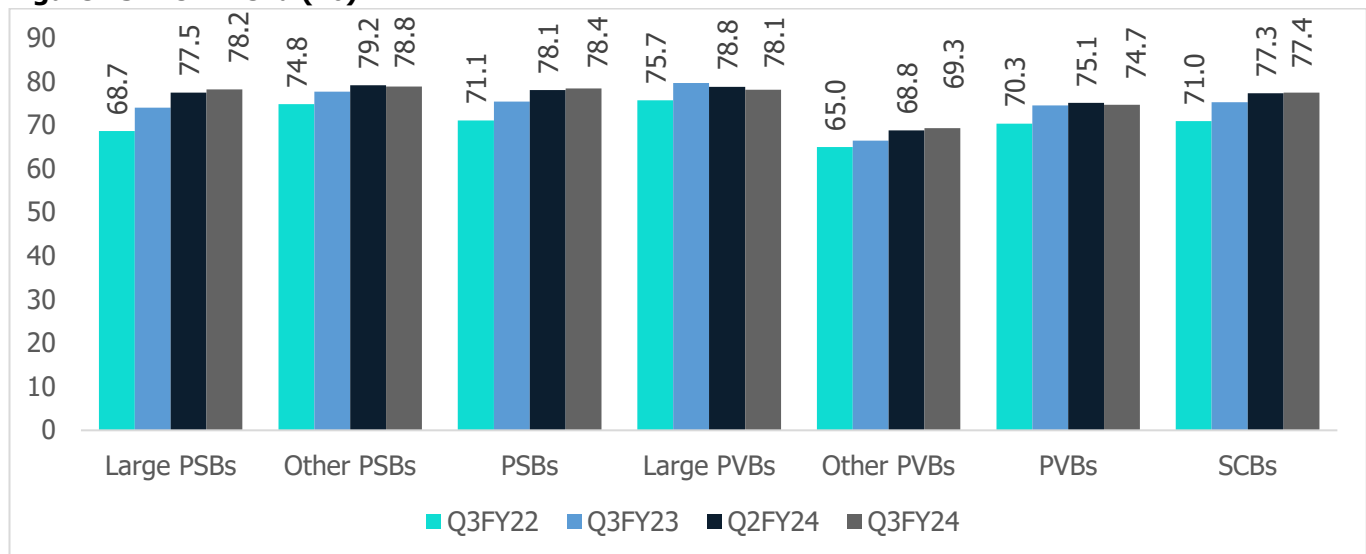
PSBs	Dec 31, 2022	Dec 31, 2023	y-o-y (%)	PVBs	Dec 31, 2022	Dec 31, 2023	y-o-y (%)
SBI	0.26	0.27	2.4	Yes	0.06	0.04	-23.2
UBI	0.19	0.15	-24.0	ICICI	0.05	0.04	-29.3
BoB	0.15	0.11	-25.2	Axis	0.02	0.02	-29.3
PNB	0.12	0.10	-17.8	IndusInd	0.03	0.01	-83.8
BoI	0.12	0.09	-18.9	Kotak	0.01	0.01	-32.3
IB	0.15	0.10	-34.4				
CBI	0.07	0.06	-14.7				
BoM	0.05	0.02	-61.3				
UCO	0.03	0.03	-18.0				
PSB	0.02	0.02	0.0				
Total	1.16	0.97	-16.6	Total	0.17	0.11	-37.6
% of Net Advances	1.7	1.2		% of Net Advances	0.8	0.3	

Source: Bank Presentations, CareEdge Calculations

Overall, restructuring has been reduced significantly due to repayment by borrowers, an uptick in economic activities and the slipping of some accounts into the NPAs.

Provision Coverage Ratio (PCR)

Figure 13: PCR Trend (%)



Source: Ace Equity, Note – PCR calculation (Provisions = GNPA-NPA), (PCR= Provisions/ NNPA)
Includes 14 PSBs and 16 PVBs (a total of 30 SCBs)

- The PCR of SCBs has been gradually increasing over the quarters and stood at 77.4% in Q3FY24. It also rose by 289 bps y-o-y in the quarter, mainly driven by PSBs.

Figure 14: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

Credit Cost	Q3FY22	Q3FY23	Q2FY24	Q3FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.18	0.19	0.10	0.07	-60.35	-25.68
Other PSBs	0.07	0.08	0.06	0.05	-34.87	-5.62
PSBs	0.25	0.27	0.16	0.13	-52.50	-18.35
Large PVBs	0.06	0.07	0.04	0.06	-3.19	46.35
Other PVBs	0.05	0.05	0.04	0.04	-20.34	5.62
PVBs	0.11	0.12	0.08	0.11	-10.98	26.52
SCBs	0.36	0.39	0.24	0.23	-39.71	-2.65

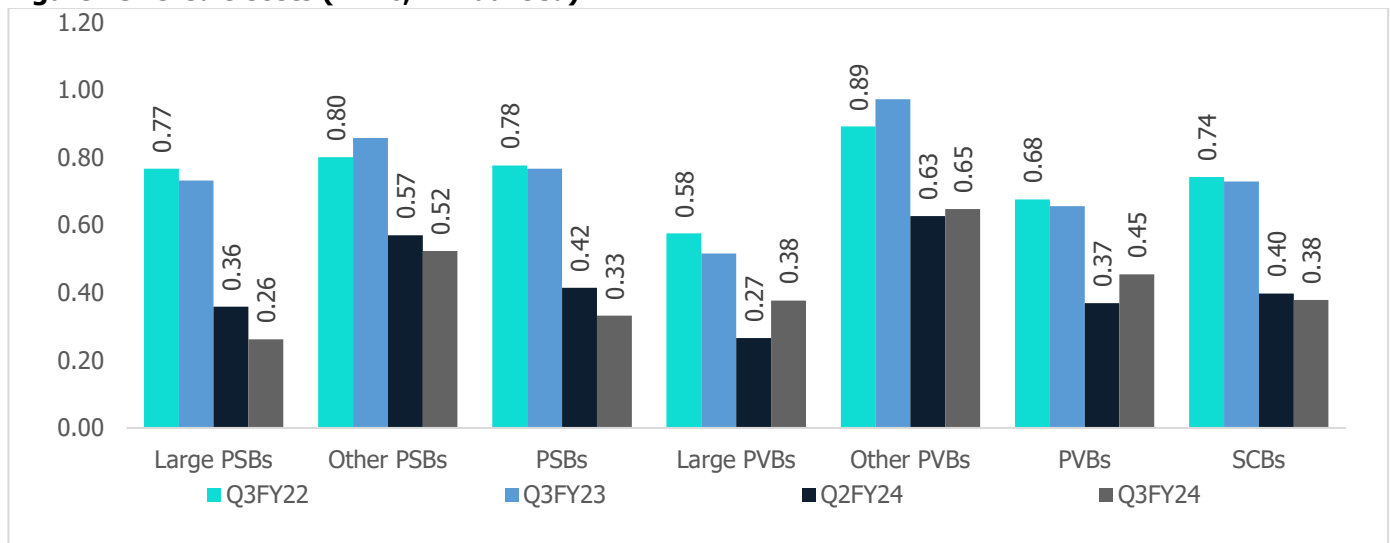
Source: Ace Equity, CareEdge Calculations, Note 14 PSBs (5 Large + 9 Others), 18 PVBs (3 Large + 13 others)

SCBs credit cost declined by 39.71% y-o-y to Rs. 0.29 lakh crore in Q3FY24 as the banks especially PSBs already hold a substantial buffer for provisions along with improvement in the asset quality which has necessitated lower incremental provisioning in the quarter. PSB provisions dropped by 52.5% y-o-y to Rs. 0.19 lakh crore in Q3FY24, within this large PSBs reported a major drop in provisions for the quarter. PVB provisions increased by 7.2% y-o-y in the quarter as PVBs made provisions especially on their AIF Investments.

In the meanwhile, many of the banks have started discussions and initial actions on creating additional provisions which may be necessitated over the next five-six years to meet the requirements of provisioning for expected credit loss (ECL), also as per recent RBI notification, on unsecured loans and AIF, the cap on risky assets will play a positive role in improving asset quality even further in coming quarters.

Credit cost (annualised) of SCBs declined by 35 bps to 0.38% in Q3FY24 and it has been generally trending down from 1.44% in Q4FY21. For PSBs, it reduced by 43 bps to 0.33% in the quarter, while for PVBs, it dropped by 20 bps to 0.45% in the same period. Credit cost has witnessed a significant reduction over the last 6-8 quarters due to holding a substantial buffer for provisions and improvement in asset quality.

Figure 15: Credit Costs (In %, Annualised)



Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

Conclusion

The gross non-performing assets (GNPA) ratio of SCBs has moved past the pre-asset quality review (AQR) levels in Q3FY24. This trend is expected to be maintained in FY24 due to several factors, including healthy growth in advances driven by an uptick in economic activities, lower incremental slippages, and a reduction in restructured portfolios. Hence, the SCB GNPA ratio could improve to 2.80%-2.90% by FY24 end. NNPA ratio is at a record low at 0.8% as of December 31, 2023, and is likely to trend even lower in the next few quarters as PSBs continue to report improved asset quality figures. Further SCBs also maintain a substantial buffer for provisions, which also creates a somewhat benign credit cost environment. Due to the sharp growth trends and recent RBI notification, the performance of unsecured loans and other newly originated personal loans remains a key monitorable. Downside risks include an increase in crude oil prices, global economic slowdown, global monetary and liquidity tightening, and elevated interest rates.

Annexure

Note: Analysis based on 30 scheduled commercial banks (14 PSBs, and 16 PVBs). Prior period numbers would not be comparable to earlier reports on account of the reclassification of select banks.

Large PSBs	Bank of Baroda	Canara Bank	Indian Bank	Punjab National Bank	State Bank of India		
Other PSBs	Bank Of India	Bank Of Maharashtra	Central Bank of India	Indian Overseas Bank	IDBI Bank	UCO Bank	Union Bank of India
	Jammu & Kashmir Bank	Punjab & Sind Bank					
PSBs	Large PSBs and Others PSBs (Total 14 PSBs)						
Large PVBs	HDFC Bank	ICICI Bank	Axis Bank				
Other PVBs	Yes Bank	IDFC First Bank	RBL Bank	Kotak Mahindra Bank	IndusInd Bank	Federal Bank	South India Bank
	Karnataka Bank	Dhanlaxmi Bank	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank	
PVBs	Large PVBs and Others PVBs (Total 16 Banks)						
SCBs	PSBs + PVBs (Total 30 Banks)						

Annexures

Annexure 1: SCBs – Gross NPAs and Net NPAs Trend (Rs. Lakh – Cr)

Asset Quality	FY22		FY23				FY24			(%)	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	y- o-y	q-o-q
Gross NPAs											
Large PSBs	3.67	3.49	3.45	3.25	3.03	2.79	2.69	2.55	2.44	-19.6	-4.3
Other PSBs	2.39	2.44	2.37	2.09	1.95	1.76	1.63	1.31	1.17	-40.3	-10.8
PSBs	6.06	5.93	5.82	5.34	4.99	4.56	4.32	3.86	3.61	-27.7	-6.5
Large PVBs	0.76	0.72	0.72	0.71	0.71	0.68	0.69	0.78	0.76	6.2	-3.2
Other PVBs	0.77	0.71	0.71	0.69	0.45	0.43	0.45	0.46	0.49	8.3	5.2
PVBs	1.53	1.43	1.43	1.40	1.16	1.11	1.14	1.24	1.24	7.0	-0.1
SCBs	7.59	7.36	7.26	6.73	6.15	5.66	5.45	5.10	4.85	-21.1	-4.9
Net NPAs											
Large PSBs	1.15	1.04	1.00	0.86	0.79	0.71	0.64	0.57	0.53	-32.6	-7.4
Other PSBs	0.60	0.58	0.56	0.50	0.44	0.39	0.41	0.27	0.25	-43.3	-9.3
PSBs	1.75	1.62	1.55	1.36	1.22	1.10	1.05	0.85	0.78	-36.4	-8.0
Large PVBs	0.19	0.17	0.16	0.15	0.15	0.13	0.14	0.17	0.17	14.2	0.1
Other PVBs	0.27	0.23	0.23	0.21	0.15	0.13	0.15	0.14	0.15	-0.9	3.6
PVBs	0.45	0.40	0.39	0.36	0.30	0.26	0.28	0.31	0.31	6.5	1.7
SCBs	2.20	2.02	1.95	1.72	1.52	1.36	1.33	1.16	1.09	-28.1	-5.4

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others,) and 16 PVBs (3 large, 13 Others)

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