

PSBs Continue Balance Sheet Clean-up, while PVBs Witness Sequential Increase



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Synopsis

- Gross Non-Performing Assets (GNPAs) of Scheduled Commercial Banks (SCBs) reduced by 15.2% during the period to Rs. 4.57 lakh crore as of June 30, 2024, meanwhile, the GNPA ratio reduced to 2.8% as of June 30, 2024, from 3.8% over a year ago.
- Net Non-Performing Assets (NNPAs) of SCBs reduced by 24.9% y-o-y to Rs. 1.00 lakh crore as of June 31, 2024. The NNPA ratio of SCBs reduced to an all-time low of 0.6% from 1.0% in Q1FY24.
- SCBs NNPA sequentially saw a decline of 3 bps and stood at 0.61 bps, however within SCBs, Private Banks (PVBs) increased by 3 bps driven by seasonal weakness in collections and higher delinquencies in the retail segment and stood at 0.46% in the current quarter.
- SCBs credit cost (annualised) declined by 11 basis points (bps) y-o-y to 0.41% in Q1FY25. Besides, it has been generally trending down from 0.87% in Q4FY22. Public Sector Banks (PSBs) have been holding substantial buffers for provisions over the last 6-8 quarters, which along with continuous improvement in the asset quality required a lower level of incremental provisioning, resulting in lower credit costs.
- Restructured assets for select nine PSBs reduced by 24.7% y-o-y to Rs. 0.64 lakh crore as of June 30, 2024. Meanwhile, restructured assets of selected 5 PVBs declined by 35.9% to Rs. 0.08 lakh crore due to repayments made by the borrowers, an uptick in the economic activities and slipping some accounts into the NPAs. Restructured assets (Nine PSBs + Five PVBs) as a percentage of net advances stood at 0.4% as of June 30, 2024, dropping by approximately 27 bps over a year ago period.
- The Provision Coverage Ratio (PCR) of SCBs expanded by 281 bps y-o-y to 78.1% Q1FY25 mainly due to improvement in overall asset quality, driven by reduction in NPAs, lower slippages compared to recoveries/writeoffs.

Figure 1: SCBs – Gross NPAs and Net NPAs Trend (%)

Asset Quality	FY23				FY24				FY25	(bps)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	y-o-y	q-o-q
Gross NPAs											
Large PSBs	6.0	5.4	4.9	4.3	4.1	3.8	3.5	3.2	3.1	-101	-12
Other PSBs	11.1	9.3	8.4	7.3	6.5	5.4	4.6	4.3	3.9	-254	-41
PSBs	7.4	6.5	5.8	5.1	4.7	4.2	3.8	3.5	3.3	-142	-19
Large PVBs	2.3	2.2	2.2	1.9	1.9	1.8	1.7	1.6	1.7	-28	7
Other PVBs	4.7	4.5	2.8	2.7	2.7	2.6	2.7	2.2	2.2	-43	3
PVBs	3.1	2.9	2.4	2.2	2.2	2.0	1.9	1.8	1.8	-35	6
SCBs	5.8	5.2	4.6	4.1	3.8	3.3	3.0	2.8	2.7	-107	-10
Net NPAs											
Large PSBs	1.8	1.5	1.3	1.1	1.0	0.9	0.8	0.7	0.7	-34	-2
Other PSBs	2.8	2.4	2.0	1.7	1.8	1.2	1.0	0.9	0.8	-100	-19
PSBs	2.1	1.7	1.5	1.3	1.2	1.0	0.8	0.8	0.7	-51	-6
Large PVBs	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	1	4
Other PVBs	1.6	1.4	1.0	0.9	0.9	0.8	0.8	0.7	0.7	-19	1
PVBs	0.9	0.8	0.6	0.5	0.5	0.5	0.5	0.5	0.5	-6	3
SCBs	1.6	1.4	1.2	1.0	1.0	0.8	0.7	0.6	0.6	-35	-3

Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs (5 Large, 9 Others,) and 15 PVBs (3 large, 13 Others)

The GNPA of SCBs reduced by 15.2% y-o-y to Rs. 4.57 lakh crores as of June 30, 2024, vs. Rs. 5.66 lakh crores over a year ago due to lower slippages, steady write-offs, and decent recoveries in the year. PSBs' "Recoveries & Upgrades" stood at Rs. 0.17 lakh crore as compared to 0.21 lakh crore in previous year. Overall, the SCBs' stress level has reduced on a y-o-y basis as their outstanding Special Mentioned Accounts (SMAs) (especially large PSBs) and the restructured book has also reduced in Q1FY25 by approx. 30%.

- GNPA of PSBs reduced by 21.2% y-o-y to Rs. 3.36 lakh crore as of June 30, 2024, recoveries and slippage were comparatively steady during the year. Within PSBs, other PSBs' GNPA reduced significantly by 30.7% y-o-y to Rs. 1.09 lakh crore as of June 30, 2024.
 - PSB slippages reduced by 8.4% y-o-y to Rs. 0.24 lakh crore in Q1FY25.
 - Also, write-offs and recoveries declined from Rs. 0.44 lakh crore last year to Rs. 0.33 lakh crore in the quarter.
- On the other hand, PVBs' GNPA increased by 7.3% y-o-y to Rs. 1.21 lakh crore as of June 30, 2024. This was driven by merger impact, along with a rise in slippages, which stood at 0.23 lakh crore in Q1FY25 compared to 0.20 lakh crore in Q1FY24.

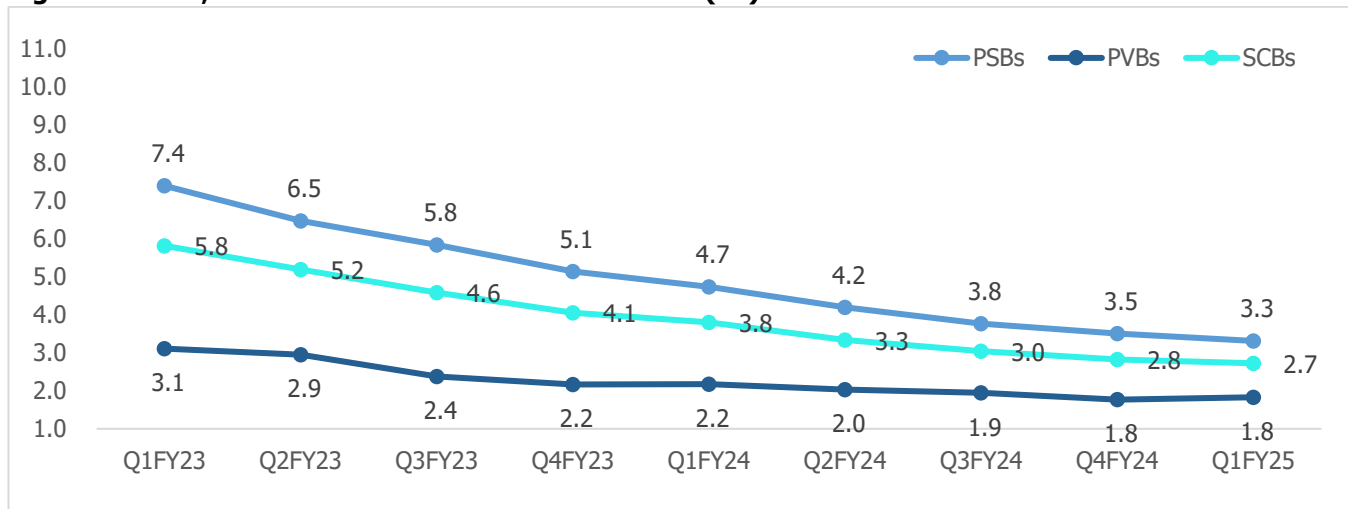
The NNPA of SCBs reduced by 24.9% y-o-y to Rs. 1.00 lakh crores as of June 30, 2024, vs. Rs. 1.33 lakh crores over a year ago.

- NNPA of PSBs reduced by 35.1% y-o-y to Rs. 0.68 lakh crore as of June 30, 2024 while NNPA of PVBs increased by 13.0% y-o-y, driven by merger along with higher defaults seen in retail segments, to Rs. 0.32 lakh crore as of June 30, 2024. Within PSBs the major reduction came from other PSBs which dropped by 51.7% y-o-y to Rs. 0.20 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 Q1FY25 y-o-y, driven by large PVBs which grew by 35.2% to 0.19 lakh crore, mainly driven by merger impact.

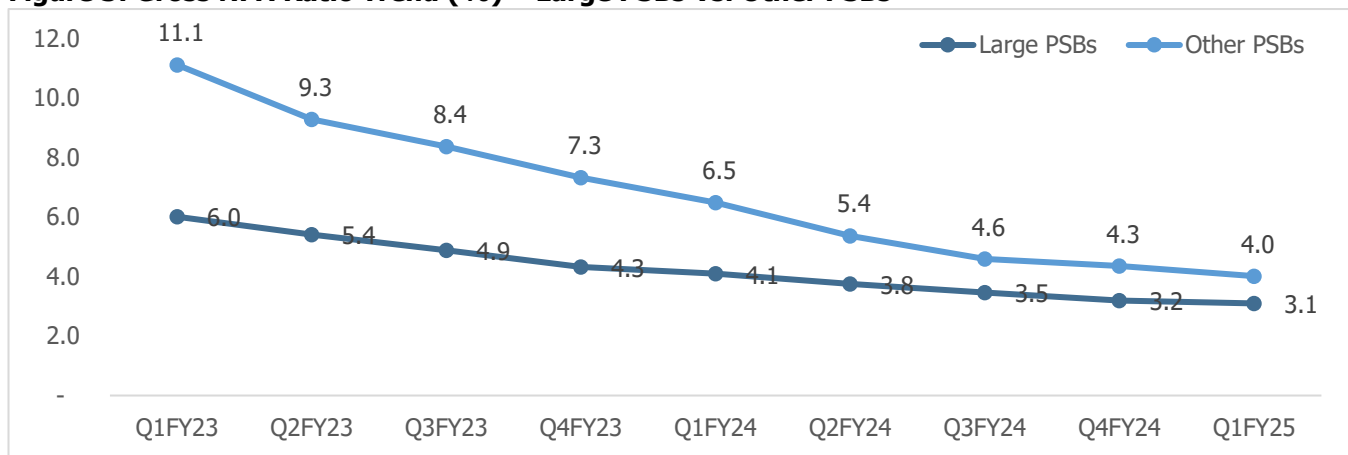
Sequentially GNPA of SCBs reduced by 2.3% q-o-q, driven by sharp improvement in asset quality of other PSBs which declined by 7.7% and reached 1.09 lakh crore as of June 30, 2024. Overall PSBs declined by 4.6%, however PVBs saw an uptick of 4.7% amid seasonal weakness. Write-offs saw a marginal downtick. The reduction in the absolute stock of GNPA and rising advances has led to the GNPA ratio of SCBs reducing to 2.8% as of June 30, 2024, from 3.8% a year ago. Overall, it has consistently improved over the last few years, however we can see sequential increase in PVBs driven by seasonal weakness in collections and higher defaults seen in the retail segment.

Figure 2: SCBs, PSBs PVBs – Gross NPA Ratio Trend (%)



Source: Ace Equity, CareEdge Calculations; Note: Includes 14 PSBs and 15 PVBs (total 29 SCBs)

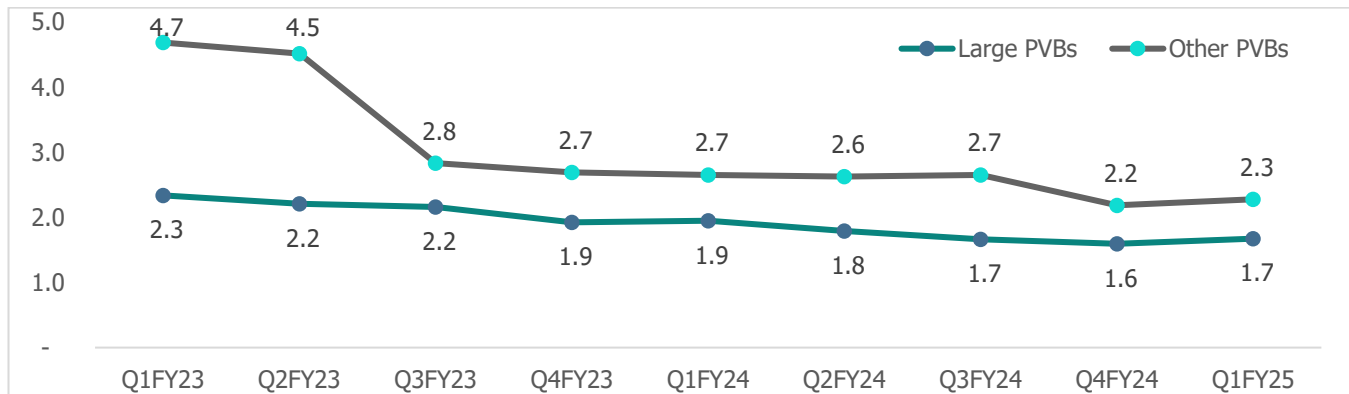
Figure 3: Gross NPA Ratio Trend (%) – Large PSBs Vs. Other PSBs



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

- PSBs GNPA ratio reduced by 139 bps y-o-y to 3.3% as of June 30, 2024, within this other PSBs reduced by 247 bps y-o-y to 4.0% as of June 30, 2024.

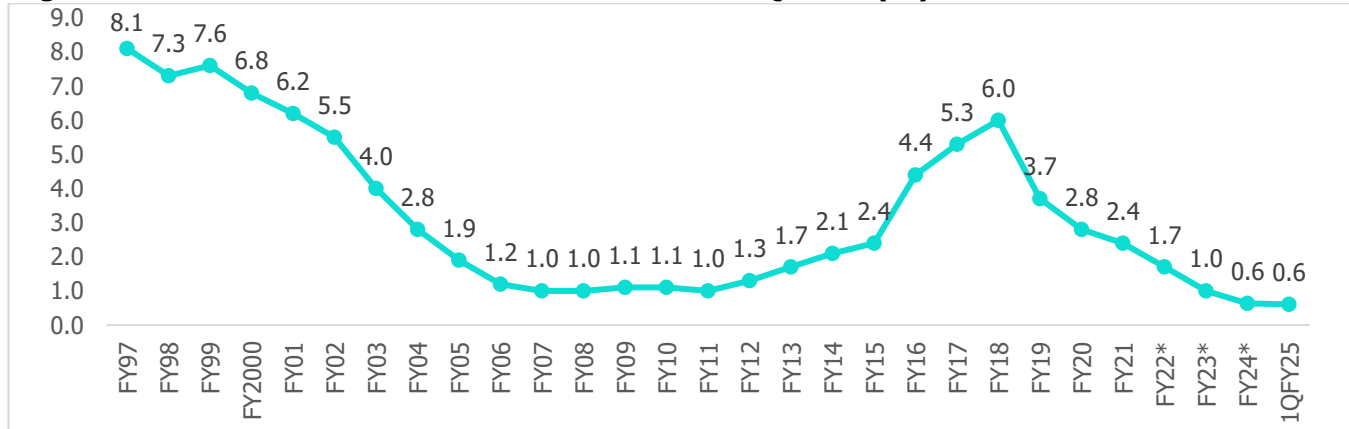
Figure 4: Gross NPA Ratio Trend (%) – Large PVBs Vs. Other PVBs



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

- PVBs GNPA ratio reduced by 32 bps y-o-y to 1.8% as of June 30, 2024, within this other PVBs reduced by 37 bps y-o-y to 2.3% as of June 30, 2024.

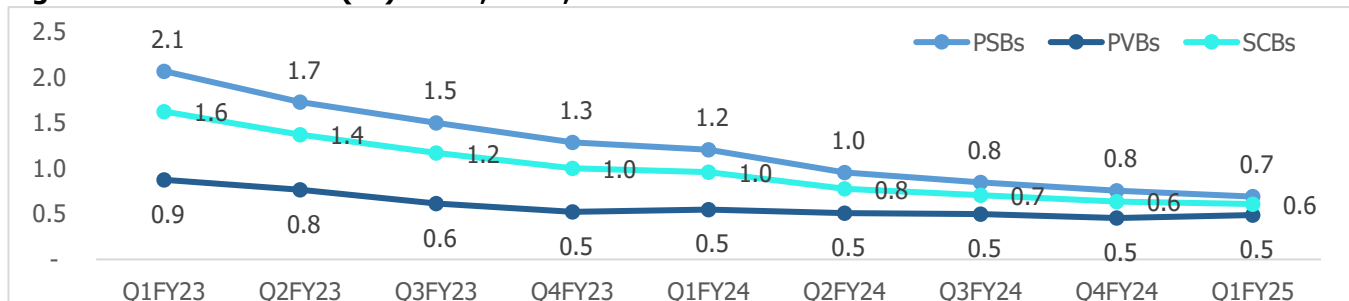
Figure 6: SCBs Witnesses All- Time Low NNPA Levels in Q1FY25 (%)



Source: RBI, * CareEdge Calculation Q1FY25, 29 SCBs (14 PSBs + 15 PVBs)

As of March 31, 2018, the NNPA ratio stood at 6% in FY18 which dropped to 0.6% as of June 30, 2024. 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 7: Net NPA Trend (%): SCBs, PSBs, PVBs

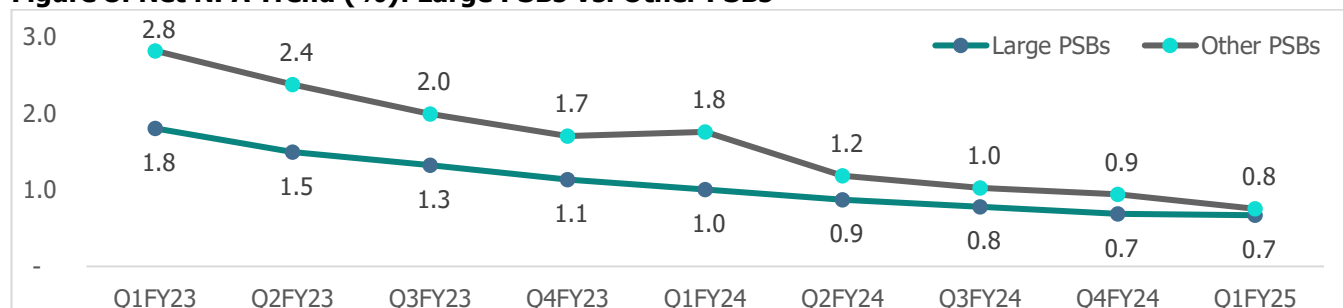


Source: Ace Equity, CareEdge Calculations, Note: Includes 14 PSBs and 15 PVBs (total 29 SCBs)

- Reflecting the improvement of GNPA's and adequate provision levels. The NNPA ratio of SCBs also reduced significantly to 0.6% from 1.0% in Q1FY24. NNPA's of PSBs dropped by 51bps to 0.7% in Q1FY25 while

PVBs reported a drop of 6 bps to 0.5%. However sequentially we saw marginal increase in PVBs of 3 bps from Q4FY24.

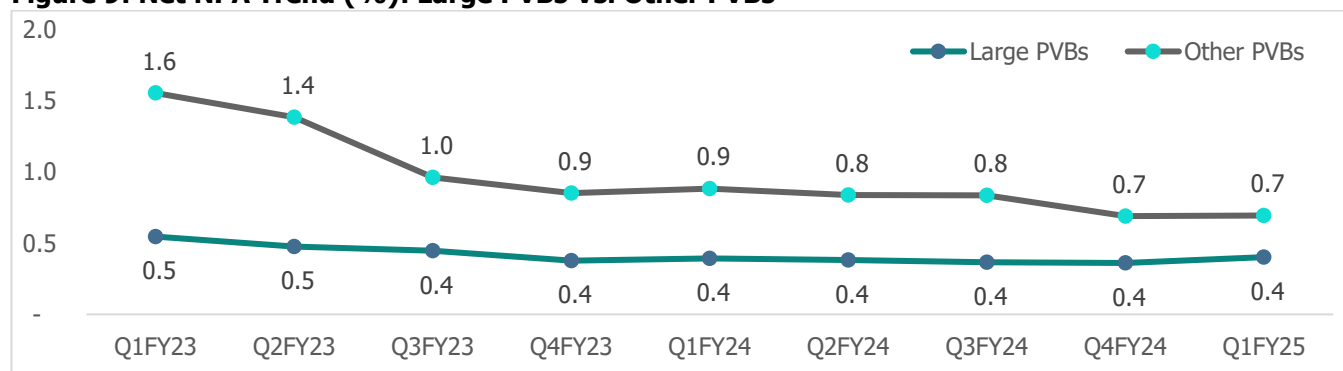
Figure 8: Net NPA Trend (%): Large PSBs Vs. Other PSBs



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

- The NNPA ratio of large PSBs also reduced to 0.7% in Q1FY25 from 1.1% in Q1FY24, while other PSBs witnessed a higher reduction of 100 bps y-o-y to 0.8% for the same quarter.

Figure 9: Net NPA Trend (%): Large PVBs Vs. Other PVBs



Source: Ace Equity, CareEdge Calculations, Note: Includes 15 PVBs (3 Large PVBs + 13 Other PVBs)

- Other PVBs' NNPA was reduced by 19 bps y-o-y to 0.7% in Q1FY25, while large PVBs increased marginally by 1 bps to 0.4% in the same quarter. Sequentially Large PVBs increased by 4 bps and other PVBs grew marginally by 1 bps.

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

PSBs	Q1FY24	Q4FY24	Q1FY25	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.20	0.13	0.13	-16.5	-0.8
Write-Offs	0.24	0.16	0.16	-33.2	0.3
Fresh Slippages	0.27	0.23	0.24	-8.4	4.7

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

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

PVBs	Q4FY23	Q3FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Recoveries & Upgrades	0.12	0.15	0.13	12.6	-10.8
Write-Offs	0.07	0.08	0.08	8.5	-5.7
Fresh Slippages	0.20	0.20	0.23	11.4	12.7

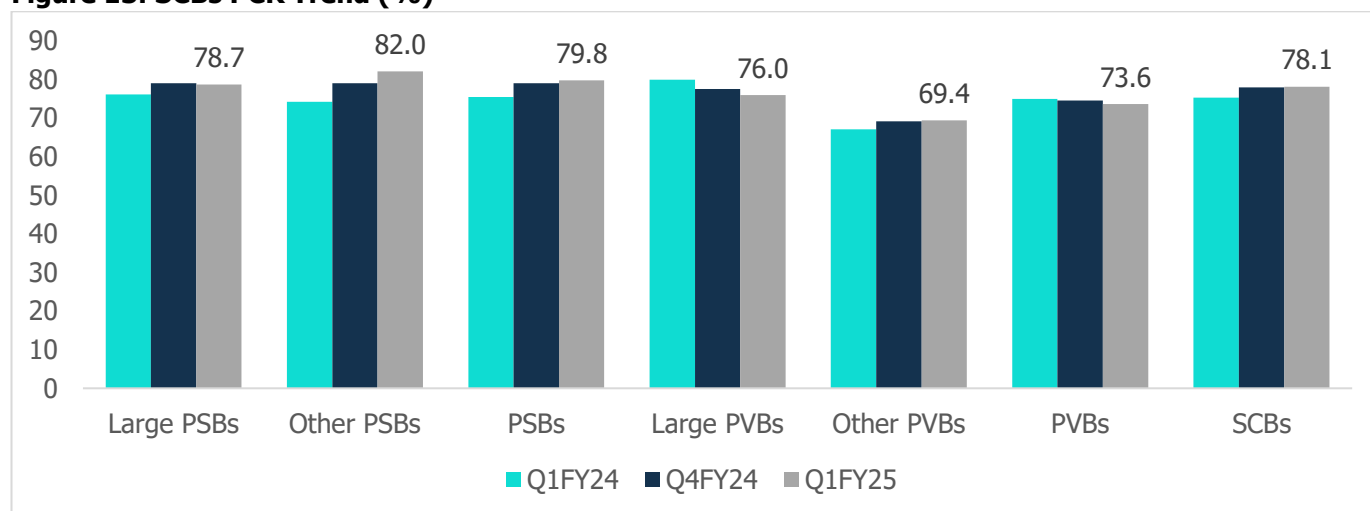
Source: Banks Presentation, CareEdge Calculations, Note 14 PVBs for slippages, 9 PVBs for recoveries, upgrades and write-offs

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

PSBs	June 30, 2023	June 30, 2024	Y-o-Y (%)	PVBs	June 30, 2023	June 30, 2024	Y-o-Y (%)
SBI	0.23	0.16	-29.3	Yes	0.05	0.04	-22.2
UBI	0.16	0.12	-27.5	ICICI	0.04	0.03	-30.7
PNB	0.11	0.09	-16.5	Axis	0.02	0.01	-26.1
BoI	0.10	0.07	-30.8	IndusInd	0.02	0.00	-84.1
IB	0.10	0.08	-24.9	Kotak	0.01	0.00	-48.4
CBI	0.06	0.06	-5.7				
BoM	0.04	0.02	-44.4				
UCO	0.03	0.02	-20.1				
PSB	0.02	0.02	5.8				
Total	0.85	0.64	-24.7	Total	0.13	0.08	-35.9
% of Net Advances	1.1	0.7		% of Net Advances	0.3	0.1	

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. Restructured portfolio for select 9 PSBs reduced by 24.7% y-o-y to Rs. 0.69 lakh crore as of June 30, 2024. Meanwhile, select five PVBs declined by 35.9% y-o-y to Rs. 0.08 lakh crore in the same period.

Provision Coverage Ratio (PCR)**Figure 13: SCBs PCR Trend (%)**

Source: Ace Equity, Note – PCR calculation (Provisions = GNPA-NPAs), (PCR= Provisions/ NNPA)
 Includes 14 PSBs and 15 PVBs (a total of 29 SCBs)

- The PCR of SCBs has been gradually increasing over the quarters and stood at 78.1% in Q1FY25. It also rose by 2 bps y-o-y in the quarter, mainly driven by PSBs.
 - SCBs GNPA declined by 15.2% y-o-y in the quarter while accumulated provisions declined by 12.0% in the same period, resulting in higher PCR.
 - PSBs' PCR improved by 255 bps y-o-y to 77.9% in the quarter as the rate of reduction in GNPA was faster than accumulated provisions.

- PVBs' PCR declined by 132 bps y-o-y to 73.6% in the quarter, as we saw an increase in GNPA's of PVBs driven by large PVBs.

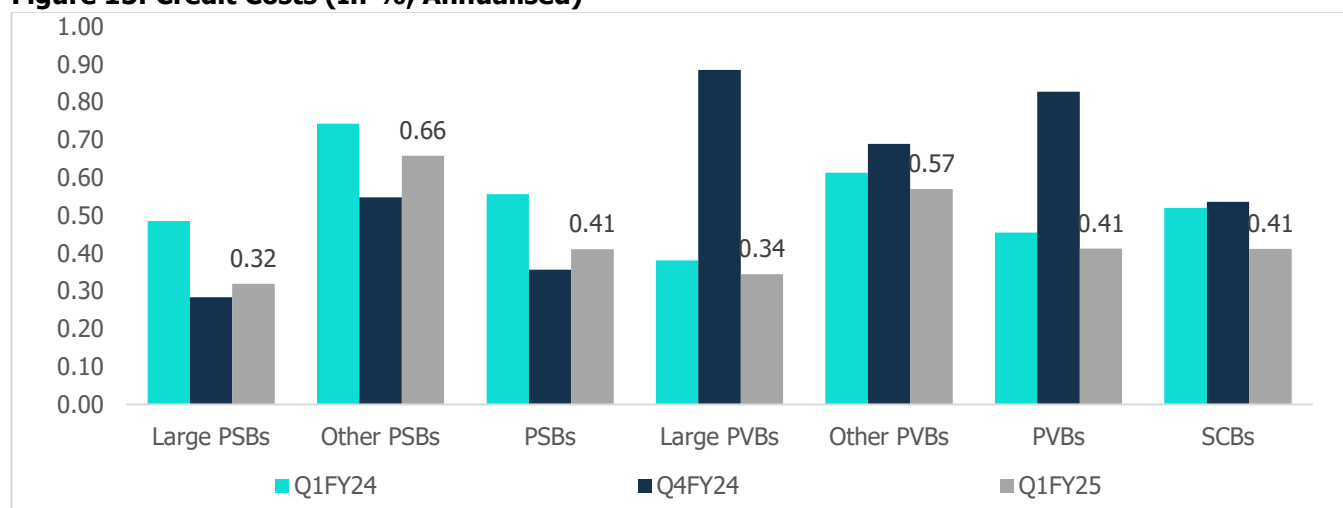
Figure 14: Credit Costs (Profit & Loss) (Rs. Lakh – Cr.)

Credit Cost	Q4FY22	Q4FY23	Q4FY24	Q4FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.21	0.14	0.07	0.08	-42.15	12.09
Other PSBs	0.09	0.13	0.05	0.06	-52.94	10.33
PSBs	0.31	0.27	0.13	0.14	-47.26	11.34
Large PVBs	0.05	0.05	0.06	0.15	234.32	144.91
Other PVBs	0.03	0.04	0.04	0.05	19.57	15.94
PVBs	0.08	0.09	0.11	0.20	132.23	92.50
SCBs	0.39	0.36	0.23	0.35	-3.22	48.10

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

SCBs credit cost declined by 9.6% y-o-y to Rs. 0.27 lakh crore in Q1FY25 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 Credit Cost dropped by 19.3% y-o-y to Rs. 0.16 lakh crore in Q1FY25, within this large PSBs reported a major drop in provisions for the quarter. PVB credit cost increased by 12.0% y-o-y in the quarter as it made higher standard provisions for growth of advances also impacted due to merger.

Credit cost (annualised) of SCBs declined by 11 bps y-o-y to 0.41% in Q1FY25 and it has been generally trending down from 1.44% in Q4FY21. For PVBs, in the current quarter it decreased by 4 bps to 0.41% in the quarter, while for PSBs, it dropped by 15 bps to 0.41% in the same period. Credit cost had witnessed a significant reduction over the last 6-8 quarters due to holding a substantial buffer for provisions and improvement in asset quality. However, in the current quarter, we saw an increase in credit cost for PSBs which increased by 5 bps, however trend for PVBs saw an increase of 37 bps as one-off provisions were missing in the current quarter for large PVBs.

Figure 15: Credit Costs (In %, Annualised)


Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 15 PVBs (3 large, 13 Others)

Conclusion

Credit offtake experienced robust growth of 18.1% (y-o-y) in Q1FY25 (driven by merger impact and high growth in personal loans) and the outlook remains positive for coming quarters, driven by economic expansion, increased capital expenditure, and the implementation of the PLI scheme.

The gross non-performing assets (GNPA) ratio of SCBs has reached low pre-asset quality review (AQR) levels. This trend is expected to be maintained in Q2FY25 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. NNPA ratio is at a record low at 0.6.% as of June 30, 2024.

Credit costs are expected to moderately increase impacting profitability and loss of accounts for banks if the Reserve Bank of India's proposed provisioning norms for projects under construction are implemented. The impact of incremental provisioning for public banks would be 0.2% and 0.1% on private banks between FY25 and FY27. Further SCBs also maintain a substantial buffer for provisions, which also creates a somewhat benign credit cost environment. 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 29 scheduled commercial banks (14 PSBs, and 15 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	DCB Bank	Bandhan Bank	City Union Bank	Karur Vysya Bank		
PVBs	Large PVBs and Others PVBs (Total 15 Banks)						
SCBs	PSBs + PVBs (Total 29 Banks)						

Gross NPAs (In Rs Lakh Crores)

Asset Quality	FY23				FY24				FY25	%	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	y- o-y	q-o-q
Gross NPAs											
Large PSBs	3.45	3.25	3.03	2.79	2.69	2.55	2.44	2.34	2.27	-15.6	-3.1
Other PSBs	2.37	2.09	1.95	1.76	1.57	1.36	1.21	1.18	1.09	-30.7	-7.7
PSBs	5.82	5.34	4.99	4.56	4.26	3.91	3.65	3.52	3.36	-21.2	-4.6
Large PVBs	0.72	0.71	0.71	0.68	0.69	0.78	0.76	0.74	0.78	12.9	5.0
Other PVBs	0.71	0.68	0.44	0.42	0.44	0.46	0.48	0.42	0.43	-1.4	4.1
PVBs	1.43	1.39	1.16	1.10	1.13	1.24	1.24	1.16	1.21	7.3	4.7
SCBs	7.25	6.73	6.14	5.66	5.40	5.15	4.89	4.68	4.58	-15.2	-2.3
Net NPAs											
Large PSBs	1.00	0.86	0.79	0.71	0.64	0.57	0.53	0.49	0.48	-24.6	-1.4
Other PSBs	0.56	0.50	0.44	0.39	0.41	0.29	0.26	0.25	0.20	-51.7	-21.0
PSBs	1.55	1.36	1.22	1.10	1.05	0.86	0.79	0.74	0.68	-35.1	-8.0
Large PVBs	0.16	0.15	0.15	0.13	0.14	0.17	0.17	0.17	0.19	35.2	12.1
Other PVBs	0.23	0.20	0.15	0.13	0.14	0.14	0.15	0.13	0.13	-8.2	3.4
PVBs	0.39	0.35	0.29	0.26	0.28	0.31	0.31	0.30	0.32	13.0	8.3
SCBs	1.94	1.71	1.52	1.36	1.33	1.17	1.11	1.04	1.00	-24.9	-3.3

Source: Ace Equity, CareEdge Calculations, Note includes 14 PSBs (5 Large, 9 Others,) and 15 PVBs (3 large, 13 Others)

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