NIM Compression Continues Amidst Tepid Loan Growth

May 05, 2025 l BFSI Research

Synopsis

- Net Interest Income (NII) of select Scheduled Commercial Banks (SCBs) grew at a slower pace of 8.4% in Q4FY25, reaching Rs 0.89 lakh crore, compared to Rs 0.82 lakh crore in Q4FY24, and the Net Interest Margin (NIM) for SCBs in Q4FY25 reduced on a y-o-y basis by five bps and stood at 3.55%. This slowdown can be attributed to sluggish credit growth amidst stress in high-yield unsecured and microfinance segments, tight liquidity and elevated deposit rates.
- SCBs reported a rise of 9.8% y-o-y in advances for Q4FY25. PVBs advances increased by 8.7% y-o-y, while PSBs grew comparatively higher at 17.0% y-o-y, mainly attributed to the higher growth share of priority sector lending (PSL). Meanwhile, deposits grew at 9.1% y-o-y in Q4FY25. CASA ratio declined by 180 bps y-o-y and reached 39.6% as of Q4FY25.
- The Credit and Deposit (C/D) ratio for SCBs remains elevated at 80.8% as of Q4FY25, rising by ~50 bps over a year ago as credit offtake outpaced deposit growth.

Movement of Net Interest Margin and Net Interest Income

Figure 1: Net Advances Growth: PSBs Outpace PVBs

Net Advances	Q4FY25 (Rs. Lakh Cr.)	Q4FY25 y-o-y (%)	Q4FY25 q-o-q (%)
PSBs	9.53	17.0	6.2
PVBs	56.30	8.7	3.2
SCBs	**65.83**	**9.8**	**3.6**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 4 PSBs and 7 PVBs

SCBs reported a modest increase of 9.8% y-o-y in advances for Q4FY25, and growth in PVBs was moderated. PVB advances increased by 8.7% y-o-y, while PSBs grew comparatively higher at 17.0% y-o-y.

Figure 2: NII Growth: Moderate Expansion Across SCBs

NII	Q4FY25 (Rs. Lakh Cr.)	Q4FY25 y-o-y (%)	Q4FY25 q-o-q (%)
PSBs	0.13	4.2	-4.5
PVBs	0.76	9.1	3.4
SCBs	**0.89**	**8.4**	**2.2**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 4 PSBs and 7 PVBs

- SCBs NII increased by 8.4% on a y-o-y basis. PVBs grew 9.1% y-o-y, however, PSBs increased by 4.2% in Q4FY25. This moderate growth was driven by a shift in loan mix towards lower yield segments and an increased cost of funds.

  Interest income of SCBs rose by 7.0% y-o-y in Q4FY25, PVBs rose by 6.6%, while PSBs grew at 12.7%. Meanwhile, interest expenses of SCBs rose by 8.4% y-o-y in Q4FY25 due to repricing of existing deposits. PVBs grew y-o-y by 8.9% and PSBs by 13.1% on the back of stronger term deposit growth across SCBs.

- Sequentially, SCBs NII increased marginally by 2.2%, PVBs witnessed a growth of 3.4%, in contrast PSBs declined by 4.5% in Q4FY25.

Figure 3: NIM Trend (%): SCBs on a declining trend

	FY24				FY25				y-o-y (bps)	q-o-q (bps)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
PSBs	3.70	3.14	3.24	3.40	3.27	3.39	3.50	3.18	-22	-32
PVBs	3.96	3.90	3.68	3.64	3.66	3.65	3.61	3.62	-2	1
SCBs	**3.92**	**3.77**	**3.61**	**3.60**	**3.60**	**3.61**	**3.59**	**3.55**	**-5**	**-4**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 4 PSBs and 7 PVBs

- NIM declined by five bps y-o-y in Q4FY25; PVBs and PSBs declined by two bps and 22 bps, respectively, due to subdued credit growth and tight liquidity conditions.
- Sequentially, SCBs dropped by four bps, wherein PVBs saw an uptick of 1 bps, and PSBs declined by 32 bps primarily due to exposure to low-yield segments and loan repricing at lower rates. The elevated NIMs for PSBs in Q2FY25 and Q3FY25 were driven by a focus on high-yield loans, effective cost management and a low base effect, as interest income growth outpaced the rise in funding costs.

Figure 4: Movement in CASA Ratio

CASA Ratio (%)	Q4FY24	Q3FY25	Q4FY25	y-o-y (Changes in bps)	q-o-q (Changes in bps)
PSBs	47.9	45.5	46.4	-150	90
PVBs	40.0	36.7	38.1	-190	140
SCBs	**41.4**	**38.2**	**39.6**	**-180**	**140**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 4 PSBs and 7 PVBs

Despite a moderate increase in net advances and deposits, the CASA ratio declined to 39.6% in Q4FY25 compared to Q4FY24. This was primarily due to a stronger growth in term deposits, which rose by 16.0% y-o-y. In contrast, CASA grew by a modest 7.8% y-o-y.

Figure 5: Yield on Advances (%)

	Central Bank of India	DCB Bank	IDBI Bank	RBL Bank	UCO Bank
Yield on Advances	8.5	11.5	9.9	13	8.9
q-o-q (bps)	-47	10	25	-30	-12
y-o-y (bps)	-37	-17	-96	-50	-16

Note: Data as per banks' presentations; Note: Includes 4 PSBs and 7 PVBs

Figure 6: Cost of Funds (%)

	Central Bank of India	DCB Bank	IDBI Bank	RBL Bank	UCO Bank
Cost of Funds	4.9	7.3	4.8	6.5	4.8
q-o-q (bps)	2	14	4	-10	3
y-o-y (bps)	7	20	5	-10	9

Note: Data as per banks' presentations; Note: Includes 4 PSBs and 7 PVBs

Figure 7: Spreads (%)

	Central Bank of India	DCB Bank	IDBI Bank	RBL Bank	UCO Bank
Spreads	3.6	4.2	5.1	6.5	4.1
q-o-q (bps)	-49	-10	-27	-20	-21
y-o-y (bps)	-44	-34	-127	-60	-25

Note: Data as per banks presentations; Note: Includes 4 PSBs and 7 PVBs

Conclusion

Banks continued to face pressure on NIMs in Q4FY25, amid subdued loan and deposit growth. Slower NII growth has been driven by tepid demand for home & vehicle loans, particularly the passenger car segment and heightened pricing competition in mortgages and corporate lending. Ongoing regulatory changes and intense competition for deposits further exacerbated the pressure on NIMs. Looking ahead, NIMs are likely to stay moderate. However, the impact on yield may be higher due to EBLR. Additionally, the repricing of loans linked to MCLR and EBLR is expected to put further strain on NIMs.

Annexure

Note: Analysis based on 11 scheduled commercial banks (4 PSBs and 7 PVBs). Prior period numbers would not be comparable to earlier reports on account of the reclassification of select banks.

Group	**Banks**						
PSBs	Bank Of Maharashtra	UCO Bank	Central Bank of India	IDBI Bank			
PVBs	HDFC Bank	ICICI bank	IDFC First Bank	DCB Bank	Axis Bank	Yes Bank	RBL Bank
SCBs	**PSBs + PVBs (Total 11 Banks)**						

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91-81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91-90049 52514
Ankush Pathrabe	Analyst – BFSI Research	ankush.pathrabe@careedge.in	+91 - 22 - 6754 3629 / +91-9039984978
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited
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

Connect:

Locations: Ahmedabad I Andheri-Mumbai I Bengaluru I Chennai I Coimbatore I Hyderabad I Kolkata I Noida I Pune

About Us:
CareEdge is a knowledge-based analytical group offering services in Credit Ratings, Analytics, Consulting and Sustainability. Established in 1993, the parent company CARE Ratings Ltd (CareEdge Ratings) is India's second-largest rating agency, with a credible track record of rating companies across diverse sectors and holding leadership positions in high-growth sectors such as BFSI and Infra. The wholly-owned subsidiaries of CareEdge Ratings are (I) CARE Analytics & Advisory Private Ltd (previously known as CARE Risk Solutions Pvt Ltd), (II) CARE ESG Ratings Ltd, (previously known as CARE Advisory Research and Training Ltd) and (III) CareEdge Global IFSC Ltd. CareEdge Ratings' other international subsidiary entities include CARE Ratings (Africa) Private Ltd in Mauritius, CARE Ratings South Africa (Pty) Ltd, and CARE Ratings Nepal Ltd. For more information: www.careedge.in.