Operating Profit of SCBs Buoyed by Robust Other Income

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Synopsis

- Pre-provision operating profit (PPOP) for select Scheduled Commercial Banks (SCB) grew by 6.0% year-on-year (y-o-y) to reach Rs 1.26 lakh crore in Q4FY25, driven by higher growth in total income (buttressed by other income) compared to the rise in operating expenses. Furthermore, sequentially, PPOP increased by 11.0%, primarily due to growth in other income, including treasury gains and fee-based income.
  - Public Sector Banks (PSBs) reported 12.0% y-o-y PPOP growth, wherein Large PSBs reported 8.0% and Other PSBs grew by 27.8%, supported by gains on treasury and higher forex income.
  - Private Sector Banks (PVBs) saw a modest 1.3% y-o-y rise, weighed down by an 8.5% decline in non-interest income along with a 4.13% y-o-y drop in treasury income for select PVBs. Large PVBs and Other PVBs grew by 0.2% and 6.4% respectively.
- The cost-to-income ratio of SCBs slightly worsened, increasing by 30 bps y-o-y to 48.4% in Q4FY25. Despite a decline in Net Interest Margin (NIM), due to rising cost of funds and initial effects of lending rate repricing, banks were able to partially offset NIM compression through higher earnings from non-interest income along with slower growth in operating expenses, which slowed to 7.5% in Q4FY25 from 16.0% in Q4FY24.

Figure 1: PPOP Witnesses a Rise as Other Income Improves for PSBs (Rs Lakh Crore)

Group	Q4FY25	y-o-y (%)	q-o-q (%)
Large PVBs	0.55	0.2	4.8
Other PVBs	0.13	6.4	-0.5
PVBs	**0.68**	**1.3**	**3.7**
Large PSBs	0.44	8.0	23.6
Other PSBs	0.18	27.8	12.3
PSBs	**0.62**	**12.0**	**20.7**
SCBs	**1.26**	**6.0**	**11.0**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 21 SCBs (11 PVB and 10 PSB)

- PPOP of SCBs grew by 6.0% y-o-y to reach Rs 1.26 lakh crore in Q4FY25. PSBs grew at 12.0% y-o-y faster than PVBs at 1.3% y-o-y. PSBs growth was supported primarily by improved treasury performance, as falling bond yields generated MTM gains, and rising forex income at a large bank. Meanwhile, PVBs reported a slower PPOP growth impacted by an 8.5% drop in non-interest income.
- Sequentially, the PPOP of SCBs grew by 11% supported by MTM gains from softening bond yields, and higher fee income. This was offset by subdued loan growth in select segments and rising deposit costs, which impacted NIMs.

Figure 2: Cost-to-Income Ratio Slightly Worsened

	FY24				FY25				y-o-y	q-o-q
Group	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	(bps)	(bps)
Large PVBs	43.3	42.7	42.4	40.3	42.0	41.4	41.2	41.0	70	-20
Other PVBs	56.1	57.7	60.2	58.6	57.2	57.6	58.0	59.0	40	100
PVBs	**46.6**	**46.4**	**46.8**	**44.8**	**46.0**	**45.6**	**45.5**	**45.6**	**80**	**10**
Large PSBs	48.8	56.5	56.9	50.6	48.8	47.2	52.8	51.9	130	-90
Other PSBs	46.1	54.3	52.6	56.0	52.5	49.8	49.8	49.7	-630	-10
PSBs	**48.2**	**56.1**	**55.9**	**51.8**	**49.6**	**47.8**	**52.1**	**51.4**	**-40**	**-70**
SCBs	**47.4**	**50.9**	**51.0**	**48.1**	**47.6**	**46.6**	**48.5**	**48.4**	**30**	**-10**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 21 SCBs (11 PVB and 10 PSB)

- The cost-to-income ratio of SCBs worsened, increasing by 30 bps y-o-y reaching 48.4% in Q4FY25 from 48.1% in Q4FY24. This increase was primarily driven by a combination of NIM compression and the growth in operating expenses at 7.5%, which has outpaced the combined growth of Net Interest Income (NII) and other income at 6.9%.
- PVBs worsened by 80 bps y-o-y, reaching 45.6%, due to a drop in non-interest income by 8.5%, while Large PSBs worsened by 130 bps y-o-y, reaching 51.9%, primarily due to a rise in other opex, which grew by 23% as compared to 13% in the same period last year.
- Meanwhile, Other PSBs experienced a notable improvement in their cost-to-income ratio, which fell to 49.7% in Q4FY25 from 56.0% in Q4FY24.
  - This decline was primarily driven by an 8.8% reduction in employee expenses, a sharp reversal from the 27% increase seen in the same period last year, which had been driven by higher pension provisioning. Additionally, total operating expenses dropped by 0.8%, contrasting with a 25% increase in the corresponding period of the previous year.
  - This improvement was further supported by an 18.4% rise in non-interest income, up from 13% in the same period last year, collectively contributing to the overall reduction in the cost-to-income ratio.

Income (Rs. Lakh, Cr.)

Figure 3: Interest Income

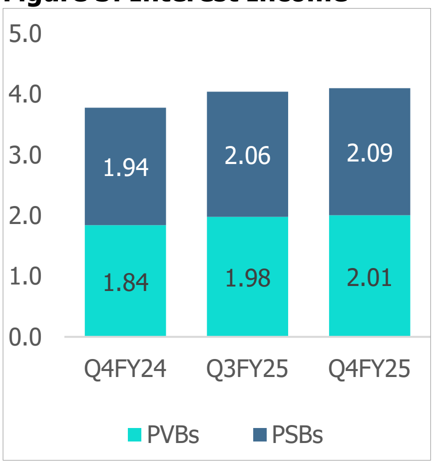


Figure 4: Non-Interest Inc.

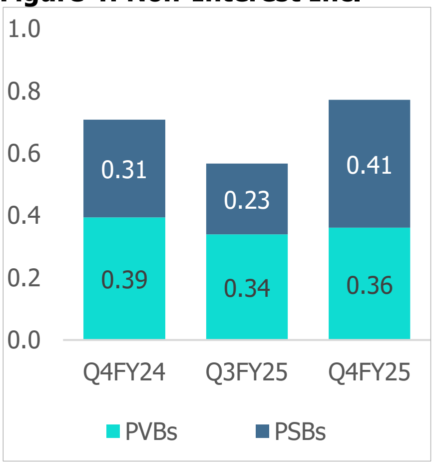
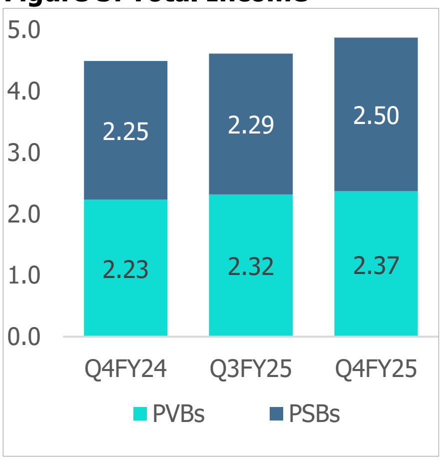


Figure 5: Total Income



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 21 SCBs (11 PVB and 10 PSB)

- SCBs total income grew by 8.5% y-o-y to Rs 4.87 lakh crore in Q4FY25, slower than the previous year's 28%. This slower growth is attributed to the high base effect, lower yields on advances due to competitive pressures, and reduced exposure to higher-yielding segments.
    - Interest income of SCBs grew by 8.4% y-o-y to Rs 4.10 lakh crore in Q4FY25. Other income of SCBs increased by 9.0% y-o-y in Q4FY25, driven primarily by treasury gains and fee-based income.
- PSBs total income grew by 11.1% y-o-y to Rs 2.50 lakh crore in Q4FY25.
    - Interest income grew by 7.9% y-o-y to Rs 2.09 lakh crore, with advances rising by 13.2% y-o-y. The non-interest income experienced robust growth of 31.0% year-over-year, driven by favourable treasury gains from softening yields, a boost from accounting changes related to the acquisition by NARCL, and an uptick in other income.
- PVBs total income grew by 5.9% y-o-y to Rs 2.37 lakh crore in Q4FY25 driven by 9.0% rise in interest income, supported by 9.1% rise in advances.

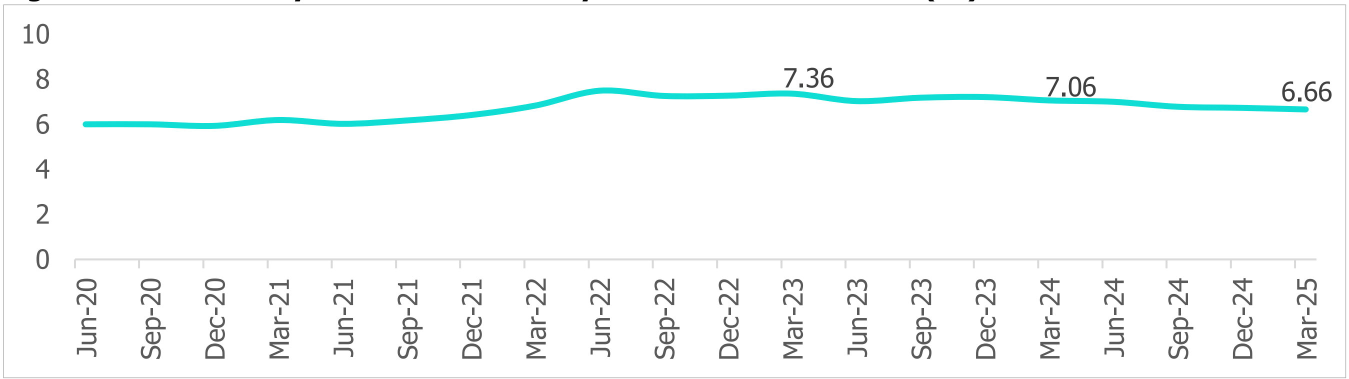
Figure 6: NIM Movement (%)

Group	NIM (Q4FY25) (%)	Y-o-Y (bps)	Q-o-Q (bps)
Large PVBs	3.59	-1	-2
Other PVBs	4.04	-33	-12
PVBs	**3.69**	**-7**	**-2**
Large PSBs	2.60	-13	-4
Other PSBs	3.19	-7	-16
PSBs	**2.72**	**-22**	**-10**
SCBs	**3.16**	**-14**	**-4**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 21 SCBs (11 PVB and 10 PSB)

- NIM declined by 14 bps y-o-y, falling to 3.16% in Q4FY25. Sequentially, SCBs dropped by four bps, wherein PVBs and PSBs declined by two bps and 10 bps respectively, due to higher deposit cost, and loan repricing at lower rates (repo rate) along with a change the loan mix.

Figure 7: Yield on 10-year Residual Maturity of Government of India (%)



Source: CMIE; Note: Includes Monthly weighted average 10-year residual maturity period.

- The yield on 10-year Government of India bonds, as of March 2025, reduced by 40 bps y-o-y and stood at 6.66% compared to 7.06% last March. The reduction in bond yields over the past year has led to improved treasury income.

Figure 8: Treasury Income as a % of Total assets (annualised)

Treasury Income as a % of Total Assets	Q4FY24	Q4FY25
PVBs	0.10	0.09
PSBs	0.23	0.44
SCBs	**0.17**	**0.28**

Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 21 SCBs (11 PVB and 10 PSB)

- The treasury income of select SCBs, as a percentage of total assets, witnessed an increase of 11 bps, from 0.17% in Q4FY24 to 0.28% in Q4FY25. This increase was primarily driven by MTM gains on government securities particularly by Large PSBs, supported by softening bond yields amid tight liquidity.
- PSBs have significantly increased their HTM portfolios, recording a 13% y-o-y growth. This shift helped reduce MTM volatility, as HTM securities are carried at amortised cost, resulting in a positive impact on other income. PSBs have sharply reduced their AFS portfolios, which have declined by 28% y-o-y. Meanwhile, there has been a notable increase in HFT portfolios among PSBS, which capture short-term gains and contribute to higher treasury income. Sequentially, the HTM and AFS portfolios rose by 5% and 4%, respectively, while the HFT declined by 5%.
- SLR investments have mainly remained stable, growing by 4% y-o-y in PSBs, consistent with regulatory requirements, while PVBs reported a 16% YoY growth in SLR. Notably, one large PSB reported a significant increase in foreign exchange income, driven by a combination of mark-to-market gains, increased trading volumes, and higher earnings amid heightened market volatility. Additionally, the bank's treasury gains were supported by the revaluation of security receipts, resulting in gains of approximately Rs 3,900 crore, including those transferred to the NARCL.

Operating Expenses (Rs. Lakh – Cr.)

Figure 9: Employee Expenses

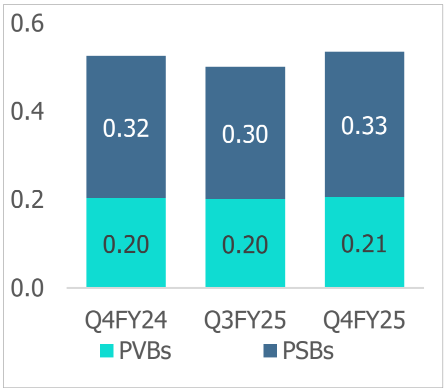


Figure 10: Other Op. Expenses

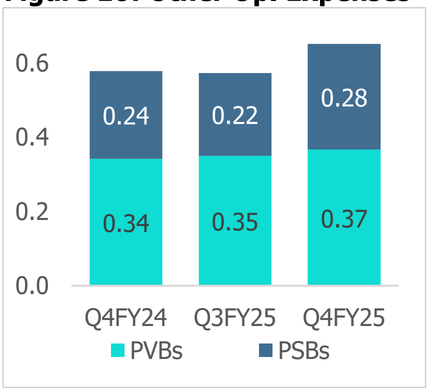
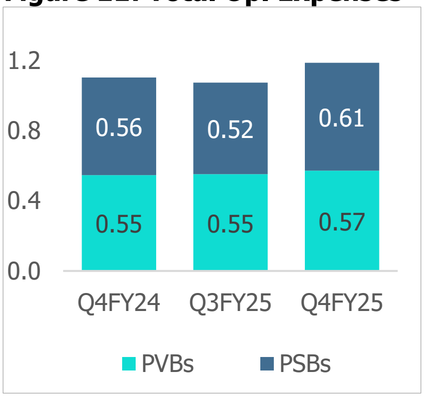


Figure 11: Total Op. Expenses



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 21 SCBs (11 PVB and 10 PSB)

- The opex of SCBs increased by 7.5% y-o-y to Rs 1.18 lakh crore in Q4FY25. Employee expenses increased by 1.9% y-o-y, while other opex increased by 12.7% y-o-y in Q4FY25, primarily attributed to a large PSB introducing a new performance-linked incentive (PLI) scheme this year, which has been accounted under other operating expenses, contributing to the overall increase in the bank's operating costs.
  - Employee expenses for PSBs increased by 2.4% y-o-y to Rs 0.33 lakh crore in Q4FY25, as compared to 6.0% growth seen in Q4FY24. While PVBs saw a modest 1.0% rise, this was down sharply from 33% in Q4 FY24.

- Other expenses of SCBs are up by 12.7% in the quarter, standing at Rs 0.65 lakh crores, wherein PSBs grew at 20.8% and PVBs were up 7.1% y-o-y.

Figure 12: Yield on Advances (%)

	CBI	DCB	IDBI	RBL	UCO
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

Source: Data as per banks' presentations

Figure 13: Cost of Funds (%)

	CBI	DCB	IDBI	RBL	UCO
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

Source: Data as per banks' presentations

Conclusion

In Q4 FY25, NIMs continued to compress amid pressure from rising funding costs. Despite this margin pressure, SCBs recorded moderate PPOP growth aided by healthy treasury gains from softening yields and an increase in fee-based income. Meanwhile, PSBs have shifted focus to HTM portfolios, which grew 13% y-o-y to reduce MTM volatility, while scaling back AFS holdings, down 28% y-o-y, and increasing HFT exposure to capture short-term gains. At the same time, SLR investments remain stable, with some PSBs benefiting from higher forex income and security receipt revaluations. The recent RBI rate cut has begun to impact lending yields, especially on loans linked to EBLR and MCLR. Slower NII growth has further weighed on core profitability. Additionally, elevated funding costs, ongoing loan repricing, branch expansion, and wage-related expenses are expected to continue exerting upward pressure on opex. Looking ahead, full transmission of recent rate cuts is likely to keep NIMs under pressure.

Annexure

Note: Analysis based on 21 scheduled commercial banks (10 PSBs and 11 PVBs). Prior period numbers are not comparable to earlier reports due to the reclassification of select banks.

Group	Banks						
PSBs	Bank Of Maharashtra	UCO Bank	Central Bank of India	IDBI Bank	Indian Overseas Bank	Punjab & Sind Bank	J&K Bank
	State Bank of India	Bank of Baroda	Indian Bank				
PVBs	HDFC Bank	ICICI bank	IDFC First Bank	DCB Bank	Axis Bank	Yes Bank	RBL Bank
	City Union Bank	Bandhan Bank	Kotak Mahindra Bank	Federal Bank			
SCBs	**PSBs + PVBs (Total 21 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 / +91-90399 84978
Sarthak Hirekhan	Analyst – BFSI Research	sarthak.hirekhan@careedge.in	+91 – 22 - 6754 3630 / +91-89567 53551
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

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