RBI Report Shows Improvement in Performance of Indian Banks

July 04, 2022 I BFSI Research

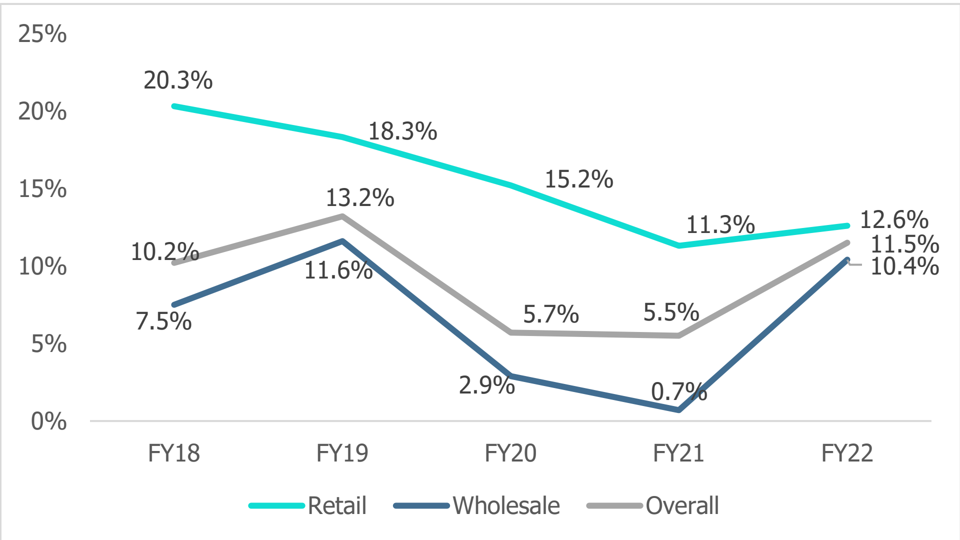
Synopsis

- Bank credit growth reached double digits outpacing deposit growth. The personal loans segment has remained the largest segment, credit offtake from the industrial sector improved after falling in FY21. The private sector banks (PVBs) have continued to outpace the public sector banks (PSBs). The interest rate has moved towards the external benchmark for lending, increasing its share from 2.4% in September 2019 to 43.6% in March-2022. In FY22, the GNPA ratio fell to 5.9%, a six-year low, and the overall provision coverage ratio (PCR) improved to 70.9%. Restructuring of loans by entities impacted by the second wave of Covid-19 under the Resolution Framework (RF) 2.0 stood at 1.6% of total advances in December 2021 vs. the restructuring under RF 1.0 which was limited to 1% of total advances.
- As per the stress tests conducted by RBI, the SCBs GNPA ratio could improve from 5.9% in March 2022 to 5.3% by March 2023 under the baseline scenario driven by higher expected bank credit growth and declining trend in the stock of GNPAs. However, under the medium/ severe stress scenarios, the GNPA ratio may rise to 6.2%/ 8.3%, respectively.

Bank Credit Growth on an Uptrend

As the Indian economy has navigated the pandemic-induced shocks, the bank credit growth by scheduled commercial banks (SCBs) improved post-August 2021 and has crossed double digits reaching 13.1% in early June 2022, a rate last recorded in March 2019. Apart from retail, the major driver of this growth has been the wholesale credit, which reported double-digit growth after witnessing a significant slowdown too last year.

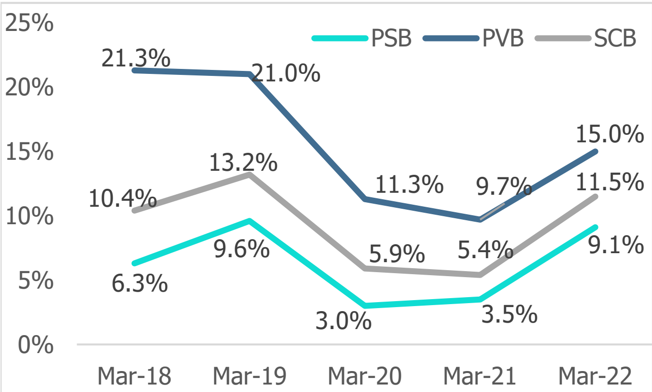
Figure 1: Movement in Bank Credit Growth



Source: RBI

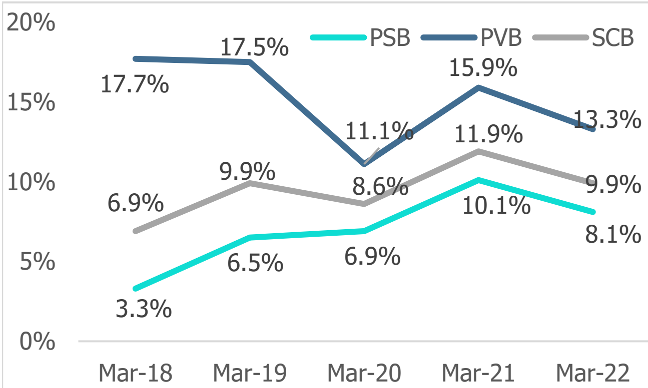
The private sector banks (PVBs) have continued to outpace the public sector banks (PSBs). The personal loans segment has remained the largest segment, credit offtake from the industrial sector improved after falling in FY21 and H1FY22. A significant portion of new industrial loans was extended to the PSU borrowers (wholesale PSU credit grew by 14.09% in FY22, vs. 11.65% in F21) while, while the private sector credit demand turned positive after the decline and deleveraging in the last couple of years (wholesale non-PSU credit grew by 5.35% in FY22 vs. a fall of 7.86% in FY21).

Figure 2: Credit Growth (y-o-y)



Source: RBI

Figure 3: Deposit Growth (y-o-y)



Source: RBI

SCB deposit growth slowed to 9.9% in March 2022 compared with 11.9% in March 2021. Deposit growth in both PSBs and PVBs was outpaced by their credit growth as credit grew by 9.2% for PSBs and 15% for PVBs. PVBs generally outpaced their public counterparts.

Figure 4: Movement in Interest Rates (%)

SCBs

Month	TDR<1 yr	WALR (O/S loan)
Dec-20	5.46%	9.27%
Mar-21	5.28%	9.10%
Jun-21	5.17%	9.00%
Sep-21	5.07%	8.92%
Dec-21	5.04%	8.86%
Mar-22	5.03%	8.74%

PSBs

Month	TDR<1 yr	WALR (O/S loan)
Dec-20	5.51%	8.69%
Mar-21	5.33%	8.52%
Jun-21	5.24%	8.51%
Sep-21	5.14%	8.44%
Dec-21	5.12%	8.36%
Mar-22	5.11%	8.22%

PVBs

Month	TDR<1 yr	WALR (O/S loan)
Dec-20	5.65%	10.31%
Mar-21	5.53%	10.14%
Jun-21	5.39%	9.92%
Sep-21	5.27%	9.80%
Dec-21	5.18%	9.77%
Mar-22	5.13%	9.65%

Source: RBI

SCB’s spread between Weighted Average Lending Rate (WALR) for outstanding loans and Weighted Average Domestic Term Deposit Rate (WADTDR) marginally declined by 11 bps y-o-y and stood at 3.71% in March 2022 due to a higher drop in WALR as compared to WADTDR. PSBs’ WATDR and WALR outstanding loan spread dropped by 9 bps to 3.24% in March 2022, while PVBs’ spread declined by 3 bps to 4.52% in the same period. Overall, interest rates declined during the quarter and ruled at low levels which helped the banks to improve their credit growth.

In one of the key recent developments for the sector, RBI has increased the repo rate twice by 40 bps to 4.4% on May 04, 2022, and 50 bps to 4.9% on June 08, 2022. Given that inflation continues to remain above RBI's target, additional hikes are expected during the year. Banks have also raised their MCLR and deposit rates. Thus, the banking interest rates have bottomed out and would rise in the period ahead, however, the banks are likely to protect their NIMs.

Share of Floating Rate Linked Outstanding Rupee Loans (% to Total)

Figure 5: PSBs

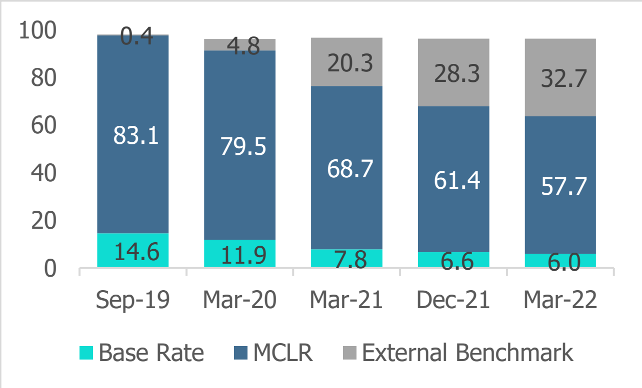
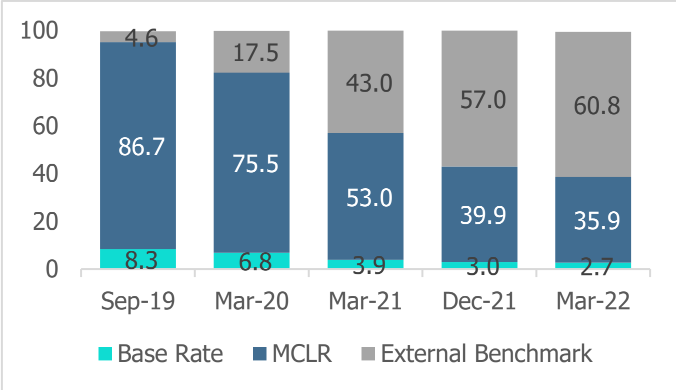


Figure 6: PVBs



Note: Figures in the table do not add up to a hundred because residual loans are linked to BPLR. Source: RBI

PVBs have a significantly higher share of external benchmarks in their portfolio compared to PSBs. The banking system has generally shifted to the external benchmark linked lending rate (EBLR) based pricing of loans from 2.4% in Sept-19 to 43.6% in Mar-22. This improves the pace and quantum of interest rate transmission. Further banks which have a higher CASA share, and a higher proportion of floating loans are expected to benefit from the current rising interest rate cycle.

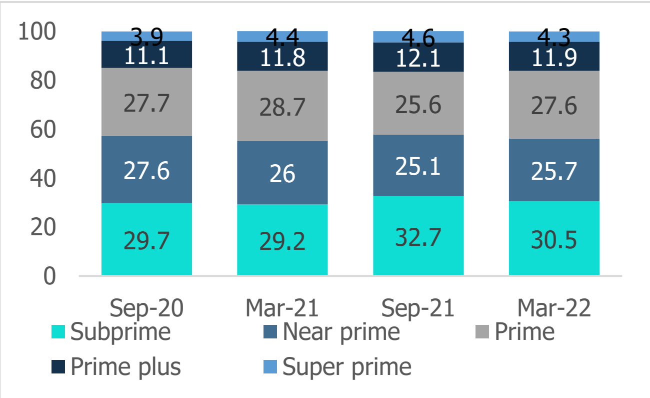
Asset Quality

The RBI's Financial Stability Report released on June 30, 2022, presents a rather satisfactory picture of the Indian banking system. Post the asset quality review in 2015-2016, the banks saw a spike in NPAs largely in the wholesale advances which required banks to make a significant amount of provisioning and write-offs over the next four to five years. Meanwhile, once the pandemic struck, asset quality was expected to deteriorate, however, regulatory measures staved off this fall. SCBs asset quality has seen some improvement (GNPA reduction) due to recoveries and higher write-offs by multiple banks, OTR schemes announced by RBI, etc. The PSB GNPA ratio continues to remain significantly higher than the private banks' NPA ratio. In FY22, the GNPA ratio fell to 5.9%, a six-year low, and the overall provision coverage ratio (PCR) improved to 70.9%. The PCRs of both PSBs and PVBs increased in March 2022. The slippage ratio and write-offs declined across bank groups in FY22 indicating lower accretion of fresh NPAs as well as the fact that older NPAs have already been written off.

Credit to the MSME Segment

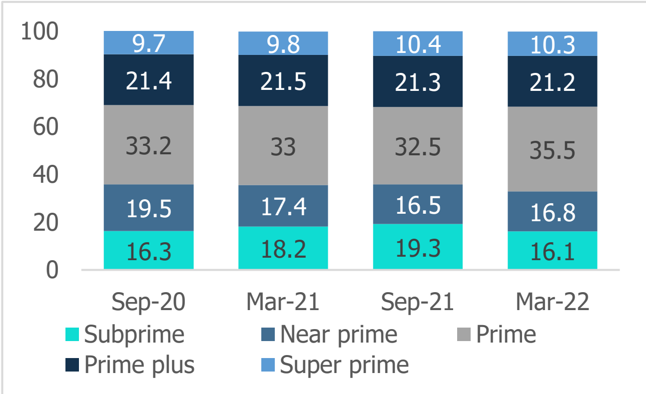
The MSME segment was severely impacted by the pandemic and is now showing some signs of movement. Credit flow to the MSME segment has been steady driven by the ECLGS (Emergency Credit Line Guarantee Scheme) scheme, especially by PVBs which has led in both quantum (no. of borrowers) as well as value (amount disbursed per borrower). Till April 30, 2022, under the ECLGS scheme, loans amounting to Rs 3.32 lakh crore had been sanctioned, out of which Rs. 2.54 lakh crore has been disbursed (Rs 2.36 lakh crore by SCBs). This has supported the borrowers by providing additional liquidity as well as by extending the repayment deadlines. Consequently, the aggregate GNPA Ratio (PSBs and PVBs) in the MSME sector has moderated from 10.8% in March 2021 to 9.3% in March 2022. However, compared to segments in figure 8, they remain relatively high. Consumer Credit

Figure 10: PSB Consumer Distribution by Risk Tier



Source: RBI

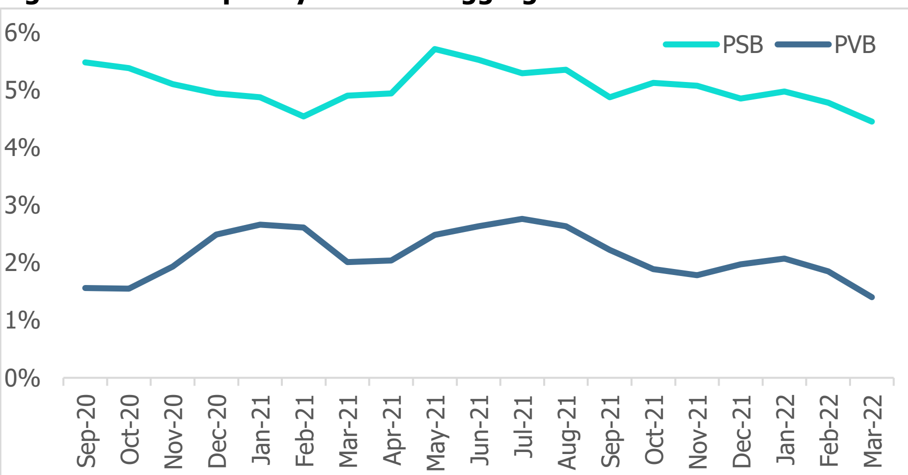
Figure 11: PVB Consumer Distribution by Risk Tier



Source: RBI

PVBs continue to have a higher share of prime and above customers. The distribution by risk tier shows improvement in the customer mix for PVBs while PSBs exposure to below-prime borrowers rose marginally.

Figure 12: Delinquency Levels in Aggregate Consumer Credit



Source: RBI

Impairment in consumer credit, measured in terms of the proportion of the portfolio at 90 days past due or beyond, shows signs of stabilisation after the pandemic, but at a higher level for PSBs relative to PVBs.

Earnings and Capitalisation

Net Interest Margin (NIM) of SCBs increased marginally in FY22 and stood at 3.4%. NIMs of all bank groups improved in H2FY22, PVBs recorded higher NIMs compared to PSBs due to relatively higher growth in retail loans, improvement in asset quality, and a low-base effect.

Figure 13: Movement in RoA

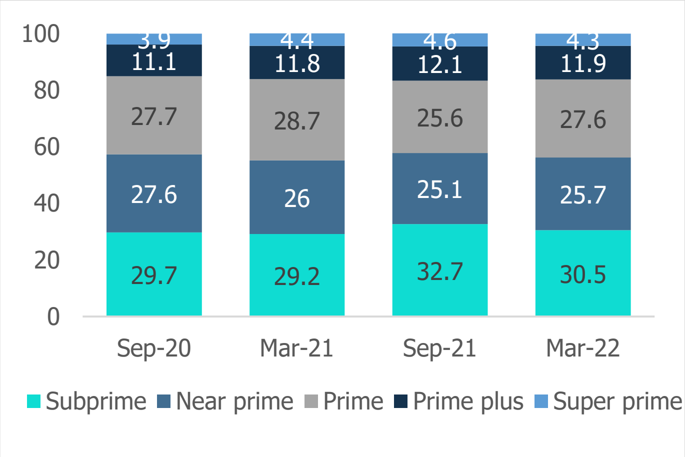
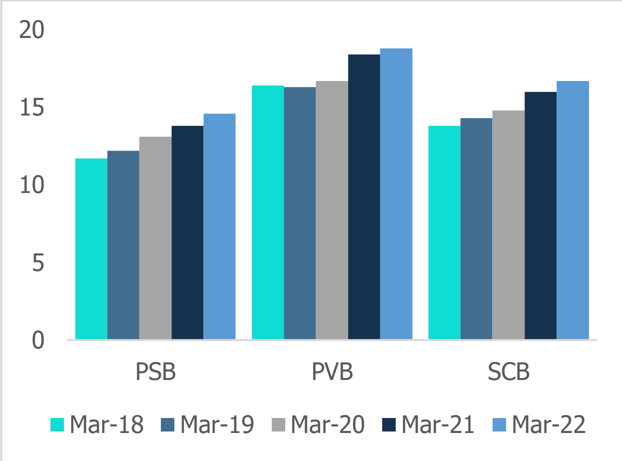


Figure 14: Movement in CRAR



Source: RBI

The Return on Assets (RoA) further improved during FY22, especially in the second half of the year. The RoA of PSBs stood at 0.5%, roughly one-third of the RoA reported by PVBs at 1.4% for March 2022. The RoA of SCBs overall stood at 0.9% for the same period.

The capital to risk-weighted assets ratio (CRAR) of SCBs edged up to 16.7% in March 2022 from 16.0% in March 2021; PVBs recorded a 40bps rise, while PSBs recorded a 80bps increase due to capital raising and earnings retention by banks.

Conclusion

Financial entities have generally emerged resiliently from the pandemic and are expanding their business as the economic recovery takes hold. SCBs improved on their financial parameters in FY22. After a modest credit growth in recent years, the outlook for bank credit offtake is positive due to the economic expansion tracking nominal GDP growth, rise in government & private capital expenditure, rising commodity prices, implementation of the PLI scheme, the extension of ECLGS for MSME and retail credit push. The broad asset quality parameters are expected to remain stable due to moderation in slippages, and healthy PCR resulting in lower credit costs.

As per the stress tests conducted by RBI, the SCBs GNPA ratio could improve from 5.9% in March 2022 to 5.3% by March 2023 under the baseline scenario driven by higher expected bank credit growth and a declining trend in the stock of GNPAs. However, under the medium/severe stress scenarios, the GNPA ratio may rise to 6.2%/8.3%, respectively.

On the other hand, the possibility of increased slippages arising from sectors that were relatively more exposed to the pandemic continues as support measures are unwound along with rising interest rates. The performance of restructured accounts continues to be monitorable during the current fiscal.

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