

Banks Performance Update – Q1 FY19

Contact:

Madan Sabnavis

Chief Economist
Madan.sabnavis@careratings.com
+91-22- 6754 3489

Darshini Kansara

Deputy Manager – Industry Research
darshini.kansara@careratings.com
+91-22-6754 36379

Mradul Mishra (Media Contact)

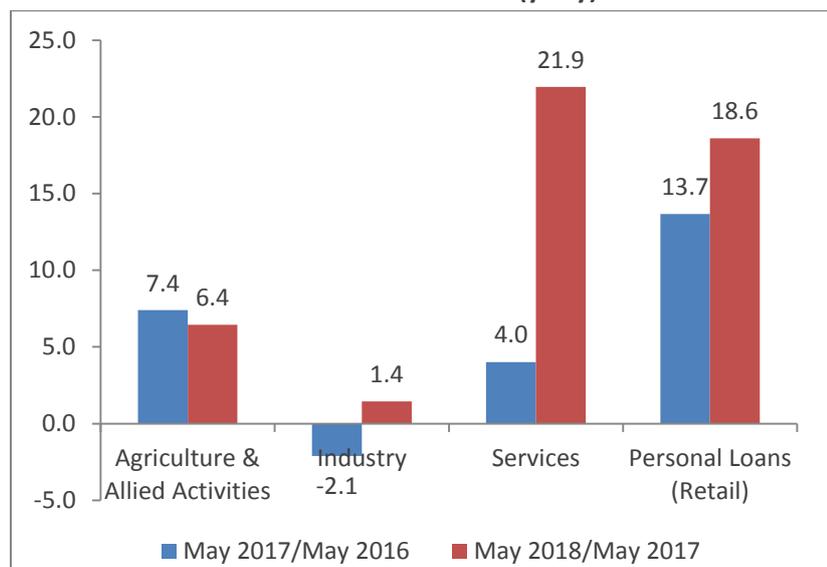
mradul.mishra@careratings.com
+91-22-6754 3515

Note: The following study includes analysis of 21 banks (15 – private banks and 6 public sector banks) that announced results on or before July 30, 2018.

The NPA situation in the Indian banking system has been stabilizing as can be seen in Q1 FY19. There has been an improvement in growth in credit and deposits. However, net profits continue to remain under pressure.

Also, there was improvement in credit to industry on y-o-y basis for May 2018 over May 2017 while that for services rose sharply. Retail loans growth continued to be buoyant during the period. *Chart 1* provides information on growth in credit to different sectors.

Chart 1: Growth in Bank Credit (y-o-y)



Source: Reserve Bank of India

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Outstanding bank credit (except for agriculture and allied activities) for service industry, industry (micro, small, medium and large) as well as retail sector (personal loans) registered a higher growth rate between May 2018 and May 2017 vis-à-vis a lower growth between May 2016 and May 2017. Growth in credit to manufacturing has picked up post the initial glitches faced by the implementation of Goods and Service Tax (GST) (in July 2017) which also reflects to an extent with improved industrial activity.

The performance of this sample of banks should be viewed against this background.

Table 1: Average Deposit & Lending rates (%)

	Jun-16	Jun-17	Jun-18
Base rate	9.50	9.35	9.08
MCLR	9.03	7.93	7.93
Term Deposit Rate >1 Year	7.30	6.58	6.63
Repo rate	6.50	6.25	6.25

Table 2: Performance of Banks (Q1)

21 Banks	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	104,177	107,948	121,942	3.6	13.0
Other Income	18,073	21,960	21,595	21.5	-1.7
Total Income	122,250	129,908	143,537	6.3	10.5
Interest Expenses	67,976	67,825	74,489	-0.2	9.8
Net Interest Income (NII)	36,201	40,123	47,453	10.8	18.3
Operating Expenses	25,294	28,733	31,918	13.6	11.1
Provisions and contingencies	15,296	18,049	26,199	18.0	45.2
Net Profit	9,050	10,683	7,488	18.0	-29.9
Gross NPAs	219,097	277,015	338,407	26.4	22.2
NPA ratio	6.56	7.52	7.92		

Source: AceEquity

Table 3: Performance of Banks - Public (Q1)

6 Banks (Rs crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	39,863	38,589	40,720	-3.2	5.5
Other Income	5,026	6,589	5,157	31.1	-21.7
Total Income	44,888	45,178	45,877	0.6	1.5
Interest Expenses	29,293	28,025	27,025	-4.3	-3.6
Net Interest Income (NII)	10,570	10,564	13,695	-0.1	29.6
Operating Expenses	8,455	9,044	9,822	7.0	8.6
Provisions and contingencies	8,197	9,341	12,116	14.0	29.7
Net Profit	(1,135)	(852)	(1,881)	*	*
Gross NPAs	158,145	181,904	211,178	15.0	16.1
NPA ratio	12.07	13.55	14.62		

Note: *Huge losses

Source: AceEquity

Table 4: Performance of Banks - Private (Q1)

15 Banks (Rs Crore)	FY17	FY18	FY19	Growth (%)	
				FY18	FY19
Interest Income	64,314	69,359	81,222	7.8	17.1
Other Income	13,048	15,371	16,438	17.8	6.9
Total Income	77,361	84,730	97,660	9.5	15.3
Interest Expenses	38,683	39,800	47,464	2.9	19.3
Net Interest Income (NII)	25,631	29,559	33,758	15.3	14.2
Operating Expenses	16,839	19,689	22,096	16.9	12.2
Provisions and contingencies	7,100	8,708	14,083	22.7	61.7
Net Profit	10,185	11,535	9,369	13.3	-18.8
Gross NPAs	60,952	95,112	127,229	56.0	33.8
NPA ratio	3.01	4.06	4.50		

Source: AceEquity

Interest Income

- Interest income of all banks witnessed an increase of about 13% in Q1 FY19 vis-à-vis a marginal increase of about 3.6% in Q1 FY18 on account of a sharp growth in interest income of Private banks that registered a growth of over 17% during the same period. PSBs witnessed a growth of just about 5.5% in Q1 FY19.

Interest Expense

- Interest expense of banks witnessed an increase mainly led by the private banks that registered growth of over 19% in their interest expenses during the quarter vis-à-vis about 3% growth witnessed a year ago. It had declined for PSBs.

Net Interest Income (NII)

- NII for all banks increased by over 18% on a y-o-y basis in Q1 FY19 compared with 10.8% growth witnessed in Q1 FY18. The growth mainly came from the NII earned by Public Sector Banks (PSBs) that grew by about 30% y-o-y in Q1 FY19 while NII of private banks remained largely range bound during the same period.

Net Profit

- With the PSBs still under losses, net profits of all banks declined by about 30% in Q1 FY19 vis-à-vis a growth of about 18% witnessed a year ago.

NPAs

- Gross NPAs increased however at a comparatively lower rate in Q1 FY19 as compared to Q1 FY18. This could be due to lower incremental NPAs being generated. However it is still not clear if all legacy NPAs have been recognized by all banks.
- NPA ratio increased to 7.92% in Q1 FY19 from 7.52% in Q1 FY18.
- ***It is to be noted that the NPAs of Public sector banks (PSBs) is above thrice that of the private banks as of June 2018. NPA ratio of PSBs stood at 14.62% while that of private banks stood at 4.50% at the end of Q1 FY19.***

CARE Ratings Limited (Formerly known as Credit Analysis & Research Ltd)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

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