

NII & Treasury Income Drive PPOP Growth y-o-y, but it Decelerates q-o-q

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Synopsis

- Scheduled Commercial Banks' (SCBs) Pre-Provisioning Operating Profit (PPOP) grew by 42.8% year-on-year (y-o-y) to Rs 1.3 lakh crore due to higher growth in Net Interest Income (NII), growth in treasury income, a low base and lower growth in Operating Expenses (opex). It marginally grew by 0.2% on a sequential basis.
- The cost-to-income ratio of SCBs reduced by 333 bps y-o-y to 47.7% in Q1FY24 due to higher growth in NII than opex and robust growth in PSBs treasury income and fee income of PVBs.
 - Total income of SCBs grew by 37.5% y-o-y to Rs 4.86 lakh crore in Q1FY24 driven by interest income and other income, particularly the treasury income.
 - The opex of SCBs rose by 25.0% y-o-y to Rs 1.19 lakh crore in Q1 FY24 due to higher employee costs.

PPOP Strong on y-o-y basis as Cost-to-Income Ratio Falls and Treasury Income Rises; Flattish q-o-q

	Figure 1: PPOP Growth (Rs. Lakh Crore)					Figure 2: Movement in PPOP Margin (%)				
	Q1 FY23	Q1 FY24	Q1FY23 (y-o-y)	Q1FY24 (y-o-y)	q-o-q	Q1 FY23	Q1 FY24	Q1FY23 (y-o-y)	Q1FY24 (y-o-y)	q-o-q
Large PSBs	0.33	0.51	-17.7	54.8	2.0	1.37	1.90	1.92	54	2
Other PSBs	0.12	0.17	-12.7	48.1	-7.0	1.47	2.13	1.96	50	-17
PSBs	0.45	0.68	-16.4	53.1	-0.4	1.40	1.96	1.93	53	-3
Large PVBs	0.32	0.42	4.5	32.2	0.3	2.70	3.10	3.06	36	-4
Other PVBs	0.15	0.21	-4.3	34.7	2.2	2.30	2.70	2.70	40	0
PVBs	0.47	0.62	1.4	33.0	0.9	2.56	2.96	2.93	38	-3
SCBs	0.91	1.31	-8.1	42.8	0.2	1.82	2.33	2.30	49	-3

Source: Ace Equity, Bank Filings, CareEdge Calculations

- PPOP of SCBs grew by 42.8% y-o-y to Rs. 1.31 lakh crore in Q1Y24, while the PPOP margin expanded by 49 bps y-o-y to 2.30% in Q1FY24.
 - PPOP of PSBs rose at a robust pace of 53.1% y-o-y in the quarter driven by higher growth in NII than Opex, robust growth in treasury income, and a low base. Large PSBs' PPOP witnessed a growth of 54.8% in the quarter, outperforming other segments.
 - Treasury income of PSBs came in at Rs. 9,159 crore in Q1FY24 vs. a loss of 3,502 crore in Q1FY23. It was also higher from Rs.5,323 crore in Q4FY23.
 - Private Sector Banks (PVBs) also reported a PPOP growth of 33.0% y-o-y in the quarter driven by growth in NII and non-interest income.
 - Treasury income of PVBs came in at Rs. 3,781 crore in Q1FY24 vs. a loss of 539 crore in the year ago quarter.
 - PSBs' PPOP margin expanded by 53 bps to 1.93% in Q1FY24, meanwhile PVBs expanded by 38 bps to 2.93% in the quarter.

- In terms of sequential performance, SCBs’ PPOP growth was muted due to seasonality impact, a rise in the cost of deposits, and a drop in the share of current account and savings account (CASA). Going ahead, PVBs are expected to continue reporting better PPOP margins.
- NII of SCBs grew by 26.5% y-o-y to Rs. 1.84 lakh crore in Q1FY24 due to healthy loan growth and a higher yield on advances over the year-ago period. The Net Interest Margin (NIM) of SCBs witnessed a y-o-y improvement of 36 basis points (bps), reaching 3.27% in Q1FY24. Meanwhile, the non-interest income of SCBs grew by 59.2% y-o-y in the quarter driven by robust growth in treasury income of the large PSBs and growth in fee income of PVBs.

Figure 3: Cost to Income Ratio Reduces in the Quarter (y-o-y) – PSBs’ Reduce Sequentially

	FY21		FY22		FY23				FY24	y-o-y (Bps)	q-o-q (bps)
	Q1	Q4	Q1	Q4	Q1	Q2	Q3	Q4	Q1		
Large PSBs	51.0	51.3	48.4	51.3	54.2	49.7	47.9	51.7	48.7	-549	-297
Other PSBs	49.1	52.1	49.6	49.5	53.6	47.3	48.2	50.6	48.6	-502	-204
PSBs	50.5	51.5	48.7	50.9	54.1	49.1	47.9	51.4	48.7	-537	-272
Large PVBs	34.2	39.9	38.6	41.8	43.8	41.4	39.8	41.8	43.3	-51	148
Other PVBs	46.2	49.9	46.5	53.2	54.5	53.0	53.4	52.2	52.3	-220	6
PVBs	38.7	43.7	41.7	46.1	47.8	45.7	44.7	45.6	46.6	-118	94
SCBs	45.3	48.1	45.6	48.7	51.0	47.5	46.5	48.8	47.7	-333	-113

Source: Ace Equity, Bank Filings, CareEdge Calculations

- Cost to Income ratio of SCBs reduced by 333 bps y-o-y to 47.7% in Q1FY24 due to higher growth in NII compared to opex growth coupled with robust growth in non-interest income. Banks had a higher cost to income in Q1FY23 as non-interest income was affected significantly due to Mark-to-Mark loss on investment portfolios particularly for PSBs due to a rise in the policy rates.
- Sequentially, SCBs' cost to income ratio dropped by 113 bps mainly driven by PSBs as their opex dropped in the quarter while PVBs' cost-to-income rose by 94 bps mainly driven by large PVBs. Despite the divergent trend, cost-to-income ratio of PSBs is still adverse compared to that of PVBs.

Income (Rs. Lakh Cr.)

Figure 4: Interest Income

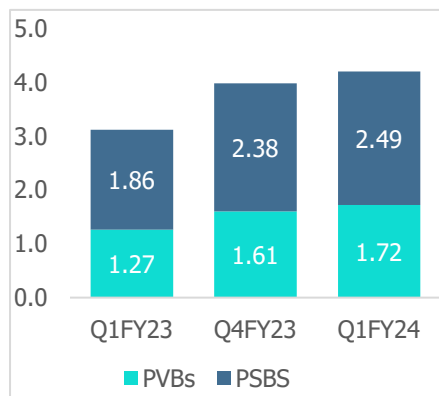


Figure 5: Non-Interest Income

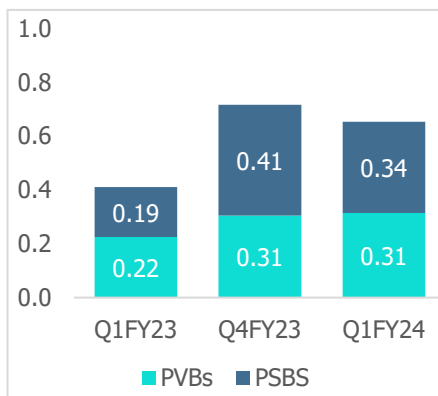
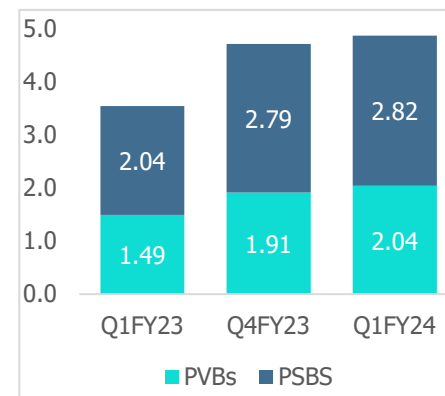


Figure 6: Total Income

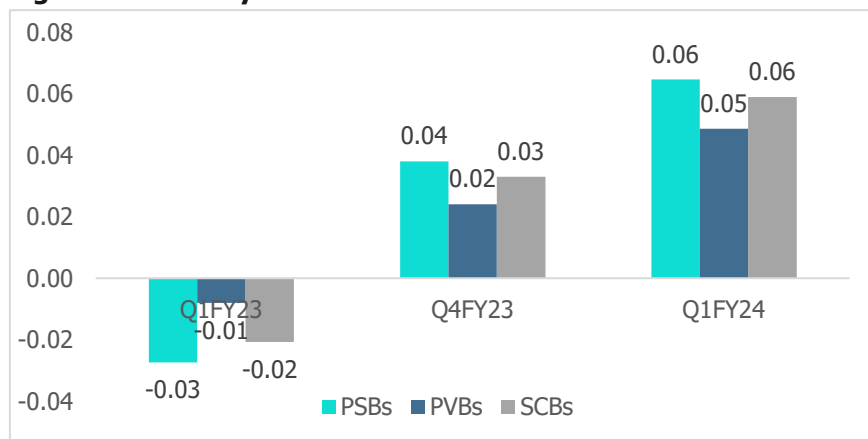


Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 12 PSBs and 18 PVBs

- Total income of SCBs grew by 37.5% y-o-y to Rs. 4.86 lakh crore in Q1FY24 due to robust growth in advances, and a rise in the yield due to the repricing of loans and growth in non-interest income. Personal loans and Non-Banking Financial Services (NBFCs), Micro Small and Medium Enterprise (MSMEs) reported robust growth in Q1FY24. Interest income of SCBs grew by 34.7% y-o-y to Rs.4.21 lakh crore in Q1FY24, with growth in advances by 16.7% on a y-o-y basis and a rise in the yield on advances to 9.07% in Q1FY24.

Treasury Contribution to PPOP Margin Positive and Likely to Sustain

Figure 7: Treasury Income % of Total Assets



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 12 PSBs and 13 PVBs

PPOP expanded from 0.91 lakh crore in Q1FY23 to Rs. 1.3 lakh crore in Q1FY24. Meanwhile, treasury income of 25 SCBs came in at Rs.12,940 in Q1FY24 as compared to a loss of Rs.4,041 crore in the same quarter over a year ago on account of stability in interest rate which helped to increase the mark-to-market profit on AFS portfolio. It is also higher than Rs.7,157 crore in Q4FY23.

- PSBs reported a treasury income of Rs.9,159 crore in Q1FY24 from a treasury loss of Rs.3,502 crore in the same quarter over a year ago. On the other hand, PVBs reported a treasury income of Rs. 3,781 crore in the quarter vs. a loss of Rs. 539 crore in the same period over the year ago.
- SCBs treasury income as a percentage of total assets stood at 0.06% in the quarter which was higher than 0.3% in Q4FY23.

Figure 8: Yield on Advances – PSBs (%)

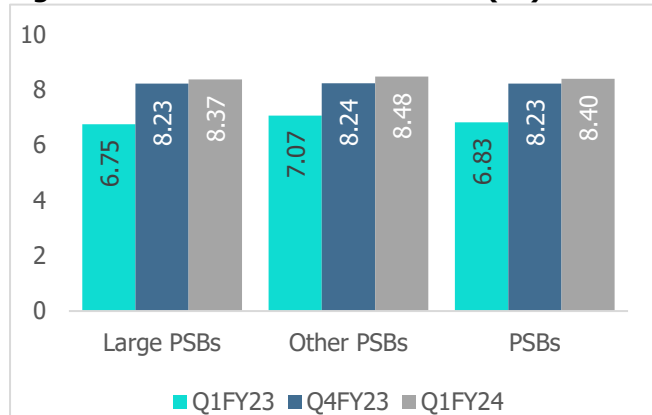
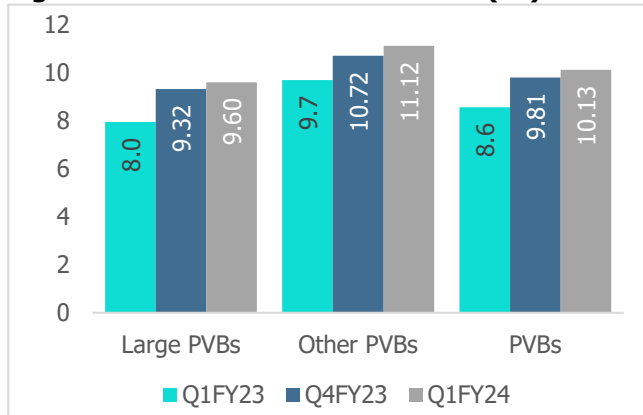
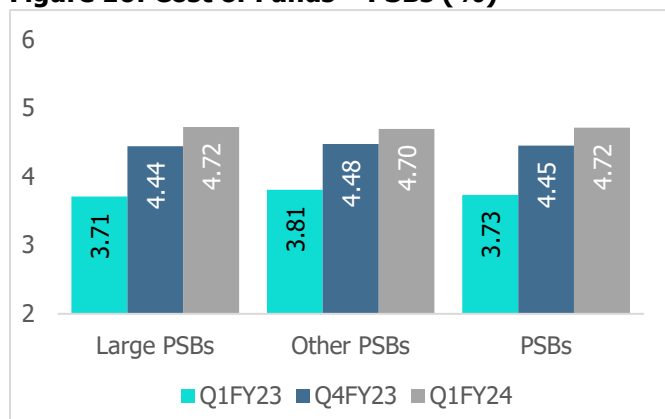
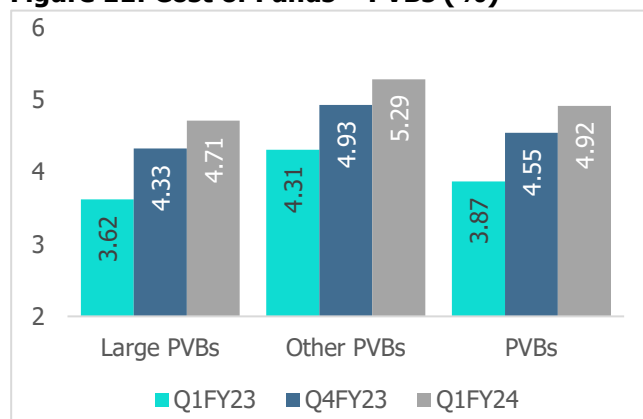


Figure 9: Yield on Advances – PVBs (%)



Source: Ace Equity, Bank Filings, CareEdge Calculations

Figure 10: Cost of Funds – PSBs (%)**Figure 11: Cost of Funds – PVBs (%)**

Source: Ace Equity, Bank Filings, CareEdge Calculations

Figure 12: Changes in Yield on Advances and Movement in Cost of Funds

Group	Change in Yields - bps (Advances)		Change in Cost of Funds – bps	
	y-o-y	q-o-q	y-o-y	q-o-q
Large PSBs	162	14	101	28
Other PSBs	140	24	89	22
PSBs	157	17	98	26
Large PVBs	165	28	109	39
Other PVBs	142	40	98	36
PVBs	157	32	105	38
SCBs	157	23	101	30

Source: Ace Equity, Bank Filings, CareEdge Calculations

- PSBs total income grew by 38.1% y-o-y to Rs.2.82 lakh crore in Q1FY24.
 - Interest income of PSBs grew by 33.7% y-o-y to Rs. 2.49 lakh crore, meanwhile, advances rose by 16.0% y-o-y in the quarter. The yield on advances rose by 157 bps y-o-y to 8.4% in Q1FY24 from 6.83% in Q1FY23.
 - Non-interest income of PSBs increased by 82.5% y-o-y due to growth in treasury income. Large PSBs' treasury income expanded from a treasury loss of Rs. 3,580 crore in Q1FY23 to Rs.7,355 crore in Q1FY24 due to M-to-M gain on their investment portfolios, besides their fee income rose in low single digits.
 - PSBs' treasury income stood at Rs. 9,159 crore in Q1FY24 vs. a loss of Rs. 3,502 crore in Q1FY23.
- PVBs total income grew by 36.7% y-o-y to Rs.2.04 lakh crore in Q1FY24.
 - PVBs reported robust growth in interest income at 38.5% y-o-y in Q1FY24 driven by 17.9% growth in advances and a rise in the yield on advances by 157 bps y-o-y to 10.1%.
 - Fee income of 14 PVBs witnessed a robust growth of 20.2% y-o-y.

Operating Expenses (Rs. Lakh – Cr.)

Figure 13: Employee Expenses

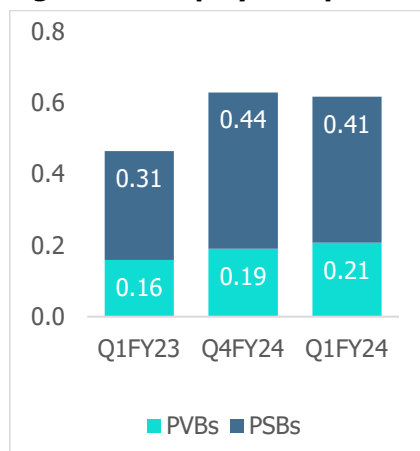


Figure 14: Other Op. Expenses

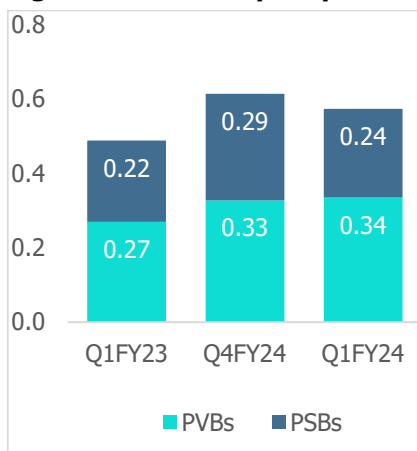
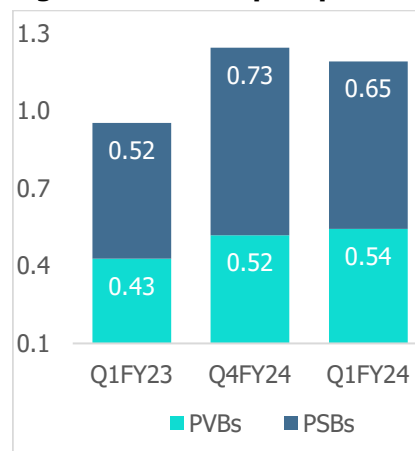


Figure 15: Total Op. Expenses



Source: Ace Equity, Bank Filings, CareEdge Calculations; Note: Includes 12 PSBs and 18 PVBs

- The opex of SCBs rose by 25.0% y-o-y to Rs. 1.19 lakh crore in Q1FY24, within this employee expenses rose by 32.8% y-o-y while other opex rose by 17.5% y-o-y.
 - PSBs’ employee expenses rose by 33.8% y-o-y driven by wage bipartite provisions and additional provisions for pension.
 - PVB employee expenses rose by 31.1% y-o-y in the quarter due to higher headcounts and wage inflation.
 - Other expenses of SCBs rose by 17.5% in the quarter driven by other operating expenses attributed to the addition of branches and robust growth in personal expenses. PVBs reported a much higher rise in other opex at 24.4% in the quarter as compared to 9.0% by PSBs due to rising distribution costs, rise in business volume and continued IT spending.

Conclusion

In Q1FY24, despite q-o-q moderation, NIMs have been higher on a y-o-y basis and hence NIMs for FY24 are likely to be flattish or incur a marginal decline on y-o-y basis due to a rise in deposits cost along with a reduction in the share of low-cost CASA. NIMs could face further downside pressure from a higher-than-expected rise in the cost of deposits. SCBs reported robust PPOP growth supported primarily by treasury income and growth in NII on a y-o-y basis, while sequentially the margins remained under pressure.

As the margin trajectory has reversed, sequentially PPOP margin is likely to reduce marginally by around 5 bps in Q2FY24 due to strain on NIMs, and elevated operating expenses due to wage inflation and retail growth. Meanwhile, this is anticipated to be mitigated marginally as treasury income, especially in the PSBs is likely to remain healthy in FY24.

Annexures

Annexure 1: Movement in Interest Income (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	1.39	1.79	1.86	33.9	3.9
Other PSBs	0.47	0.59	0.63	33.0	5.8
PSBs	1.86	2.38	2.49	33.7	4.3
Large PVBs	0.78	1.00	1.07	38.5	7.4
Other PVBs	0.49	0.61	0.65	32.2	7.2
PVBs	1.27	1.61	1.72	36.1	7.3
SCBs	3.13	3.99	4.21	34.7	5.5

Source: Ace Equity, Bank Filings, CareEdge Calculations

Annexure 2: Movement in Other Income (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.13	0.28	0.25	97.9	-8.2
Other PSBs	0.06	0.14	0.09	48.5	-36.8
PSBs	0.19	0.41	0.34	82.5	-17.6
Large PVBs	0.14	0.19	0.20	40.6	5.5
Other PVBs	0.08	0.12	0.12	39.0	-0.9
PVBs	0.22	0.31	0.31	40.0	3.1
SCBs	0.41	0.72	0.65	59.2	-8.8

Source: Ace Equity, Bank Filings, CareEdge Calculations

Annexure 3: Movement in Total Income (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	1.52	2.06	2.11	39.3	2.3
Other PSBs	0.53	0.73	0.71	34.7	-2.1
PSBs	2.04	2.79	2.82	38.1	1.1
Large PVBs	0.92	1.19	1.27	38.9	7.1
Other PVBs	0.58	0.72	0.77	33.2	5.9
PVBs	1.49	1.91	2.04	36.7	6.6
SCBs	3.54	4.71	4.86	37.5	3.3

Source: Ace Equity, Bank Filings, CareEdge Calculations

Annexure 4: Movement in Interest Expenses (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.80	1.03	1.12	40.3	8.4
Other PSBs	0.28	0.35	0.37	35.7	7.2
PSBs	1.07	1.38	1.49	39.1	8.1
Large PVBs	0.35	0.47	0.54	51.2	13.4
Other PVBs	0.24	0.30	0.34	39.8	10.7
PVBs	0.59	0.78	0.87	46.6	12.4
SCBs	1.67	2.16	2.37	41.8	9.6

Source: Ace Equity, Bank Filings, CareEdge Calculations

Annexure 5: Movement in Employee Expenses (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.23	0.32	0.31	35.5	-4.1
Other PSBs	0.08	0.12	0.10	29.0	-14.0
PSBs	0.31	0.44	0.41	33.8	-6.8
Large PVBs	0.09	0.10	0.11	33.0	14.4
Other PVBs	0.07	0.09	0.09	28.8	3.5
PVBs	0.16	0.19	0.21	31.1	9.2
SCBs	0.46	0.63	0.62	32.8	-2.0

Source: Ace Equity, Bank Filings, CareEdge Calculations

Annexure 6: Movement in Other Opex (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.16	0.21	0.18	8.6	-17.4
Other PSBs	0.06	0.07	0.06	10.1	-14.7
PSBs	0.22	0.29	0.24	9.0	-16.7
Large PVBs	0.16	0.20	0.20	27.6	2.6
Other PVBs	0.11	0.13	0.13	19.6	1.7
PVBs	0.27	0.33	0.34	24.4	2.3
SCBs	0.49	0.61	0.57	17.5	-6.6

Source: Ace Equity, Bank Filings, CareEdge Calculations

Annexure 7: Movement in Total Opex (Rs. Lakh Crore)

	Q1 FY23	Q4 FY23	Q1 FY24	y-o-y (%)	q-o-q (%)
Large PSBs	0.39	0.53	0.48	24.2	-9.4
Other PSBs	0.14	0.19	0.16	21.2	-14.3
PSBs	0.52	0.73	0.65	23.4	-10.7
Large PVBs	0.25	0.30	0.32	29.5	6.5
Other PVBs	0.18	0.22	0.23	23.3	2.5
PVBs	0.43	0.52	0.54	26.8	4.8
SCBs	0.95	1.24	1.19	25.0	-4.2

Source: Ace Equity, Bank Filings, CareEdge Calculations

Note: Analysis based on 30 scheduled commercial banks (12 PSBs, and 18 PVBs)

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	Punjab & Sind Bank	UCO Bank	Union Bank of India
PSBs	Large PSBs and Others PSBs (Total 12 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	Dhanlaxmi Bank	IDBI Bank	Bandhan Bank	J&K Bank	City Union Bank	Karur Vysya Bank
	DCB Bank						
PVBs	Large PVBs and Others PVBs (Total 18 Banks)						
SCBs	PSBs + PVBs (Total 30 Banks)						

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