Banks' Robust Performance in Net Profit Drives RoA in Q1FY24

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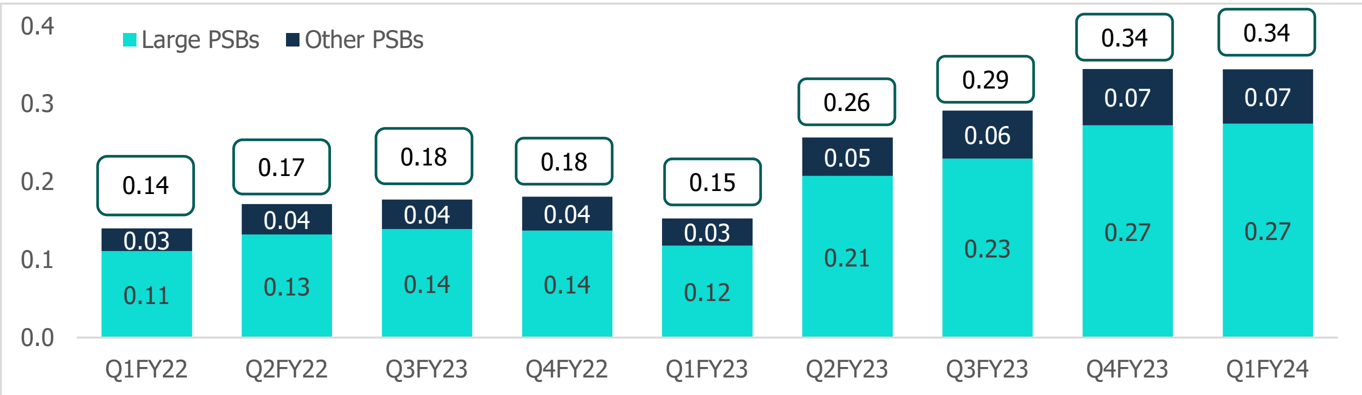
Synopsis

- Scheduled Commercial Banks' (SCBs) net profit grew by 68.9% y-o-y to Rs. 0.73 lakh crore for Q1FY24 due to robust growth in Pre-Provisioning Operating Profit (PPOP) and lower provisions.
    - Public Sector Banks (PSBs) reported strong net profit growth of 124.8% y-o-y to Rs. 0.34 lakh crore in Q1FY24.
    - Private Sector Banks (PVBs) also posted a growth of 38.4% y-o-y to Rs. 0.39 lakh crore in the quarter.
- Return on Assets (RoA, annualised) of SCBs improved by 44 bps y-o-y to 1.31% in Q1FY24. However, banks faced marginal pressure on a sequential basis due to rising cost of deposits, reduction in low-cost CASA deposits and seasonality impact.
- SCBs were adequately capitalised in Q1FY24. PSBs' median Common Equity Tier- 1 (CET-1) ratio expanded by 90 bps y-o-y to 12.3% in the quarter due to robust growth in profitability, while median CAR expanded by 100 bps y-o-y to 15.9% on account of profitability and bond issuances.

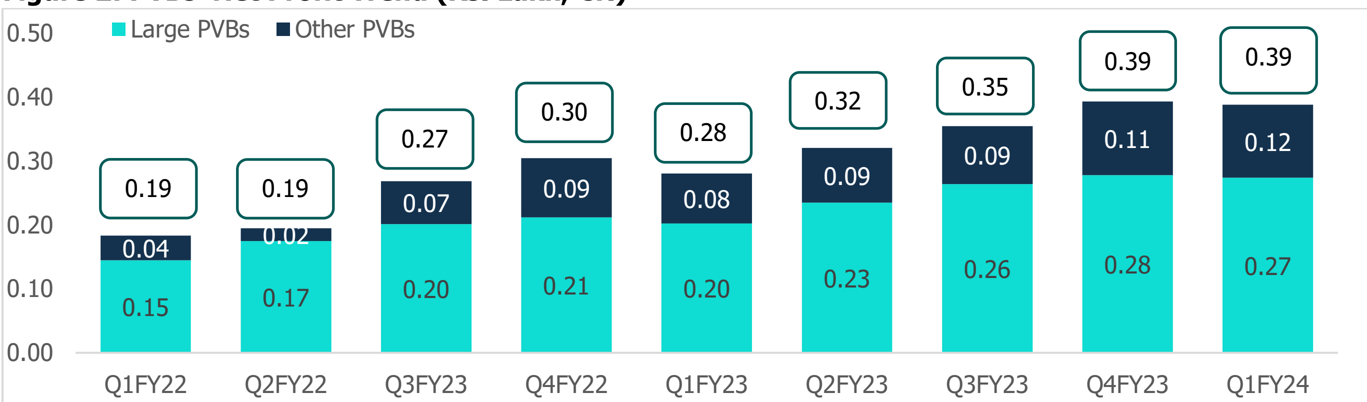
Net Profit Continues to Remain Elevated

Figure 1: PSBs' Net Profit Trend (Rs. Lakh, Cr.)



Source: Ace Equity, Note: Includes 12 PSBs (5 Large + 7 Others)

Figure 2: PVBs' Net Profit Trend (Rs. Lakh, Cr.)



Source: Ace Equity, Note: Includes 18 PVBs (3 Large + 15 Others)

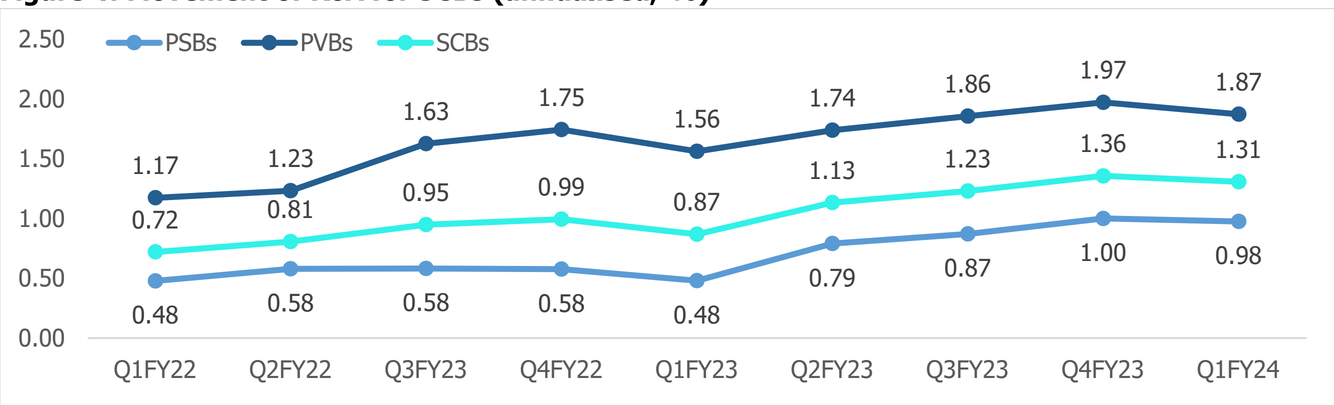
- PSBs witnessed robust growth of 124.8% y-o-y in net profit to Rs. 0.34 lakh crore in the quarter due to PPOP growth and lower credit cost. PPOP grew by 53.1% y-o-y to Rs. 0.68 lakh crore in the quarter, driven by growth in NII and treasury income, while provisions dropped by 19.8% y-o-y in the same period.
  - Large PSBs' net profit rose by 133.0% y-o-y while Other PSBs rose by 97.5%. In terms of sequential performance.
- PVBs' net profit rose by 38.4% to Rs. 0.39 lakh crore in Q1FY24 on account of robust growth in PPOP. In terms of sequential growth, the net profit of PVBs marginally declined by 1.4% due to the seasonality impact, besides the credit costs also increased- in the same period.

Figure 3: Movement in PPOP and Provisions

	(Rs. Lakh Cr.)			(Growth, %)		
	Q1FY22	Q1FY23	Q1FY24	Q1FY23 y-o-y	Q1FY24 y-o-y	Q1FY24 (q-o-q)
PPOP						
Large PSBs	0.40	0.33	0.51	-17.7	54.8	2.0
Other PSBs	0.13	0.12	0.17	-12.7	48.1	-7.0
PSBs	**0.53**	**0.45**	**0.68**	**-16.4**	**53.1**	**-0.4**
Large PVBs	0.30	0.32	0.41	4.5	32.2	0.3
Other PVBs	0.17	0.15	0.21	-8.5	34.7	2.2
PVBs	**0.47**	**0.47**	**0.62**	**-0.1**	**33.0**	**0.9**
SCBs	**1.00**	**0.92**	**1.30**	**-8.8**	**42.8**	**0.2**
Provisions						
Large PSBs	0.25	0.17	0.13	-33.4	-23.3	-9.5
Other PSBs	0.09	0.07	0.06	-18.8	-11.2	-28.0
PSBs	**0.34**	**0.24**	**0.19**	**-29.7**	**-19.8**	**-16.4**
Large PVBs	0.11	0.05	0.05	-58.2	10.6	12.5
Other PVBs	0.12	0.05	0.05	-60.0	8.8	4.5
PVBs	**0.23**	**0.09**	**0.10**	**-59.1**	**9.7**	**8.3**
SCBs	**0.57**	**0.33**	**0.29**	**-41.7**	**-11.3**	**-9.1**

Source: Ace Equity, Bank filings, Note: Includes 12 PSBs (5 Large + 7 Other) and 18 PVBs (3 Large + 15 Others)

Figure 4: Movement of RoA for SCBs (annualised, %)

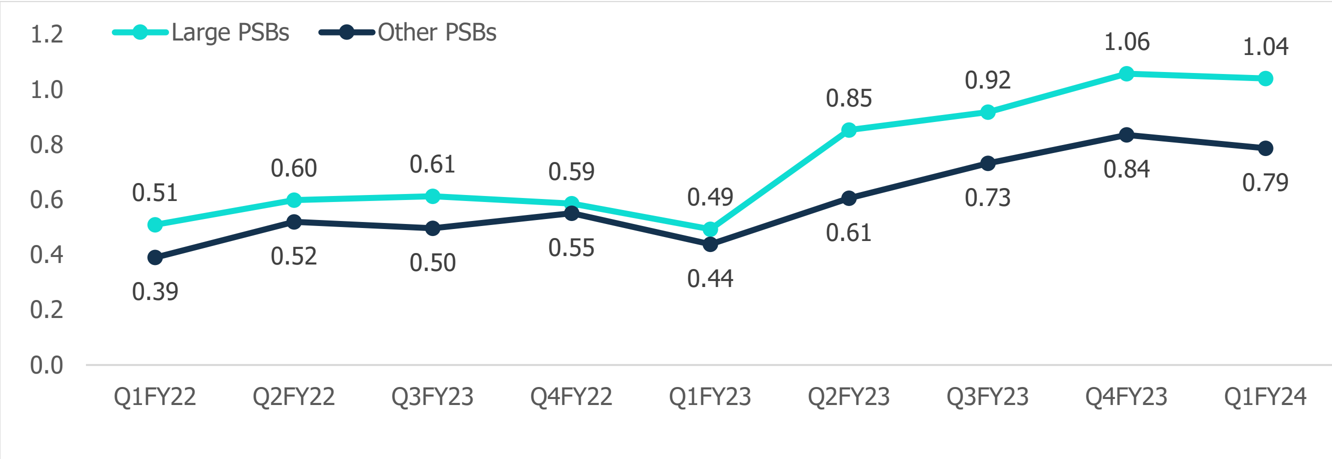


Source: Ace Equity, Bank filings, Note: Includes 12 PSBs (5 Large + 7 Other) and 18 PVBs (3 Large + 15 Others)

RoA of SCBs improved by 44 bps y-o-y to 1.31% in Q1FY24, also up from 0.48% in Q1FY22. It marginally declined by 5 bps on a sequential basis due to seasonal factors. Despite some softness in earnings (partly due to a higher base as well), headline RoA continues to be strong and much higher than the average of 26 quarters.

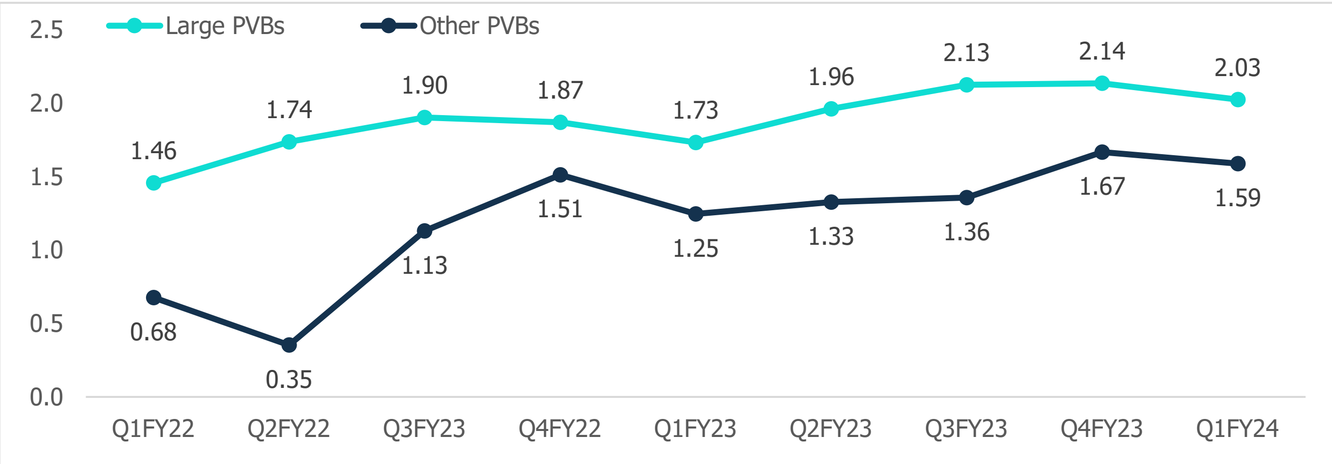
- PSBs' RoA improved by 50 bps y-o-y to 0.98% in Q1FY24 over a year ago. It was largely driven by large PSBs, expanding by 55 bps y-o-y. Besides, Other PSBs underperformed large PSBs in the quarter and their RoA expanded by 35 bps y-o-y as large PSBs reported higher growth in PPOP and higher decline in credit cost.
- PVBs' RoA expanded by 31 bps y-o-y to 1.87% in the quarter, however, it declined by 10 bps q-o-q as higher credit costs impacted the net profit, as well as seasonal factors.

Figure 5: Movement of RoA for PSBs (annualised, %)



Source: Ace Equity, Bank filings, Note: 12 PSBs (5 Large + 7 Other)

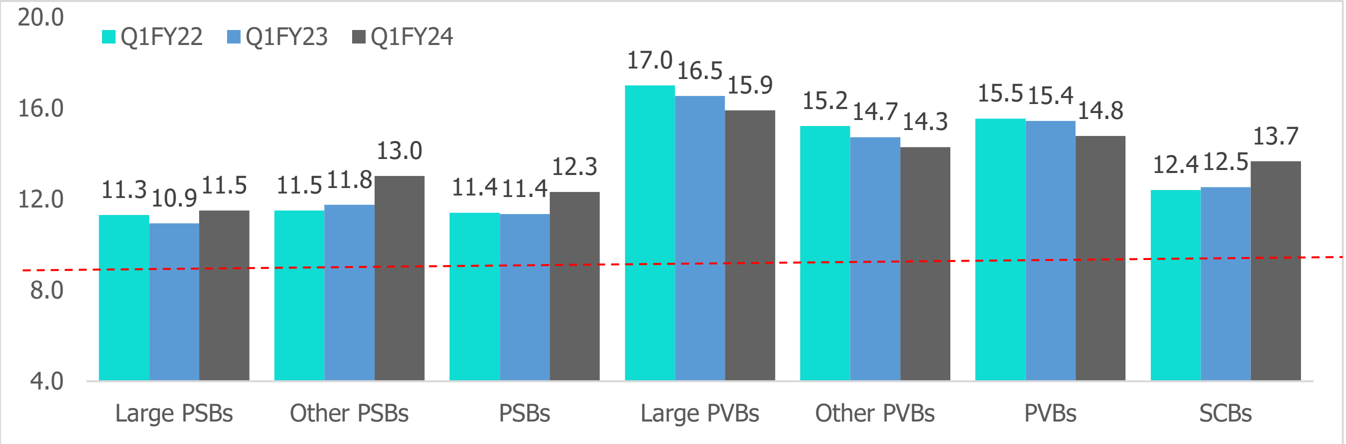
Figure 6: Movement of RoA for PVBs (annualised, %)



Source: Ace Equity, Bank filings, Note: 18 PSBs (3 Large + 15 Other)

Overall Capital Adequacy Improves in Q1FY24; PSBs Up, while PVBs Down

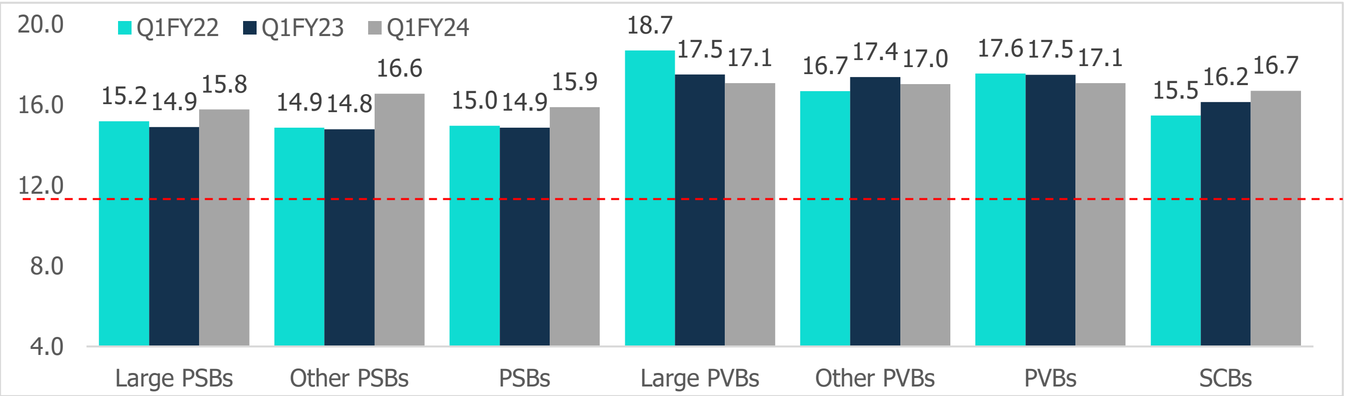
Figure 7: CET-1 Ratio Median (%) – Banks Stand Much Above than Regulatory Requirements



Source: Banks Presentations and Ace Equity Calculations; Note: 12 PSBs (5 Large + 7 others), and 17 PVBs (3 Large + 14 Others) used for Median calculation. Domestic Systemically Important Banks have to maintain a higher minimum ratio compared to other banks (SBI by 60 bps, HDFC and ICICI by 20 bps each).

- The Median Common Equity Tier 1 (CET-1) ratio of SCBs witnessed a healthy y-o-y expansion of 113 bps to 13.7% in Q1FY24 aided by strong growth in profitability which was mainly driven by PSBs.
    - PSBs' median CET-1 ratio improved by 90 bps y-o-y to 12.3% in Q1FY24 due to improved net profits.
    - PVBs' CET-1 ratio declined by 66 bps y-o-y due to robust growth in advances.
- The current CEI-1 levels are comfortably higher than regulatory requirements of 8.0% (including CCB of 2.5%)

Figure 8: CAR Median (%) – Banks Stand Much Above than Required Level



Source: Banks Presentations and Ace Equity Calculations; Note: 12 PSBs (5 Large + 7 others), and 17 PVBs (3 Large + 14 Others) used for Median calculation. Domestic Systemically Important Banks have to maintain a higher minimum ratio compared to other banks (SBI by 60 bps, HDFC and ICICI by 20 bps each).

- The median CAR of SCBs rose by 60 bps y-o-y to 16.7% in Q1FY24. It is much above the regulatory requirement of 11.5%, indicating a stable position.
    - PSBs median CAR expanded by 100 bps y-o-y to 15.9% for Q1FY24 on account of robust profitability and bond issuance.
    - PVBs median CAR dropped by 40 bps to 17.1% in the quarter.
- SCBs issued bonds between Q2FY23 and Q1FY24 period to improve their capital base for managing healthy credit growth.

Figure 9: Movement in CET-1 Ratio of Select Banks

Bank	Q1FY22	Q1FY23	Q1FY24
State Bank of India	9.90	9.72	10.19
Canara Bank	8.80	10.49	11.50
Bank of Baroda	11.30	11.24	11.94
Indian Bank	11.60	12.53	12.30
Punjab National Bank	11.60	10.94	10.85
HDFC Bank	17.20	16.67	16.90
ICICI Bank	17.00	16.54	15.90
Axis Bank	15.40	15.16	14.38

Source: Banks Presentations and Ace Equity Calculations; Note: 12 PSBs (5 Large + 7 others), Domestic Systemically Important Banks have to maintain a higher minimum ratio compared to other banks (SBI by 60 bps, HDFC and ICICI by 20 bps each).

Conclusion

SCBs net profit witnessed a robust growth of 68.9% y-o-y for Q1FY24 mainly driven by PPOP growth and lower provisions. PSBs outperformed PVB in the quarter, reporting net profit growth of 124.9% y-o-y y, which is the third time in a row. RoA of SCBs witnessed a healthy improvement on a yearly basis. However, it is expected to face some pressure on a sequential basis in Q2FY24 as CareEdge anticipates a marginal drop in PPOP margins due to rising cost of deposits and a reduction in low-cost CASA deposits. Overall, banks are in a better position in the current situation as they have been witnessing robust credit growth over the last one-two years, continuous improvement in the asset quality (NNPA ratio at all-time low levels), lower requirement of the provisions due to buffer available for provisioning, lower incremental slippages, and reduction in restructured assets. Meanwhile, SCBs were adequately capitalised in Q1FY24. Besides, many banks have announced capital raising plans in FY24 to meet strong credit demand.

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