ICRA

Indian Banking Sector

LCR changes and lagging deposit growth to impact credit growth; profitability to decline but remain healthy

SEPTEMBER 2024

Agenda

1 ICRA's Outlook on Banking Sector

2 Deposit growth trend and LCR framework changes

3 Overview of Banking Sector's Performance

4 Asset Quality and Profitability Trends

5 Capital Position and Requirements

6 ICRA's Coverage on Banking Sector and Sector Aggregates

Highlights

Click to see full report

Despite expected moderation in credit growth in FY2025, the return indicators are expected to remain comfortable leading to ICRA's Stable outlook for the sector.

ICRA expects that the recent regulatory actions—such as nudging the banks to reduce their credit-to-deposit (CD) ratio, increase in risk weights towards high growing loan segments, and proposed changes in the liquidity coverage ratio (LCR) framework—point to the need to align credit growth with deposit growth, while focusing on growing retail deposits.

On the asset quality front, the fresh non-performing advances (NPAs) generation is expected to rise in FY2025 as is seen in Q1 FY2025. In addition, the recoveries and upgrades are expected to moderate from the highs witnessed in the past few years. Consequently, the quantum of gross NPAs (GNPAs) would rise, however, the GNPA ratio is expected to continue to decline with moderate growth in advances. The capital ratios of several banks remain comfortable, and no major growth-related capital requirement has been seen in FY2025. Nevertheless, the implementation of the expected credit loss (ECL) framework and increased provisioning for project finance in the medium term is likely to be monitorable.

ICRA expects the interest rates on deposits to remain elevated as banks chase more deposits, which, along with expected decline in yields because of slowdown in credit expansion (especially in high yielding unsecured loans), would exert pressure on margins and hence profitability. Nevertheless, the return indicators are expected to remain healthy and sufficient to meet most of the growth requirements.

- The YoY credit growth moderated to 13.4% as on September 06, 2024, while deposits grew by 11.2% in the same period.
- The headline asset quality metrics continued to improve with the GNPA and net NPA (NNPA) at 2.7% and 0.6%, respectively, as on June 30, 2024 (2.8% and 0.6%, respectively, as on March 31, 2024).
- Profitability remained healthy on the back of benign credit costs, with return on assets (RoA) at 1.37% in Q1 FY2025 (1.31% in FY2024).
- Most banks are comfortably placed on the capital front.
- The solvency (NNPAs/core equity capital) level stood at 4.9% as on June 30, 2024 (5.1% as on March 31, 2024).

Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President & Group Head – Financial Sector Ratings	karthiks@icraindia.com	022 – 6114 3444
Anil Gupta	Senior Vice-President & Co-Group Head – Financial Sector Ratings	anilg@icraindia.com	0124 – 4545 314
Sachin Sachdeva	Vice-President & Sector Head – Financial Sector Ratings	sachin.sachdeva@icraindia.com	0124 – 4545 307
Sohil Mehta	Assistant Vice President – Financial Sector Ratings	sohil.mehta@icraindia.com	022 – 6114 3449

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!