

Indian Banking Sector

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

SEPTEMBER 2024



Agenda





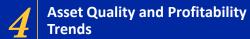














Capital Position and Requirements



ICRA's Coverage on Banking Sector and Sector Aggregates



Highlights





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).



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