ICRA

INDIAN BANKING SECTOR

Key financial and operational statistics of Indian banking sector

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REPORT SYNOPSIS

- Aggregate statistics on bank groups (public sector banks and private sector banks)
- Bank-wise data on:
  - Quarterly update on profitability indicators:
    - Net interest margins (NIMs), core profitability before tax
    - Performance efficiency, including cost-income ratio and return on net worth
    - Trend in distribution income
  - Quarterly update on asset quality:
    - Credit portfolio mix, including exposure to key vulnerable sectors
    - Segment-wise gross and net non-performing advances (NPAs), slippages, solvency ratios
    - Size of restructured advances book
  - Capitalisation, including available core capital and shareholding pattern
  - Concentration of deposits and advances
  - Branch network and international presence
- Snapshot of bank-wise restructured advances, including movement and composition of restructured advances

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EXECUTIVE SUMMARY

OVERVIEW

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Near-to-medium-term outlook on growth, asset quality and earnings remains Stable

- **Asset quality to remain comfortable despite uptick in slippages:** Slippages were witnessed on an uptick with an annualised fresh NPA generation rate of 1.34% in Q1 FY2025 from 1.29% in Q4 FY2024 on account of stress in the unsecured segment. Though in comparison to FY2024, the fresh NPA generation rate had trended lower. Nevertheless, the slippage rate is expected to trend higher with stress seen in the retail (especially unsecured) portfolio and the gradual seasoning of the recently originated portfolio leading to delinquencies. Gross fresh NPA generation for all banks for FY2025, is expected to rise to 1.7-2.1% in FY2025, from 1.5% in FY2024, though remaining lower than the previous years (2.0% in FY2023, 3.1% in FY2022). Overall, the asset quality of the granular retail, small and medium enterprise (MSME) book remains good as of now and the corporate asset quality is also likely to remain steady in the next few years. By March 2025, the banking sector's GNPA% may dip to the lowest level since September 2011 and the NNPA% to the lowest level in more than 15 years.
- **Pace of credit expansion to moderate in FY2025**: The banking industry saw the highest ever credit expansion of Rs. 22.3 trillion (16.3% YoY) in FY2024^, however, the same is estimated to moderate to 11.6-12.5% in FY2025^. ICRA expects that the recent regulatory actions—like reduction in the credit-to-deposit ratio and in exposures towards high growing loan segments, in addition to the proposal to review the liquidity coverage ratio (LCR) framework—point to the need to align credit and deposit growth. The credit growth though moderating, is expected to remain higher than deposit growth and hence the CD ratio is expected to remain elevated and any meaningful reduction in the same would take some time to materialise.
- **Benign credit costs to support profitability:** Net interest margins (NIMs) are expected to compress due to the slowdown in growth (primarily towards high yielding unsecured advances) with cost of funds continuing to remain high. Notwithstanding the margin compression, the operating profitability is expected to remain healthy. The earnings would be further aided by the benign credit cost and the expected internal accruals will largely be sufficient for most banks to meet their regulatory as well as growth capital requirements. ICRA estimates a slight moderation in the return on assets (RoA) and return on equity (RoE) for the banking system to 1.1-1.2% and 13.2-14.3% respectively in FY2025 from 1.3% and 16.1% respectively in FY2024. However, the impact of the persistently high interest rates and the inflationary or economic shocks/disruptions on the asset quality, challenges in deposit mobilisation, discretionary expenditure to expand the customer franchise, geopolitical concerns and regulatory changes, like the implementation of IND-AS on profitability, will all remain monitorable.

^Growth rate for FY2024 excludes impact of HDFC merger; growth rate for FY2025 is calculated by including HDFC merger impact in FY2024

- **Incremental improvement in capital and solvency position to remain limited**: The capital ratios of several banks remain comfortable, and no major growth-related capital requirement is seen in FY2025. Further, capital cushions are expected to remain healthy, despite the increase in risk weights for unsecured consumer credit and the NBFCs. 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.

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ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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