Credit growth, quality assets may spur bank profits in Q4

Profits may grow 9.6%, net interest income 8.7% in March quarter

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Mumbai, 8 April

With high credit growth and healthy asset quality, listed commercial banks are expected to report steady growth in earnings during the fourth quarter ended March 2024 (Q4 FY24).

Profits are expected to grow at 9.6 per cent year-on-year (Y-o-Y) and net interest income (NII) by 8.7 per cent in Q4FY24, according to Bloomberg analysts' estimates.

According to Motilal Oswal Securities, while bank credit growth has been robust, deposit growth has also gathered pace. This is on the back of aggressive mobilisation by banks and competitive rates. As a result, the gap between credit and deposits narrowed to around 3.4 per cent in March 2024, the brokerage said in its preview of Q4 results.

Banks are expected to sustain their loan book and deposit growth trajectory in Q4 FY24, supported by favourable industry trends and expanding range of product offerings, according to Centrum Equity Research.

Reserve Bank of India (RBI) data shows that bank loans grew 20.2 per cent Y-o-Y to ₹164.34 trillion and deposits expanded by 13.5 per cent to ₹204.75 trillion till March 22, 2024.

The banking industry's performance factors in the merger of mortgage lender HDFC with HDFC Bank.

With competition for liabilities pushing term deposit rates, net interest margin (NIM) compression is expected to moderate in the fourth quarter, Motilal & Oswal said. According to CARE Ratings, NIMs of banks declined by 16 basis points (bps) Y-o-Y at 3.14 per cent in Q3 FY24.

Within this, for public sector banks they declined by 12 bps at 2.77 per cent, whereas private sector banks saw a higher decline of 32 bps to reach 3.75 per cent. NIM stood at 3.28 per cent for Q4.

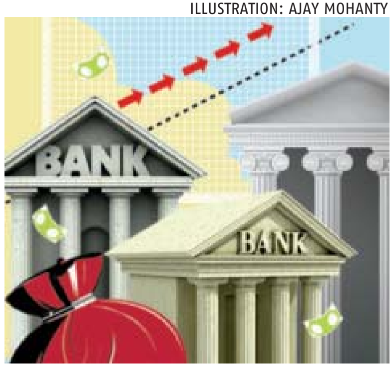
Besides inflows from interest income, the softening of bonds in the fourth quarter is expected to provide mark-to-market (MTM) gains to the bottom line.

Overall, the 10-year G-sec yield fell by 13 bps in Q4 to 7.07 per cent. It continued the softening trend witnessed in the third quarter when it declined by 2 bps, according to RBI's Monetary Policy Report April 2024. "There would be some treasury gains. The reversal of provisioning in the fourth quarter would translate into benefit for profits," said a treasury executive with a private bank.

The ongoing improvement in asset quality is expected to continue, with controlled slippages, complemented by robust recoveries, upgrades, and sales to the National Asset Reconstruction Company of India (NARCL), which will enhance asset quality ratios. Healthy provision coverage ratio (PCR) and a significant reduction in the special mention accounts (SMA) pool bode well for credit costs, Motilal Oswal said.

The gross non-performing assets (GNPAs) declined to 3 per cent at the end of December 2023 from 4.1 per cent from March 2023. The GNPA ratio is projected to be around 2.5-2.7 per cent in FY24, according to CARE Ratings.

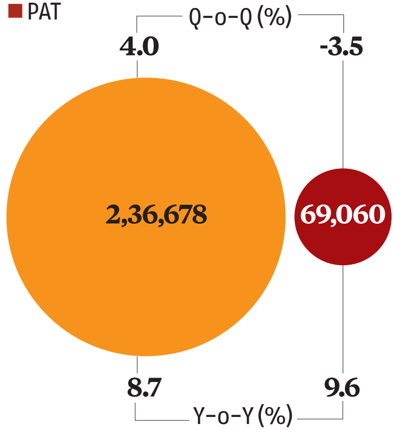
ILLUSTRATION: AJAY MOHANTY



WHAT ESTIMATES SAY

Q4FY24 (₹ crore)

Net interest income
PAT



Source: Bloomberg's analysts estimates