Bottom line of private banks remains healthy

HOW THEY FARED

	₹ crore	% change	
	Q1FY25	Q-o-Q	Y-o-Y
Net profit	**49,095**	4.1	26.2
NII	**97,823**	1.9	14.3
Other income	**40,005**	-10.3	26.9
Provisions & contingencies	**9,754**	-52.2	-6.0
Gross NPA	**1,33,460**	3.3	4.9
Net NPA	**33,401**	7.4	10.1

Compiled by BS Research Bureau Source: Capitaline

ABHIJIT LELE & SUBRATA PANDA
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Private banks' net profit grew 26.3 per cent year-on-year (Y-o-Y) to ₹48,982 crore in the first quarter ended June 2024 (Q1FY25) owing to healthy growth in credit and other income.

The gross non-performing assets (GNPAs) increased with the end of dispensation granted during the pandemic, according to the data compiled by BS Research Bureau for listed 18 private banks.

GNPAs in absolute terms rose 4.9 per cent Y-o-Y and 3.3 per cent sequentially to ₹1.33 trillion at the end of June. Net NPAs rose 10.1 per cent Y-o-Y and 7.4 per cent sequentially to ₹33,401 crore at the end June.

While NPAs have grown, provisions for them have not moved up. Current provision coverage is high because lenders have been setting aside more money than what regulatory norms require in the post-pandemic phase.

Provisions and contingencies, including those for standard loans and NPAs, decreased by 6 per cent Y-o-Y and 5.2 per cent sequentially to ₹9,754 crore in Q1FY25.

According to Suresh Ganapathy, managing director, head of financial services research, Macquarie Capital, the goldilocks scenario of high growth, high margins, exceptionally low credit costs was coming to an end.

"This couldn't have gone on forever. First, the recoveries will be down -- the same level of upgrades and recoveries from written-off accounts can't continue and then some pickup in stress in unsecured loans," he said.

S&P Global Rating in its "Mid-Year Banking Outlook for South and Southeast Asia" last week had indicated the cost of banking credit in India was expected to normalise from decade-low levels. The cost was at 0.8 per cent in 2023-24, below the long-term average of 1.5 per cent.

"We expect credit cost to rise marginally to 0.8-0.9 per cent," the rating agency had said.

A majority of the banks have indicated there is some stress in the unsecured portfolio, especially in the credit-card and personal-loan segment. Additionally, two of the largest private sector lenders — HDFC Bank and ICICI Bank — have indicated they have slowed the growth of their unsecured portfolio. This comes amid the Reserve Bank of India cautioning banks on the exuberance in this segment.

Sanjay Agarwal, senior director, CARE Ratings, said while delinquency was rising in the unsecured credit portfolio, including micro loans, the asset quality, GNPAs, for private banks was normalising after cleanup and dispensations given during the pandemic.

GNPAs have hit the bottom for private banks and may rise in absolute terms in tandem with growth in the loan books, he said.

Most banks experienced compression in net interest margins due to increased funding costs from intense competition for deposits. Margins are expected to remain pressured because rising stress slows growth in unsecured loans, which typically offer higher margins, and new liquidity coverage regulations require more investment in low-yielding government securities, further impacting margins.

CARE Ratings in its review of Q4FY24 had said the cost of funds continued to rise, exerting pressure on the net interest margin and this trend is expected to continue in Q1FY25.