



## Indian Banking System: Q4FY11: Performance Review & Outlook

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The current ICRA research is an update on the performance of 42 Indian Banks (26 public sector banks and 16 private sector banks). These banks account for around 95% of the Indian Banking System assets as on March 2011.

- ❑ Overall profitability indicators for banks under review showed marginal improving trends in the first three quarters of fiscal 2011 with net profits as a percentage of average total assets at around 1.15% in Q3FY11 from 1.00% in Q4FY10, but declined to 0.92% in Q4FY11 mainly owing to the decline in profitability of Public Sector banks (PSU banks). Private sector banks steadily improved their profitability levels in FY11 widening the gap with their public sector peers.
- ❑ Treasury gains remained thin in FY11 on the back of rise in interest rates; banks would need to provide depreciation for any further rise in bond yields.
- ❑ ICRA estimates that the impact of increase in funding costs owing to interest rate hardening and the higher interest rate on savings accounts are likely to be felt on banks' interest margins in FY12, particularly for those banks with a high proportion of bulk deposits. This coupled with a temporary slackening of credit growth, atleast in the first half of FY12, could impart some pressure on banks' interest margins in FY12.
- ❑ PSU banks absorbed nearly Rs. 180 billion on account of additional provisions for employee compensation in Q4FY11 and an estimated liability of Rs. 220 billion would be amortised over the next 4 years, which is likely to offset the impact of operational efficiencies on overall operating cost levels.
- ❑ Overall provisioning cost levels increased in FY11 owing to higher regulatory provisioning requirements and are expected to remain at fairly high levels in FY12 as well, owing to likely increase in NPAs and higher prudential provisioning. In FY11, private sector banks' credit cost levels were better than PSU banks as the incremental provisions required to meet regulatory targets were lower because of the available provision cover.
- ❑ Banks registered the strongest credit growth in FY11 since the slowdown in FY09 with an expansion of the credit portfolio by 22.72% by banks under review. The growth was driven primarily by credit to industry, particularly infrastructure, and services, mainly non-banking financial companies. Agricultural and retail credit lagged overall credit growth. Overall, the base effect of strong credit growth in FY11 and a possible slowdown in credit off-take in FY12 owing to rising interest rates could lead to a slower credit growth of 17%-18% in FY12.
- ❑ Overall asset quality indicators were stable in FY11 with gross NPAs remaining steady at 2.26%. Supported by the improvement in the asset quality of ICICI Bank, the largest private sector lender, private sector banks' gross NPA levels registered a significant improvement as compared to PSU banks. Most banks, however, registered a sharp improvement in net NPA levels owing to higher regulatory provisioning requirement. Despite the expected increase in slippages in the short-to-medium term, ICRA believes that the banking system is well-equipped with a good overall solvency profile and a comfortable provision cover to absorb any shocks in the near term.
- ❑ Supported by over Rs. 150 billion equity infusion from GOI in several PSU banks, the overall bank capitalisation levels remained comfortable despite the strong expansion in credit portfolios. Even as banks resorted to raising Tier I capital through non-equity instruments, the core capitalisation levels remained stable at 6.09% as on Mar-11.

### Website:

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## Key recent developments

The key developments during the last 15 months, which could have an impact on the credit profile of the banks going forward, are highlighted below:

- Sizeable Capital infusion into PSU banks by the Government; more capital likely to be infused in FY12.
- Increase in provision coverage on NPAs by majority of the banks to 70%<sup>1</sup> leading to improvement in Solvency profile<sup>2</sup>.
- Steady rise in interest rates in the economy as the Reserve Bank takes steps to tackle inflationary pressures.
- Introduction of “Base Rate” from Jul-10; rise in yield on advances for the banking system albeit with some lag
- Interest on savings account balances increased to 4.00% from 3.50%; interest to be paid on daily balance; ICRA estimates adverse impact on cost of funds at 8-15 basis points.
- Reopening of pension option to employees of PSU banks and enhancement of gratuity limit to Rs. 1 million per employee from Rs. 0.35 million likely to impact Tier I capital; option to amortize over 5 years cushions immediate adverse impact on reported Tier I capital.

## Strong credit growth and improving yields off-set rise in funding costs in Q4FY11 restricting the decline in interest margins

The Net interest margins (NIM) and gross interest spreads of the 42 banks analysed by ICRA marginally declined in Q4FY11 after a steady rise in the first three quarters of FY11. Banks mostly managed to compensate the increase in cost of funds through a series of hikes in their Base Rates since Q3FY11. The quarterly NIM increased from 2.71% in Q4FY10 to a peak of 3.10% in Q3FY11 and declined marginally to 2.90% in Q4FY11. On a rolling twelve month<sup>3</sup> analysis, NIMs steadily increased to 2.86% in FY11 compared to 2.44% in FY10 as the transmission of higher rates to borrowers in the current year has positively impacted the yields whereas the upward repricing of deposits normally happens with a lag.

Chart 1: Net Interest Margin (Rolling 12M)

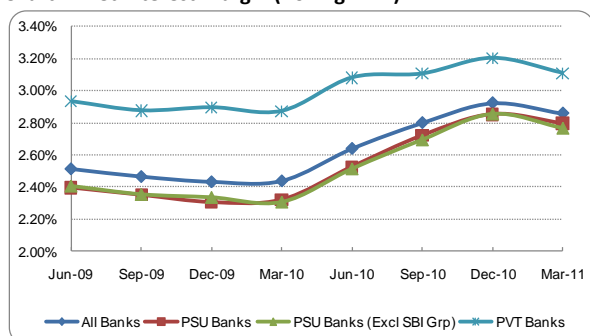
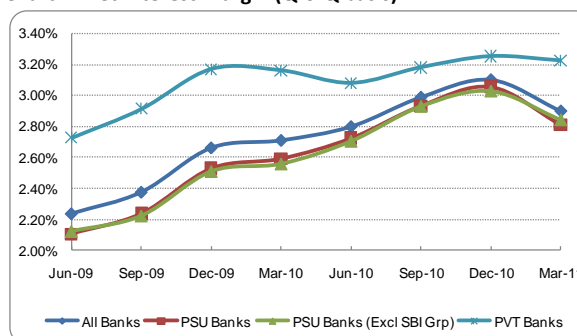


Chart 2: Net Interest Margin (Q-o-Q basis)



Source: ICRA Research; Note: Net interest margin expressed as percentage of average assets

Owing to the sharp increase in NIMs for PSU banks from Q1FY11 (largely on account of the positive impact of the introduction of the Base Rate) the gap with private sector banks has narrowed from 0.57% in Q4FY10 to 0.41% in Q4FY11. Nonetheless, the interest margins for the private sector banks continue to remain higher than their public sector peers on the back of the higher yield on advances and better capitalization levels as compared to the PSU banks, despite their relatively higher cost of funds.

With the incremental cost of deposits rising sharply in the last two quarters, ICRA believes that the impact of repricing of the low cost deposits of the past will get reflected in pressures on interest margins in the current year. Even as ICRA expects RBI to increase interest rates further in the current year given the continuing inflationary trends, further upward revision in loan rates (post the increase by some banks after the RBI's Annual Credit Policy in May 2011) could impact credit off-take and banks may not fully pass on rate hikes to borrowers, resulting in a temporary contraction of NIMs at least over the next few quarters. We believe that impact could be relatively severe on banks which have mobilised significant wholesale deposits to fund credit growth in FY11.

<sup>1</sup> SBI has been permitted time upto September 2011 by the RBI

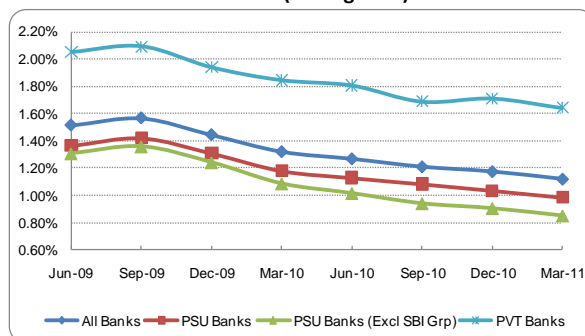
<sup>2</sup> Solvency ratio is computed as Net NPAs as % of networth

<sup>3</sup> Trailing Twelve Months

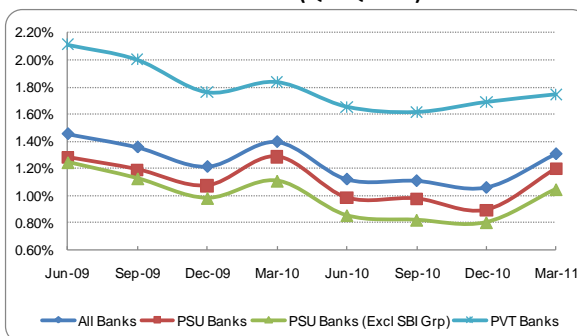
### Steady decline in Non-Interest Income levels...

Non-interest income as a percentage of average total assets registered a steady decline in FY11 to 1.12% from 1.32% in FY10 on account of moderate growth in fee income and low treasury income. On a quarterly basis, the non-interest income remained modest upto Dec-10 but increased to 1.31% of average assets in Q4FY11 (partly aided by the rise in credit off-take and an increased thrust on recoveries from delinquent accounts). While all categories of banks have reported decline in non-interest income levels, private sector banks' fee income levels with non-interest income comprising 34.47% of operating income remain better diversified compared to PSU banks which have 26.04% of operating income through non-interest revenue sources.

**Chart 3: Non-Interest Income (Rolling 12M)**



**Chart 4: Non-Interest Income (Q-o-Q basis)**



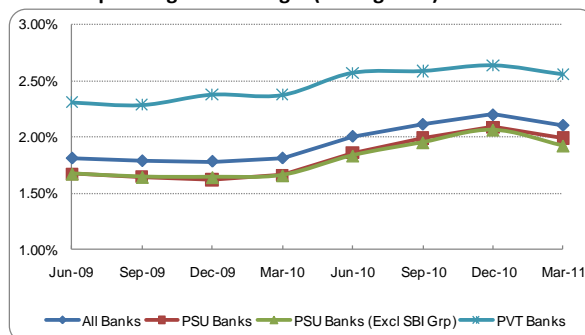
Source: ICRA Research; Note: Non-interest income expressed as percentage of average assets

A prime reason for the declining non-interest income has been the lower trading profits on bank's investment portfolio. As the yields on Government Securities started to harden from Q2FY11, there were fewer opportunities to make trading profits on investments. As interest rates are expected to remain hard for most part of FY12, the non-interest income levels could continue to remain subdued in FY12; the increase in core fee income is expected to largely track the growth in bank credit.

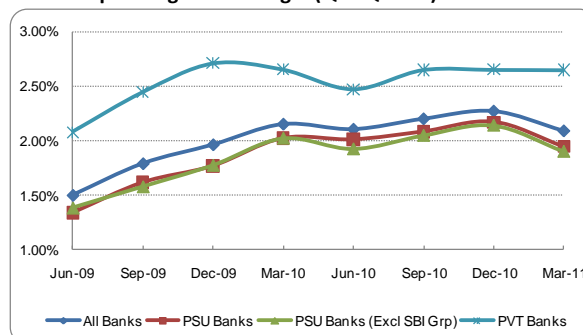
### Employee-related expenses pull down Operating profitability in Q4FY11

Despite stagnant non-interest income, higher net interest margins and control over operating costs led to a sharp rise in the operating profitability of banks in the first nine months of FY11 to 2.20% as compared to 1.81% during FY10. However, additional provisions for employee compensation on account of reopening of pension option (including for retired employees) and higher gratuity provisions impacted operating cost levels in Q4FY11. PSU banks have been given the option to amortise the additional liability over five years<sup>4</sup>, and most of the Banks have opted to do so in order to cushion the impact on profitability and capitalisation. In ICRA's estimates, operating cost levels over the next 12-16 quarters could be marginally higher by ~ 10 bps owing to amortisation of deferred employee costs. With amortisation of staff costs coupled with branch expansion plans of the banks and an expected moderation in credit growth, ICRA expects the operating expense levels to rise marginally in the medium term.

**Chart 5: Operating Profit Margin (Rolling 12M)**



**Chart 6: Operating Profit Margin (Q-o-Q basis)**



Source: ICRA Research; Note: Operating profit expressed as percentage of average assets

<sup>4</sup> Also see [ICRA Comment: RBI notification on pension liabilities: PSBs get a breather](#)

The overall core operating profitability of the PSU banks will be impacted adversely on account of the expected pressures on interest margins and rise in operating expenses. On the other hand, the Private Sector Banks reported a stable quarterly operating profitability of 2.66% through FY11 supported by lower leverage levels and relatively stable non interest income.

### Credit provisions and lower interest margins hit net profitability in Q4FY11

The net profitability of PSU banks fell sharply in Q4FY11 to 0.76% after a steady improvement in the first nine months. While the decline was mainly on account of the modest profitability reported by SBI (0.01%), the profitability levels of other PSU banks also dropped, albeit moderately to 0.96% from 1.10% during this period. In addition to the decline at the operating profitability level, the credit provisioning levels also increased for PSU banks, leading to a drop in net profitability. Private sector banks continued to report an improvement in their profitability in Q4FY11 through control over operating cost levels and credit costs.

Chart 7: Net Profit Margin (Rolling 12M)

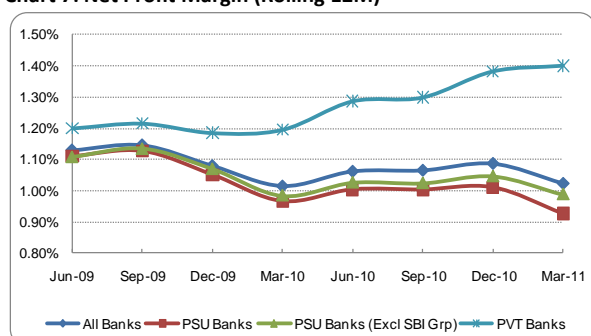
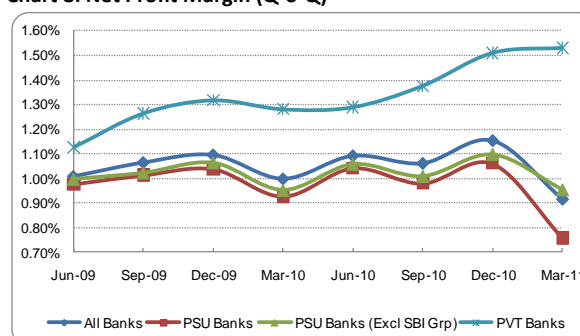


Chart 8: Net Profit Margin (Q-o-Q)



Source: ICRA Research; Note: Net profit expressed as percentage of average assets

The steep fall in Q4FY11 profitability has dragged the profitability of FY11 to the same levels as in FY10 even as quarterly trends during the year indicated an improvement.

While RBI has relaxed the provision requirement of 70% on NPAs, the prudential provision requirements for the various NPA classifications (sub standard and doubtful assets) have been revised upwards. As such the pressure on credit provisions could continue in FY 12 as well, albeit at lower levels. Further, in ICRA's estimates, any further increase in bond yields could necessitate mark-to-market provisions on banks' investments books. In FY12, overall bank profitability is likely to be weighed down by increasing cost of funds, credit and investment provisions and amortisation of staff provisions, although higher yields on advances could partly mitigate the pressures. ICRA also expects the liquidity profile to tighten in the current financial year as RBI is likely to maintain tight systemic liquidity and raise benchmark rates for moderating inflationary pressures. Accordingly, in ICRA's view, in order to protect the overall profitability, the banks would need to keep a closer watch on the asset quality and also manage the interest rate risk on their investment portfolio.

### Further rise in bond yields to adversely impact profitability in FY12

The yield on the benchmark 10-year G-Sec increased by 18 bps during FY11 from 7.89% as on March 31, 2010 to 8.07% as on March 31, 2011 and further to around 8.4% as on date<sup>5</sup>. However, most banks had some cushion against investment depreciation and consequently did not have to make sizeable additional investment provisions in FY11. However, in ICRA's opinion, bond yields might not have peaked and any mark-to-market impact on account of further rise in yields could impact returns from banks' bond portfolios in Q1FY12. Treasury gains were also muted in FY11 given the hardening interest rates and banks would do well if they can manage with limit the provisioning requirements on their investment book this year.

However the adverse impact in movements is largely mitigated by the high levels of investments that are classified in the "Held to Maturity" category which do not require any mark-to-market provisioning requirements. Nevertheless with most banks having around 30-35% of their investments in the "Available for Sale" and "Held for Trading" categories, sudden change in interest rates could impact valuations. The table below indicates the impact of changes in the yield curve and modified duration of the investment portfolio as a proportion of the pre tax profits.

<sup>5</sup> Source: Reserve Bank of India, Weekly Statistical Supplement, ICRA research

**Table 1: Impact on PBT due to rise in bond yields at various Modified Duration levels<sup>6</sup>**

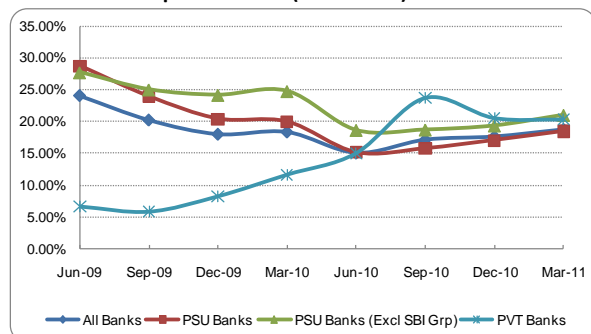
		Modified Duration levels of Investment Portfolio								
		2.00	2.25	2.50	2.75	3.00	3.25	3.50	3.75	4.00
Rise in Interest Rates	0.25%	-3.32%	-3.73%	-4.15%	-4.56%	-4.98%	-5.39%	-5.81%	-6.22%	-6.64%
	0.50%	-6.64%	-7.47%	<b>-8.30%</b>	<b>-9.13%</b>	<b>-9.96%</b>	-10.79%	-11.62%	-12.45%	-13.28%
	0.75%	-9.96%	-11.20%	<b>-12.45%</b>	<b>-13.69%</b>	<b>-14.93%</b>	-16.18%	-17.42%	-18.67%	-19.91%
	1.00%	-13.28%	-14.93%	<b>-16.59%</b>	<b>-18.25%</b>	<b>-19.91%</b>	-21.57%	-23.23%	-24.89%	-26.55%
	1.25%	-16.59%	-18.67%	-20.74%	-22.82%	-24.89%	-26.97%	-29.04%	-31.11%	-33.19%
	1.50%	-19.91%	-22.40%	-24.89%	-27.38%	-29.87%	-32.36%	-34.85%	-37.34%	-39.83%

ICRA estimates that adverse impact for the banks on account of the rise in interest rates would be of the order of 10-20% of FY12 pre tax profits. Barring few exceptions, ICRA expects most of the private sector banks to be near the lower end of the stated band while the PSU banks remain at the higher end on account of the reasons stated earlier.

### Deposit growth likely to remain strong; cost of funds to rise further

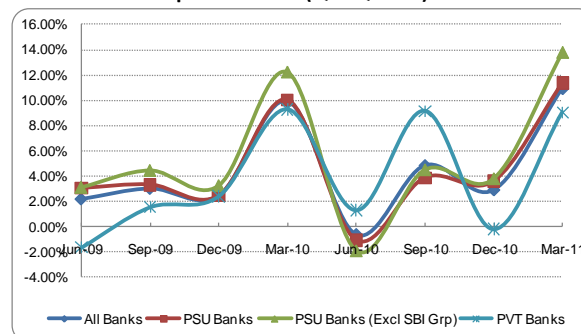
The deposit base for the 42 banks analysed by ICRA grew by 19.07% on a Y-o-Y basis, marginally higher than the 17.67% growth as on Dec-10 and 17.17% as on Sep-10 as a result of the strong Q-o-Q growth of 11.20% in Q4FY11; deposit growth remained muted in the first three quarters registering a growth of only 7.08% in the first upto YTD Dec-10. All banks had several rounds of interest rate hikes aggregating 150-300 bps during the year starting from Q3FY11 which translated into strong growth, particularly in term deposits which registered a quarterly growth of 12.04% in Q4FY11 compared to 6.53% in Q3FY11. Empirical data suggests that the decline in the share of low-cost deposits is further accentuated by the decline in Corporates’ surplus balances with Banks for working capital requirements and spurt in issuances of certificate of deposits (CD), while the savings account balances continued to grow.

**Chart 9: Total Deposit Growth (Y-o-Y Basis)**



Source: ICRA Research

**Chart 10: Total Deposit Growth (Q-o-Q Basis)**



Private sector banks reported a stronger growth in FY11 of 21.92% Y-o-Y compared to PSU banks which reported a growth of 18.45%. Among the PSU banks, overall deposits growth was partially pulled down by SBI group, which reported a growth of only 12.43% y-o-y and 5.72% in Q4FY11; adjusting for this the remaining PSU banks’ growth was significantly higher at 21.03% y-o-y and 13.77% Q-o-Q. The growth of PSU banks was largely fuelled by growth in term deposits as these banks aggressively increased term deposit interest rates. The growth in term deposits has also resulted in these banks registering a decline in their low-cost deposit base and an increase in cost of funds for PSU banks.

The share of low cost deposits of banks analysed by ICRA marginally declined in Q4FY11 to 34.45% as on Mar-11 from 34.94% as on Dec-10 and 34.99% as on Mar-10 owing to strong growth in term deposits and CDs. While private sector banks registered a good improvement in CASA share to 40.92% as on Mar-11 from 36.90% as on Dec-10 and 39.32% as on Mar-10, PSU banks’ CASA share declined to 33.01% as on Mar-11 from 34.50% as on Dec-10 and 34.05% as on Mar-10. Among the PSU banks, the SBI Group managed to retain the CASA share at 42.09% as on Mar-11 compared to 42.73% as on Mar-10, while it declined for other PSU banks by 0.94%pts at 29.39% as on Mar-11 from 30.33% as on Mar-10.

<sup>6</sup> We have assumed an investment portfolio at 32% of the deposit base and the Available for Sale and Held for Trading portfolio accounting for 30% of the investment portfolio.

In its monetary policy statement for FY12, RBI increased the interest rate on savings deposits to 4% from 3.5% in view of the widening spread between term deposit rates and savings rates. In ICRA's estimates, at the systemic level, savings accounts are estimated to account for 22%-23% of total Bank deposits as on March 31, 2011 and the increase in saving rate could dilute the NIM by 8-15 basis points, while the post tax impact could be lower at 6-7 basis points. However, the impact could be more adverse for large banks that have a stronger savings account base. While the impact is not very significant per se, the cost of funds of banks could increase considerably in FY12 given the effect of hardening interest rate scenario and declining CASA share. The cost of funds also increased for PSU banks in Q4FY11 to 5.79% from 5.54% in Q3FY11 and 5.44% in Q4FY10 while private sector banks registered an increase to 5.74% in Q4FY11 from 5.45% in Q3FY11 and 5.07% in Q4FY10.

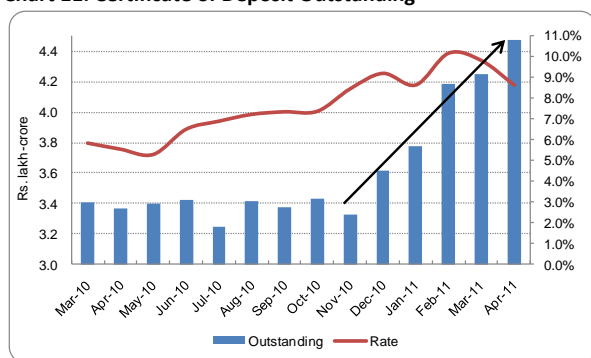
Also, the rise in the credit off-take coupled with marginal growth in deposits led the Credit-to-Deposit ratio to increase to 78.33% as of Dec-10 from 74.06% as of Mar-10 and moderating marginally to 76.34% as on Mar-11. RBI has already expressed concern banks' ability to sustain credit growth without a matching growth in deposits in light of the sharp increase in the Credit-to-Deposit ratio in the current year.

ICRA expects interest rates to remain at elevated levels at least in the early part of the current fiscal as RBI is likely to raise policy rates to contain inflation. Given the hike in interest rates coupled with the volatility in the capital markets we expect some retail funds to be diverted to bank deposits in the near term, and help sustain the higher pace of deposit growth witnessed in Q4FY11. The growth in share of term deposits, increase in interest rates and the increase in interest on savings deposits would considerably impact the cost of funds for banks adversely in FY12. ICRA expects the system deposit base to grow by 16-17%<sup>7</sup> as against RBI's projection of 17%.

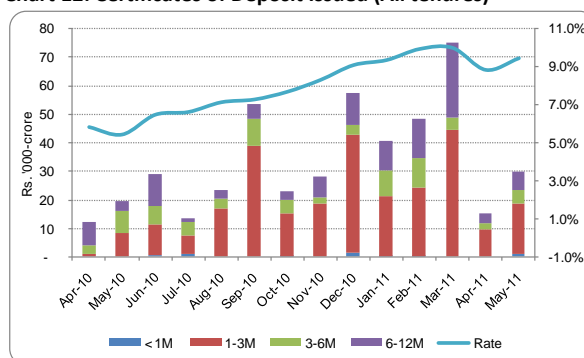
### Banks aggressive on raising short term bulk funds despite high rates

ICRA's analysis of the current liquidity situation reveals that Indian banks have been raising bulk funds in the form of CDs and high-cost deposits from corporates, mostly for short tenures. The share of CDs outstanding increased to 8.16% as on March 2011 from 7.17% as on September 2010 and 7.60% as on March 2010 with the outstanding CDs increasing from Rs. 3.41 trillion to Rs. 4.25 trillion during this period. Issuance volumes increased from Rs. 122.72 billion in April 2010 to Rs. 752.41 billion in March 2011, with a significant share of short tenure issuances.

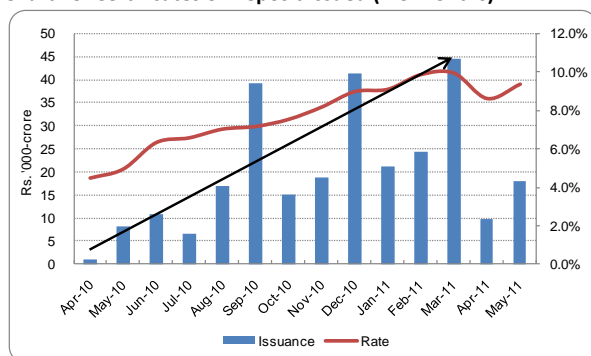
**Chart 11: Certificate of Deposit Outstanding**



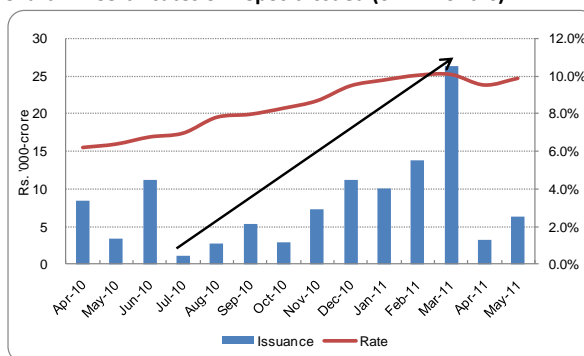
**Chart 12: Certificates of Deposit Issued (All tenures)**



**Chart 13: Certificates of Deposit Issued (1-3 months)**



**Chart 14: Certificates of Deposit Issued (6-12 months)**



Source: RBI; Debt on Net; ICRA Research

<sup>7</sup> Also see [ICRA Comments on the RBI's Annual Policy Statement for 2011-12 released in May 2011](#)

Market estimates indicates issuances of short tenure (1-3 months) CDs increased from Rs. 11 billion in April 2010 (8.96% of total issuances) to Rs. 444.74 billion in March 2011 (59.11%), an increase of over 40 times. This is likely to impact the banks' cost of funds as these CDs maturing in the near term typically would get refinanced at the prevailing high short term rates. In view of the increasing cost of CD issuances, several banks have also been increasing the portfolio of bulk deposits<sup>8</sup> to fund credit growth in Q3 & Q4FY11. In ICRA's view, the fixed tenure of CDs augurs well for banks from an asset-liability management perspective as compared to bulk deposits which carry risk of preclosure.

### FY11 credit growth strongest in past 3 financial years; moderation likely in FY12

The credit growth for the 42 banks analysed by ICRA was robust during FY11 fuelled by credit to telecom sector in Q1FY11 and to other infrastructure sectors in the remaining part of the year. The total credit extended by the banks under review stood at Rs. 40.73 trillion as on March 31, 2011, representing an 8.36% Q-o-Q growth and 22.72% Y-o-Y, higher than RBI's comfort level of 20%. Recovering from the economic downturn in FY09 private sector banks have registered strong recovery in growth since December 2009 compared to their public sector peers.

Among the PSU banks, the quarterly growth registered by SBI group in Q4FY11 was significantly lower at 4.68% compared to other PSU banks which grew their advances portfolio by 10.82% during the same period. SBI group's credit growth lagged other PSU peers on an annual basis as well registering a growth of 14.71% in FY11 vis-à-vis 25.44% led by large banks including Bank of Baroda (30.65%), Canara Bank (25.47%), Punjab National Bank (29.75%), Corporation Bank (37.42%) and Indian Overseas Bank (41.26%), while HDFC Bank (27.14%) and Axis Bank (36.48%) registered strong growth rates in the private sector space.

Chart 15: Advances Growth (Y-o-Y Basis)

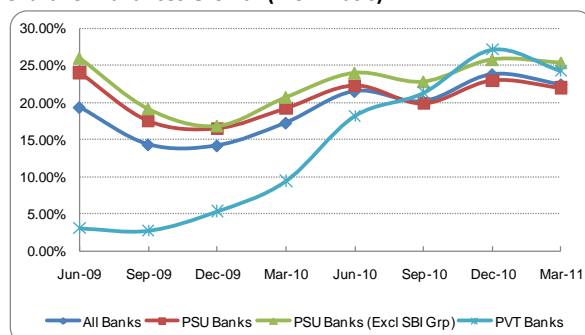
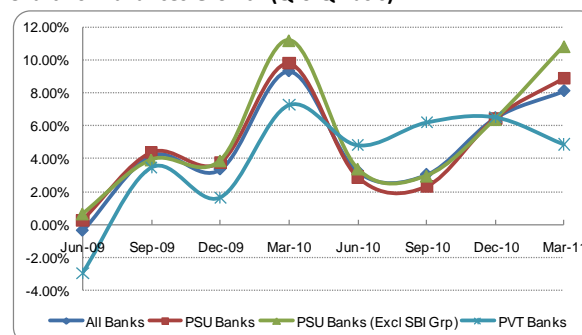


Chart 16: Advances Growth (Q-o-Q Basis)



Source: ICRA Research

The sectoral credit data released by the RBI<sup>9</sup> indicates that while credit to industry and services was buoyant, there was a sharp fall in agricultural credit growth to 10.62% (22.88% in FY10); however, a large part of the decline can be attributed to the base effect (agri credit increased by Rs. 457.39 billion in the month of March 2010 alone). While retail lending also lagged overall credit growth in FY11 registering a growth of 17.03%, this was significantly higher than the 4.12% growth registered in FY10. Within industry and services, a large chunk of the incremental credit has been absorbed by the infrastructure sector (growth of 38.63%) - particularly power sector (growth of 43.31%) - and Infrastructure Non-Banking Financial Companies (54.77%); credit to commercial real estate also increased in FY11 registering a growth of 21.39% compared to nil growth in FY10. Banks continue to favour higher credit exposures to Medium and Large Corporates, which grew by 39.18% and 24.14%, respectively, as compared to Small Corporates which registered a modest growth of 11.00%.

RBI notified in its May 2011 Monetary Policy Statement for 2011-12 that loans to NBFCs (except microfinance companies) would not be eligible for classification as priority sector lending. However, in ICRA's estimate, the share of lending to NBFCs qualifying as priority sector as percentage of the banking system's total priority sector lending portfolio is under 2%. The reclassification of credit to NBFCs as non-priority sector loans could result in a shortfall in meeting priority sector targets for smaller private sector banks. However, at a systemic level, we do not foresee any significant impact on priority sector levels as banks could deploy funds in other eligible sectors to meet their priority sector targets.

<sup>8</sup> Bulk deposits are typically large ticket, high cost deposits

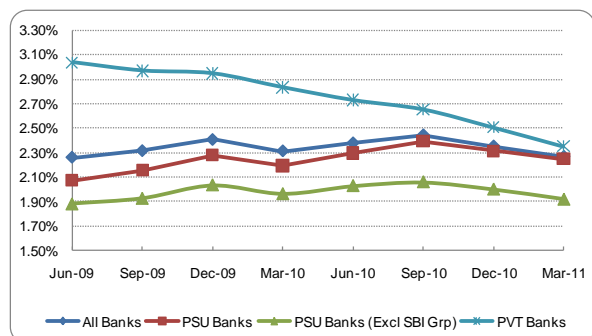
<sup>9</sup> As on March 25, 2011

Overall, the base effect on account of the sharp growth in credit off-take reported during FY11, large government borrowing programme in FY12 and the expected further monetary tightening resulting in a persistence of the present high interest rate scenario is expected to impart some pressure on the overall systemic growth in credit in FY12. ICRA believes that the credit growth in FY12 would be marginally lower at 17%-18% compared to RBI's expectations of 19%.

### NPA level moderates marginally in FY11; net NPAs reduce on higher provisions

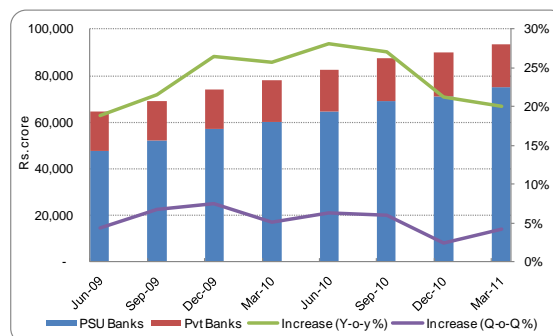
During FY11, the gross NPAs for the 42 banks under review increased by 20.25% to Rs 936.36 billion as against a rise of 25.80% in FY10 and 17.54% in FY09 largely on account of the 25.12% rise in PSU banks NPA levels during FY11. Among the PSU banks, the NPAs of the SBI group increased by 29.15% as on Mar-11 while other PSU banks registered an increase of 22.52%. The NPAs of the private sector banks remained nearly stable with a moderate 3.82% increase with 7 out of 15 private sector banks analysed by ICRA reported a decline in gross NPAs in FY11.

Chart 17: Gross NPA %



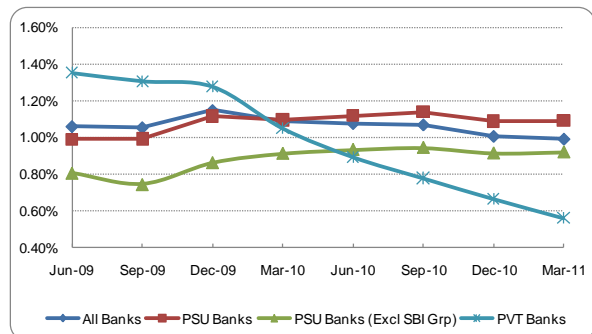
Source: ICRA Research

Chart 18: Gross NPAs



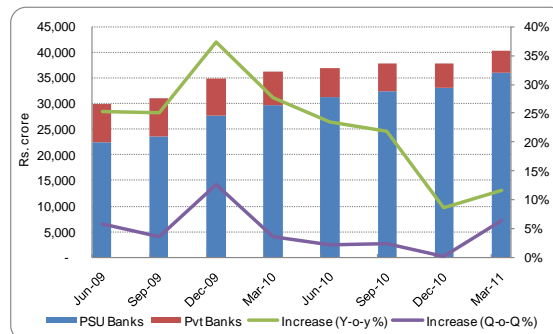
Banks reported relatively stable gross NPA% in FY11 as the impact of slippages from restructured accounts were largely absorbed in FY10. The NPA levels for the PSU banks increased in Q1 & Q2FY11 as most banks migrated to automated identification of NPAs from a manual identification system. As a result of this migration, several PSU banks witnessed an increase in 'technical' NPAs, which were partially regularised by the end of FY11. While the gross NPA% for the 42 banks under review increased from 2.16% as on Mar-09 to 2.31% as on Mar-10, it decreased marginally to 2.26% as on Mar-11. Supported by the improvement in the asset quality indicators of ICICI Bank, private sector banks have reported a steep improvement in gross NPA levels in FY11 from 2.83% as on Mar-10 to 2.34% as on Mar-11. PSU banks, other than SBI group, also reported a slight improvement from 1.96% to 1.92%, whereas the NPA levels of SBI group increased from 2.68% to 3.01% during this period. Partly, the improvement in the asset quality has been brought about by the strong credit growth and the stepped up recovery efforts by the banks.

Chart 19: Net NPA %



Source: ICRA Research

Chart 20: Net NPAs



The aggregate net NPAs of the banks analysed by ICRA improved in FY11 to 0.99% from 1.09% as banks increased the provision cover on NPAs from 53.55% to 56.82% (excluding technically written off<sup>10</sup> accounts) during the year following RBI's directive to maintain a provision coverage of at least 70% (including technically written off accounts) by September 2010<sup>11</sup>. As a result, the net NPAs of PSU banks remained stable at 1.09% as on Mar-11 compared to 1.10% as on Mar-10. While the net NPA levels of SBI group was higher at 1.49% as on Mar-11 that of other PSU banks stood at 0.92%. Private sector banks registered sharp improvement in the net NPA levels in the past 2 years from 1.30% as on Mar-09 to 0.56% as on Mar-11.

Although a few PSU banks reported sharp rise in NPAs in FY11, generally fresh NPA generations have remained under control for most banks in FY 11 as opposed to an increase of 26% in FY10 owing to the restructuring of advances in FY09 and FY10. In ICRA's estimate, the total slippages from restructured account were nearly 15% of total restructured accounts and banks continued to suffer slippages from such accounts in FY11 as well. However, through aggressive follow-up procedures and cash recoveries and further accentuated by improvement in environment, banks managed to contain any significant deterioration in NPA levels. Notwithstanding the expected demand slowdown due to rising interest rates and an operating environment that is becoming challenging for the borrowers, ICRA believes the rise in Gross NPA% would be limited to 2.75% - 3.00% over the next two years as against 2.26% as on March 31, 2011.

**Table 2: Gross NPAs at various levels of fresh generation and recovery from existing stock<sup>12</sup>**

		Assumption on NPA Generation Rate				
		1.50%	1.75%	2.00%	2.25%	2.50%
Recovery Assumption on Reduction on existing Gross NPA	30%	2.59%	2.79%	3.00%	3.21%	3.41%
	35%	2.49%	<b>2.70%</b>	<b>2.90%</b>	<b>3.11%</b>	3.32%
	40%	2.39%	<b>2.60%</b>	<b>2.81%</b>	<b>3.01%</b>	3.22%
	45%	2.30%	<b>2.50%</b>	<b>2.71%</b>	<b>2.92%</b>	3.13%
	50%	2.20%	2.41%	2.62%	2.82%	3.03%
	55%	2.11%	2.31%	2.52%	2.73%	2.93%

Despite the expected increase in slippages in the short-to- medium term, ICRA expects banks to be reasonably equipped to absorb the impact of the increase in NPAs. With the implementation of the norm of 70% provisioning cover for assets as on September 2010, and retaining surplus provisions available as a counter-cyclical buffer, the solvency profile of banks over medium term could remain comfortable though the profitability margins could shrink moderately in the near term owing to higher cost of funds. Private sector banks increased their provisioning coverage to 76.39% as on Mar-11 as compared to 63.56% as on Mar-10 (excluding technically written-off cases) while the provisioning cover of PSU banks increased marginally to 52.00% as on Mar-11 compared to 50.58% as on Mar-10. However, the improvement in the provision cover for PSU banks was mainly on account of SBI group which increased the provision cover on its NPAs to 51.34% from 45.35% during this period. The provision cover for other PSU banks declined to 52.46% from 53.94%, but this was also partially on account of the technical write offs that banks resorted to during this period. In fiscal 2012, ICRA expects that banks would endeavour to maintain provision coverage at the current levels without significantly impacting profitability given the likely increase in NPAs.

### Sharp improvement in solvency indicators for private sector banks

Notwithstanding the steady accretion to reserves supported by strong profits and fresh capital raised, the increase in NPAs in the past few years has led to deterioration in the solvency indicators (Net NPA as a proportion of Net Worth) for the PSU banks. At a systemic level, the solvency ratio remains comfortable at 10.00% as on Mar-11 for all banks, marginally better than 10.77% as on Mar-10. PSU banks, other than SBI group also registered a marginal improvement to 11.49% from 12.39%, mainly on account of equity infusion from the government in several PSU banks. However, several other PSU banks registered sharp deterioration in FY11 on account of higher NPA slippages. The solvency indicator of SBI group weakened considerably to 17.65% from 15.47% as the country's largest bank

<sup>10</sup> Technical write-off is the amount of non-performing loans which are outstanding in the books of the branches, but have been written-off at Head Office level. These accounts are not included in reported NPAs. Technically, these accounts carry a 100% provision

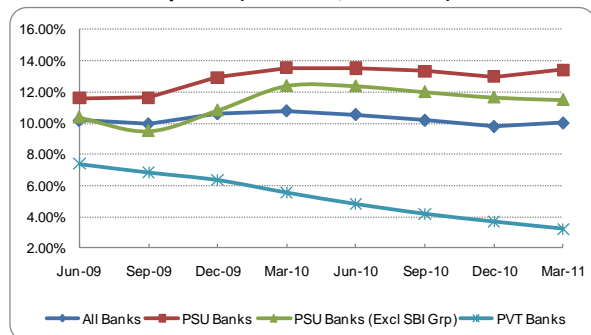
<sup>11</sup> Certain banks obtained an extension from RBI upto Mar-11 to increase provision coverage to 70%

<sup>12</sup> We have assumed a credit growth of 18% p.a. for next two years and 10% slippage on the restructured portfolio over the next two years.

registered an increase in NPA levels coupled with sharp reduction in networth of Rs. 79.27 billion on account of transitional pension liability.

Private sector banks have registered a consistent improvement in the past 2 years mainly as the largest private sector lender, ICICI Bank, increased the provision cover on its NPAs to 75.69% from 59.48% during FY11 and the solvency indicator improved to 4.46% from 7.44%.

**Chart 21: Solvency Ratio (Net NPAs / Networth)**

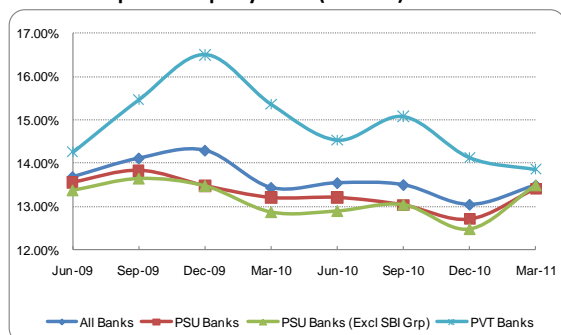


Source: ICRA Research

**Capitalization levels remain adequate for the Indian Banking System...**

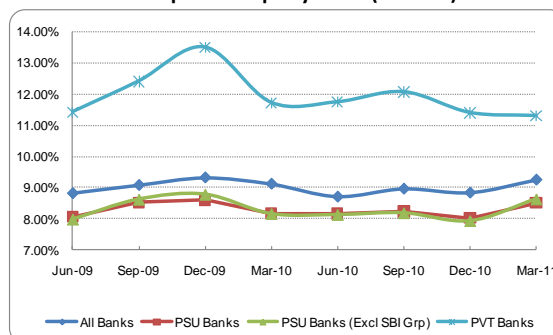
The ICRA analysis of 42 banks as on March 31, 2011 reveals that the regulatory capitalisation levels as per Basel II norms for the banks under review remains comfortable at over 13.76% supported by strong accretion to reserves and the fresh equity of over Rs. 230 billion, with a large part of it infused by the Government of India in several PSU banks (over Rs. 150 billion), and over Rs. 210 billion through other capital instruments.

**Chart 22: Capital Adequacy Ratio (Median)**



Source: ICRA Research

**Chart 23: Tier I Capital Adequacy Ratio (Median)**



The comfortable capitalisation levels are backed by the Government of India’s intention to maintain a capital adequacy of at least 12% for PSU banks on a steady basis. Private sector banks also have internal norms to maintain capital adequacy of at least 12% notwithstanding a regulatory minimum of 9%. Out of the 42 banks analysed by ICRA, 4 banks had a capital adequacy of less than 12%, while 7 banks had a capital adequacy of more than 15%. The median capital adequacy ratio for banks analysed by ICRA stood at 13.49% as on Mar-11, marginally higher than 13.43% as on Mar-10. Correspondingly, the median Tier I capital adequacy also improved to 9.24% from 9.11% during this period. In Q4FY11, PSU banks registered a sharp improvement in Tier I capitalisation from 8.03% as on Dec-10 to 8.51% as on Mar-11 owing to the equity infusion from the Gol. However, the median Tier I capitalisation of private sector banks dropped marginally to 11.30% from 11.40% during this period.

In recent years, banks have raised Tier I capital increasingly through non-equity instruments such as Innovative Perpetual Debt Instruments and Perpetual Non-Cumulative Preference Shares to increase leverage on their equity base; however, core capitalisation levels (computed as networth as percentage of total assets) has only marginally reduced from 6.30% as on March 2008 to 6.09% as on March 2011. Private sector banks have consistently maintained lower leverage levels compared to their PSU peers with a core capitalisation level of 9.93% as on Mar-11 compared to 5.09% for PSU banks.

As on Mar-11, PSU banks have an additional burden of the unamortised employee compensation liabilities of nearly Rs. 220 billion, which would need to be absorbed over the next 12-16 quarters. This unamortised liability comprises 8% of the total networth of banks<sup>13</sup> as on Mar-11; and the median Tier I capital could be impacted by 0.70% if the entire liability were to be knocked off.

## Outlook

ICRA expects some pressure on the net interest margins at least during the first half of FY12 as the higher cost deposits currently being sourced from Q3FY11 replace the relatively low cost deposits raised last year, coupled with the impact of higher interest on savings balances. The interest margins could improve during the second half depending on the credit off-take and the banks adherence to "Base Rate". The operating cost levels could continue to be impacted as the banks expand their physical reach in addition to the impact of amortisation of the pension and gratuity costs.

Reported asset quality indicators could marginally weaken in the current year owing to a demand slowdown coupled with rising interest rates which are expected to impact overall corporate profitability; however, ICRA expects the deterioration to remain within manageable levels as most banks have built adequate cushions to absorb asset quality shocks. Nonetheless, the provisioning requirements on account of fresh slippages are likely to be lower than FY11, as banks already carry some cushion in their balance sheets.

In terms of liquidity, the systemic liquidity is expected to remain tight as RBI battles to rein in inflation. Banks raised significant bulk funds, a large part of it for short term (less than 3 months) in FY11 which would need to be refinanced at marginally higher rates in the early part of FY12. As interest rates are expected to remain hard for most part of FY12, the non-interest income levels could continue to remain subdued owing to lower treasury profits. While so far banks have managed to largely absorb the impact of hardening bond yields, any further rise in interest rates could necessitate depreciation provisions for banks' bonds portfolio. ICRA estimates that adverse impact for the banks on account of the rise in interest rates would be of the order of 10-20% of FY12 pre tax profits.

While credit growth is expected to slowdown owing to the general slowdown in demand, the pace of retail funds flow into bank deposits is likely to remain strong owing to the high interest rates. In ICRA's expectation, systemic deposits could grow at 16-17% while credit growth could moderate to around 18% in FY 12.

The equity infusion by the GOI in FY12 in various PSU banks, apart from providing adequate capital to support growth in FY12, has also increased the government ownership in these banks. PSU banks can now approach the capital market to raise further equity for their medium term requirements, without additional support from GOI while still maintaining GOI holding above 51%. Most private sector banks have adequate capital to support medium term growth although some for the smaller banks could need regular equity injection inline with their growth aspirations.

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<sup>13</sup> Only those banks which carry unamortized costs have been considered for this purpose.

## List of Annexures

- Annexure 1: List of Banks rated by ICRA with ratings outstanding
- Annexure 2: List of Banks analysed in the current research for Q4FY11 update
- Annexure 3: Detailed financials indicating Q4FY11 update of All Banks
- Annexure 4: Detailed financials indicating Q4FY11 update of Public Sector Banks
- Annexure 5: Detailed financials indicating Q4FY11 update of Private Sector Banks

## Related ICRA Research Reports in Financial Sector released in FY10-11

April 2010	Financial Markets & Banking Update —Vol. 2: Calendar 2010
April 2010	ICRA Comments on the RBI's Annual Policy Statement for 2010-11
June 2010	Performance Review of Housing Finance Companies and Indian Mortgage Finance Market for 2009-10 and Industry Outlook
July 2010	ICRA Comments on the RBI's First Quarter Review of Monetary Policy for FY 2010-11
July 2010	Financial Markets & Banking Update —Vol. 1: FY2010-11
September 2010	ICRA's Comments on the RBI's Mid-Quarter Monetary Policy Review, September 2010
September 2010	Proposed Basel III Guidelines: A Credit Positive for Indian Banks
October 2010	Financial Markets & Banking Update —Vol. 2: FY2010-11
November 2010	ICRA Comments on RBI's Second Quarter Review of Monetary Policy for FY 2010-11
December 2010	ICRA's Comments on the RBI's Mid-Quarter Monetary Policy Review, December 2010
January 2011	Financial Markets & Banking Update —Vol. 3: FY2010-11
January 2011	ICRA Comment: Malegam Sub-committee recommendations a Credit Positive for MFI sector; may reign in excessive growth and returns
January 2011	ICRA Comments on RBI's Third Quarter Review of Monetary Policy for 2010-11
February 2011	ICRA Comment: RBI notification on pension liabilities: PSBs get a breather
March 2011	ICRA's Comments on the RBI's Mid-Quarter Monetary Policy Review, March 2011
April 2011	Financial Markets & Banking Update —Vol. 4: FY2010-11
May 2011	ICRA Comments on the RBI's Annual Policy Statement for 2011-12
May 2011	Credit quality of ICRA-rated MF schemes maintained amid slowdown in inflows

**Annexure 1: List of Banks rated by ICRA and ratings outstanding as on June 22, 2011**

S. No.	Bank	Lower Tier II	Upper Tier II / Hybrid Tier I	Innovative Perpetual Debt Instruments	Medium Term	Short Term
1	ABN AMRO Bank NV (Indian Branches)					A1+
2	Allahabad Bank					A1+
3	Axis Bank Limited	LAAA (Stable)	LAA+(Stable)			A1+
4	Bank of Bahrain and Kuwait B.S.C (Indian Branches)					A1+
5	Bank of Baroda	LAAA (Stable)			MAAA	A1+
6	Bank of India	LAAA (Stable)	LAA+ (Stable)	LAA+ (Stable)	MAAA	
7	Bank of Maharashtra	LAA+	LAA			A1+
8	Barclays Bank PLC (India operations)					A1+
9	Calyon Bank - Indian Branches					A1+
10	Canara Bank	LAAA (Stable)				A1+
11	Central Bank of India	LAA+ (Stable)	LAA (Stable)			
12	Corporation Bank Limited	LAAA (Stable)				
13	Dhanalakshmi Bank Limited	LA-				
14	ICICI Bank Limited	LAAA (Stable)			MAAA	A1+
15	IDBI Bank Limited	LAA+ (Stable)	LAA (Stable)	LAA (Stable)	MAA+	A1+
16	Indian Bank	LAA+ (Positive)				
17	Indian Overseas Bank	LAA+	LAA	LAA		A1+
18	IndusInd Bank Limited	LAA- (Stable)	LA+ (Stable)			
19	Karnataka Bank Limited	LA+ (Stable)				A1+
20	Karur Vysya Bank (The)	LA+ (Positive)				A1+
21	Kotak Mahindra Bank Limited	LAA+	LAA			
22	Oriental Bank of Commerce	LAAA	LAA+	LAA+		
23	Punjab & Sind Bank	LAA+ (Stable)				A1+
24	Punjab National Bank	LAAA (Stable)			MAAA (Stable)	A1+
25	State Bank of Bikaner & Jaipur	LAAA (Stable)				
26	State Bank of Hyderabad	LAAA (Stable)			MAAA	A1+
27	State Bank of Indore (Now merged with State Bank of India)	LAAA (Stable)				
28	State Bank of India	LAAA (Stable)			MAAA	A1+
29	State Bank of Mysore	LAAA (Stable)				A1+
30	State Bank of Patiala	LAAA (Stable)				A1+
31	State Bank of Travancore	LAAA (Stable)				
32	UCO Bank	LAA+ (Stable)	LAA (Stable)	LAA (Stable)		
33	Union Bank of India	LAAA (Stable)		LAA+(Stable)		A1+
34	United Bank of India	LAA (Stable)	LAA- (Stable)			A1+
35	Yes Bank Limited	LAA (Stable)	LAA- (Stable)	LAA- (Stable)		A1+

**Annexure 2: List of Banks analysed in the current research for FY11 Update**

<b>Sr. No.</b>	<b>Public Sector Banks</b>	<b>Sr. No.</b>	<b>Private Sector Bank</b>
1	Allahabad Bank	1	Axis Bank Ltd.
2	Andhra Bank	2	City Union Bank Ltd.
3	Bank of Baroda	3	Development Credit Bank Ltd.
4	Bank of India	4	Dhanalakshmi Bank Ltd
5	Bank of Maharashtra	5	Federal Bank Ltd.
6	Canara Bank	6	HDFC Bank Ltd.
7	Central Bank of India	7	ICICI Bank Ltd.
8	Corporation Bank	8	IndusInd Bank Ltd.
9	Dena Bank	9	ING Vysya Bank Ltd.
10	IDBI Bank	10	Jammu & Kashmir Bank Ltd.
11	Indian Bank	11	Karur Vysya Bank Ltd.
12	Indian Overseas Bank	12	Karnataka Bank Ltd.
13	Oriental Bank of Commerce	13	Kotak Mahindra Bank Ltd.
14	Punjab National Bank	14	Lakshmi Vilas Bank Ltd.
15	Punjab & Sind Bank	15	South Indian Bank Ltd.
16	State Bank of India	16	Yes Bank Ltd.
17	State Bank of Bikaner & Jaipur		
18	State Bank of Hyderabad		
19	State Bank of Mysore		
20	State Bank of Patiala		
21	State Bank of Travancore		
22	Syndicate Bank		
23	UCO Bank		
24	Union Bank of India		
25	United Bank of India		
26	Vijaya Bank		

**Annexure 3: Detailed Quarterly Financials: All 42 Banks under review**

<b>Quarterly Performance Analysis (Rs. billion) No. of months</b>	<b>QE Mar-11 3</b>	<b>QE Dec-10 3</b>	<b>QE Sep-10 3</b>	<b>QE Jun-10 3</b>	<b>QE Mar-10 3</b>	<b>QE Dec-09 3</b>	<b>QE Sep-09 3</b>	<b>QE Jun-09 3</b>
<b>PROFIT AND LOSS ACCOUNT</b>								
Interest Income	1,276	1,189	1,107	1,041	991	973	961	949
Interest Expense	814	726	680	651	630	637	669	680
Net Interest Income	462	462	428	390	361	336	292	269
Non-Interest Income <sup>14</sup>	200	147	152	140	169	132	132	120
Operating Income	662	610	579	530	530	469	423	389
Operating Expenses	328	271	264	236	243	221	204	209
Operating Profit	334	339	315	294	287	248	219	180
Provisions etc.	126	101	107	87	118	74	68	56
Adjusted Profit Before Tax	207	239	208	206	169	174	151	124
Trading Profits <sup>14</sup>	9	10	7	16	18	21	35	55
Profit Before Tax	216	249	215	223	187	195	186	179
Tax Expense	70	77	63	70	54	56	56	57
Profit After Tax	146	172	152	152	133	138	131	121
<b>BALANCE SHEET</b>								
Share Capital	147	140	137	135	137	136	135	146
Reserves	3,898	3,734	3,580	3,373	3,222	3,154	2,978	2,796
Net worth	4,045	3,873	3,717	3,508	3,358	3,298	3,118	2,945
Total Deposits	53,478	48,092	46,755	44,608	44,914	40,871	39,904	38,750
Advances	40,823	37,672	35,382	34,342	33,265	30,429	29,443	28,256
Investments	17,421	16,572	16,158	15,860	15,458	14,804	14,240	13,724
Total Assets	66,445	61,053	58,376	56,244	55,417	51,236	49,866	48,281
<b>OTHER DETAILS</b>								
Capital Adequacy Ratio	13.76%	13.61%	14.07%	13.97%	14.09%	14.25%	14.41%	14.18%
Tier I Capital / RWA	8.42%	9.13%	9.17%	9.26%	9.42%	9.60%	9.58%	8.75%
Tier II Capital / RWA	5.34%	4.48%	4.90%	4.71%	4.67%	4.65%	4.83%	5.43%

<sup>14</sup> Non-interest income and treasury profits include ICRA estimates for some banks in the absence of quarterly information on the split of banks' other income between treasury profits and other non-interest income,

<b>Quarterly Performance Analysis</b> <b>(Rs. billion)</b>	<b>QE</b> <b>Mar-11</b>	<b>QE</b> <b>Dec-10</b>	<b>QE</b> <b>Sep-10</b>	<b>QE</b> <b>Jun-10</b>	<b>QE</b> <b>Mar-10</b>	<b>QE</b> <b>Dec-09</b>	<b>QE</b> <b>Sep-09</b>	<b>QE</b> <b>Jun-09</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
Gross NPAs	936	898	877	827	779	741	690	646
Net NPAs	404	379	378	370	362	349	310	300
<b>KEY RATIOS (Q-o-Q Basis)</b>								
Yield on Average Advances	9.69%	9.60%	9.34%	9.08%	9.11%	9.46%	9.77%	9.93%
Yield on Average Investments	7.00%	7.08%	6.82%	6.54%	6.44%	6.70%	6.72%	6.72%
Yield on Average Earning Assets	8.32%	8.26%	7.96%	7.68%	7.70%	8.05%	8.20%	8.25%
Cost of Average Interest Bearing Funds	5.78%	5.52%	5.37%	5.26%	5.37%	5.76%	6.14%	6.41%
Gross Interest Spread	2.54%	2.74%	2.59%	2.41%	2.33%	2.30%	2.06%	1.84%
<b>PROFITABILITY RATIOS</b>								
Net Interest Margin/Average Tot Assets	2.90%	3.10%	2.99%	2.80%	2.71%	2.66%	2.38%	2.24%
Non-Interest Income/Average Tot Assets	1.25%	0.99%	1.06%	1.00%	1.26%	1.05%	1.07%	1.00%
Operating Expenses/Average Total Assets	2.06%	1.81%	1.84%	1.69%	1.82%	1.75%	1.66%	1.74%
Operating Profit / Average Total Assets	2.09%	2.27%	2.20%	2.11%	2.15%	1.96%	1.79%	1.50%
Provisions/Average Total Assets	0.79%	0.67%	0.75%	0.63%	0.88%	0.59%	0.56%	0.47%
Core Profit before Tax (NII + Fee Income-Operating Exp-Provisions)/ Average Total Assets	1.30%	1.60%	1.45%	1.48%	1.27%	1.38%	1.23%	1.03%
Net Interest Income Less Provisions/ Average Total Assets	2.10%	2.42%	2.24%	2.17%	1.83%	2.07%	1.82%	1.77%
Net profit on sale of securities & assets / Average Total Assets	0.05%	0.07%	0.05%	0.12%	0.13%	0.16%	0.29%	0.46%
Profit before Tax / Average Total Assets	1.36%	1.67%	1.50%	1.60%	1.40%	1.54%	1.52%	1.49%
Tax / Profit before Tax	32.35%	30.81%	29.39%	31.59%	28.75%	28.82%	29.87%	32.14%
Profit after Tax / Average Total Assets	0.92%	1.15%	1.06%	1.09%	1.00%	1.10%	1.07%	1.01%
Profit after Tax / Average Net worth	14.76%	18.16%	16.85%	17.77%	16.01%	17.27%	17.24%	16.81%
<b>EFFICIENCY RATIOS</b>								
Other Income / Operating Expenses	60.96%	54.44%	57.42%	59.15%	69.44%	60.03%	64.61%	57.44%
Operating Cost to Operating Income Ratio	49.55%	44.37%	45.56%	44.56%	45.82%	47.07%	48.13%	53.73%
<b>CAPITALISATION RATIOS</b>								
Core Capital / Total Assets	6.09%	6.34%	6.37%	6.24%	6.06%	6.44%	6.25%	6.10%
Total Debt / Net worth	14.66	13.79	13.96	14.08	14.75	13.44	14.18	14.62
CRAR	13.76%	13.61%	14.07%	13.97%	14.09%	14.25%	14.41%	14.18%
Tier I Capital / RWA	8.42%	9.13%	9.17%	9.26%	9.42%	9.60%	9.58%	8.75%
Tier II Capital / RWA	5.34%	4.48%	4.90%	4.71%	4.67%	4.65%	4.83%	5.43%

<b>Quarterly Performance Analysis</b> <b>(Rs. billion)</b>	<b>QE</b>	<b>QE</b>	<b>QE</b>	<b>QE</b>	<b>QE</b>	<b>QE</b>	<b>QE</b>	<b>QE</b>
<b>No. of months</b>	<b>Mar-11</b>	<b>Dec-10</b>	<b>Sep-10</b>	<b>Jun-10</b>	<b>Mar-10</b>	<b>Dec-09</b>	<b>Sep-09</b>	<b>Jun-09</b>
	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>COVERAGE RATIOS</b>								
Total Interest Coverage	1.41	1.47	1.46	1.45	1.46	1.39	1.33	1.26
Fund Based Coverage	1.16	1.26	1.24	1.24	1.19	1.18	1.13	1.09
<b>LIQUIDITY RATIOS</b>								
Total Liquid Assets /Total Liability	35.16%	34.22%	36.25%	36.31%	37.01%	36.63%	36.25%	37.34%
Total Advances/Total Deposits	76.34%	78.33%	75.67%	76.99%	74.06%	74.45%	73.78%	72.92%
<b>ASSET QUALITY</b>								
Gross NPAs	936	898	877	827	779	741	690	646
Net NPAs	404	379	378	370	362	349	310	300
Gross NPAs / Gross Advances	2.26%	2.35%	2.44%	2.38%	2.31%	2.41%	2.31%	2.26%
Net NPAs / Net Advances	0.99%	1.01%	1.07%	1.08%	1.09%	1.15%	1.05%	1.06%
Operating Profits (Annualised) / Net NPAs	330%	358%	333%	318%	317%	284%	283%	240%
Net NPAs / Networth	10.00%	9.79%	10.18%	10.54%	10.77%	10.59%	9.95%	10.17%
Provision Cover	56.82%	57.78%	56.85%	55.31%	53.55%	52.88%	55.02%	53.64%
<b>DEPOSIT RATIOS</b>								
CASA Deposits / Total Deposits	34.45%	34.94%	34.76%	34.82%	34.99%	33.83%	33.22%	32.48%
Term Deposits / Total Deposits	65.55%	65.06%	62.82%	64.89%	65.01%	66.51%	66.63%	67.86%

**Annexure 4: Detailed Quarterly Financials: Public Sector Banks**

<b>Quarterly Performance Analysis (Rs. billion)</b>	<b>QE Mar-11 3</b>	<b>QE Dec-10 3</b>	<b>QE Sep-10 3</b>	<b>QE Jun-10 3</b>	<b>QE Mar-10 3</b>	<b>QE Dec-09 3</b>	<b>QE Sep-09 3</b>	<b>QE Jun-09 3</b>
<b>PROFIT AND LOSS ACCOUNT</b>								
Interest Income	1,011	945	881	834	791	774	760	743
Interest Expense	655	583	547	530	515	520	542	543
Net Interest Income	356	362	334	303	275	254	218	200
Non-Interest Income <sup>14</sup>	142	97	103	97	122	89	90	84
Operating Income	499	459	437	401	397	344	308	283
Operating Expenses	252	202	200	177	182	166	150	156
Operating Profit	247	257	237	224	215	178	158	127
Provisions etc.	112	83	87	66	94	50	42	28
Adjusted Profit Before Tax	135	174	150	158	120	128	116	99
Trading Profits <sup>14</sup>	9	8	8	12	15	19	26	38
Profit Before Tax	144	182	158	170	135	147	142	137
Tax Expense	48	57	47	54	37	42	43	44
Profit After Tax	96	126	111	116	98	104	99	93
<b>BALANCE SHEET</b>								
Share Capital	103	97	94	94	94	93	93	106
Reserves	2,586	2,446	2,339	2,211	2,096	2,041	1,939	1,836
Net worth	2,689	2,542	2,434	2,305	2,190	2,134	2,032	1,942
Total Deposits	43,730	39,271	37,915	36,509	36,918	33,554	32,757	31,711
Advances	33,056	30,355	28,512	27,873	27,094	24,676	23,783	22,785
Investments	13,285	12,812	12,376	12,261	11,990	11,386	10,980	10,576
Total Assets	52,791	48,569	46,121	44,857	44,177	40,778	39,660	38,373
<b>OTHER DETAILS</b>								
Capital Adequacy Ratio	13.12%	12.86%	13.25%	13.22%	13.28%	13.36%	13.90%	13.71%
Tier I Capital / RWA	7.56%	8.38%	8.28%	8.45%	8.55%	8.66%	8.90%	8.11%
Tier II Capital / RWA	5.56%	4.48%	4.97%	4.77%	4.73%	4.70%	4.99%	5.60%
Gross NPAs	752	712	691	648	601	569	519	477
Net NPAs	361	330	325	312	297	276	236	226

<b>Quarterly Performance Analysis</b> (Rs. billion)	<b>QE</b> <b>Mar-11</b>	<b>QE</b> <b>Dec-10</b>	<b>QE</b> <b>Sep-10</b>	<b>QE</b> <b>Jun-10</b>	<b>QE</b> <b>Mar-10</b>	<b>QE</b> <b>Dec-09</b>	<b>QE</b> <b>Sep-09</b>	<b>QE</b> <b>Jun-09</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>KEY RATIOS (Q-o-Q Basis)</b>								
Yield on Average Advances	9.59%	9.58%	9.27%	9.00%	8.97%	9.33%	9.61%	9.71%
Yield on Average Investments	7.01%	7.12%	6.91%	6.68%	6.65%	6.88%	6.89%	6.80%
Yield on Average Earning Assets	8.29%	8.28%	7.95%	7.67%	7.69%	8.03%	8.14%	8.13%
Cost of Average Interest Bearing Funds	5.79%	5.54%	5.39%	5.31%	5.44%	5.81%	6.14%	6.37%
Gross Interest Spread	2.50%	2.75%	2.56%	2.36%	2.25%	2.22%	2.00%	1.76%
<b>PROFITABILITY RATIOS</b>								
Net Interest Margin/Average Tot Assets	2.81%	3.06%	2.93%	2.72%	2.59%	2.53%	2.24%	2.11%
Non-Interest Income/Average Tot Assets	1.12%	0.82%	0.91%	0.87%	1.15%	0.89%	0.92%	0.88%
Operating Expenses/Average Total Assets	1.99%	1.71%	1.76%	1.59%	1.72%	1.65%	1.54%	1.65%
Operating Profit / Average Total Assets	1.95%	2.17%	2.08%	2.01%	2.02%	1.77%	1.62%	1.34%
Provisions/Average Total Assets	0.88%	0.70%	0.76%	0.59%	0.89%	0.50%	0.43%	0.30%
Core Profit before Tax (NII + Fee Income-Operating Exp-Provisions)/ Average Total Assets	1.06%	1.47%	1.32%	1.42%	1.13%	1.27%	1.19%	1.04%
Net Interest Income Less Provisions/ Average Total Assets	1.93%	2.35%	2.17%	2.13%	1.70%	2.03%	1.81%	1.81%
Net profit on sale of securities & assets / Average Total Assets	0.07%	0.07%	0.07%	0.11%	0.14%	0.18%	0.27%	0.40%
Profit before Tax / Average Total Assets	1.14%	1.54%	1.39%	1.53%	1.27%	1.46%	1.46%	1.44%
Tax / Profit before Tax	33.18%	31.09%	29.49%	31.80%	27.05%	28.73%	30.54%	32.19%
Profit after Tax / Average Total Assets	0.76%	1.06%	0.98%	1.04%	0.93%	1.04%	1.01%	0.98%
Profit after Tax / Average Net worth	14.70%	20.19%	18.82%	20.65%	18.21%	20.06%	19.90%	19.52%
<b>EFFICIENCY RATIOS</b>								
Other Income / Operating Expenses	56.45%	48.13%	51.63%	55.07%	66.84%	53.86%	59.83%	53.57%
Operating Cost to Operating Income Ratio	50.52%	43.98%	45.77%	44.09%	45.91%	48.20%	48.74%	55.10%
<b>CAPITALISATION RATIOS</b>								
Core Capital / Total Assets	5.09%	5.23%	5.28%	5.14%	4.96%	5.23%	5.12%	5.06%
Total Debt / Net worth	17.74	16.84	17.05	17.25	18.29	16.76	17.60	17.93
CRAR	13.12%	12.86%	13.25%	13.22%	13.28%	13.36%	13.90%	13.71%
Tier I Capital / RWA	7.56%	8.38%	8.28%	8.45%	8.55%	8.66%	8.90%	8.11%
Tier II Capital / RWA	5.56%	4.48%	4.97%	4.77%	4.73%	4.70%	4.99%	5.60%

<b>Quarterly Performance Analysis (Rs. billion)</b>	<b>QE Mar-11</b>	<b>QE Dec-10</b>	<b>QE Sep-10</b>	<b>QE Jun-10</b>	<b>QE Mar-10</b>	<b>QE Dec-09</b>	<b>QE Sep-09</b>	<b>QE Jun-09</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>COVERAGE RATIOS</b>								
Total Interest Coverage	1.38	1.44	1.43	1.42	1.42	1.34	1.29	1.23
Fund Based Coverage	1.16	1.27	1.24	1.24	1.18	1.17	1.13	1.08
<b>LIQUIDITY RATIOS</b>								
Total Liquid Assets /Total Liability	34.25%	33.23%	35.36%	35.67%	36.05%	35.76%	35.42%	36.68%
Total Advances/Total Deposits	75.59%	77.30%	75.20%	76.35%	73.39%	73.54%	72.60%	71.85%
<b>ASSET QUALITY</b>								
Gross NPAs	752	712	691	648	601	569	519	477
Net NPAs	361	330	325	312	297	276	236	226
Gross NPAs / Gross Advances	2.25%	2.31%	2.39%	2.30%	2.19%	2.28%	2.16%	2.07%
Net NPAs / Net Advances	1.09%	1.09%	1.14%	1.12%	1.10%	1.12%	0.99%	0.99%
Operating Profits (Annualised) / Net NPAs	274%	311%	292%	287%	290%	258%	267%	226%
Net NPAs / Networth	13.41%	13.00%	13.35%	13.53%	13.56%	12.92%	11.63%	11.61%
Provision Cover	52.00%	53.56%	53.00%	51.84%	50.58%	51.53%	54.47%	52.74%
<b>DEPOSIT RATIOS</b>								
CASA Deposits / Total Deposits	33.01%	34.50%	33.87%	34.25%	34.05%	32.89%	32.52%	32.35%
Term Deposits / Total Deposits	67.00%	65.50%	63.15%	65.22%	65.95%	67.41%	67.18%	68.06%

**Annexure 5: Detailed Quarterly Financials: Private Sector Banks**

<b>Quarterly Performance Analysis (Rs. billion)</b>	<b>QE Mar-11 3</b>	<b>QE Dec-10 3</b>	<b>QE Sep-10 3</b>	<b>QE Jun-10 3</b>	<b>QE Mar-10 3</b>	<b>QE Dec-09 3</b>	<b>QE Sep-09 3</b>	<b>QE Jun-09 3</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>PROFIT AND LOSS ACCOUNT</b>								
Interest Income	265	244	226	208	200	200	201	207
Interest Expense	159	143	132	121	115	118	128	138
Net Interest Income	105	101	94	87	86	82	73	69
Non-Interest Income <sup>14</sup>	58	50	48	42	47	43	42	36
Operating Income	163	151	142	130	132	125	115	105
Operating Expenses	76	69	64	60	60	55	53	53
Operating Profit	87	82	78	70	72	70	62	53
Provisions etc.	14	17	20	21	23	24	26	28
Adjusted Profit Before Tax	73	65	58	49	49	46	35	25
Trading Profits <sup>14</sup>	(1)	2	(1)	4	3	2	9	17
Profit Before Tax	72	67	57	53	52	48	44	42
Tax Expense	22	20	17	16	17	14	12	13
Profit After Tax	50	47	41	36	35	34	32	29
<b>BALANCE SHEET</b>								
Share Capital	44	43	43	41	43	43	42	41
Reserves	1,312	1,288	1,240	1,162	1,126	1,113	1,039	960
Net worth	1,356	1,331	1,283	1,203	1,168	1,156	1,081	1,000
Total Deposits	9,749	8,821	8,840	8,099	7,996	7,318	7,147	7,040
Advances	7,767	7,318	6,869	6,468	6,171	5,753	5,660	5,471
Investments	4,136	3,760	3,782	3,598	3,468	3,417	3,260	3,148
Total Assets	13,654	12,484	12,255	11,387	11,240	10,458	10,206	9,907
<b>OTHER DETAILS</b>								
Capital Adequacy Ratio	16.21%	16.56%	17.17%	16.93%	17.24%	17.73%	16.38%	16.00%
Tier I Capital / RWA	11.72%	12.07%	12.56%	12.44%	12.80%	13.27%	12.21%	11.26%
Tier II Capital / RWA	4.49%	4.49%	4.61%	4.49%	4.43%	4.46%	4.18%	4.74%
Gross NPAs	185	187	186	180	178	172	171	169
Net NPAs	44	49	54	58	65	74	74	74

<b>Quarterly Performance Analysis</b> (Rs. billion)	<b>QE</b> <b>Mar-11</b>	<b>QE</b> <b>Dec-10</b>	<b>QE</b> <b>Sep-10</b>	<b>QE</b> <b>Jun-10</b>	<b>QE</b> <b>Mar-10</b>	<b>QE</b> <b>Dec-09</b>	<b>QE</b> <b>Sep-09</b>	<b>QE</b> <b>Jun-09</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>KEY RATIOS (Q-o-Q Basis)</b>								
Yield on Average Advances	10.09%	9.71%	9.61%	9.43%	9.74%	10.03%	10.43%	10.85%
Yield on Average Investments	6.95%	6.95%	6.51%	6.05%	5.74%	6.12%	6.15%	6.45%
Yield on Average Earning Assets	8.43%	8.19%	8.00%	7.68%	7.74%	8.13%	8.41%	8.73%
Cost of Average Interest Bearing Funds	5.74%	5.45%	5.28%	5.05%	5.07%	5.52%	6.11%	6.58%
Gross Interest Spread	2.69%	2.74%	2.72%	2.63%	2.67%	2.61%	2.29%	2.15%
<b>PROFITABILITY RATIOS</b>								
Net Interest Margin/Average Tot Assets	3.22%	3.25%	3.18%	3.08%	3.16%	3.17%	2.91%	2.73%
Non-Interest Income/Average Tot Assets	1.76%	1.62%	1.63%	1.50%	1.72%	1.67%	1.66%	1.44%
Operating Expenses/Average Total Assets	2.32%	2.22%	2.16%	2.11%	2.22%	2.13%	2.12%	2.08%
Operating Profit / Average Total Assets	2.66%	2.65%	2.65%	2.47%	2.66%	2.71%	2.45%	2.08%
Provisions/Average Total Assets	0.44%	0.56%	0.69%	0.76%	0.86%	0.94%	1.04%	1.10%
Core Profit before Tax (NII + Fee Income-Operating Exp-Provisions)/ Average Total Assets	2.22%	2.09%	1.96%	1.72%	1.80%	1.77%	1.40%	0.98%
Net Interest Income Less Provisions/ Average Total Assets	2.78%	2.69%	2.49%	2.32%	2.30%	2.23%	1.87%	1.63%
Net profit on sale of securities & assets / Average Total Assets	-0.02%	0.07%	-0.02%	0.15%	0.12%	0.09%	0.34%	0.68%
Profit before Tax / Average Total Assets	2.21%	2.16%	1.94%	1.87%	1.92%	1.86%	1.75%	1.66%
Tax / Profit before Tax	30.68%	30.07%	29.11%	30.92%	33.16%	29.09%	27.71%	32.00%
Profit after Tax / Average Total Assets	1.53%	1.51%	1.38%	1.29%	1.28%	1.32%	1.26%	1.13%
Profit after Tax / Average Net worth	14.89%	14.29%	13.09%	12.31%	11.96%	12.18%	12.22%	11.60%
<b>EFFICIENCY RATIOS</b>								
Other Income / Operating Expenses	75.91%	73.02%	75.55%	71.23%	77.31%	78.59%	78.05%	68.92%
Operating Cost to Operating Income Ratio	46.59%	45.54%	44.91%	45.99%	45.56%	43.99%	46.47%	50.03%
<b>CAPITALISATION RATIOS</b>								
Core Capital / Total Assets	9.93%	10.66%	10.47%	10.56%	10.40%	11.05%	10.59%	10.10%
Total Debt / Net worth	8.56	7.96	8.11	8.00	8.13	7.42	7.84	8.22
CRAR	16.21%	16.56%	17.17%	16.93%	17.24%	17.73%	16.38%	16.00%
Tier I Capital / RWA	11.72%	12.07%	12.56%	12.44%	12.80%	13.27%	12.21%	11.26%
Tier II Capital / RWA	4.49%	4.49%	4.61%	4.49%	4.43%	4.46%	4.18%	4.74%

<b>Quarterly Performance Analysis (Rs. billion)</b>	<b>QE Mar-11</b>	<b>QE Dec-10</b>	<b>QE Sep-10</b>	<b>QE Jun-10</b>	<b>QE Mar-10</b>	<b>QE Dec-09</b>	<b>QE Sep-09</b>	<b>QE Jun-09</b>
<b>No. of months</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>COVERAGE RATIOS</b>								
Total Interest Coverage	1.55	1.57	1.59	1.58	1.63	1.60	1.48	1.38
Fund Based Coverage	1.18	1.22	1.23	1.23	1.22	1.23	1.16	1.12
<b>LIQUIDITY RATIOS</b>								
Total Liquid Assets /Total Liability	38.71%	38.07%	39.60%	38.86%	40.76%	40.04%	39.48%	39.91%
Total Advances/Total Deposits	79.67%	82.95%	77.71%	79.86%	77.17%	78.61%	79.20%	77.71%
<b>ASSET QUALITY</b>								
Gross NPAs	185	187	186	180	178	172	171	169
Net NPAs	44	49	54	58	65	74	74	74
Gross NPAs / Gross Advances	2.34%	2.50%	2.65%	2.73%	2.83%	2.95%	2.97%	3.04%
Net NPAs / Net Advances	0.56%	0.67%	0.78%	0.89%	1.05%	1.28%	1.31%	1.35%
Operating Profits (Annualised) / Net NPAs	798%	672%	586%	484%	444%	381%	332%	285%
Net NPAs / Networth	3.22%	3.67%	4.17%	4.81%	5.55%	6.36%	6.85%	7.40%
Provision Cover	76.39%	73.86%	71.16%	67.81%	63.56%	57.32%	56.66%	56.19%
<b>DEPOSIT RATIOS</b>								
CASA Deposits / Total Deposits	40.92%	36.90%	38.58%	37.38%	39.32%	38.07%	36.44%	33.06%
Term Deposits / Total Deposits	59.08%	63.10%	61.42%	63.38%	60.68%	62.48%	64.11%	67.00%



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