

Indian Banking Sector

**Recoveries from written-off loans
will keep contributing significantly to
public sector banks' profitability**

JULY 2023



The contribution of recoveries from written-off loan accounts could remain significant for PSBs, given their sizeable written-off pool of loans of Rs. 7.5 trillion as of March 2023.

These recoveries contributed 15-18% to the operating profits of PSBs during the last four years and accounted for 0.2% of their assets and 3.8% of their net worth.



- While the headline non-performing advances (NPAs) of banks are at multi-year lows, these have been supported by substantial write-offs, especially by public sector banks (PSBs). The overall loan write-offs by PSBs exceeded Rs. 10 trillion during FY2017-2023 and **stood at an all-time high of Rs. 7.5 trillion, net of resolutions, as of March 2023.**



- Given the significant write-offs, the reported gross NPAs (GNPAs) of PSBs declined from the peak of 14.6% as of March 2018 to 5.0% as of March 2023. However, **including written-off loans, the decline was moderate** with GNPAs standing at 13.5% as of March 2023 vis-à-vis 19.6% as of March 2018, partially driven by loan growth. Nonetheless, with major recapitalisation by the Government of India (GoI), PSBs have been able to significantly improve their provision cover to 91% (including written-off accounts) and net NPAs have declined to their lowest level since March 2011.



- The **build-up of the written-off pool is expected to slow down** as incremental write-offs shall gradually decline with the reduction in GNPAs. The **reduction in the written-off pool may, however, be a long-drawn process** through the resolution of these accounts.



- The gross reduction in the written-off pool for PSBs was Rs. 600-850 billion annually compared to the addition of Rs. 1.2-1.9 trillion annually during the last four years. Compared to the gross reduction, net recoveries have been Rs. 270-380 billion annually, corresponding to a recovery of 33-38% for PSBs. **Given the sizeable written-off pool, we expect these recoveries will continue to contribute significantly to the profitability of PSBs even in a scenario of low recoveries.**



- Basis our estimates, the **recoveries from written-off accounts contributed 15-18% to the operating profits** of PSBs during the last four years. Also, these recoveries will account for **0.2% of the assets and 3.8% of the net worth** of these PSBs.



ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President	karthiks@icraindia.com	022 – 6114 3444
Anil Gupta	Senior Vice-President	anilg@icraindia.com	0124 – 4545 314
Aashay Choksey	Vice-President	aashay.choksey@icraindia.com	022 – 6114 3430





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693377
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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