ICRA

INDIAN BANKING SECTOR

Key financial and operational statistics of Indian banking sector extracted from ICRA's databases and presented in a convenient format

November 2023

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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

Table of Contents

EXECUTIVE SUMMARY **5**

OVERVIEW **6**

Bank Group-wise Statistics **8**

All Domestic Scheduled Commercial Banks 9

Public Sector Banks 11

Private Sector Banks 13

Key Bank-wise Statistics (*public sector banks*) **15**

Bank of Baroda 16

Bank of India 18

Bank of Maharashtra 20

Canara Bank 22

Central Bank of India 24

IDBI Bank 26

Indian Bank 28

Indian Overseas Bank 30

Punjab National Bank 32

Punjab & Sind Bank 34

State Bank of India 36

UCO Bank 38

Union Bank of India 40

Key Bank-wise Statistics (*private sector banks*) **42**

Axis Bank 43

Bandhan Bank 45

CSB Bank 47

City Union Bank 49
DCB Bank 51
Dhanlaxmi Bank 53
Federal Bank 55
HDFC Bank 57
ICICI Bank 59
IDFC First Bank 61
IndusInd Bank 63
Jammu & Kashmir Bank 65
Karur Vysya Bank 67
Karnataka Bank 69
Kotak Mahindra Bank 71
RBL Bank 73
South Indian Bank 75
Yes Bank 77

EXECUTIVE SUMMARY

OVERVIEW

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

- **Comfortable asset quality with headline metrics to remain at decadal low:** The headline metrics of the banking sector are projected to remain on an improving trajectory on the back of controlled net additions (net of recoveries and upgrades) to non-performing advances (NPAs) and reasonably strong credit growth. Accordingly, ICRA expects the gross NPAs (GNPAs) and net NPAs (NNPAs) to decline to 2.8-3.0% and 0.8-0.9%, respectively, by March 2024 from 3.96% and 0.97%, respectively, as on March 31, 2023, which would remain the best in more than a decade.

  While there was some weakening in the asset quality levels following the onset of the Covid-19 pandemic, the same improved subsequently. Further, the asset quality in the retail segment has remained on an improving trajectory despite the higher interest rates and inflation, which have led to increased servicing burden and lower disposable income for retail borrowers at large. Going forward, the material weakening of macro-economic conditions may exert pressure on the servicing abilities of borrowers. However, banks are likely to be well positioned to manage higher slippages, if required, as they are expected to be much better placed to absorb any impact. Moreover, given the granularity and better collectability of retail loans, the impact on profitability would remain lower if such a scenario were to play out.

- **Strong credit growth expected in FY2024, driven by retail sector:** Incremental credit growth is expected to remain robust at Rs. 16.5-18.0 trillion in FY2024, partly driven by the strong growth in the retail segment. Over the last decade, the retail sector has been the key driver of the overall credit expansion, with a compound annual growth rate (CAGR) of ~18%. As retail growth outpaced other segments, its share in bank credit rose to 31% as on March 31, 2023 from 18% in March 2013. Moreover, the corporate book witnessed underperformance in recent years, including weaker asset quality levels and muted expansion, resulting in slower growth trends relative to the retail segment.

- **Benign asset quality pressure and strong growth augur well for earnings:** While the upward repricing of the deposit base is likely to lead to a moderation in the interest margin, benign asset quality pressure would result in lower credit costs and support earnings. Credit costs are estimated to remain at 1.0% of advances in FY2024, in line with FY2023. This should allow banks to comfortably withstand a compression of 20-25 basis points (bps) in the interest margins, which would lead to a mild moderation in the return on assets (RoA) to 1.0% in FY2024 from 1.1% in FY2023. At these levels, the return on equity (RoE) would remain healthy at 13.0-13.1% in FY2024 against 13.8% in FY2023.

- **Capital cushions to remain comfortable:** Supported by internal capital generation and lower NNPA levels, the capitalisation and solvency profiles of private and public sector banks are expected to remain comfortable. ICRA projects the Tier-I capital of the banking sector at 14.6-14.7% (14.7% as of March 2023) and expects an improvement in the solvency level to 7% (8% as of March 2023) by March 2024.

  The earnings will largely be sufficient for most banks to meet their regulatory as well as growth capital requirements and PSBs will have limited dependence for capital. The improved growth and earnings outlook has also increased investor appetite, which shall enable banks to raise capital from the markets if required.

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

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The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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