ICRA

Indian Banking Sector

Bank credit to NBFCs and unsecured PL moderating; banking sector performance remains upbeat

JUNE 2024

Agenda

1 ICRA's Outlook on Banking Sector

2 Banking Sector's Deployment to NBFCs & Unsecured PL Slowing

3 Overview of Banking Sector's Performance

4 Asset Quality Trends

5 Profitability

6 Capital Position and Requirements

Agenda

7 ICRA's Coverage on Banking Sector

8 Sector Aggregates

Highlights

Click to see full report

Despite expected moderation in credit growth and return indicators in FY2025, the same are expected to remain comfortable leading to ICRA's Stable outlook for the sector

ICRA expects the asset quality of the banking sector to continue improving. The slippages are expected to slightly increase from the current lows, as the recently disbursed book seasons. In addition, the recoveries and upgrades are expected to moderate, which would lead to increase in quantum of gross non-performing advances (GNPAs) compared to net reduction in FY2024. Nevertheless, the increase is expected to be low in comparison to book growth and, hence the headline asset quality indicators are expected to continue improving, though the pace of improvement would be moderate.

The reported capital ratios of several banks were impacted by the recent regulation regarding the increase in risk weights on lending to the retail unsecured and non-banking financial company (NBFC) segments. Consequently, the banks also turned cautious and credit flow to these segments moderated. The implementation of the expected credit loss (ECL) framework and increased provisioning for project finance in the medium term would also be a monitorable, particularly for public sector banks (PSBs). Despite the impact of regulatory changes, the capital position of both public and private sector banks is expected to remain comfortable in the foreseeable future.

On the credit expansion front, the growth rate is expected to moderate in FY2025. This coupled with the continuing compression of interest spreads, amidst the impact of upward repricing of the deposit base and the downward repricing of loans in FY2025 with likely cuts in monetary policy rates, would exert pressure on profitability. Despite the moderation, the return indicators are expected to remain healthy and sufficient to meet most of the growth requirements.

- The YoY credit growth remained robust at 16.2% as on May 31, 2024, while deposits grew by 12.2% in the same period
- The headline asset quality metrics continued to improve with the GNPA and net NPA (NNPA) at 2.8% and 0.6%, respectively, as on March 31, 2024 (4.0% and 1.0%, respectively, as on March 31, 2023)
- Profitability remained healthy on the back of benign credit costs, with return on assets (RoA) at 1.32% in FY2024 (1.08% in FY2023)
- Most banks are comfortably placed on the capital front, with some raising growth capital in FY2024
- The solvency (NNPAs/core equity capital) level improved to 4.4% as on March 31, 2024 (8.1% as on March 31, 2023)

ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President & Group Head – Financial Sector Ratings	karthiks@icraindia.com	022 – 6114 3444
Anil Gupta	Senior Vice-President & Co-Group Head – Financial Sector Ratings	anilg@icraindia.com	0124 – 4545 314
Sachin Sachdeva	Vice-President & Sector Head – Financial Sector Ratings	sachin.sachdeva@icraindia.com	0124 – 4545 307
Sohil Mehta	Assistant Vice President – Financial Sector Ratings	sohil.mehta@icraindia.com	022 – 6114 3449

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	022-61693338
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
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

ICRA

Thank You!