

Financial Highlights of Banks?

We have analysed the financial performance of 28 banks of which 12 are Public Sector Banks (PSBs) and the balance 16 Private Sector Banks (PVBs). We have looked at the key indicators of profitability, margins and efficiency ratios for the consolidated groups. Growth in net interest income (NII) was lower in FY22 relative to FY21 due to a lower interest rate regime. Notably, cost to income ratio has fallen slightly for PSBs but risen for private banks. Non-interest income growth was lower for the banking system. Under the current rising interest rate cycle, this component would need close monitoring. GNPA ratio has improved in FY22 both for PSBs and PVBs. Return on assets (RoA) has also improved both for PSBs and PVBs. Salary cost to operating expenses declined across the industry.

Key Takeaways:

- **NII** of industry moderated to 10.5% in FY22 compared to 22.4% in FY21. This is on account of moderation in interest income to 2% from 10.4% in FY21, on account of a low interest rate regime and muted credit demand. Interest expenses on the other hand had declined by 4.4% as against an increase of 2.8% in FY21.
- For PSBs, NII edged down to 8.1% in FY22 from 28.3% in FY21. For PVBs, there was only slight moderation in NII to 13.5% from 15.3% in FY21.
- **Non-interest income** of PSBs has fell by 1.5% in FY22 against 24.3% increase seen in FY21, whereas for PVBs, it has been fairly stable and increased by 8.7% in FY22 from 6.5% in FY21, which has indeed supported their operating income.
- **Operating Profit** of the industry rose at a softer pace of 7% in FY22 against 24.7% in FY21. Notably, due to an elevated base in FY21, the numbers look modest.
- **Cost to income ratio** of the industry has increased marginally to 47.65% in FY22 from 46.78% in FY21. However for PSBs, the ratio moderated slightly to 50.42 in FY22 from 50.94% in FY21.
- **Provisions** for the industry have fallen by 25.2% in FY22 from 3.7% decline in FY21. For PSBs, provisions fell by 27.9% in FY22 from 2.1% decline in FY21. For PVBs, provisions declined by 19.8% from 6.9% fall in FY21. The decline may be attributed to the fact that banks have been making progressive provisions for NPAs in the last few years thus obviating the need for the same in the current financial year.
- **Net Profit** of PSBs rose to Rs 66,540 crore in FY22 from Rs 31,818 crore in FY21. For PVBs, net profit rose to Rs 93,037 crore from Rs 71,259 crore in FY21.

Table 1. Snapshot of financial performance of banks:

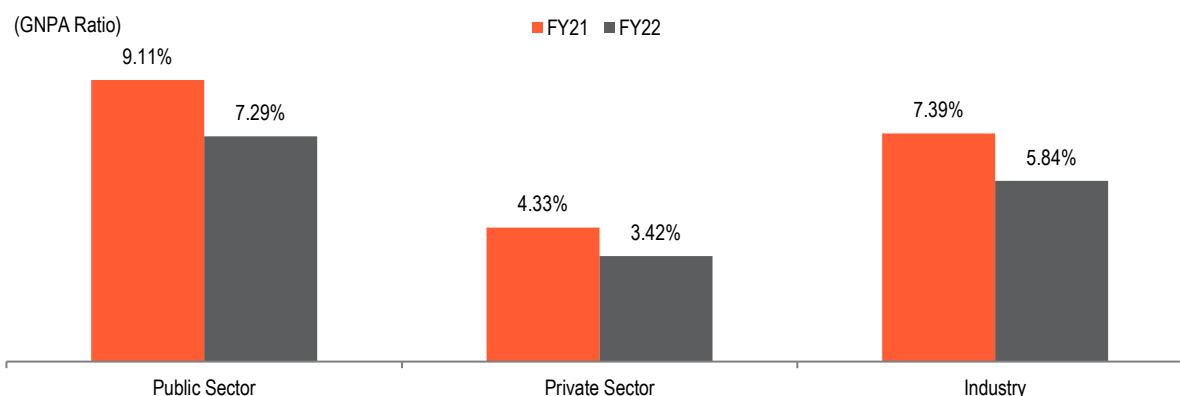
Bank Financial Parameters, (YoY%)	FY21			FY22		
	Public Sector	Private Sector	Industry	Public Sector	Private Sector	Industry
Total Interest Income	15.4%	2.7%	10.4%	0.3%	4.8%	2.0%
Total Interest Expenses	8.5%	-7.2%	2.8%	-4.7%	-3.6%	-4.4%
Net Interest Income (NII)	28.3%	15.3%	22.4%	8.1%	13.5%	10.5%
Non- Interest Income	24.3%	6.5%	16.2%	-1.5%	8.7%	2.7%
Operating Income	27.0%	12.5%	20.4%	5.1%	12.1%	8.1%
Operating Expenses	27.3%	4.6%	17.8%	4.1%	20.3%	10.1%
Operating Profit	31.0%	18.2%	24.7%	7.0%	7.0%	7.0%
Cost to Income Ratio	50.94%	41.11%	46.78%	50.42%	44.12%	47.65%
Total Provisions	-2.1%	-6.9%	-3.7%	-27.9%	-19.8%	-25.2%
Net Profit	*	102.9%	238.4%	109.1%	30.6%	54.8%
GNPA	12.8%	-0.8%	9.6%	-12.1%	-8.7%	-11.4%
GNPA ratio	9.11%	4.33%	7.39%	7.29%	3.42%	5.84%
Total advances	19.2%	9.9%	15.6%	9.8%	15.8%	12.0%
Total deposits	27.7%	15.1%	23.5%	8.2%	18.5%	11.4%
Total Assets	29.1%	14.9%	24.1%	6.1%	11.8%	7.9%

Source: Ace Equity, Bank of Baroda Research, Note: *Net Profit has increased from (-) Rs 4,654crore to Rs 31,818crore for that period.

Some important ratios:

- **GNPA ratio** of the industry improved to 5.84% in FY22 from 7.39% in FY21. This is a major improvement for the sector which appears to be going back to normal post AQR.
- GNPA ratio of PSBs have improved to 7.29% in FY22 from 9.11% in FY21. This is because, GNPA amount has fallen by 12.1% in FY22 for PSBs in absolute terms against 12.8% increase seen in FY21.
- For PVBs, GNPA ratio improved to 3.42% from 4.33% in FY21.

Fig 2. GNPA ratio Bank group wise showing improvement:



Source: Ace Equity, Bank of Baroda Research

- The table below shows that most PVBs lie in the range of 0-5% of GNPA ratio. While PSBs are in the range of 5-10% and above 10% GNPA ratio.

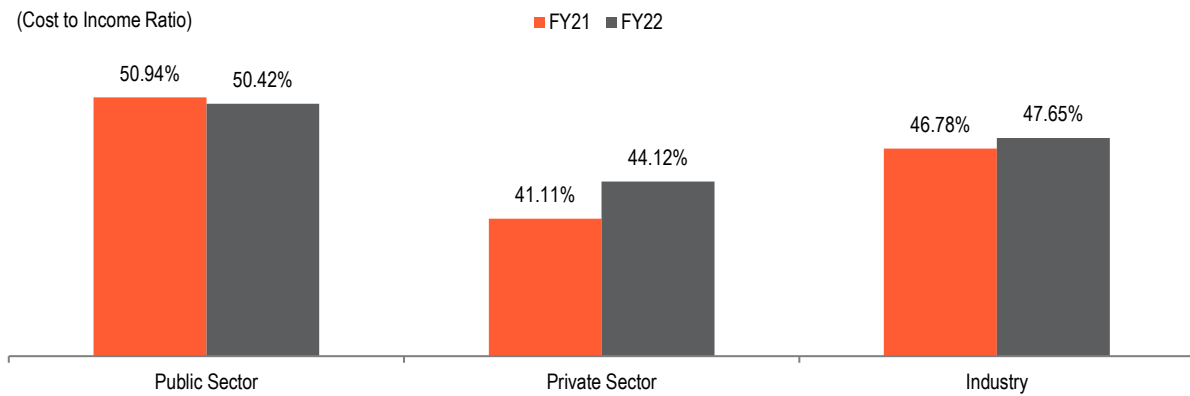
Table 2. Distribution of banks in different range of GNPA ratio in FY22:

GNPA ratio	No: of Banks	No: of PSBs	No: of PVBs
0-5	12	2	10
5-10	11	6	5
>10	5	4	1

Source: Ace Equity, Bank of Baroda Research

- **Cost to income ratio** of the industry increased marginally to 47.65% in FY22 from 46.78% in FY21. For PSBs, cost to income ratio moderated slightly to 50.42% in FY22 from 50.94% in FY21.

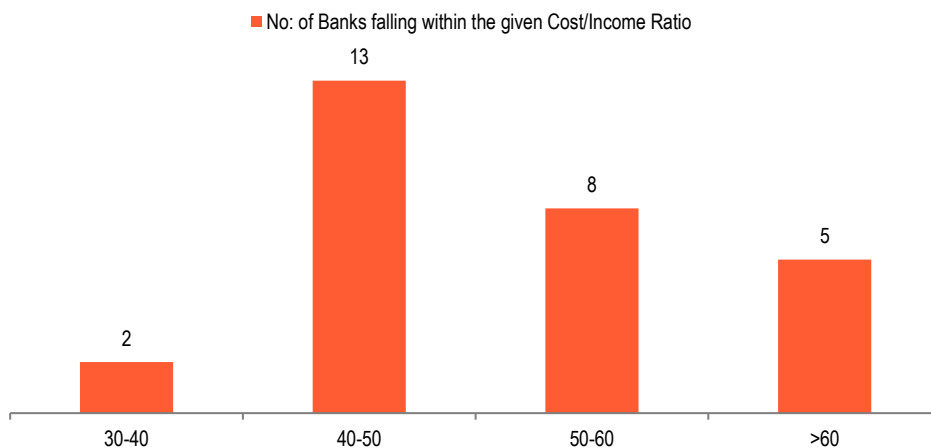
Fig 3. Cost to Income Ratio of PSBs moderated



Source: Ace Equity, Bank of Baroda Research

- Most of the banks had **cost to income ratio** in the range of 40-50%. Within which 8 banks are PSBs and the rest 5 banks are PVBs.

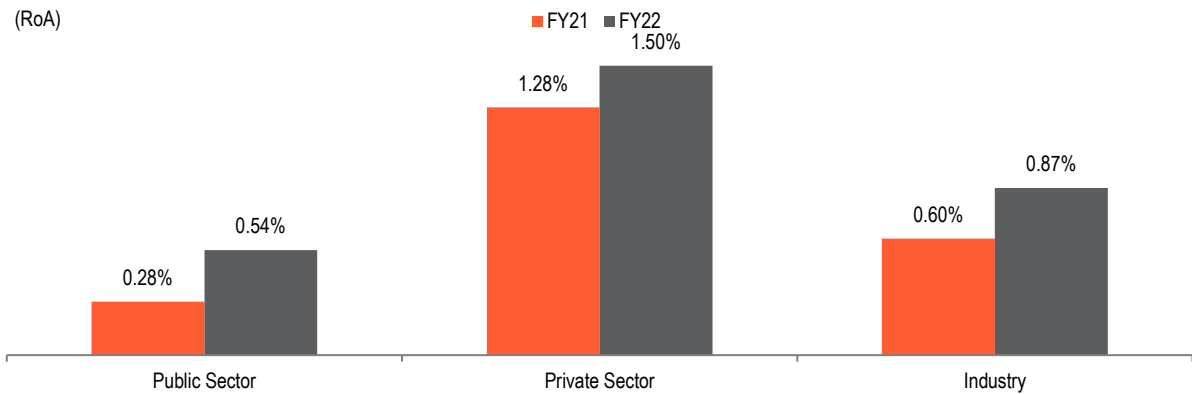
Fig 4. Distribution of Banks with regard to Cost to Income Ratio in FY22



Source: Ace Equity, Bank of Baroda Research

- **Return on assets (RoA)** of the industry improved to 0.87% in FY22 from 0.60% in FY21. Both the RoA of PSBs and PVBs showed improvement as net profit increased in FY22.

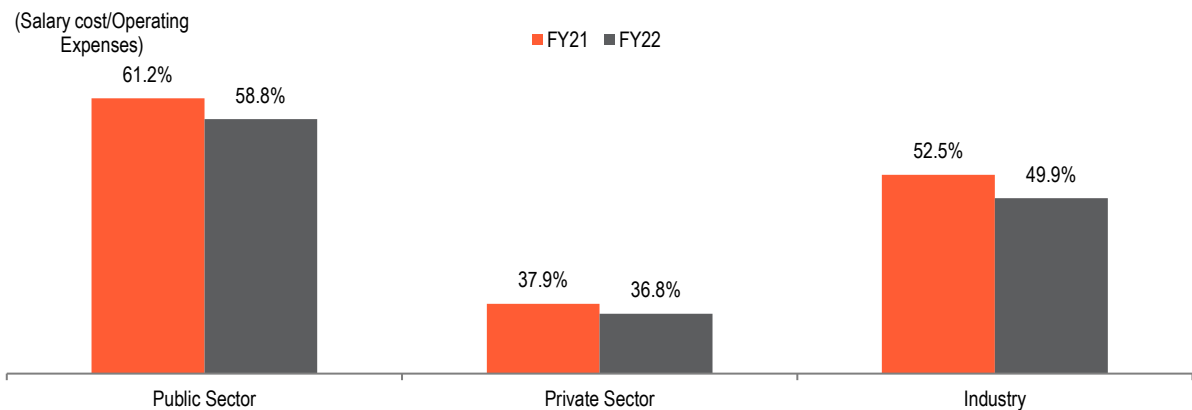
Fig 5. Return on Assets Bank groupwise improved:



Source: Ace Equity, Bank of Baroda Research

- **Salary cost to operating expenses** declined across the industry. It fell to 49.9% in FY22 from 52.5% in FY21. The ratio fell for both the PSBs and PVBs.

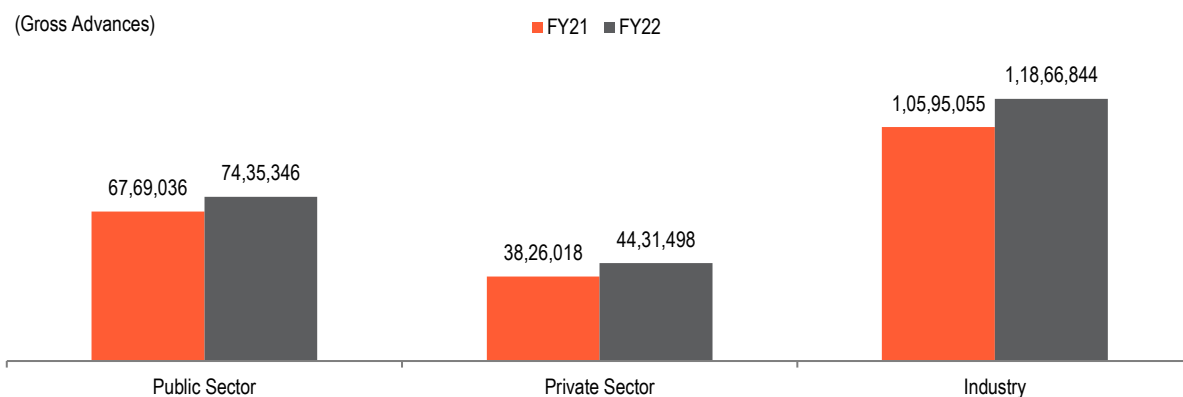
Fig 6. How much is spent on employees?



Source: Ace Equity, Bank of Baroda Research

- **Gross advances** of the industry rose to Rs 118.66 lakh crore in FY22 from Rs 105.95 lakh crore in FY21. Share of PSBs in gross advances moderated to 62.7% in FY22 from 63.9% in FY21. For PVBs, the share improved to 37.3% from 36.1% in FY21.
- Growth in advances of the 28 banks was 12% with PVBs registering growth of 15.8% while PSBs had growth of 9.8%. Interestingly the PSBs growth rate in credit slowed down while that of PVBs improved in FY22.
- During the year the weighted average lending rate on fresh loans had come down from 7.24% to 6.94% for PSBs while it declined from 9.07% in Mar'21 to 8.81% in Mar'22 for PVBs.

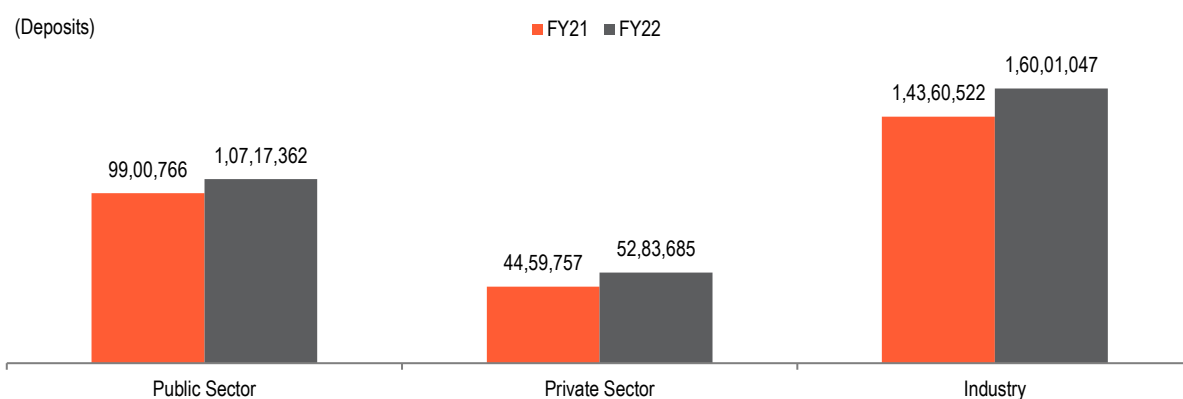
Fig 7. Movement in Gross Advances



Source: Ace Equity, Bank of Baroda Research

- Overall deposits rose to Rs 160.01lakh crore in FY22 from Rs 143.61lakh crore in FY21 thus registering growth of 11.4%. Again those of PVBs increased at a higher rate of 18.5% compared with 6.1% for PSBs. Here too deposits growth in PSBs had slowed down from 27.7% to 8.2% while those of PVBs increased from 15.1% to 18.5%. Interestingly the weighted average domestic term deposit rate for the system had come down by 25 bps during the year, while that for PSBs had declined by 22 bps. For private banks it had fallen by 40 bps. Yet their growth in deposits was higher.
- For PSBs, the share in overall deposits stood at 67% in FY22 from 68.9% in FY21. For PVBs, the ratio rose slightly to 33% from 31.1% in FY21.

Fig 8. Movement in Deposits



Source: Ace Equity, Bank of Baroda Research

Appendix:

Table 3. Financial performance of banks in terms of various indicators:

Bank Financial Parameters, Rs crore	FY20			FY21			FY22		
	Public Sector	Private Sector	Industry	Public Sector	Private Sector	Industry	Public Sector	Private Sector	Industry
Total Interest Income	612560	405936	1018496	707133	417006	1124139	709132	437197	1146329
Total Interest Expenses	397801	227460	625261	431627	211153	642781	411181	203459	614641
Net Interest Income (NII)	214758	178476	393235	275506	205853	481359	297951	233738	531689
Non- Interest Income	100327	82625	182951	124681	87969	212651	122768	95616	218384
Operating Income	315085	261101	576186	400187	293822	694009	420719	329353	750072
Operating Expenses	160103	115477	275579	203855	120793	324648	212128	145307	357434
Operating Profit	148713	145624	294337	194863	172081	366944	208591	184047	392637
Cost to Income Ratio	50.8%	44.2%	47.8%	50.9%	41.1%	46.8%	50.42%	44.12%	47.65%
Total Provisions	152235	80653	232888	149047	75123	224170	107447	60279	167726
Net Profit	-4654	35118	30463	31818	71259	103077	66540	93037	159577
GNPA	546590	167267	713857	616616	165846	782462	542173	151411	693585
GNPA ratio	9.6%	4.8%	7.8%	9.1%	4.3%	7.4%	7.3%	3.4%	5.8%
Total advances	5679337	3482945	9162282	6769036	3826018	10595055	7435346	4431498	11866844
Total deposits	7752855	3875114	11627969	9900766	4459757	14360522	10717362	5283685	16001047
Total Assets	8927389	4839187	13766576	11523473	5558154	17081627	12226675	6211490	18438165
RoA	-0.1%	0.7%	0.2%	0.3%	1.3%	0.6%	0.5%	1.5%	0.9%
Salary Cost/Operating Expenses	58.5%	36.9%	49.5%	61.2%	37.9%	52.5%	58.8%	36.8%	49.9%

Source: Ace Equity, Bank of Baroda Research

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