

## **Financial Highlights of Banks?**

- *We have analysed the financial performance of 35 banks of which 12 are Public, 19 Private Sector Banks (PVBs) and remaining 4 are Small Finance Banks. We have looked at the key indicators of profitability, margins and efficiency ratios for the consolidated groups. Growth in net interest income (NII) was higher in Q1FY23 relative to Q1FY22 due to rising interest rate regime and pick up in credit demand. Rising Gsec yields resulted in falling non-interest income due to MTM valuations. Operating profit growth remained muted for the industry as a whole. Cost to income ratio has picked up significantly across bank groups. What has been a respite is the improvement in asset quality, as seen in the GNPA ratio. This has been not only because of improved growth in advances but also GNPA amount falling significantly in Q1FY23 both for PSBs and PVBs. Salary cost to operating expenses picked up in response to Q4FY22, but still far lower in comparison to Q1FY22*

### **Key Takeaways:**

- **NII** of industry grew at a robust pace of 14.6% in Q1FY23 against 7.7% in Q1FY22. This is on account of increase in interest income to 10.2% in Q1FY23 from 3.3% decline in Q1FY22, partly because of an elevated interest rate regime and pick up in credit demand. In Q1FY23, WALR on fresh loans for SCBs rose by 31bps (7.94% from 7.63%). Interest expenditure also rose by 6.7% in Q1FY23. Notably, deposit rates of SCBs rose by 10bps in Q1FY23.
- For both PSBs and PVBs, NII rose sharply to 11.9% and 17.2% respectively, in Q1FY23 from 5.4% and 10.5% in Q1FY22.
- **Non-interest income** of PSBs fell sharply by 45.1% in Q1FY23 from 44% increase seen in Q1FY22, whereas for PVBs, it fell by 4.4% from 17.7% increase in Q1FY22. Notably, 10Y Gsec yield rose by 61bps in Q1FY23. Hence there is a risk of MTM loss and lower gains from treasury income in the rising interest rate cycle.
- **Operating Profit** of the industry declined by 8.6% in Q1FY23 from 13.7% increase seen in Q1FY22. Operating profit of PSBs fell sharply by 16.4% against 21.1% increase in Q1FY22, led by decline in operating income due to drag down in non-interest income.
- **Cost to income ratio** of the industry has increased to 51.2% in Q1FY23 from 45.9% in Q1FY22. For PSBs, the ratio rose to 54.1% from 48.7%. For PVBs, it rose to 47.8% from 42%. Higher inflation is further going to put pressure on cost to income ratio, on account of elevated operating expenses.
- **Provisions** for the industry have fallen by 42% in Q1FY23 from 8.9% decline in Q1FY22. For PSBs, provisions fell by 30% in Q1FY23 from 9.6% decline in Q1FY22. For PVBs, provisions declined far sharply by 58.5% from 9.9% fall in Q1FY22. 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 the industry rose by 37.1% to Rs 44,048crore in Q1FY23 from Rs 32,134crore in Q1FY22. For PSBs, net profit rose by 9.2% to Rs 15,307crore from Rs 14,012crore in Q1FY22. For PVBs, it rose at a far faster pace of 54.9% to Rs 28,165crore in Q1FY23.

**Table 1. Snapshot of financial performance of banks:**

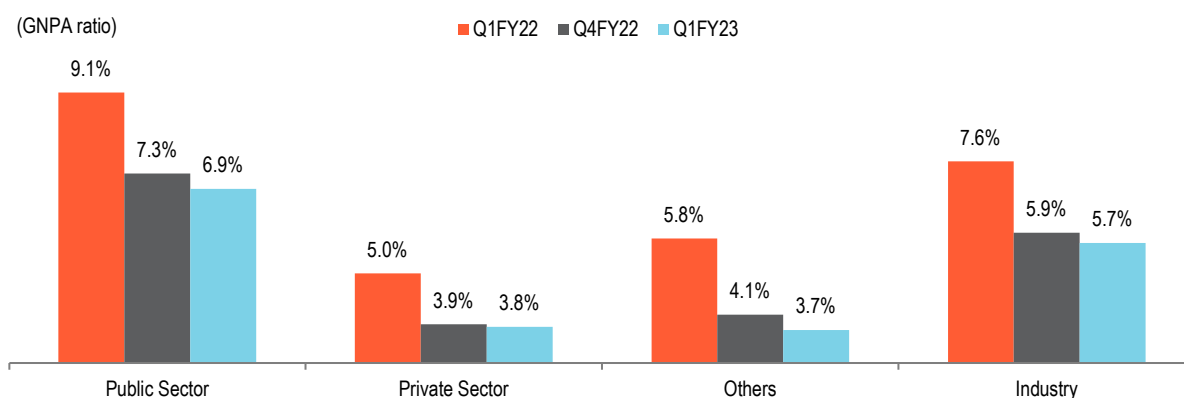
Bank Financial Parameters, YoY	Q1FY22				Q1FY23			
	Public Sector	Private Sector	Others	Industry	Public Sector	Private Sector	Others	Industry
Total Interest Income	-4.9%	-0.9%	5.5%	-3.3%	7.9%	13.3%	30.3%	10.2%
Total Interest Expenses	-10.8%	-10.7%	-1.6%	-10.7%	5.2%	9.2%	20.7%	6.7%
Net Interest Income (NII)	5.4%	10.5%	11.9%	7.7%	11.9%	17.2%	37.8%	14.6%
Non- Interest Income	44.0%	17.7%	35.4%	31.9%	-45.1%	-4.4%	-3.1%	-28.2%
Operating Income	15.5%	12.5%	15.9%	14.2%	-6.7%	10.9%	29.8%	1.4%
Operating Expenses	10.1%	21.6%	34.0%	14.7%	3.6%	26.3%	38.1%	13.1%
Operating Profit	21.1%	6.7%	-3.1%	13.7%	-16.4%	-0.2%	17.7%	-8.6%
Cost to Income Ratio	48.7%	42.0%	59.2%	45.9%	54.1%	47.8%	63.0%	51.2%
Total Provisions	-9.6%	-9.9%	112.1%	-8.9%	-30.0%	-58.5%	-73.5%	-42.0%
Net Profit	139.6%	28.7%	-*	58.1%	9.2%	54.9%	-**	37.1%
GNPA	-4.2%	2.9%	268.7%	-2.2%	-13.2%	-10.5%	-14.3%	-12.5%
GNPA ratio	9.1%	5.0%	5.8%	7.6%	6.9%	3.8%	3.7%	5.7%
Total advances	3.1%	9.4%	18.5%	5.5%	14.1%	18.0%	33.2%	15.7%
Total Assets	7.2%	11.1%	15.4%	9.3%	7.6%	14.5%	29.1%	11.5%
RoA	0.47%	0.54%	-0.06%	0.50%	0.48%	0.73%	0.44%	0.61%
Salary Cost/Operating Expenses	62.6%	39.8%	57.9%	53.5%	58.3%	37.2%	51.9%	48.8%

Source: Ace Equity, Bank of Baroda Research, Note: \*Loss of Rs 66crore in Q1FY22 against Rs 340crore net profit in Q1FY21,\*\*Net profit of Rs 576 crore in Q1FY23 against Rs 66crore loss in Q1FY22

**Some important ratios:**

- **GNPA ratio** of the industry improved to 5.72% in Q1FY23 from 7.57% in Q1FY22. This is led by sharp improvement in GNPA ratio of PSBs to 6.94% in Q1FY23 from 9.13% in Q1FY22. For PVBs, it improved to 3.82% from 5.04%.
- The improvement in the GNPA ratio is not only attributable to improvement in advances growth, but also a decline of ~12.5% for the industry as a whole in the overall GNPA amount.

**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.

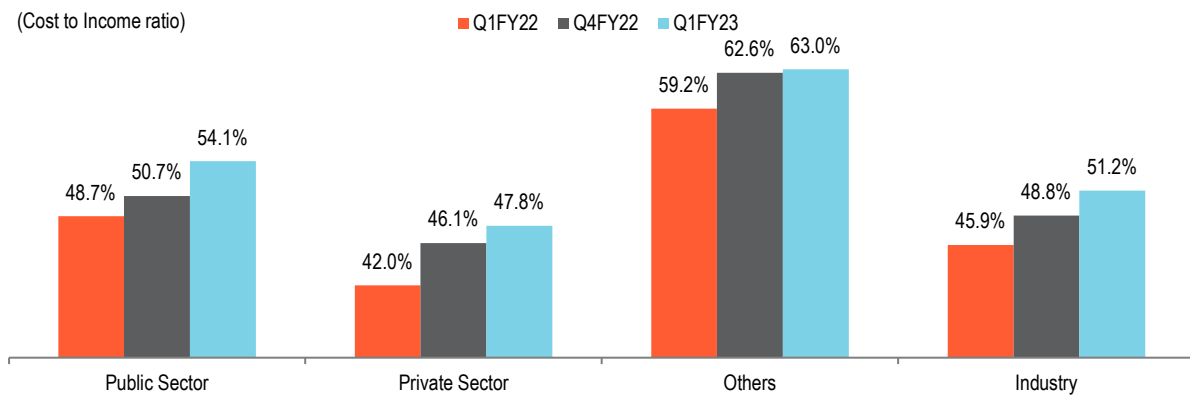
**Table 2. Distribution of banks in different range of GNPA ratio in FY22:**

GNPA ratio	No: of Banks	No: of PSBs	No: of PVBs	Others
0-5	16	2	12	2
5-10	13	6	5	2
>10	6	4	2	0

Source: Ace Equity, Bank of Baroda Research

- Cost to income ratio** of the industry rose to 51.2% in Q1FY23 from 45.9% in Q1FY22. For PSBs, it rose to 54.1% from 48.7% and for PVBs, to 47.8% from 42.0%.

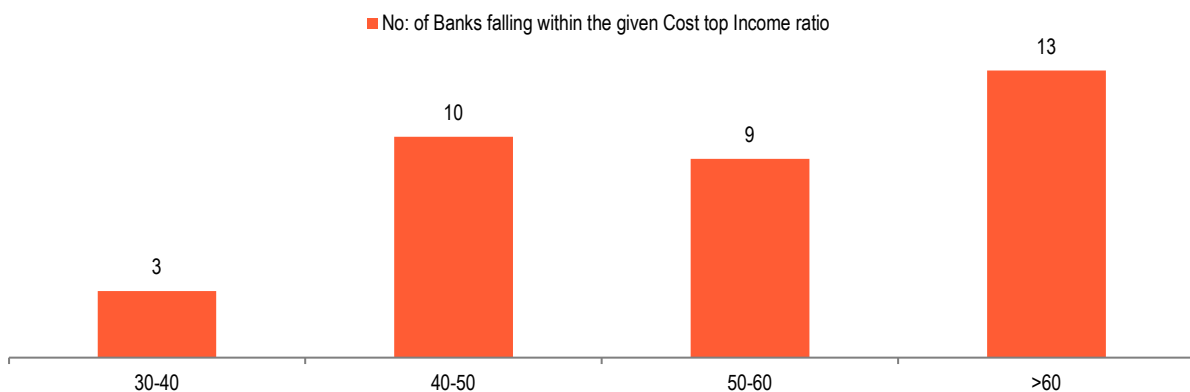
**Fig 3. Cost to Income Ratio rose across the board**



Source: Ace Equity, Bank of Baroda Research

- Most of the banks had **cost to income ratio** in the range of 50-60 and above 60. Within which 8 PSBs fell in the range of 40-60, whereas 7PVBs have cost to income ratio higher than 60.

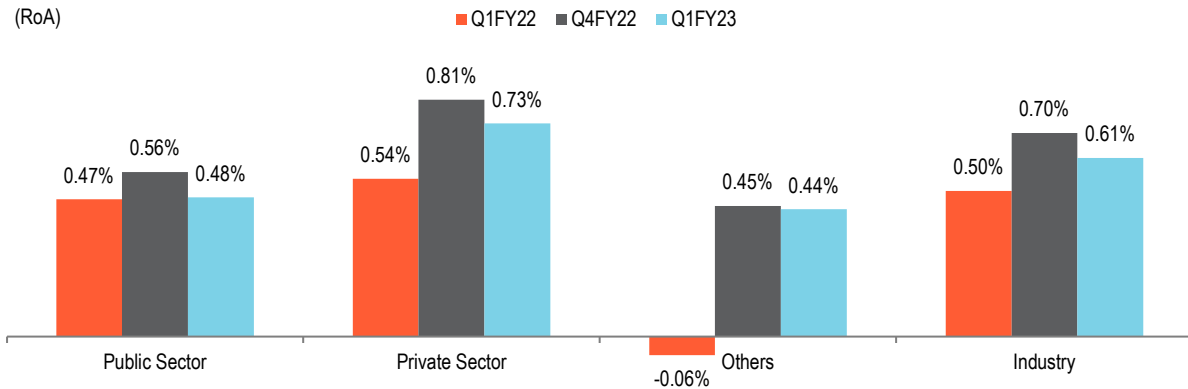
**Fig 4. Distribution of Banks with regard to Cost to Income Ratio in FY22**



Source: Ace Equity, Bank of Baroda Research

- Return on assets (RoA)** of the industry was at 0.61% in Q1FY23 from 0.50% in Q1FY22. For PSBs, it was stable at ~0.48%, for PVBs it rose to 0.73% from 0.54% in Q1FY22. However, in comparison to Q4FY22, RoA moderated.

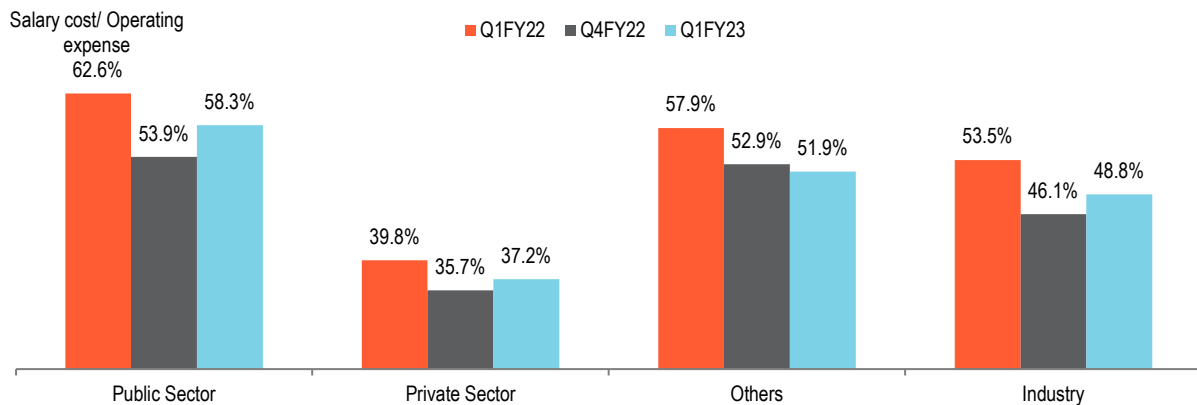
**Fig 5. Return on Assets Bank group-wise:**



Source: Ace Equity, Bank of Baroda Research

- **Salary cost to operating expenses** picked up in response to Q4FY22, but still far lower in comparison to Q1FY22.

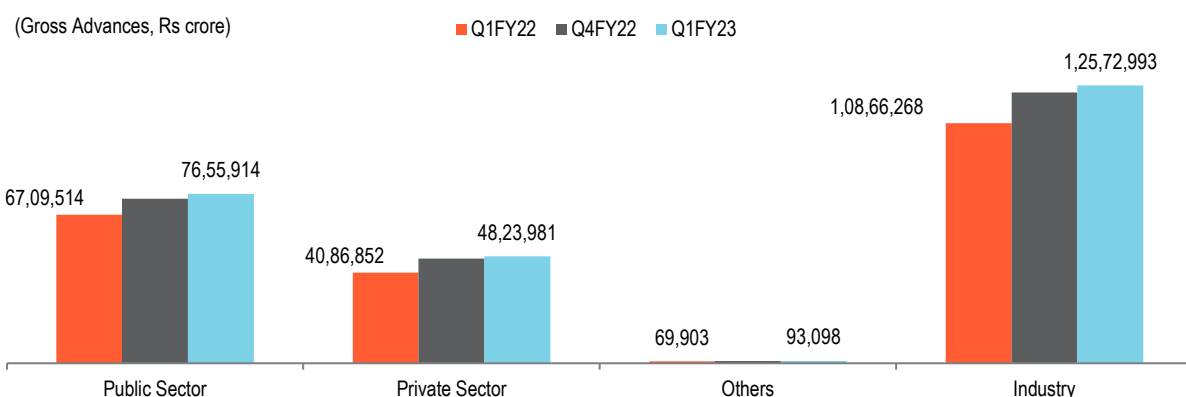
**Fig 6. How much is spent on employees?**



Source: Ace Equity, Bank of Baroda Research

- **Gross advances** of the industry rose to Rs 125.73lakh crore in Q1FY23 from Rs 108.66lakh crore in Q1FY22. Share of PSBs in gross advances was stable at 61%. For PVBs, the share improved slightly to 38.4% in Q1FY23 from 37.6% in Q1FY22.
- Growth in advances of the 35 banks was 15.7% with PVBs registering steeper growth of 18% while PSBs had growth of 14.1%.
- During Q1FY23, the weighted average lending rate on fresh loans by SCBs had increased to 7.94% in Q1FY22 from 7.63% in Q4FY22 and 7.73% IN Q1FY22 (Terminal rates as quarter end).

**Fig 7. Movement in Gross Advances**



Source: Ace Equity, Bank of Baroda Research

**Appendix:**

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

Bank Financial Parameters, Rs crore	Q1FY22				Q4FY22				Q1FY23			
	PSB	PVB	Others	Industry	PSB	PVB	Others	Industry	PSB	PVB	Others	Industry
Total Interest Income	172307	112326	3030	287663	181271	121773	3618	306661	185918	127234	3947	317100
Total Interest Expenses	102162	54694	1337	158193	104153	56643	1438	162235	107428	59703	1614	168745
Net Interest Income (NII)	70145	57633	1693	129470	77118	65130	2179	144427	78491	67531	2333	148355
Non-Interest Income	33864	23549	413	57826	31179	26137	582	57898	18582	22522	401	41504
Operating Income	104008	81182	2106	187297	108297	91267	2761	202325	97072	90054	2734	189860
Operating Expenses	50660	34096	1246	86001	54883	42098	1730	98710	52470	43055	1721	97247
Operating Profit	53349	47086	860	101295	53414	49169	1032	103615	44602	46999	1013	92613
Cost to Income Ratio	48.7%	42.0%	59.2%	45.9%	50.7%	46.1%	62.6%	48.8%	54.1%	47.8%	63.0%	51.2%
Total Provisions	33852	22832	941	57625	29381	8817	372	38570	23688	9482	250	33420
Net Profit	14012	18188	-66	32134	17666	30566	544	48777	15307	28165	576	44048
GNPA	612384	206071	4068	822524	542173	183571	3643	729388	531415	184523	3487	719425
GNPA ratio	9.1%	5.0%	5.8%	7.6%	7.3%	3.9%	4.1%	6.0%	6.9%	3.8%	3.7%	5.7%
Total advances	6709514	4086852	69903	10866268	7435346	4731175	88988	12255509	7655914	4823981	93098	12572993
Total Assets	2988699	3380225	102295	6471219	3138560	3756164	121839	7016562	3215049	3870894	132095	7218039
RoA	0.47%	0.54%	-0.06%	0.50%	0.56%	0.81%	0.45%	0.70%	0.48%	0.73%	0.44%	0.61%
Salary Cost/Operating Expenses	62.6%	39.8%	57.9%	53.5%	53.9%	35.7%	52.9%	46.1%	58.3%	37.2%	51.9%	48.8%

Source: Ace Equity, Bank of Baroda Research

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