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**Banks enjoy robust growth in interest income despite
credit slowdown**

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Banks enjoy robust growth in interest income despite credit slowdown, says AFP

Commercial banks are making hay while the sun shines, as their interest incomes are swelling despite slowdown in credit off take, thanks to the high interest rate regime being unleashed by the Reserve Bank.

The interest income of the banking industry rose by average 36 per cent in Q3 of current fiscal as compared to the 24 per cent rise in corresponding period of previous financial year, an Assocham Eco Pulse (AFP) Study has revealed. This is contrary to slowdown in the y-o-y growth in the non-food credit of scheduled commercial banks (as on Jan 4, 2008) from 31.9 per cent in FY07 to 22.2 per cent in current fiscal.

“Although robust growth in income of the banks would help them in ensuring profitability, the Regulator must ensure that the buoyancy in the economic activity does not suffer due to restricted credit flow and high borrowing cost”, said Mr. Venugopal M Dhoot, President, Assocham.

The surge in interest incomes has led the banking sector to record a whopping 40 per cent rise in total income in the third quarter as compared to 24 per cent growth in similar period of last year.

The AFP analysis was based on the third quarter results of the 13 commercial banks including 6 private banks and 7 public sector banks.

Private sector banks took the lead in registering a higher growth of 43.5 per cent on top of 56 per cent growth in last year. The public sector banks, while lagged behind the private players in income growth, remarkably improved the growth in interest income as they recorded 32.7 per cent rise as against 14 per cent growth in the last year.

The interest rates had peaked in the Q3 of current fiscal when the prime lending rate touched 13.25 per cent as compared to 11.5 per cent in the corresponding period of previous year. Taking cue from the third quarter review of the Annual Monetary Policy of the Reserve Bank, some of the largest banks have recently announced 25 basis points cut in their retail lending rates in order to push the credit growth.

Among the major private banks, Centurion Bank of Punjab and HDFC Bank were the best performing banks in terms of their interest income. Centurion Bank of Punjab's interest income rose by 76 per cent, to Rs. 570.66 crore in the Q3 of

current fiscal from Rs. 323.56 crore in the corresponding period previous year. This is over and above 60 per cent registered a year earlier.

HDFC Bank saw an increase of 61 per cent in the F.Y. 2007-08 as compared to 49 per cent in the previous fiscal. Its interest income went upto Rs. 2726.9 crore in the third quarter of FY 2007-08 against Rs. 1698.93 crore in the previous year.

The other private banks with robust rise in interest incomes were Axis Bank (54.73 per cent), ICICI Bank (41.26 per cent), ING Vysya Bank (32.41 per cent) and IDBI Bank (22.38 per cent).

The public sector banks which outgrown the industry in credit income growth includes Vijaya Bank (39.71 per cent), Bank of India (39.61 per cent), State Bank of India (34.09 per cent), Union Bank (32.99 per cent).

The other banks with high growth in interest income were Indian Bank (30.44 per cent), Punjab National Bank (26.63 per cent) and Allahabad Bank (21.34 per cent).

Fee-based income of banks went up by as much as 52 per cent against a low of 24.4 per cent in the third quarter of fiscal 2006-07. An increase in fees and commissions from wealth management, core banking, retail assets and foreign exchange businesses contributed to this growth.

However, total fee-based income of PSBs increased substantially by 60.47 per cent in Q3, 2007-08 as compared to 4.59 per cent a year ago. Also, private banks lagged behind PSBs in terms of fee-based income as they posted an increase of 43.36 per cent this fiscal against 58.62 per cent in the corresponding period previous year.