

ASSOCHAM
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STUDY

Performance Analysis of the Indian Banking Sector

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EXECUTIVE SUMMARY

- Despite registering a healthy rise of 51.9 per cent in their bottom line, Net non-performing assets (NPAs) of 25 banks have risen by an average 34.5 per cent in Q3 FY '09 as against Q3 FY'08.
- 19 out of the 25 analyzed banks recorded an increase in their Net Non Performing Assets (NPAs) while 17 banks witnessed a fall in their CAR from the previous fiscal, but they still managed to remain above the prescribed limit of nine per cent posed by the Basel II accord.
- The average capital adequacy ratio (CAR) of 25 banks slipped marginally to 13.22 per cent in Q2-FY '09 from 13.39 per cent in the previous year.
- The public sector bank's bottom line grew by an average 57.29 per cent in the third quarter of the fiscal as compared to private sector banks' 43.88 per cent. The net NPAs of PSBs also registered a relatively smaller rise of 28.83 per cent against the whopping increase of 43.84 per cent in the net NPAs of private sector banks.
- During the quarter, private sector banks narrowly reduced their PLR within the range of 50 - 75 basis points against a relatively higher reduction by the public sector banks in the range of 75 - 125 basis points.
- The credit flow from the public sector banks has increased substantially from 19.8 per cent as on Jan 4, 2008 to 28.6 per cent as on Jan 2, 2009. On the other hand private banks witnessed a steep fall in credit flow from 24.2 per cent to 11.8 per cent during the same period.

INTRODUCTION

TIME PERIOD

The report prepared by the ASSOCHAM Research Bureau has taken corporate results announced by Banks in third quarter ending December 2008. Those banks have been taken that have announced their results from 15th-29th of January 2008.

DATA SOURCE

The report prepared is based on the data posted by banks on the Bombay Stock Exchange website.

SAMPLE SIZE

The ASSOCHAM Research Bureau (ARB) has taken total of 25 banks including an aggregation of 15 public sector banks (PSBs) and 10 private sector banks.

PARAMETERS

The AEP analysis of the Indian banking sector is based on parameters relating to net profit, net non performing assets, net interest income and capital adequacy ratio.

METHODOLOGY

Simple average and sum of the total data for the above mentioned parameters are taken for the comparative analysis.

For the **categorical result analysis**, Banks have been categorized in three broad segments in accordance to their quarterly (Q3) net profit as under:

Criteria	Size
Net Profit > Rs 500 Crore	Large
Net Profit: Rs 100 - 500 Crore	Medium
Net Profit < Rs 100 Crore	Small

Public sector banks outshine private players amidst economic downturn: Assocham Financial Pulse

The public sector banks have emerged strong across all key indicators as the global financial turmoil and slowing domestic economy put the banking sector on a test. The public banks have not only reduced the lending rates but have also managed to record higher average net profit and lower NPA level than their private sector counterparts, an Assocham Financial Pulse (AFP) study.

According to the Assocham Financial Pulse Study on “Performance Analysis of the Indian Banking Sector”, which tracked the quarterly results of 25 national banks, the public sector banks (PSBs) have shown impressive performance across all the significant banking parameters. While they have reduced their prime lending rates by 75 - 125 basis points; higher than the 50 - 75 basis points cut made by private banks, their credit growth has far surpassed the latter at 28.6 per cent as compared to meager 11.8 per cent growth registered by private banks.

Despite lower lending rates, the net interest income growth of the PSBs was much higher at 50 per cent as against 32 per cent growth witnessed by private banks which fuelled the bottom line growth of public banks. The net profit of public banks jumped by 57 per cent as compared to 44 per cent rise in the bottom line of the private banks.

Progressing upon bringing a significant shift in their conventional image, the public sector banks have considerably improved their quality of assets. The rise in Net NPAs of the private banks was far higher at 44 per cent than the public sector banks at 29 per cent.

Third Quarter Banking Sector Performance Analysis

Sector	No. of Banks	Q3 Average Growth rate (in %)			Reduction in PLR during Q3 (in basis points)*
		Net Profit	Net Interest Income	Net NPA	
Public	15	57.29	49.98	28.83	75 - 125
Private	10	43.88	32.08	43.84	50 - 75

Source: Assocham Research Bureau

* for calculation refer to Annexure

“In divergence to the turmoil in the global banking institutions; Indian banking sector stands tall with stupendous growth in profits, however rise in NPAs may remain a key challenge”, said Shri D. S. Rawat, Secretary General, Assocham.

The Assocham study also revealed that even if the banking sector is among the front runners in terms of growth in net profit during the third quarter of the fiscal, the quality of bank assets deteriorated significantly with an average 34.46 per cent rise in net non performing assets (NNPAs) accompanied by a marginal slippage in average capital adequacy ratio (CAR) to 13.22 per cent in Q3 FY'09 from 13.39 per cent in the corresponding period last year.

The aggregate net non-performing assets (NPA) of 25 banks increased to Rs 19,899.47 crore in Q3 FY' 09 from Rs 15,962.58 crore in the corresponding period last year.

During September-December 2008, the Reserve Bank of India slashed its key lending rate, the repo, by 250 basis points as an indication to the commercial banks to soften their interest rates. However, the banks acted reluctantly to transfer the benefit by reducing their benchmark Prime Lending Rate (PLR) aggressively, according to the Assocham Study.

Private sector banks narrowly reduced their PLR within the range of 50 - 75 basis points against a relatively higher reduction by the public sector banks in the range of 75 - 125 basis points.

The credit flow from the public sector banks has increased substantially from 19.8 per cent as on Jan 4, 2008 to 28.6 per cent as on Jan 2, 2009. On the other hand private banks witnessed a steep fall in credit flow from 24.2 per cent to 11.8 per cent during the same period.

CATEGORICAL RESULT ANALYSIS:

I) Net Profit

Among the top three large banks with highest increase in net profit, Union Bank of India registered a rise of 84.03 per cent in its bottom line. Bank of India followed second with its net profit rising by 70.38 per cent while Axis Bank recorded an increase of 63.24 per cent.

In the medium size category, the State Bank group's State Bank of Travancore and State Bank of Mysore recorded an increase of 214.96 per cent and 157.51 per cent respectively followed by the federal bank with a rise of 98.11 per cent in its bottom line.

The top three small size banks with maximum increase in net profit included IndusInd Bank with a rise of 80.03 per cent followed by South Indian Bank with 33.10 per cent and Karnataka Bank with 29.31 per cent.

Net Profit of banks for Q3 FY 2008-09

Name of the bank	Net Profit		
	Q3 FY08-09 Rs Crore	Q3 FY07-08 Rs Crore	% Change
Top 3 Large size banks with maximum rise in net profit			
Union Bank of India	671.74	365.02	84.03
Bank of India	872.17	511.89	70.38
Axis Bank	500.86	306.83	63.24
Top 3 Medium size banks with maximum rise in net profit			
State Bank of Travancore	260.86	82.82	214.96
State Bank of Mysore	182.59	70.91	157.51
The Federal Bank Limited	203.89	102.92	98.11
Top 3 Small size banks with maximum rise in net profit			
IndusInd Bank	45.08	25.04	80.03
South Indian Bank	54.20	40.72	33.10
Karnataka Bank	89.26	69.03	29.31

Source: Corporate Announcements for the quarter ended December 2008-09

II) Net Non Performing Assets (NNPAs)

In terms of highest increase in Net Non Performing Assets (NNPAs) among the large banks, HDFC Bank registered an increase of 119.58 per cent followed by Canara Bank with a rise of 89.46 per cent. Axis Bank recorded the third largest increase of 45.97 per cent among the top three large banks.

Among the top three medium size banks with maximum rise in NNPAs, State Bank of Mysore recorded the highest increase of 120.56 per cent followed by Vijaya Bank with 76.10 per cent and State Bank of Hyderabad with 67.14 per cent.

In the small size category, Kotak Mahindra Bank registered the highest increase of 91.75 per cent in NNPAs while Ing Vysya Bank and the Bank of Rajasthan followed with an increase of 83.56 per cent and 66.46 per cent respectively.

Net Non Performing Assets of banks for Q3 FY 2008-09

Name of the bank	Net Non Performing Assets		
	Q3 FY08-09 Rs Crore	Q3 FY07-08 Rs Crore	% Change
Top 3 Large size banks with maximum rise in net NPAs			
HDFC Bank	614.33	279.78	119.58
Canara Bank	1654.23	873.15	89.46
Axis Bank	341.94	234.26	45.97
Top 3 Medium size banks with maximum rise in net NPAs			
State Bank of Mysore	154.57	70.08	120.56
Vijaya Bank	263.25	149.49	76.10
State Bank of Hyderabad	142.20	85.08	67.14
Top 3 Small size banks with maximum rise in net NPAs			
Kotak Mahindra Bank Limited	470.07	245.15	91.75
Ing Vysya Bank Limited	175.13	95.41	83.56
The Bank of Rajasthan Limited	53.97	32.42	66.46

Source: Corporate Announcements for the quarter ended December 2008-09

APPENDIX**List of Banks analyzed:**

S.No.	PUBLIC SECTOR BANKS
1	State Bank of India
2	Bank of India
3	Canara Bank
4	Union Bank of India
5	Allahabad Bank
6	Syndicate Bank
7	Indian Bank
8	State Bank of Travancore
9	IDBI Bank
10	State Bank of Hyderabad
11	State Bank of Mysore
12	Uco Bank
13	Vijaya Bank
14	State Bank of Bikaner and Jaipur
15	The Bank of Rajasthan Limited

S.No.	PUBLIC SECTOR BANKS
1	IndusInd Bank
2	Ing Vysya Bank Limited
3	South Indian Bank
4	Kotak Mahindra Bank Limited
5	Karnataka Bank
6	Yes Bank Limited
7	The Federal Bank Limited
8	Axis Bank
9	HDFC Bank
10	ICICI Bank Limited

Quarterly Change in Prime Lending Rate (PLR):

Benchmark Prime Lending Rate (in %)						
Category	Sep-08		Dec-08		Reduction in	
	Lower Limit	Upper Limit	Lower Limit	Upper Limit	Lower Limit	Upper Limit
Public Sector Banks	13.75	14.75	12.50	14.00	1.25	0.75
Private Sector Banks	13.75	17.75	13.00	17.25	0.75	0.50

Source: Reserve Bank of India