

# INDIAN BANKING SECTOR: Blazing a growth trail for Indian Economy



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# Indian Banks: Blazing a growth trail for Indian Economy

## **GNPA at 13-yr Low**

GNPA of 2.75% is at 13-years low & NNPA of 0.60% is at 20-years low.

**2.75%**  
GNPA

## **NIM at 20-yr High**

Net Interest Margin is at 20-years high at 3.27%.

**3.27%**  
NIM

## **RoE at nearly 20-yr High**

Return on Equity trending towards 20-year high at 14.6%.

**14.6%**  
RoE

## **CRAR well above the min. requirement or 11.5%**

CRAR at 16.9%, significantly well above regulatory requirement of 11.5%.

**16.9%**  
CRAR

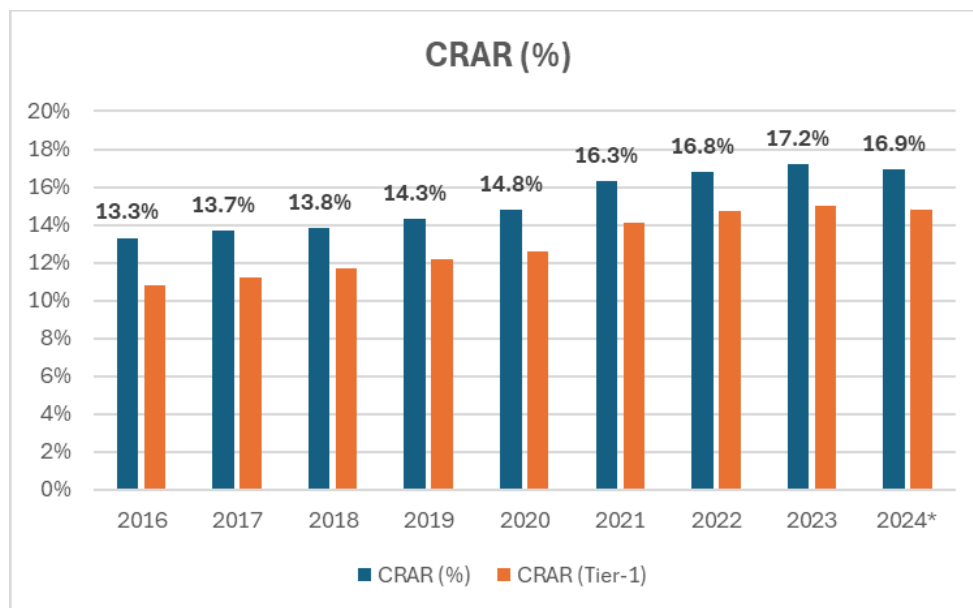
## **Potential double-digit loan growth**

Existing balance sheet can support fresh lending of Rs 230 trillion by 2030 growing the loan book at 15.3% CAGR.

**15.3%**  
CAGR

# Lending Potential of Rs 230 trillion (\$2.6 trillion) by 2030

- Indian banks are currently maintaining a Capital to Risk Weighted Assets Ratio (CRAR) of 16.9% as of March 2024. This is significantly higher than the regulatory requirement of 11.5% which includes CCB (Capital Conservation Buffer), indicating strong capital buffers.
- The CRAR has shown a steady increase from 13.3% in 2016 to a peak of 17.2% in 2023, before slightly adjusting to 16.9% in 2024.



**Exhibit 13:** Capital adequacy ratio of SCBs along with Tier-1 capital  
**Source:** Reserve Bank of India - Statistical Tables Relating to Banks in India

- By reducing their CRAR to the regulatory minimum of 11.5%, banks can unlock substantial lending potential. This reduction would free up capital that can be used to extend more loans to businesses and consumers, thereby increasing credit availability in the economy.

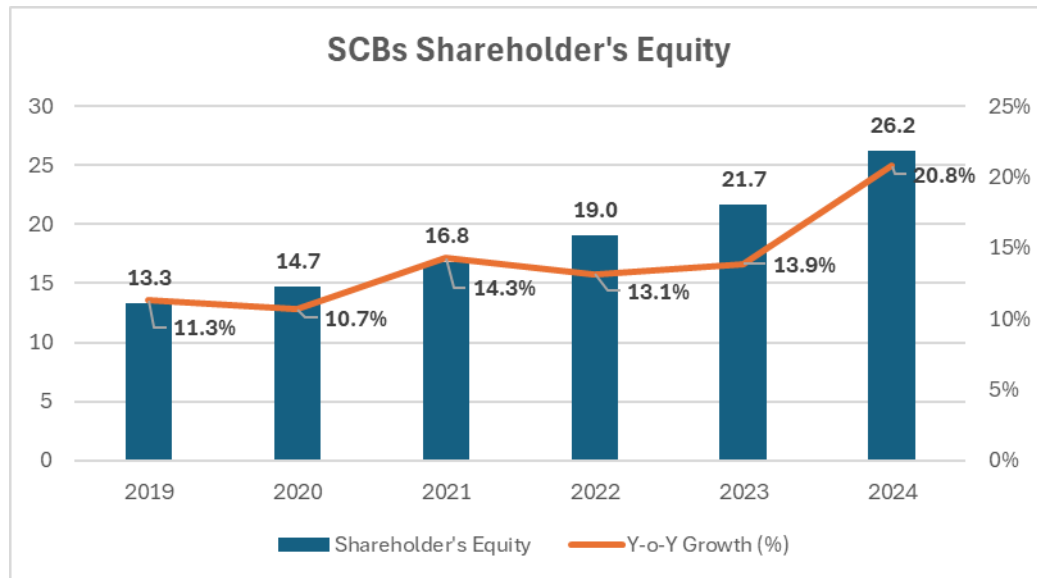
Let's try to find that lending potential:

- As of March 2024, Indian banks are maintaining a CRAR of 16.9%, with outstanding loans and advances worth Rs 171 trillion.
- By reducing the CRAR from 16.9% to the regulatory minimum of 11.5%, banks can free up an additional 5.4% of buffer capital.
- This translates to an additional lending potential of Rs 55 trillion (10.1 trillion \* 5.4) available as of right now.

**Apart from this, Loans & Advances growth at conservative 10% rate will fuel additional Rs 133 trillion, in total Rs 230 trillion lending capacity by 2030.**

- This increased lending capacity can stimulate economic growth by providing more funds for investment and consumption.

# Capital Supply in Sync with Estimated Demand



- SCBs equity capital and reserves have increased by a 5-year CAGR of 14.5% from 2019 to 2024 and 10-year CAGR of 12.5% from 2014 to 2024.
- Projecting loans growth at a conservative 10% growth rate, they will reach Rs 304 trillion by FY2030, an additional potential lending of Rs 132 trillion.

Particulars (Rs trillion)	2024	2025 (P)	2026 (P)	2027 (P)	2028 (P)	2029 (P)	2030 (P)
<b>Loans &amp; Advances</b>	171	189	207	228	251	276	304

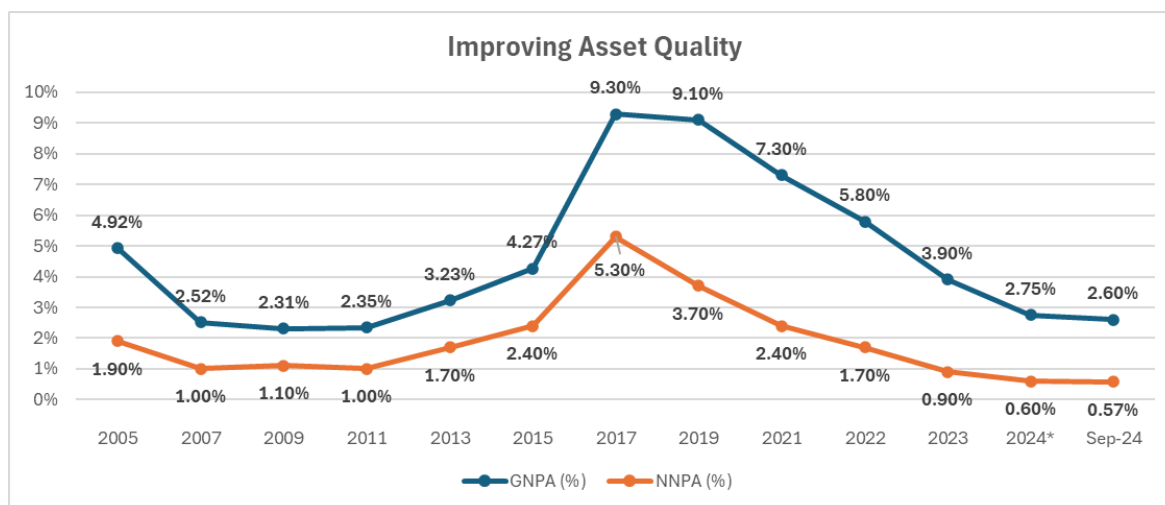
- If we also compound Rs 55 trillion (additional capital by freeing up CRAR to 11.5%) by 10% y-o-y, it will be Rs 97 trillion by FY2030
- In Short, the total additional lending that can be done by SCBs for a period of 6 years from FY25 to FY230 will be around **Rs 230 trillion**.

This is in sync with our Capex projections in the Budget Battle 2025 report, which states that around Rs 232 trillion boost to GDP can be expected by FY30.

So, this estimated demand of Rs 232 trillion will be met by estimated SCBs supply of Rs 230 trillion, and thus demand and supply for capital complement each other in shaping Indian economy growth.

Now, let's further delve into how SCBs are positioned for this growth.

## NNPA at 20-Years Low...

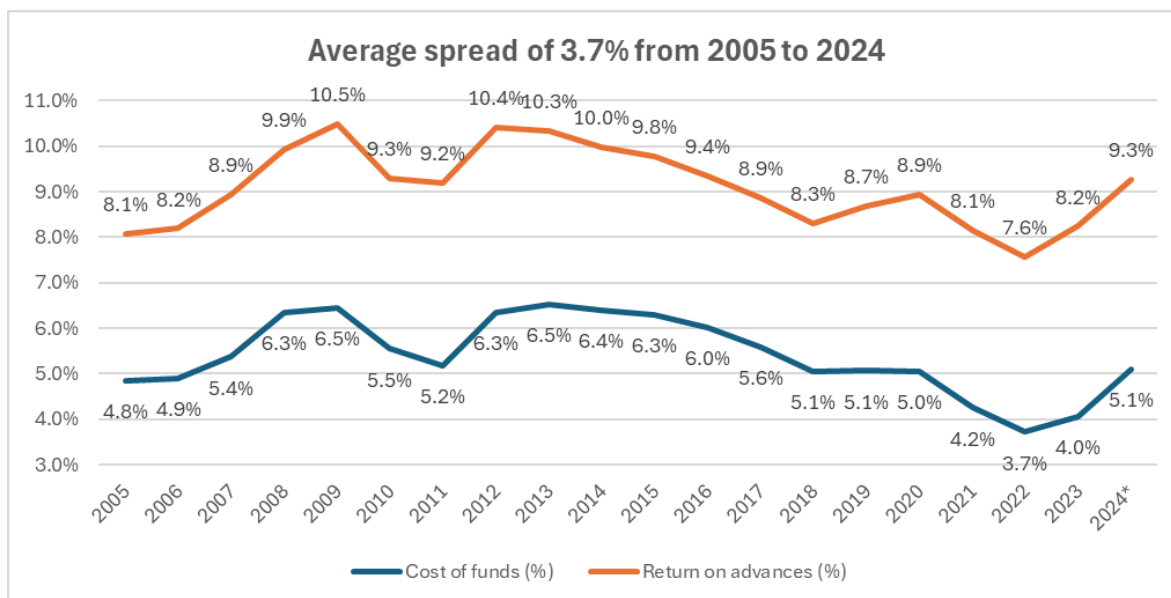


**Exhibit 12:** Trend of GNPA (%) and NNPA (%) of SCBs over the years  
**Source:** Reserve Bank of India - Statistical Tables Relating to Banks in India

- The Gross Non-Performing Assets (GNPA) ratio has reached its lowest point in 13 years, standing at 2.75% as of end-March 2024.
- With the industry's provision coverage ratio at 76.6%, the Net Non-Performing Assets (NNPA) are also at their lowest level in 20 years, from 2005 to 2024, at 0.57%.

## NIM at 20-years high...

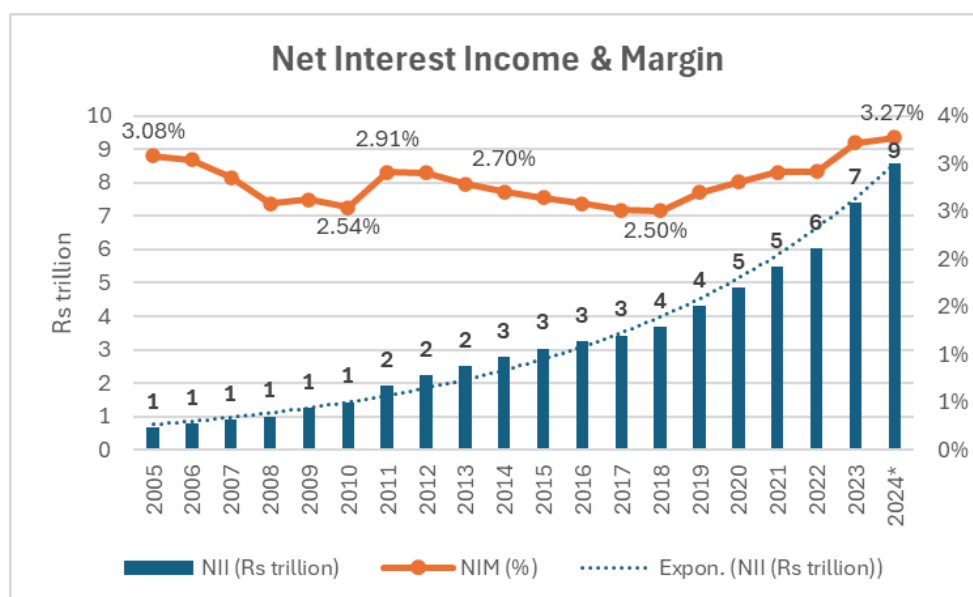
- For the said period (2005-2024), SCBs have yielded an **average return on advances of 9.1%**, giving an **average spread of 3.7%** over and above their **average cost of funds of 5.4%**. The trend of spread is visible in Exhibit 7 below:



**Exhibit 7:** Spread of SCBs over their cost of funds

Source: Reserve Bank of India - Statistical Tables Relating to Banks in India

- Net Interest Margin (NIM%) is the highest that has been achieved by SCBs for the period of analysis from 2005. Exhibit 8 shows the movement of Net Interest Income (NII) and NIM% over the years.



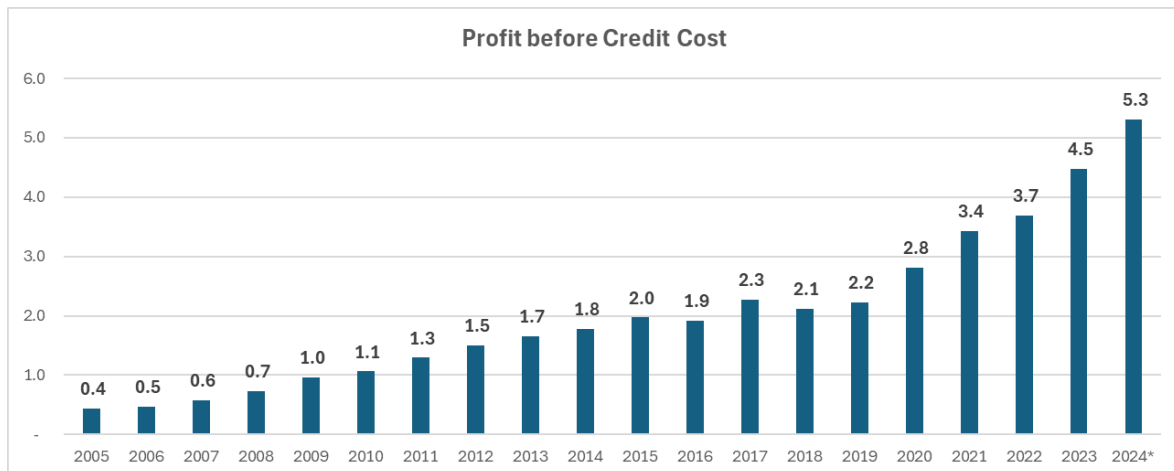
**Exhibit 8:** NII over the years along with NIM (%) for SCBs

Source: Reserve Bank of India - Statistical Tables Relating to Banks in India



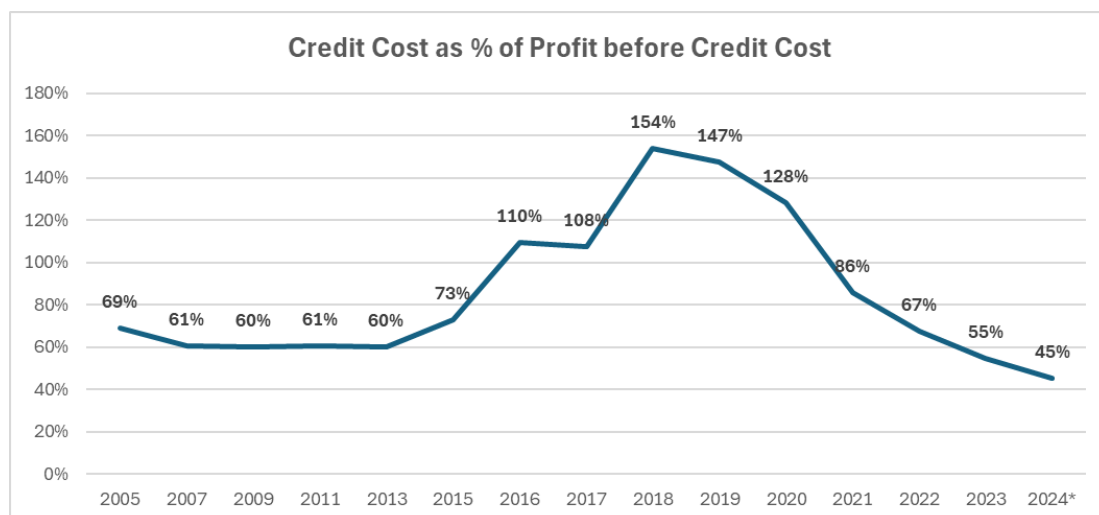
- Net interest income (NII) doubled from Rs 4.3 trillion in 2019 to Rs 8.6 trillion in 2024, a CAGR growth of 14.8%.
- It increased by 15.7% from Rs 7.4 trillion in 2023 to Rs 8.6 trillion in 2024.

## Profit before Credit Cost at 20-year High



- Profit before credit cost has increased by a 10- year CAGR of 11.5% from 2014 to 2024 and a 5- year CAGR of 18.9% from 2019 to 2024.

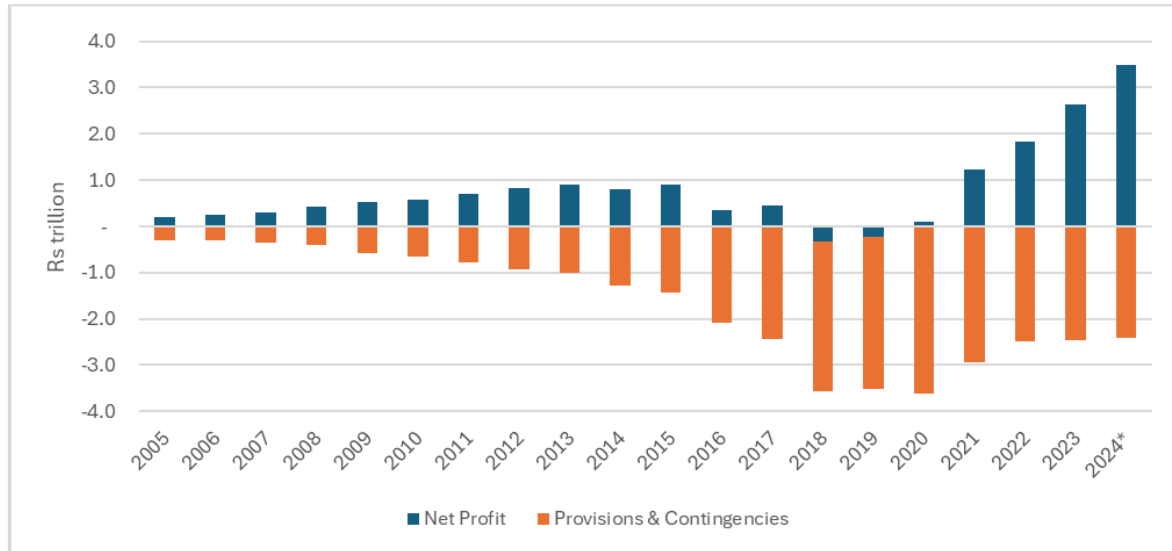
## Credit Cost (as a %age) at 20-year Low



- Credit Cost as a %age of Profit before credit cost is continuously declining from the last 6 years, indicating lower contingencies due to good underwriting and lower provisioning that needed to be done against potential contingencies.



- As NIM % continues to improve and credit cost continues to decline, net profit of SCBs have significantly increased from net losses of Rs -0.3 trillion and -0.2 trillion in 2018 and 2019 respectively to Rs 3.5 trillion as of 2024 (+34.6% y-o-y from 2023 to 2024)



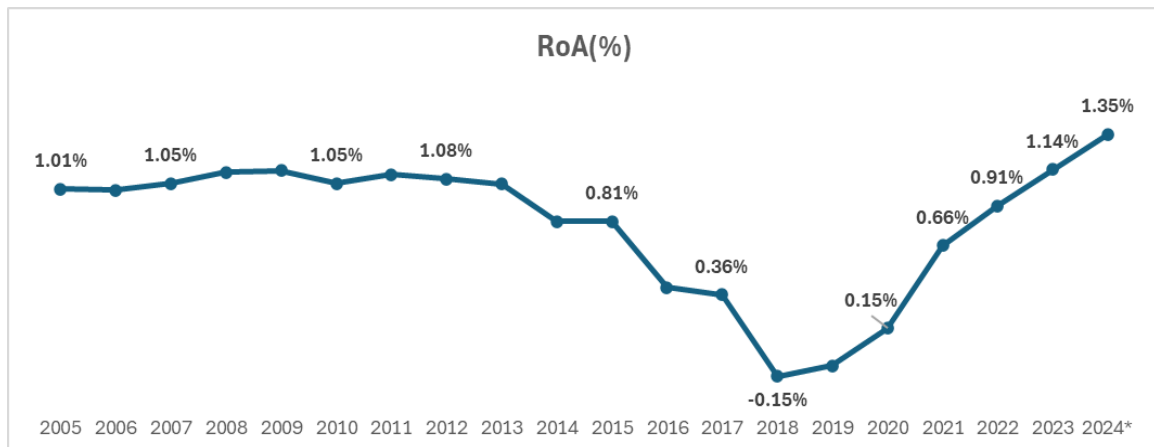
**Exhibit 9:** Net profit for SCBs along with provision & contingencies over the years

**Source:** Reserve Bank of India - Statistical Tables Relating to Banks in India

- The higher provisions and contingencies from FY16 to FY21 led to a decline in net profit during those years.
- From FY22 onwards, Scheduled Commercial Banks (SCBs) have managed to generate higher net profits despite setting aside substantial amounts for provisions and contingencies.

## RoA at 20-year High

- In a landmark achievement, Scheduled Commercial Banks (SCBs) in India have recorded their highest ever Return on Assets (RoA) of 1.35% in FY2024. This remarkable performance underscores the robust health and profitability of the banking sector, majorly driven by factors like improved asset quality & strong profitability.

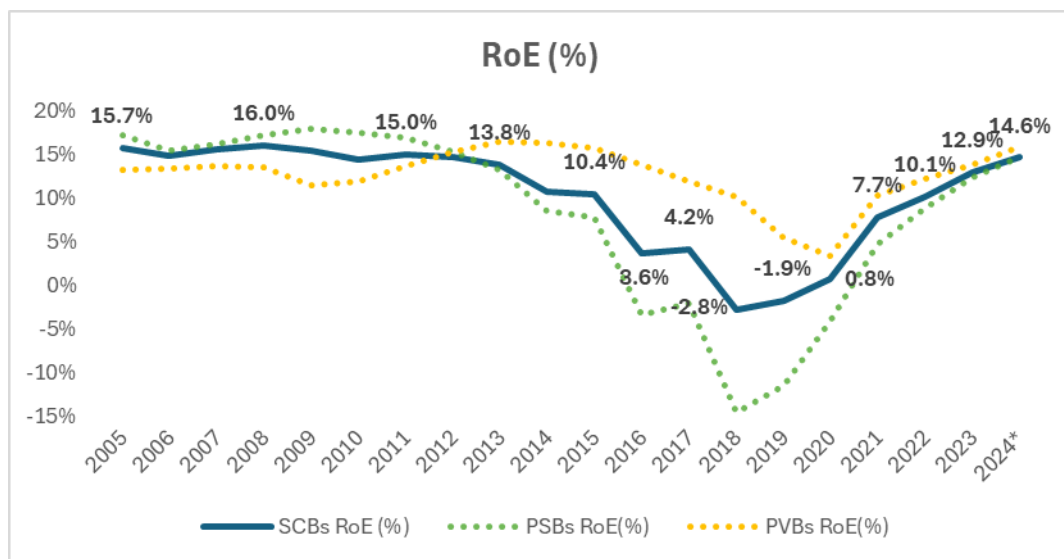


**Exhibit 10:** Return on assets (%) of SCBs over the years

Source: [Reserve Bank of India - Statistical Tables Relating to Banks in India](#)

## RoE trending to 20-year High...

- Return on Equity (RoE%) stands at 14.6% in 2024, having further room for enhancement in the upcoming years.



**Exhibit 11:** Return on equity (%) of PSBs and PVBs with overall RoE (%) of SCBs

Source: [Reserve Bank of India - Statistical Tables Relating to Banks in India](#)

# Potential RoE at 16%+

## Reported Average Return on Equity:

- Over the past 20 years, we calculated the average Return on Equity (RoE) for Indian banks by dividing the average net profit (Rs 0.8 trillion) by the average shareholder's equity (Rs 9.8 trillion), resulting in a RoE of 8.1%.
- This metric reflects the profitability of banks in relation to their equity, providing a clear picture of how effectively banks are generating profits from their shareholders' investments. However, this figure is influenced by various factors, including non-performing assets (NPAs) and provisions for contingencies.

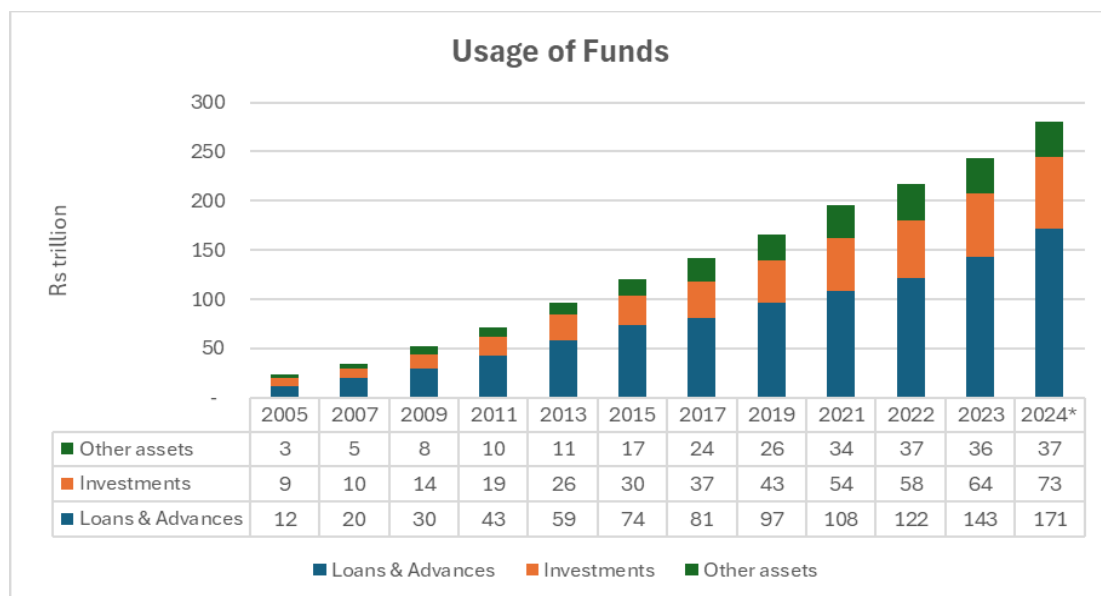
## Adjusted Return on Equity: A Clearer Picture of Bank Profitability

- To gain further understanding of the banks' performance, we also calculated the **profit before provision RoE**.
- This was done by adding the average net profit and after-tax provisions and contingencies, then dividing by the adjusted shareholder's equity, which includes these provisions and contingencies. (After-tax profit before Credit Cost= Rs 2.03 trillion / Adjusted Net-worth= Rs 12.7 trillion)
- **We derived a "No-mistakes (No GNPA's)" RoE of 16%.** This higher RoE indicates the potential profitability of banks if NPAs and related provisions were not a factor, showcasing a more optimistic scenario of bank performance.
- In conclusion, the analysis reveals that the actual RoE of 8.1% is significantly lower than the potential RoE of 16% in the absence of NPAs. This stark difference underscores the impact of NPAs on the profitability of banks. If banks can effectively manage and reduce NPAs, they could achieve a much higher RoE, thereby enhancing shareholder value and overall financial stability. This insight highlights the importance of robust risk management practices and proactive measures to address NPAs in the banking sector.

## Factors affecting forward RoE:

- No-mistake RoE of 16% is still a conservative RoE estimate because past 10-years, banks have been struggling for growth due to high-NPAs and will not be the case in future.
- Going forward technology will also play its part in reducing operating cost, thus increasing RoE.
- Of course, there will be NPAs as this is a business risk, but lending should be more stringent, lowering NPAs and increasing RoE.

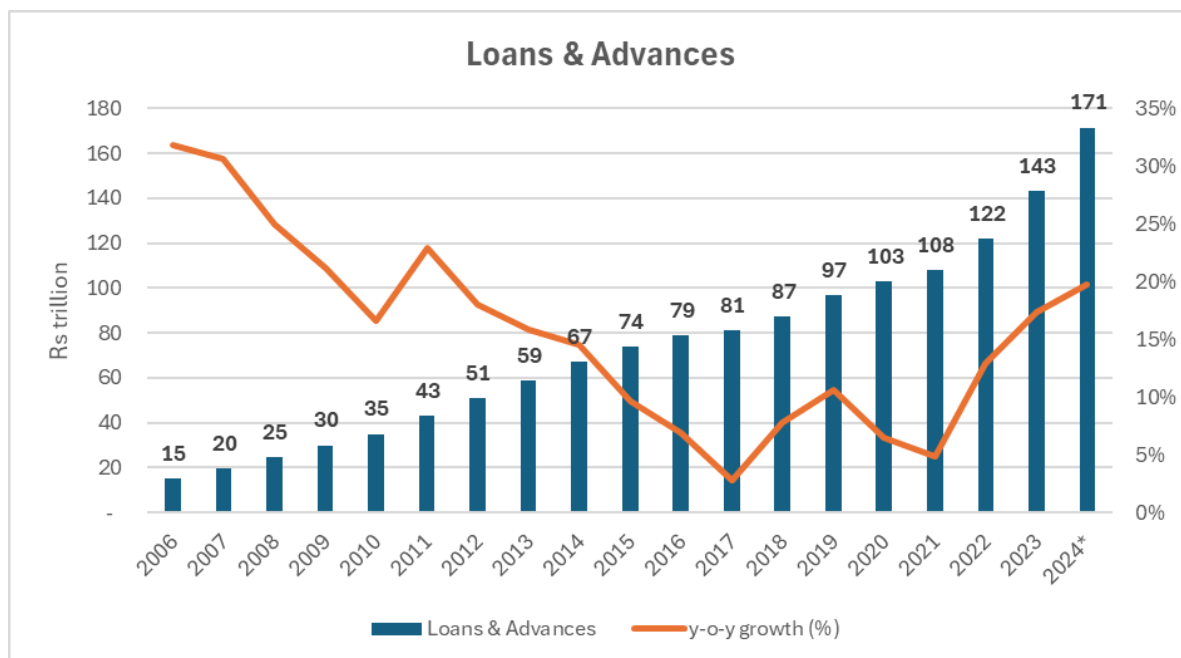
# Credit Growth at 15%+



**Exhibit 4:** Assets of SCBs from 2005 to 2024 (Rs trillion)

Source: Reserve Bank of India - Statistical Tables Relating to Banks in India

- Loans and advances constitute on average ~58% - 59% of the usage of funds, whereas investments comprise ~26% - 27% which is majorly government securities.

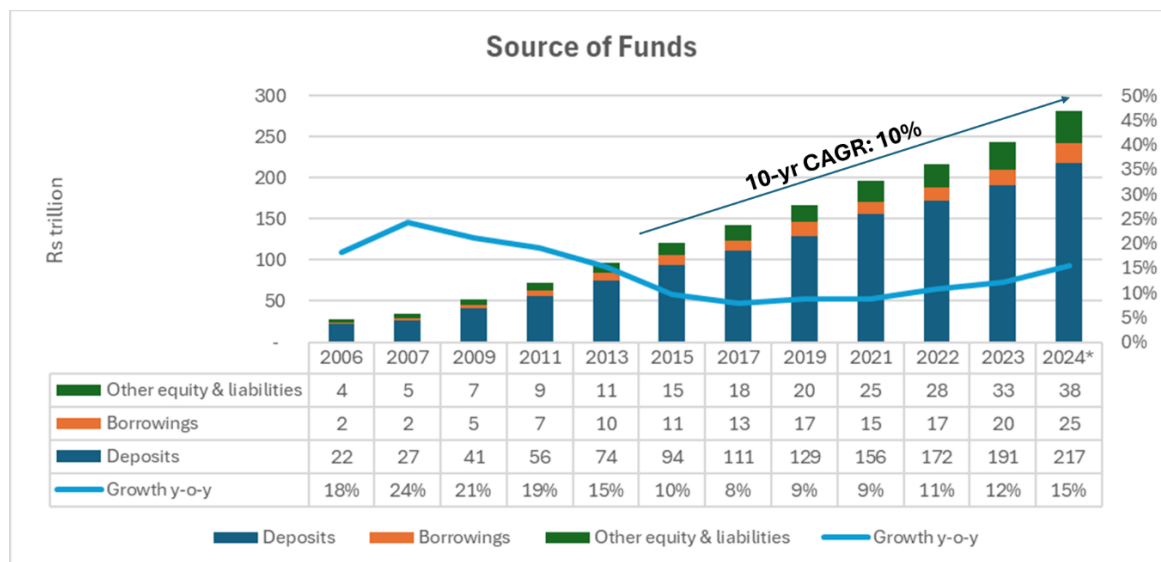


**Exhibit 5:** Loans & advances given by SCBs from 2005 to 2024 (Rs trillion) along with y-o-y growth

Source: Reserve Bank of India - Statistical Tables Relating to Banks in India

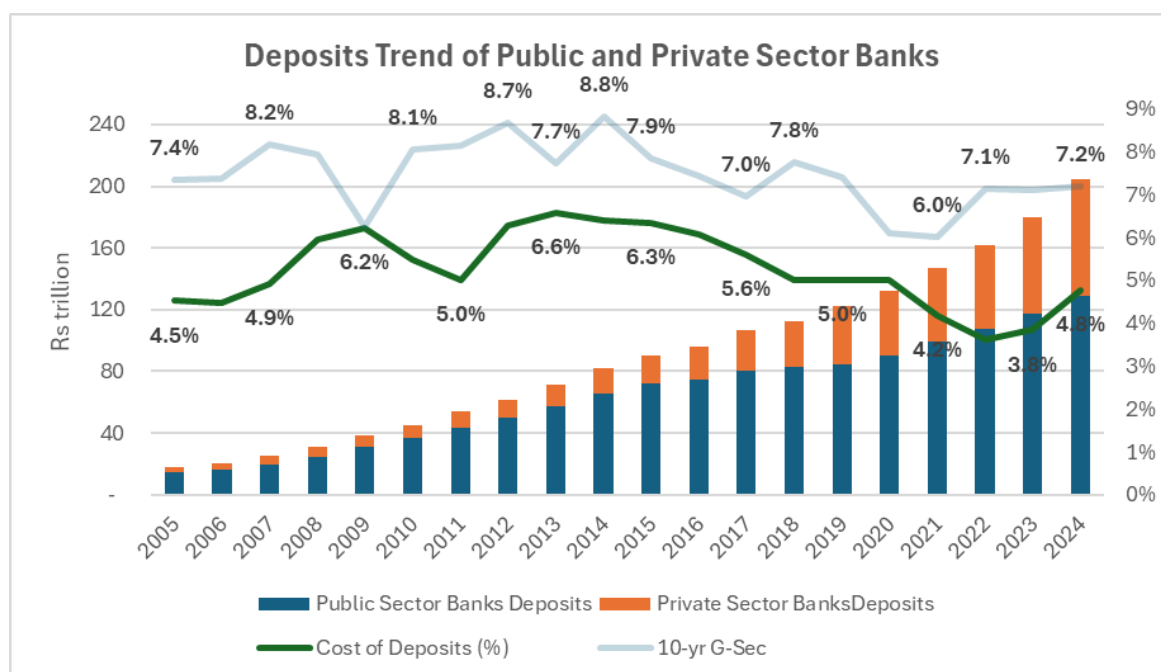
- Notably, there has been a significant surge in the growth rate of advances in the last few years, with 17% in 2023 and 20% in 2024, increasing from Rs 143 trillion in 2023 to Rs 171 trillion in 2024.

# Deposits Supporting Credit Growth



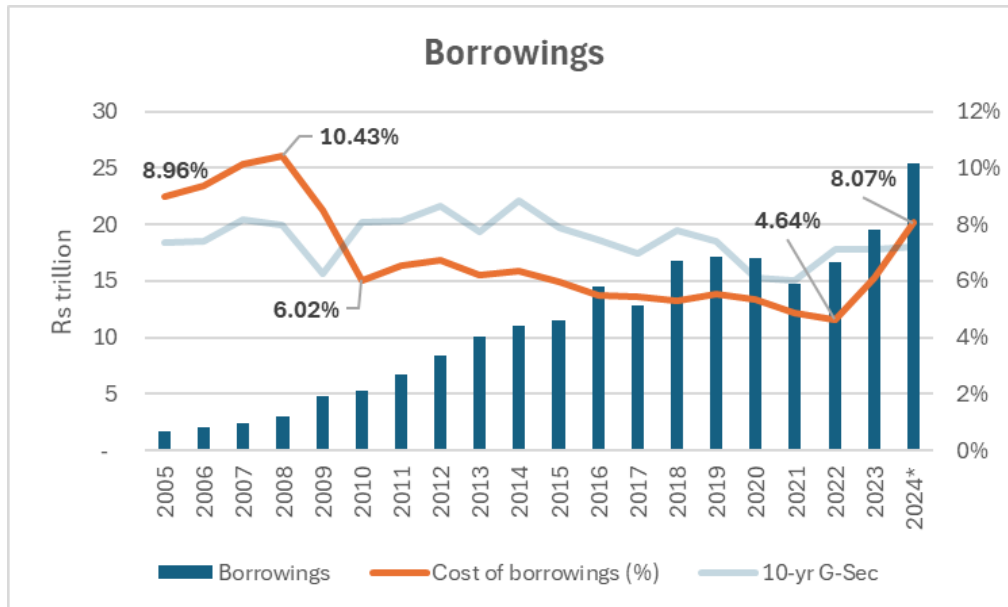
**Exhibit 1:** Equity & Liabilities of SCBs from 2005 to 2024 (Rs trillion) and y-o-y growth in assets  
**Source:** Reserve Bank of India - Statistical Tables Relating to Banks in India

- Deposits constitutes on average ~78% of funds for Indian SCBs and has seen a good growth of 14% from FY23 to FY24 from deposits worth Rs 191 trillion in 2023 to Rs 217 trillion in 2024.



**Exhibit 2:** Deposits in PSBs & PVBs from 2005 to 2024 (Rs trillion) along with cost of deposits  
**Source:** Reserve Bank of India - Statistical Tables Relating to Banks in India,  
<https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data>

- From the break-up of deposits in Exhibit 2, we can infer that the deposits in Private Sector Banks (PVBs) have shown a consistent upward trend from 2005 to 2024, indicating a significant rise in customer trust and preference towards PVBs.
- We can also infer that banks are making deposits more lucrative for customers as cost of deposits increased by 114 bps from a low of 3.62% in 2022 to 4.76% in 2024.



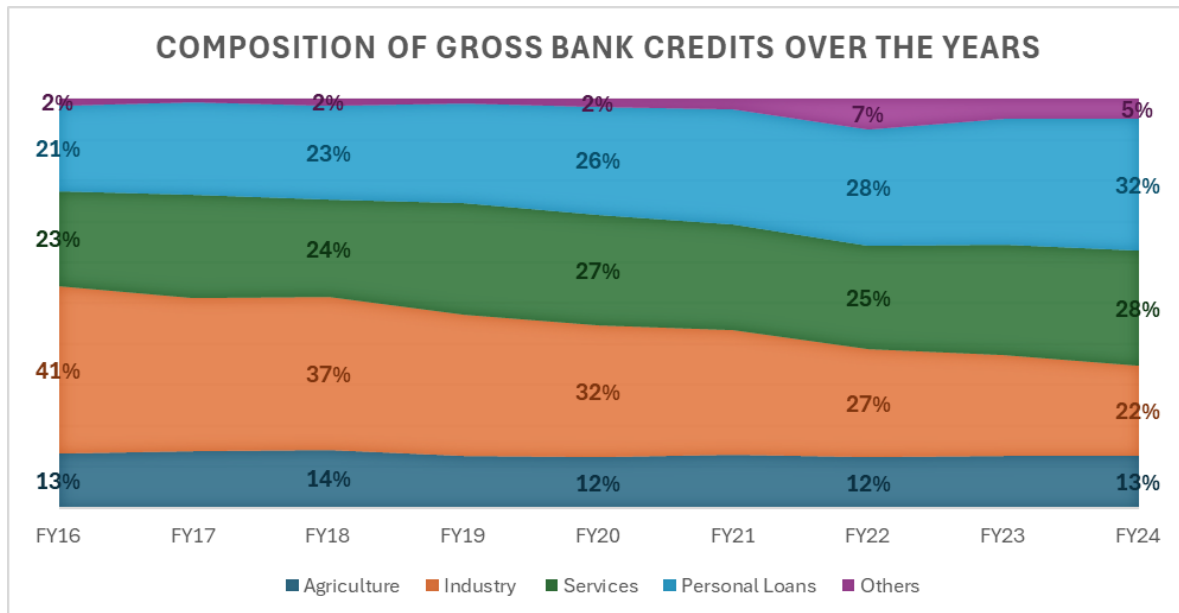
**Exhibit 3:** Amount of borrowings by SCBs (Rs trillion) and borrowing cost (%)

**Source:** Reserve Bank of India - Statistical Tables Relating to Banks in India,  
<https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data>

- Banks have shown reliance on borrowed funds from time to time to support expansion and credit demand.
- Fluctuations in cost of borrowings can be attributed to changes in economic conditions, monetary policies, and market interest rates.
- Notably, there has been a recent uptick in the cost of borrowings, rising to 8.07% in 2024. This increase can be attributed to tightening monetary policies and due to a surge in credit demand in FY22, FY23 and FY24.

# Industry likely to Recapture Allocation

- Sectoral deployment of gross bank credits has seen significant shift from 2016 to 2024.
- Personal loans and Services sector has seen a compounded annual credit growth rate of 18.3% and 14.6% respectively from FY16 to FY24.



**Exhibit 14:** Sectoral allocation (%) of gross bank credit from FY2016 to FY2024

Source: Reserve Bank of India - Statistical Tables Relating to Banks in India

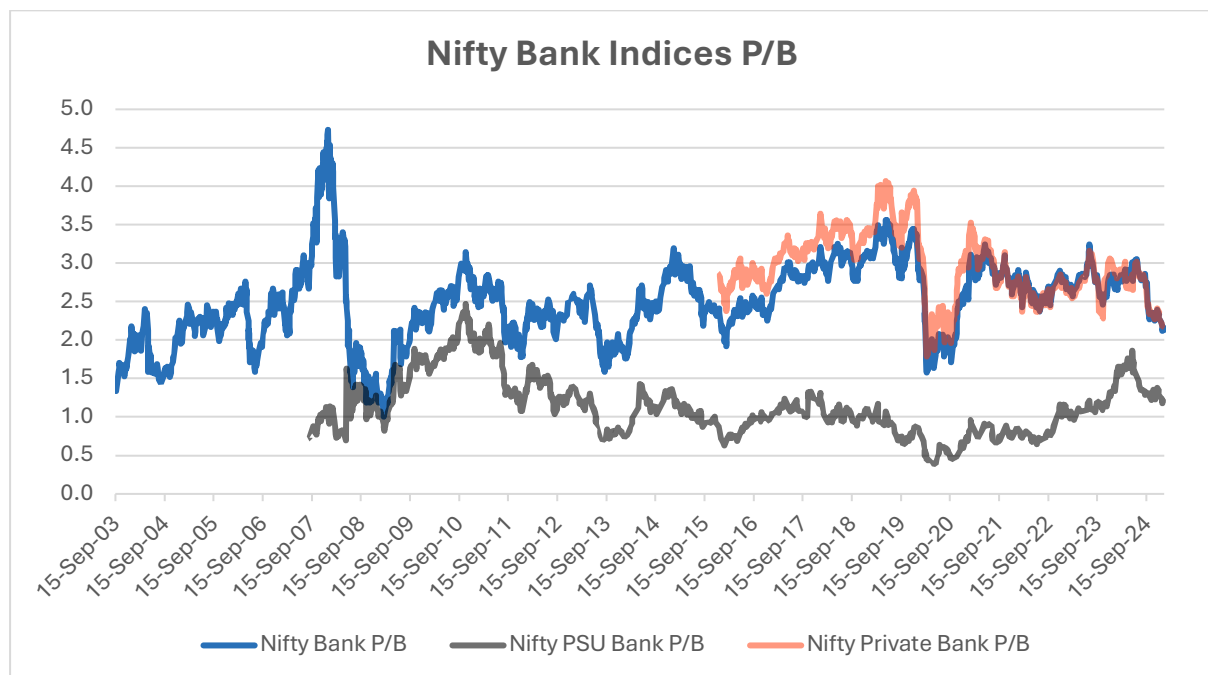
- Credit to Industry sector comprised 41% of the total gross credits in FY16 which has now reduced to 22% as of FY24, largely taken up by Personal loans and Services sector.
- However, with corporate balance sheets now healthier and more capable of taking on new debt, there is a strong possibility that this percentage will increase in the near future. Improved financial health among corporations typically leads to increased borrowing as companies seek to invest in growth opportunities, expand operations, and enhance productivity.
- This is one major source of loans and advances growth for banks in the coming years.



# Nifty Bank P/B closes to 10-year low (ex. Covid drop)

□ Let's look at some major bank indices along with Nifty 50 index from a valuations point of view:

INDEX (14/02/2025)	P / B	P / E
Nifty 50	3.4	20.4
Nifty Bank	2.2	12.8
Nifty PSU Bank	1.1	6.2
Nifty Private Bank	2.2	14.5



**Exhibit 15:** P/B ratio of Nifty Bank, Nifty PSU Bank and Nifty Private Bank Index over the years

Source: <https://www.niftyindices.com/reports/historical-data>

□ Apart from the Covid years, the P/B of Nifty Bank is nearly at 10-year low, at around 2.2.

Expected Returns= Dividend yield + Growth + Re-rating

□ A recent dip in P/B ratio of Bank index can be a good point for serious long-term investors to look at Indian SCBs, considering their risk-appetites and re-rating expectations.

# Banks at High Asset Quality, High Growth and Low Valuations

The Indian banking sector has demonstrated impressive resilience and growth, as detailed in the RBI's "Trend and Progress of Banking in India 2023-2024" report. The sector experienced substantial growth in bank balance sheets, with deposits increasing by approximately 14% and loans and advances by around 20% from FY23 to FY24. Total assets grew by about 15% year-on-year, marking the highest growth rate in the last 11 years. Profitability also saw significant improvement, with a net profit of Rs 3.5 trillion, resulting in a Return on Assets (RoA) of 1.35% and a Return on Equity (RoE) of 14.6%. The Net Interest Margin (NIM) reached 3.27% in 2024, the highest since 2005, and net interest income doubled from Rs 4.3 trillion in 2019 to Rs 8.6 trillion in 2024.

Asset quality improved markedly, with the Gross Non-Performing Assets (GNPA) ratio dropping to 2.75%, the best in 13 years, and further improving to 2.60% as of September 2024. The Net Non-Performing Assets (NNPA) ratio dropped to 0.6%, the lowest since 2005, with a provision coverage ratio of approximately 76.6% as of March-end 2024. The sector also maintained strong capital buffers, with a Capital-to-Risk Weighted Assets Ratio (CRAR) of 16.9%, comfortably above regulatory requirements.

The growth outlook remains positive, with banks in general positive on their loan growth outlook as they continue to see good demand across segments. Also, capex in the last few years was majorly government-led. But with higher utilisation in private sector, banks expect gradual pick up in private capex as well.

## Key References:

- [Reserve Bank of India - Statistical Tables Relating to Banks in India](#)
- <https://rbi.org.in/Scripts/AnnualPublications.aspx?head=Trend%20and%20Progress%20of%20Banking%20in%20India>
- [DBIE](#)
- <https://in.investing.com/rates-bonds/india-10-year-bond-yield-historical-data>
- <https://marcellus.in/story/many-indian-firms-need-more-leverage/>
- [https://www.careratings.com/uploads/newsfiles/1736162062 Banking%20Rate%20Tracker%200-November%202024.pdf](https://www.careratings.com/uploads/newsfiles/1736162062_Banking%20Rate%20Tracker%200-November%202024.pdf)
- <https://www.ceicdata.com/en/indicator/india/debt-service-ratio-private-nonfinancial-sector>
- [UN report forecasts robust growth in Indian economy | United Nations in India](#)
- <https://www.niftyindices.com/reports/historical-data>

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