Pvt bank profits rise thanks to higher NII, low provisions

Witness robust loan growth and higher operating expenses in March quarter

STEADY PERFORMERS

	PAT	YoY%	NII	YoY%	NIM%	GNPAs%	Operating Expenses	YoY%
HDFC Bank	10,055.20	22.8	18,872.70	10.2	4.00	1.17	10,153	10.6
ICICI Bank	7019	59.4	12,605	20.8	4	3.6	7049	17.4
Axis Bank	4,118	54	8,819	17	3.49	2.82	6,576	23
IndusInd Bank	1,401	51	3,985	13	4.2	2.27	2,509	15
YES Bank	367	NA	1,819	84	2.5	13.93	1,927	19
IDBI Bank	691	35	2,421	26	3.97	19.14	1,752	14
IDFC First Bank	343	168	2,669	36	6.27	3.7	2,674	24

Source: Bank's presentation

SUBRATA PANDA
Mumbai, 6 May

Most private banks that declared their January-March quarter (fourth quarter, or Q4) earnings reported robust growth in net profit, aided by healthy uptick in net interest income (NII) and lower provisions for bad loans as asset quality improved and slippages moderated. Banks also saw higher loan growth, which essentially drove their higher NII growth in the quarter.

But margin performance was mixed.

Operating expenses also saw an increase, exerting pressure on pre-provisioning operating profit (PPoP).

Many major private-sector banks, including HDFC Bank, ICICI Bank, Axis Bank, IndusInd Bank, YES Bank, IDFC First Bank, and IDBI Bank, have announced their Q4 earnings.

Net profit of these lenders increased in the range of 23–59 per cent in Q4 of 2021-22, or FY22 (IDFC First Bank's net profit increased 168 per cent), and increase in NII was in the range of 10–84 per cent, with loan growth ranging between 11 per cent and 21 per cent.

While the country's largest private-sector lender, HDFC Bank, saw 21 per cent growth in advances, driven mainly by the wholesale book, ICICI Bank's advances grew 17 per cent, mainly on the back of robust growth in the retail book.

Axis, on the other hand, saw 15 per cent growth in the loan book, on the back of 21 per cent growth in the retail book.

IndusInd's loan growth was fuelled by growth in the consumer and corporate segments.

In FY22, bank credit in the economy expanded 9.6 per cent, with incremental credit growth at ₹10.5 trillion - 1.8x higher than growth of ₹5.8 trillion in 2020-21 (FY21). In FY21, bank credit had expanded 5.6 per cent.

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"Earnings of major private-sector banks that declared their results are on track, ably supported by declining credit cost. Credit cost for the entire banking system appears to be undershooting. Loan growth reported by banks has been quite healthy, especially for HDFC Bank and ICICI Bank," said Nitin Aggarwal, head–BFSI research, institutional equities, Motilal Oswal Financial Services.

As far as asset quality is concerned, all banks saw their gross non-performing assets fall and slippages moderate. ICICI Bank saw marginal rise in slippages in Q4 over the preceding quarter.

"We have seen good NII growth, aided by loan growth, thereby driving up operating profit. For the top banks, asset quality is looking good because the restructured book is not very high. The problem is with mid-sized banks, where the restructuring book is high, as the self-employed segment is relatively higher in their loan book. The guidance from banks that have declared their earnings on loan growth, margin expansion, and asset quality is good," said Anil Gupta, vice-president, financial sector ratings, ICRA.

Interestingly, the operating expenses of all banks in the sample increased in the range of 11-24 per cent in Q4, with IDFC First Bank seeing the highest increase, followed by Axis and YES Bank.

"The higher operating expenses in some cases have affected PPoP growth. While ICICI Bank and IndusInd have reported positive bias on margins, HDFC Bank and Axis have not. Thus, margin performance has been mixed, while treasury gains have more or less been subdued across banks. Operational expense has also increased, putting pressure on PPoP," said Aggarwal.

"Banks are spending more on technology (tech), collection efforts, expansion of branches, resulting in an increase in operational expenses. For the next two quarters, we are looking at undershooting of credit costs, and overall credit cost for 2022-23 will accordingly decline. If the trend continues further, the Street may look at bringing down its provisioning estimates for the financial year," he added.

"With credit cost going down and credit cost visibility likely to remain low, banks are stepping on the pedal on investments in the tech and distribution network," said Gupta.

"Accordingly, many banks have guided for an elevated operating cost, driven by investments in scaling up their businesses. Since there was uncertainty related to asset quality and credit costs, it is possible they were holding back certain discretionary expenses in these areas. However, with better visibility on income growth, asset quality, and profitability, they are more confident of making these discretionary expenditures," he added.

Buying a house early in your career can limit options

It becomes difficult to change city to pursue better career options, or take sabbatical for higher studies

SARBAJEET K SEN

With the housing sector on the upswing, many young professionals are getting tempted by builders' sales pitch to buy a property. However, interest rates on home loans are now bound upward. Besides, taking on a large liability early in life creates its own issues. Millennials need to weigh the pros and cons carefully before taking the plunge.

"Demand from millennials is up due to the tax benefits. They prefer compact apartments with an extra room to accommodate work from home. Their budgets range from ₹50 lakh to ₹1.5 crore across cities," says Ritesh Mehta, head (west), residential and developer initiative, India, JLL.

PROS AND CONS OF A READY-TO-MOVE PROPERTY

- Suited for those who need immediate accommodation
- Only have to pay EMI, no rent
- Details of the house can't change: you get what you see
- Can check out nearby physical and social infrastructure
- No risk of delay in possession
- However, cost likely to be higher than of an under-construction property
- Potential for appreciation is also lower

EMIs mean loss of flexibility

Purchasing a house early may give you a sense of achievement. Home loan borrowers also get tax deduction on the principal amount of up to ₹1.5 lakh under Section 80C and on interest payment up to ₹2 lakh under Section 24.

But an early purchase also comes with issues. Losing the flexibility to change cities in pursuit of better career options could prove costly. If you have to move, you would have to rent your house. Rent doesn't suffice to pay the EMI. There is the added headache of having to deal with a difficult tenant.

"Millennials must also consider job security: How will they pay the EMI if they lose their job? The EMI burden will also prevent them from taking a break to pursue higher studies," says Naushad Panjwani, chairman, Mandarus Partners.

YOUR MONEY

Shore up savings

Instead of paying interest on a home loan, it may be wiser to save, invest, and earn good returns from the equity market. "Build a healthy corpus over the initial 10-12 years of your career. Stabilise your career and income first, then buy a house in the late 30s. By this time, you are likely to be sure about the city you are going to live in," says Panjwani.

Do the due diligence

If you decide to purchase, then fix a budget and stick to it. Don't buy a bigger house just because one is available. Check the builder's credentials, especially when buying an under-construction property.

Do some research before choosing the home loan lender. "For new borrowers, the key is to secure the loan amount they need. The interest rate comes next," says Aditya Mishra, director – home loan desk, 4B Networks.

Adds Chaudhary: "Millennials should compare interest rates, loan-to-value ratio, processing fees and loan tenures of various lenders before applying. All these factors will determine their overall cost of credit."

Borrow cautiously

With the Reserve Bank of India (RBI) hiking the repo rate on May 4, interest rates on home loans are set to go up. This will add to borrowers' burden.

"In this rising rate scenario, millennials should select their loan tenure carefully, keeping in mind the EMI they can afford. While a shorter loan tenure will reduce the total interest cost, it will lead to a bigger EMI," says Ratan Chaudhary, head of home loans, Paisabazaar.com.

He adds that lenders don't like the sum total of all EMIs to exceed 50-55 per cent of net monthly income.

Since we are at the beginning of a rate hike cycle, it is advisable not to commit more than 40 per cent of your salary to home loan EMI.

While choosing the loan amount, keep in mind other expenses and financial goals. "Ensure you have sufficient disposable income after paying the EMI so that you can lead a quality life," says Panjwani.

Avoid taking a personal loan to make the down payment. This should ideally come from your savings. As far as possible, avoid using retirement funds for home buying.

Create an emergency fund

Unforeseen financial exigencies or loss of income caused by disability or job loss can lead to a default on EMI payment. This can in turn lead to penal charges and affect the borrower's credit score. "Home loan borrowers should include the EMIs of at least six months in their emergency fund," says Chaudhary.