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Banks' asset quality may improve to 3% by March 2024: ICRA

ENS ECONOMIC BUREAU @ Mumbai

CREDIT ratings agency ICRA expects the gross non-performing assets (GNPAs) and net NPAs (NNPAs) of banks to decline to 2.8-3% and 0.8-0.9% , respectively, by March 2024 from 3.96% and 0.97%, respectively, as on March 31, 2023, which would remain the best in more than a decade. But ICRA remains cautious about the impact of macro-economic shocks on the asset quality, if these were to materialise.

ICRA continues to maintain a positive outlook on the banking sector on the expectation that credit growth would remain strong, thereby driving earnings growth.

It expects credit growth of 12.1% to 13.2% , with incremental credit expansion at ₹16.5 lakh crore to ₹18 lakh crore in the current financial year ending March 2024.

"Credit growth remains robust despite some moderation. Even at the anticipated pace of growth for FY2024, incremental credit expansion would be the second highest ever at ₹16.5-18.0 trillion, next only to the record level of ₹18.2 trillion (+15.4 percent) last year," said Anil Gupta, Senior Vice President & Co-Group head, ICRA. Credit costs are estimated to remain at 1.0 percent of advances in FY2024, in line with FY2023. This should allow banks to comfortably withstand a compression of 20-25 bps in the interest margins, which would lead to a mild moderation in the return on assets (RoA) to 1.0 percent in FY2024 from 1.1 percent in FY2023. At these levels, the RoE would remain healthy at 13.0-13.1 percent in FY2024 against 13.8 percent in FY2023.

Furthermore, supported by internal capital generation and lower NNPA levels, the capitalisation and solvency profiles of private and public sector banks would remain comfortable. ICRA projects the Tier-I capital of the banking sector at 14.6-14.7 percent (14.4 percent as of March 2023) and an improvement in the solvency levels to 7% by March 2024.

Over the last decade, retail credit growth remained buoyant and a key driver of overall credit expansion. As retail growth outpaced other segments, its share in bank credit rose to 32% as on March 31, 2023 from 18% in March 2013. The corporate book witnessed underperformance of late, including weaker asset quality levels and muted expansion, resulting in slower growth trends relative to the retail segment.

Risk of farm loan waivers

With general elections coming up next year, there is a risk of farm loan waivers, especially in light of deficit monsoon, which needs to be monitored, said Anil Gupta, co-group head, ICRA, adding that its estimates do not include the impact of the deficient rains