

Net Interest Margin of PSBs grows despite rise in NPAs

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Domestic Net Interest Margin of SBI increased 45 basis points to 2.95 per cent on a year-on-year basis in the first quarter - THE HINDU

NIM rises on better credit-deposit ratio and higher rates

HYDERABAD, AUGUST 27

The Net Interest Margin (NIM) of some major public-sector banks has been improving despite high levels of Non-Performing Assets (NPAs).

NIM is calculated by dividing Net Interest Income with the average income earned from interest-producing assets such as loans and advances.

It is used as one of the parameters by investors to gauge the financial health and profitability of a bank.

The domestic NIM of State Bank of India (SBI) has increased 45 basis points to 2.95 per cent on a year-on-year basis in the first quarter ended June 30, while sequentially it went up by 28 bps.

“NIM is likely to trend higher due to the increasing number of resolutions of bad loans, improvement in CD ratio and higher rates,” according to a senior official.

For Canara Bank, the margins improved to 2.751. per cent from 2.56 per cent, while Punjab National Bank (PNB) registered a higher growth from 2.56 per cent to 2.90 per cent.

For Bank of India, too, it went up from 1.99 per cent to 2.49 per cent. Bank of Baroda witnessed increase from 2.51 per cent to 2.65 per cent.

Higher net interest income, CD ratio and higher rates, among others, have been the key drivers of the increase in margins. Net interest margin was positively impacted by higher interest collection from non-performing loans.

“With increasing funding costs since December last year, some banks have increased retail deposit rates, and the rates on the wholesale side have gone up as well.

“Banks have also increased their MCLR during this period varying from 20 to 30 basis points. But bad loans of public sector banks are still not under control, leading to provisions, which off set the increase in NIM,” according to a senior official from a leading private sector bank. This has adversely impacted the profitability.

For instance, SBI reported provisions and contingencies of ₹19,228 crore compared to ₹28,096 crore in the March quarter, and ₹8,929.48 crore in the year-ago quarter. Many other lenders had also shown a similar tendency.

For private banks, the experience in interest margins has been modest. The net interest margin of ICICI Bank was at 3.19 per cent in the first quarter of this year against 3.27 per cent in the same period last year.

HDFC Bank posted a slight decrease in NIM at 4.2 per cent from 4.4 per cent.

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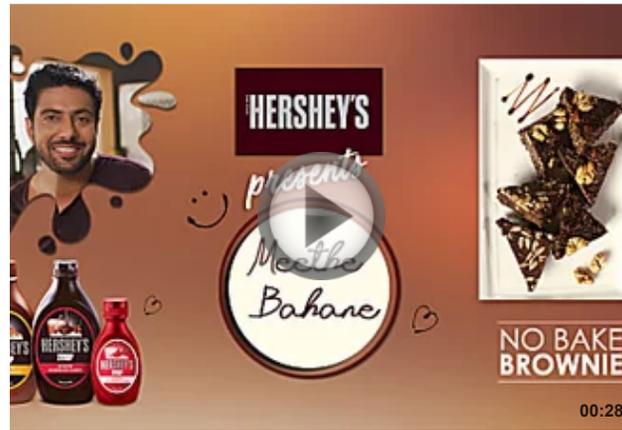
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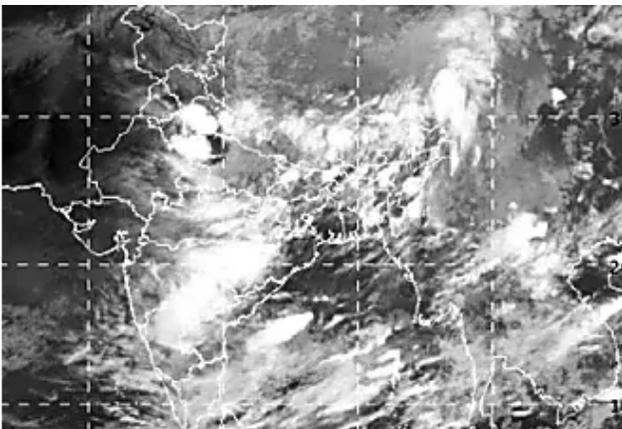
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