

Free Masterclass

8 ESSENTIAL RATIOS TO ANALYZE **BANK STOCKS**

By Yatin Ranade



Important terms

- **Non Performing Assets** are loans which are being defaulted by customer where Interest or principal amount is not being paid for 90 days or more
- **Categories of NPA**

Sub-standard Asset	No payment 90 days to 12 month
Doubtful Asset	More than 12 months of non payment
Loss Asset	Uncollectable-bank has given up and may use the collateral to recover & considers this amount as a loss

Important terms

- **NPA Provisioning** an amount that bank sets aside from their quarterly profits to provide back up against any NPAs.
- This money will be used to keep the accounts healthy
- Provisioning amount is decided by RBI & depends on the type of NPA and the type of bank you are running
- Provisions are created by recording an expense in the [income statement](#)

[Norms table](#)

01

GNPA%

Gross Non Performing Assets

Gross NPA (GNPA)

Gross NPA (GNPA) denotes the total of all the loan assets that haven't been repaid by the borrowers within the ninety-day period.

GNPA=(Substandard + Doubtful + Loss) assets in %

It does not qualify the organization's actual loss.

- Lower the Better

02

Net-NPA%

Non Performing Assets

Net NPA (NNPA)

Net NPA (NNPA) is the amount remaining after deducting doubtful and unpaid debts from the GNPA. It is the actual loss suffered by the bank.

Net NPAs = Gross NPAs – Provisions

It qualifies the organization's actual loss.

- Lower the Better & Probably the most important ratio of all

**“Net NPA to a bank is what rust is to Iron”
- Yatin Ranade**



Standalone Charts Peers Ratios Share Holding Quarterly P&L Balance Sheet Co

COMPANY	PRICE Rs.	MCAP Cr.	P/B	P/E	EPS Rs.	ROE %	ROA %	NET NPA	CAR
HDFC Bank	1,633.50	9,10,610.53	3.58	22.65	72.11	16.67	1.94	0.32	18.90
ICICI Bank	910	6,34,446.96	3.55	22.92	39.70	14.99	1.77	0.81	19.16
Kotak Mahindra Bank	1,964	3,90,013.44	5.09	40.84	48.09	12.68	2.11	0.64	22.69
Axis Bank	854.45	2,62,612.96	2.11	15.28	55.92	12.03	1.20	0.73	18.54
Indusind Bank	1,141.30	88,490.16	1.76	14.97	76.26	10.20	1.21	0.64	18.42
IDBI	47.25	50,805.10	1.46	17.81	2.65	7.66	0.81	1.27	19.06

[View Full Peer Comparison](#)

03

NII

Net Interest Income

- Net Income generated from interest on loans
- *NOTE: banks also earn from other activities like wealth management, advisory, selling MF, insurance etc but its not considered in NII*
- Higher the Better
- You can find it on [ticker](#)

NII = Interest earned - Interest Cost

Standalone Charts Peers Ratios Share Holding Quarterly P&L Balance

Company Essentials

MARKET CAP ⓘ

₹ 9,13,281.51 Cr.

CASA % ⓘ

48.17

NO. OF SHARES ⓘ

557.42 Cr.

P/E ⓘ

22.72

P/B ⓘ

3.59

FACE VALUE ⓘ

₹ 1

DIV. YIELD ⓘ

1.02 %

BOOK VALUE (TTM) ⓘ

₹ 455.87

NET INTEREST INCOME ⓘ

₹ 72,009.59 Cr.

COST TO INCOME % ⓘ

36.88

PROMOTER HOLDING ⓘ

25.64 %

EPS (TTM) ⓘ

₹ 72.12

04

NIM

Net Interest Margin

- Margin on from interest earned from loans
- *Very Similar to OPM but only on financing*
- You can find it on [Moneycontrol >Financials>Ratios>KEY PERFORMANCE RATIOS](#)
- Higher is better

NIM =
Net Interest income / Average income from Assets

Net Profit/ Branches (Rs.)	58,280,282.56	55,485,957.92	48,481,009.97	41,305,438.57	36,529,618.34
Business/ Branches (Rs.)	4,616,900,617.16	4,400,671,989.48	3,953,480,747.42	3,414,740,633.16	3,022,986,693.96
KEY PERFORMANCE RATIOS					
ROCE (%)	3.22	3.42	3.33	3.34	3.20
CASA (%)	48.16	46.11	42.23	42.37	43.49
Net Profit Margin (%)	28.93	25.74	22.86	21.29	21.79
Operating Profit Margin (%)	5.83	4.89	2.60	3.48	2.82
Return on Assets (%)	1.78	1.78	1.71	1.69	1.64
Return on Equity / Networth (%)	15.39	15.27	15.35	14.12	16.45
Net Interest Margin (X)	3.48	3.71	3.67	3.87	3.76
Cost to Income (%)	41.05	40.37	38.52	38.41	39.62

05

PROVISIONING COVERAGE RATIO

- How much money in % is set aside as back-up for the Gross NPA
- PCR of **70%** is the benchmark as set by the RBI
- You can get them in Annual Reports on [Screeener](#)
[Open Annual Report >Control+F>Provision Coverage](#)

Provision Coverage Ratio = Provisions/Gross NPA

06

CAPITAL ADEQUACY RATIO

- (CAR) is a measure of how much capital a bank has available, as a percentage of a bank's risk-weighted credit exposures
- Also known as Capital to Risk Assets Ratio
- Banks are required to maintain a minimum CRAR of 9 per cent on an ongoing basis as per RBI
- Higher the Better
- You can get it on [ticker](#)

CAR or CRAR = Tier 1 + Tier 2 Capital / Risk Weighted Assets

Important terms

Tier 1 Capital = Equity Capital + Reserves

Tier 2 Capital = Provisions+Long Term bonds & Revaluation reserves

Revaluation Reserves - money kept on balance sheet to adjust for price changes in assets like Equity shares in other company, real estate, Foreign assets with currency fluctuations etc

Risk Weighted Assets = RBI Allows a weightage of each type of asset bank holds for the calculation of CAR

06

CASA Ratio %

Current & Savings Account

- CASA ratio indicates how much of banks capital is from **Current & Savings Account** (Out of the total capital it has to deploy)
- Higher CASA RATIO mean Cheaper funds ie better **NIM**
- **Total Deposits** = Savings , Current, FDs, RDs ETC

$$\text{CASA} = \frac{\text{Current AC} + \text{Savings AC}}{\text{Total Deposits}}$$

07

CD RATIO

Credit to Deposit Ratio

CD RATIO

- It tells us how much of deposits money has been deployed as loans.
- Also known as Loan-to-Deposit Ratio (LDR)
- Loans are also called Advances in Reports
- [CD Ratio & Economy](#)
- Typically loan-to-deposit ratio is 80% to 90%
Less than 100% is ideal

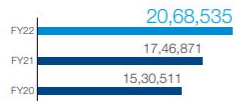
$$\text{CD Ratio} = \text{Total Advances} \div \text{Total Deposits}$$

CD RATIO

HDFC Bank AR FY-22, Pg35

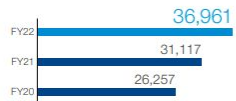
BALANCE SHEET SIZE

(₹ CR)



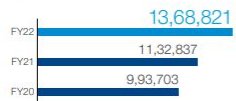
PROFIT AFTER TAX

(₹ CR)



ADVANCES

(₹ CR)



RETURN ON ASSETS

(AVERAGE)

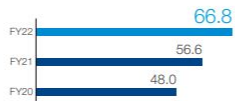


RUPEE EARNED (%)

FY22

EARNINGS PER SHARE

(₹)



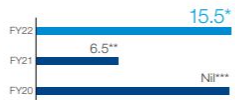
RETURN ON EQUITY

(%)



DIVIDEND PER SHARE

(₹)

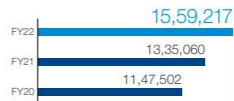


RUPEE SPENT (%)

FY22

DEPOSITS

(₹ CR)



GROSS NPA RATIO

(%)



COST TO INCOME RATIO

(%)



08

COST TO INCOME

- How much is the bank paying to create this kind of income
- Shows us How efficiently the bank is run AKA Cost to Revenue
- **Operating Cost** - Interest paid ,Salary,Rent,Marketing Etc
- **Operating Income** - Interest Income + Other income
- The lower the better
- Available on [ticker](#)

$$\text{Cost to income} = \text{Operating Cost} \div \text{Operating Income}$$

Standalone

Charts

Peers

Ratios

Share Holding

Q

Company Essentials

MARKET CAP ⓘ

₹ 4,213.60 Cr.

CASA % ⓘ

32.97

Available on ticker

NO. OF SHARES ⓘ

31.14 Cr.

P/E ⓘ

5.25

P/B ⓘ

0.59

FACE VALUE ⓘ

₹ 10

DIV. YIELD ⓘ

2.95 %

BOOK VALUE (TTM) ⓘ

₹ 227.81

NET INTEREST INCOME ⓘ

₹ 2,491.04 Cr.

COST TO INCOME % ⓘ

52.57

PROMOTER HOLDING ⓘ

0 %

EPS (TTM) ⓘ

₹ 25.78

CAR % ⓘ

15.66

ROE ⓘ

7.94 %

ROCE ⓘ

9.44%

PROFIT GROWTH ⓘ

5.40 %

09

ROA

Return on Assets

ROA%

- Return on assets shows how profitable a bank's assets are in generating revenue.
- very similar to any other firm but here major asset is \$\$
-

$$\text{CD Ratio} = \text{Total Advances} \div \text{Total Deposits}$$

Q & A

Ask Away!

Home work

- **Take any 5 PSU banks and fill the table using this class info**
- **Take any 5 Mid sized banks and fill the table using this class info**