Twitter Thread by Teji Mandi

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In this post, we discussed the top most important #banking #ratios for #investors. If you're looking for some more additional ratios/terms, comment below and we will get back to you. Stay tuned for more updates like these!

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Net Non-Performing Assets(NPAs)

Tells you about the actual health of the bank.

A higher level of NPA increases the **amount of provisions** thereby impacting the **profitability of the bank**

FORMULA

Gross NPAs - Provisions X 100

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Gross non-performing assets (NPAs)

Tells you how much of a bank's loans are in danger of not being repaid. If interest is not received for 3 months, a loan turns into NPA. It is one of the most important ratios to consider before investing in banks.

A very high gross NPA ratio means the **bank's asset quality is in very poor shape**

FORMULA

$$\frac{\text{Total Gross NPA}}{\text{Total Advances}} \times 100$$

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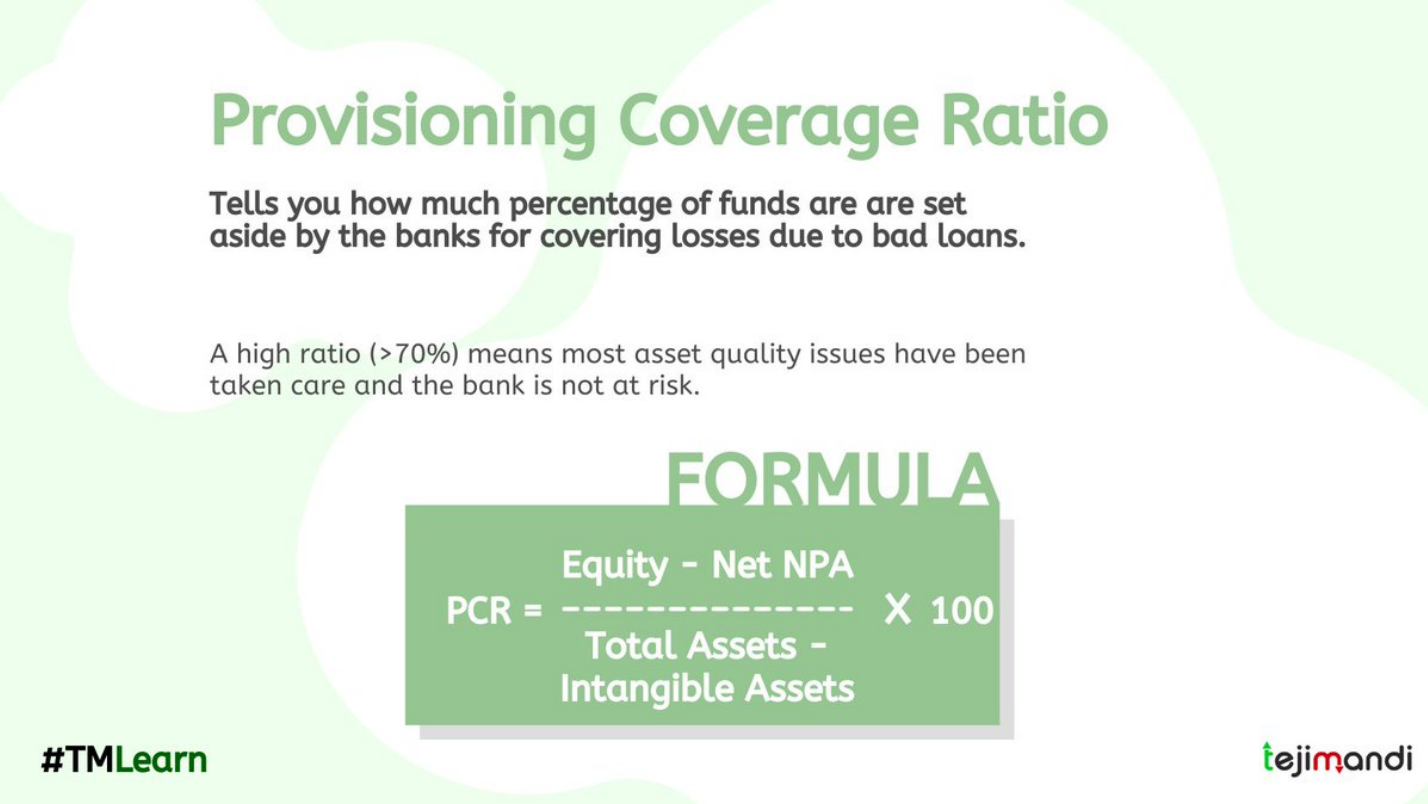
Provisioning Coverage Ratio
Tells you how much percentage of funds are are set aside by the banks for covering losses due to bad loans.
A high ratio (>70%) means most asset quality issues have been taken care and the bank is not at risk.
FORMULA
Equity - Net NPA
PCR = -------------- X 100
Total Assets -
Intangible Assets
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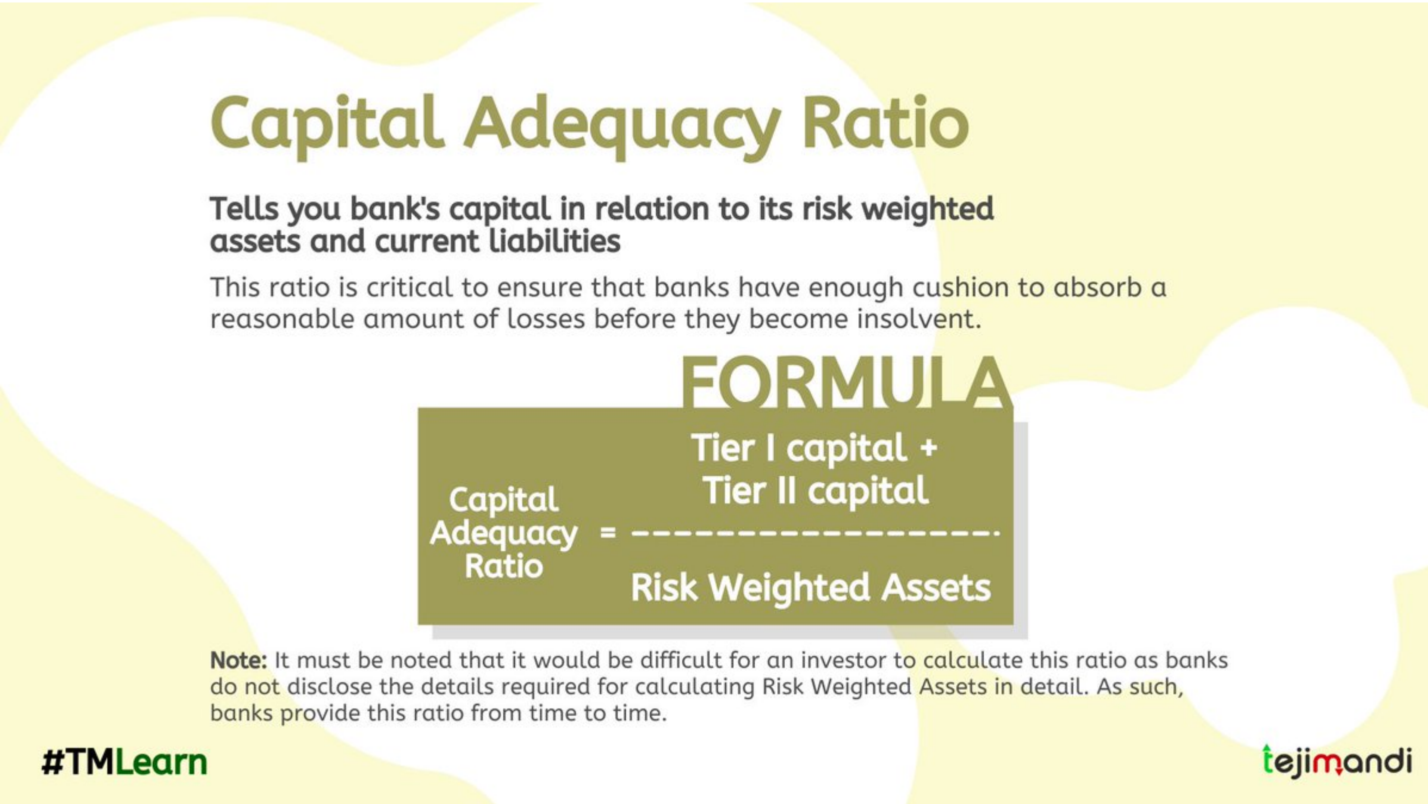
Capital Adequacy Ratio
Tells you bank's capital in relation to its risk weighted assets and current liabilities
This ratio is critical to ensure that banks have enough cushion to absorb a reasonable amount of losses before they become insolvent.
FORMULA
Tier I capital +
Tier II capital
Capital Adequacy Ratio = -----------------
Risk Weighted Assets
Note: It must be noted that it would be difficult for an investor to calculate this ratio as banks do not disclose the details required for calculating Risk Weighted Assets in detail. As such, banks provide this ratio from time to time.
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Net Interest Margin

Tells you the difference between interest earned by a bank on loans and the interest it pays on deposits

If NPAs of the bank are rising, the **interest earned would fall** and Net Interest Margin **(NIM) will decline**. Low NIM and High NPA is a bad combination for the bank.

FORMULA

$$\text{Net Interest Margin} = \frac{\text{Interest Earned} - \text{Interest Paid}}{\text{Average Earnings Assets}} \times 100$$

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Return on Assets

Tells you how profitable a bank is relative to its total assets

A lower Return on Assets (ROA) means that the bank is not able to **utilize assets efficiently** and a negative ROA means bank's assets are **yielding negative return**.

FORMULA

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100$$

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Credit to Deposit Ratio

Tells you how much a bank lends out of its deposits or how much of its core funds are used for lending.

Typically, the **ideal ratio** should be **80-90%**. As lending is the main business of the bank so **this ratio should be high**

FORMULA

$$\text{Credit to Deposit Ratio} = \frac{\text{Total Loans}}{\text{Total Deposits}} \times 100$$