Rise in NPA, provisions hurt private banks; pressure likely to continue

Private sector banks continued to outpace system growth in terms of credit and deposit growth in the October-December quarter; but the rise in bad loans for some lenders emerged as the biggest worry.

For instance, gross non-performing assets (NPAs) of ICICI Bank soared 33.3 per cent to Rs 21,149 crore compared with Rs 15,858 crore in the quarter ended September 2015. Gross bad loans as a percentage of total loans also increased to 4.72 per cent in the December quarter compared with 3.77 per cent in the quarter ended September. On a sequential basis, net NPA increased to 2.28 per cent in the quarter ended December from 1.65 per cent in the quarter ended September.

It is because of the increase in provisions with the surge in bad loans that profits for these lenders also came in lower than the previous quarters. In the quarter ended December, it was for the first time in the last 23 quarters that ICICI Bank reported net profit of only four per cent. Prior to this, the bank had been posting net profit of anywhere between 44-12 per cent.

A similar story played out at Axis Bank, which reported only 15 per cent growth in net profit, first time in the past 11 years. In the last 12 quarters, the lender had managed to always grow its bottom line at an average of 20 per cent.

Axis Bank also saw pressure on asset quality with gross NPAs increasing to 1.68 per cent against 1.38 per cent in the quarter ended September. Net NPA also increased to 0.75 per cent from 0.44 per cent in the corresponding quarter last year.

This spike in NPAs for the lenders occurred after a systemic review carried out by the Reserve Bank of India (RBI), which has asked banks to recognise certain assets in the December- and March-ended quarter of this financial year.

According to a CARE Ratings review, gross NPAs of these 16 banks, which includes primarily private banks, moved up from 2.21 per cent to 2.29-2.71 per cent in three years.

Going ahead, the management of most banks have guided for a tough fourth quarter ahead considering that the economic environment continued to remain benign. Analysts believe the rise in bad loans would also not be favourable for net interest margin.

Another private sector lender which saw bad loans on its books increase was Federal Bank. Its gross NPAs rose to 3.15 per cent, from 2.19 per cent at the end of the third quarter of 2014-15. Net NPAs of the bank also rose to 1.66 per cent of the total assets, from 0.69 per cent in the year-ago period. The lender also saw a 38.5 per cent drop in net profit.

Some other lenders such as HDFC Bank, YES Bank and Kotak Mahindra Bank saw only marginal pressure on asset quality and provisioning. However, despite this, analysts continue to remain cautious about the outlook of even these lenders.

“Headline gross NPA (of YES Bank) grew at a relatively lower rate by 13.7 per cent q-o-q (quarter-on-quarter), which is lower compared to peer banks with higher corporate exposure. We have turned cautious on the bank’s asset quality due to ongoing RBI’s evaluation as it has comparatively higher exposure to corporate in their loan as well as bond portfolio,” said a Reliance Securities report.

(SOURCE : www.business-standard.com)