

Asset quality remains stable, but the pain is far from over

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A substantial fall in slippages, marginal improvement in net interest income and treasury income boost led to a not-so-bad earnings performance from Bank of Baroda in the September quarter.

After the bank posted huge losses in the second half of last fiscal, this is the second consecutive quarter when the bank has managed to report profit, albeit a small figure.

But the consistency in performance of each of these parameters will be key in the coming quarters.

Slippages in the September quarter halved to Rs. 2,252 crore from the Rs. 5,000-odd crore reported in the previous two quarters.

But going ahead, the pace of slippages will be keenly watched, particularly as the bank had disappointed investors on this front in the March and June quarters.

For now, asset quality remains stable with gross non-performing assets at 11.3 per cent of loans during the September quarter. Overall stressed assets (bad loans plus restructured) have also been stable at 15 per cent of loans.

Provisioning for the September quarter fell both on a year-on-year basis as well as sequentially. But given the ageing of bad loans, increase in incremental provisioning cannot be ruled out in the coming quarters.

While net interest income grew a modest 5.6 per cent during the September quarter, after a fall in the June quarter, the loan book continues to shrink.

The improvement in the bank's core net interest income is mainly due to a marginal rise in the bank's margins.

Loan book

The bank has been consolidating its loan book and rebalancing its portfolio to reduce risk.

This has impacted its loan growth. During the September quarter, BOB's loan book (net) shrunk 14.6 per cent over the same period last year.

Ability to maintain margins and a recovery in loan growth will be critical for a substantial pick-up in earnings, going ahead.

However, the bank will most likely continue to face earnings pressure in the near term, as gross non-performing assets are expected to grow 5-15 per cent by the end of this fiscal.

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