

HDFC Bank, Axis Q2: Good and bad of private banks

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Private banks have generally been able to deliver healthier growth in loans and been better at keeping NPAs in check compared with their public sector counterparts. But in recent quarters, there has been a stark divergence in performance of private banks. HDFC Bank and Axis Bank, two of the many banks that declared their September quarter results on Tuesday, re-inforce this trend.

On core performance front, both scored well. HDFC Bank delivered 18 per cent growth in loans in the September quarter. Though this was a tad lower than its run rate of over 20 per cent in recent quarters, it was nonetheless a good show considering the still anaemic 9-10 per cent industry-level numbers.

Axis Bank too posted 18 per cent growth in loans, led by a robust 25 per cent jump in the retail segment. Margins have remained healthy for both, given the good traction in high-yielding loans and low-cost deposits.

But for Axis Bank rising asset quality concerns in the past few quarters have been worrisome. The bank has significant exposure to troubled sectors such as power and infrastructure. This has resulted in a steep rise in bad loans over the past year or so, leading to weak earnings.

While HDFC Bank has managed to keep its bad loans within a narrow range of 0.9-1 per cent of total loans, Axis Bank has seen a sharp increase to 4.1 per cent in the September quarter, from 1.3 per cent in the corresponding previous period.

Going by the management commentary, the worst may not yet be over for Axis Bank. To be fair, a chunk of HDFC Bank's corporate lending has been for working capital financing, where the risk of nasty surprises is low.

Federal Bank, which also declared its result on Tuesday, was given a thumbs up by the market, as it saw its slippages fall for the third successive quarter. The focus on high-rated corporates and other secured loans has paid off.

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