

It is a mixed bag for Banking Sector in Q2

While the worst is yet to be over for many banks, but going by the figures for the July-September quarter, some of the lenders seem to be turning the tide. Public sector banks, which have a disproportionate share of the bad loan burden as they were worst hit by the economic slowdown, have seen non-performing assets stabilising at some of the banks.

The second quarter of the current financial year was also marked by healthy treasury gains on the back of falling yields of government bonds as the central bank has adopted an accommodative monetary policy stance. Reserve Bank of India (RBI) has reduced the repo rate by 125 basis points so far in 2015, including a 50 bps cut, in end September that resulted in a sharp fall in yields when the quarter closed.

Credit growth however showed no signs of a pick up, with lending expanding by about 10 per cent. Bankers are anticipating an increase in loan demand in the last six months of the financial year, with most expecting to clock 13-14 per cent growth in 2015-16.

“It is a mixed bag for the banking sector. Few public sector banks have shown stable asset quality while select private sector banks witnessed some lumpy impairment,” said Saday Sinha, analyst with Kotak Securities.

State Bank of India (SBI) — the country’s largest lender which is seen as a bell weather of the economy saw further reduction in gross non-performing assets (NPAs) to Rs. 56,834 crore at end-September, from Rs. 60,712 crore a year earlier. As a percentage of gross advances, gross NPAs stood at 4.15 per cent, against 4.89 per cent a year earlier. Asset quality also improved from the earlier quarter.

“Overall, I think we are beginning to see the end of this entire cycle (of rising stress on asset quality) and I am much more confident about the quality of assets, going forward,” Arundhati Bhattacharya, Chairman, SBI had said while commenting on the numbers.

SBI reported 25 per cent rise in profit growth to Rs.3,879 crore during the quarter, mainly due to non-interest income which included a one time profit of Rs 485 crore which was profit expatriated from its overseas operations. Non-interest income also got a boost from treasury gains which grew by three times than the comparable period last year. Despite some of the public sector banks have seen asset quality stabilizing, but private sector banks continue to outperform their public sector peers.

“For private banks under our coverage, business grew 20 per cent year-on-year, led by advances up 21 per cent year-on-year and deposits up 18.6 per cent year-on-year.

“Notably, these banks have grown faster than the overall sector,” Emkay Global said in a report to its clients.

Among public sector lenders, two of them posted a net loss in the second quarter – Bank of India and Indian Overseas Bank.

“We have significantly lowered Bank of India’s (BoI) estimated credit CAGR to 8 per cent over the next two years versus 10 per cent earlier. We believe that with lower capitalisation, it would be difficult for BoI to grow at a higher rate,” ICICI Securities said. Bank of India has posted a net loss of Rs. 1,126 crore due to higher provisions. The bank’s management had said the next two quarters will be ‘challenging’ for the lender.

Bankers are anticipating an increase in loan demand in the second half of this fiscal, with most expecting to clock 13-14 per cent growth for 2015-16.

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