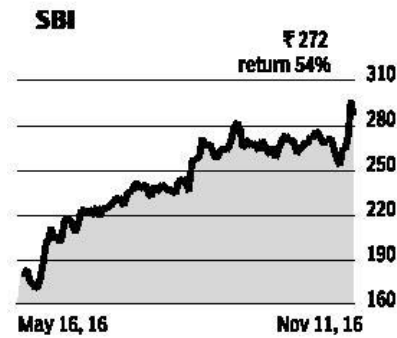


SBI has contained slippages, but ageing bad loans could weigh on earnings

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Incremental provisioning is unlikely to come down significantly in the coming quarters



BL Research Bureau:

After recording steep slippages in bad loans to around Rs. 50,000 crore in the second half of last fiscal, the numbers for the first two quarters of the current fiscal appear to have moderated for SBI — the country's largest lender.

In the latest September quarter, the slippages stood at Rs. 10,341 crore, and the gross non-performing assets (GNPAs) grew just 4 per cent sequentially. But these numbers still do not offer much comfort to investors.

For one, as a per cent of loans, GNPAs are still a worrisome 7.1 per cent.

Given that SBI constitutes about a fifth of the total advances in the system, such high levels of stress continues to be a cause for concern. To put it in perspective, SBI's Rs. 1,05,782 crore of bad loans as of September 2016 more or less equals the entire loan book of many banks.

Two, even if the pace of slippages has slowed substantially and could moderate further, provisioning requirement for these bad loans is unlikely to come off significantly. This is because ageing of bad loans (a large book at that) will lead to incrementally higher provisions in the coming quarters.

SBI's September quarter results highlight this risk. While GNPAs grew by a modest pace sequentially, provisioning for bad loans has shot up by 21 per cent over the June quarter, weighing on earnings.

Net profit fell 35 per cent in the September quarter over the same period last year, and was nearly flat sequentially.

Three, SBI's weak core performance also does not lend comfort.

The bank's net interest income grew a meagre 1.3 per cent in the September quarter. Loan growth was a modest 8 per cent, far lower than that delivered by certain larger private sector banks during the same period.

Both HDFC Bank and Axis Bank reported 18 per cent growth in loans in the September quarter, while ICICI Bank delivered a lower 11 per cent growth.

SBI's weak core performance and continuing pressure on asset quality have led to returns deteriorating sharply over the past year. The bank's return on assets and return on equity were at an abysmal 0.4 per cent and 7.38 per cent, respectively, as of September 2016.

Under watch-list

SBI has large exposure to corporates in the troubled iron and steel and infrastructure sectors. Like private sector lenders such as ICICI Bank and Axis Bank, SBI too had created a watch-list of loans — worth about Rs. 34,776 crore as of March 2016.

A chunk of the fresh slippages into NPAs in the corporate book has come from the watch-list in the last two quarters. This list has shrunk by 25 per cent in the first half of the fiscal, but at Rs. 25,951 crore, it is still around 2 per cent of loans as of the March 2016 quarter.

For Axis Bank and ICICI Bank, the share of loans under watch-list has come down notably in the last two quarters.

Nonetheless, for all these lenders the pain is far from over as provisioning requirement on account of ageing of bad loans and the possibility of sharp slippages poses risk to earnings in the coming quarters.

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