

Asset quality woes persist for Axis Bank

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Private banks that managed to keep bad loans under check through most of 2014-15 have been feeling the heat of the corporate slowdown recently.

Axis Bank is one such leading private bank that has been witnessing stress on its asset quality in the last two quarters. In the December quarter, the bank has added Rs. 2,082 crore to bad loans. This increased the gross non-performing assets (GNPAs) as a per cent of loans to 1.68 per cent in the December quarter from 1.38 per cent in the September quarter.

About half of the slippages during the quarter have been due to the recognition of bad loans, according to the RBI's assessment of the stressed accounts in the banking system.

The trouble for the bank began in the September quarter. While it was business as usual, with the bank delivering 18-19 per cent growth in net profit for the eighth quarter in a row, investors were disappointed by the sale of two accounts worth Rs. 1,820 crore to asset reconstruction companies (ARCs). Including this sale, gross addition to stressed assets had jumped substantially.

During the December quarter, the bank's net profit growth slowed to 15 per cent, owing to increased provisioning for bad loans.

More pain ahead

Given the continued stress in sectors, such as power and infrastructure in which Axis Bank has relatively higher exposure (vis-à-vis other private banks), further stress in the loan book cannot be ruled out.

The RBI has conducted an intensive asset quality review. It has asked banks to declare certain accounts as NPAs, even if these loans are not delinquent — that is, borrowers have not defaulted in their payments for 90 days or more.

As a matter of prudence, Axis Bank has accounted for the entire stressed accounts indicated by the RBI in the December quarter itself. But the management is still cautious of the possible slippages in the March quarter, due to the overall stress in the banking system.

Slippages in the March quarter could be to the tune of Rs. 1,300 crore, which could take the level of stressed asset additions for the full year FY16 to Rs. 7,000 crore, higher than the earlier guided levels of less than Rs. 5,700 crore (FY15 levels).

The bank has an outstanding balance of Rs. 180 crore in contingency provision. Any large slippages or sales to ARCs in the coming quarters can hence, impact earnings.

On a strong footing

While the overhang on asset quality is likely to weigh on the stock's performance, strong core income growth on the back of healthy traction in loans and stable margins continue to be positives for the stock. Axis Bank delivered 21 per cent growth in loans during the December quarter, driven by a healthy 27 per cent growth in retail loans.

(This article was published in the Business Line print edition dated January 21, 2016)

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