

ICICI Bank Q3 profit growth slows to 4% as bad loan provisioning jumps

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Chanda Kochhar, MD & CEO

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Continuing weakness in global steel cycle also hurting bottomline: Chanda Kochhar

Mumbai, January 28:

Huge provisioning towards bad loans proved to be a drag on ICICI Bank's standalone profit in the third quarter ended December 31, 2015.

Net profit of India's largest private sector bank nudged up a marginal 4 per cent to Rs. 3,018 crore in the reporting quarter, against Rs. 2,889 crore in the year-ago period.

Profitability in the quarter under review was helped by write-back of Rs. 733 crore in the form of 'deferred tax adjustment'.

With non-performing assets (NPAs) in the reporting quarter (Q3 FY16) jumping Rs. 6,544 crore, against Rs. 2,279 crore in the year-ago period, the bank had to steeply up its loan-loss provision.

The loan-loss provision stood at Rs. 2,844 crore in Q3 FY16 compared with Rs. 980 crore in Q3 FY15.

Chanda Kochhar, MD & CEO, explained that almost 60 per cent of the addition to the gross NPAs is due to Reserve Bank of India's directive to banks to review certain loan accounts and their classification over the third and fourth quarters of FY16.

She said the NPA trend in the fourth quarter could be more or less similar to the quarter under review.

The bank, in a statement, said the increase in NPAs was primarily due to the decline and continuing weakness in the global steel cycle; and RBI's objective of early and conservative recognition of stress and provisioning, whereby banks are required to review certain loan accounts and their classification over the two quarters.

Net interest income (the difference between interest earned and expended) increased 13 per cent to Rs. 5,453 crore (Rs. 4,812 crore in Q3 FY15).

Non-interest income increased 36 per cent to Rs. 4,217 crore in Q3 FY16 from Rs. 3,091 crore in Q3 FY15.

In the reporting quarter, non-interest income included fee income of Rs. 2,262 crore; income from sale of investments of Rs. 1,442 crore; and dividends from subsidiaries of Rs. 374 crore.

Nod for stake cut

During the quarter, the bank received approval from the insurance regulator for sale of 4 per cent shareholding in ICICI Prudential Life Insurance Company (ICICI Life) to Premji Invest/its affiliates. The profit on this sale was Rs. 1,243 crore.

Kochhar said net interest margin (the excess of interest income over interest expense divided by total assets) increased to 3.53 per cent in the reporting quarter against 3.46 per cent in the year-ago quarter.

Total advances increased 16 per cent year-on-year (y-o-y) to Rs. 4,34,800 crore as on December 31, 2015 from Rs. 3,75,345 crore on December 31, 2014.

Retail advances grew 24 per cent y-o-y; small and medium enterprise advances were up 23 per cent; and corporate loans (mainly refinance to existing highly-rated corporates) increased 15 per cent.

Total deposits increased 15 per cent y-o-y to Rs. 4,07,314 crore as on December 2015 from Rs. 3,55,340 crore as on December 2014.

Global challenges

While the ICICI Bank chief emphasised that India's macroeconomic fundamentals are strong, she also pointed out that India Inc is facing challenges in the form of global economic slowdown, China devaluing its currency, and commodity prices coming down.

"We are not seeing private investment picking up. With the government spending, we will see positive effect on small and medium enterprises," she said.

ICICI Bank has refinanced existing loans aggregating 'less than Rs. 500 crore' under the so-called 5/25 scheme (entailing periodic refinancing, at say five years, and fixing a longer repayment schedule, of say 25 years, for long-term projects as part of flexible structuring) in the reporting quarter.

Under the strategic debt restructuring mechanism (involving the provision to convert debt into equity), the bank has taken up cases aggregating Rs. 1,600 crore.

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