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Bank earnings to remain weak in first half of FY17: Report

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MUMBAI: Led by weak net [interest margin](#) and high cost of credit, banks' earnings are likely to be muted in the first half of the current fiscal, says a report.

According to [Kotak Institutional Equities](#), BFSI sector and private banks, especially [Axis Bank](#) and [ICICI Bank](#), have indicated the presence of a "reasonably large pipeline of stress loans which could slip into non-performing loans (NPLs) over the next two years".

As per Kotak estimates, overall gross NPLs increased 33 per cent in January-March period compared to preceding quarter at 7 per cent of loans.

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"This shows that banks are still not out of the woods," it said in a report, adding that "overall feedback from banks is that first half of 2016-17 could still be weak as earnings would be low led by weak net interest margin (NIM) and high credit cost in an environment of slow demand for fresh loans".

The report added that limited access to fresh funds, impact of supply chain of these large accounts and reduction in mergers and acquisitions could result in higher NPLs than initially estimated, while a cautious outlook to underwrite fresh credit would significantly delay the investment cycle.

"NPLs in the metals sector have reached about 40-50 per cent with overall stress crossing 50-70 per cent, but we are probably closer to the worst in the steel sector with only power being the last sector to report from an NPL perspective as it is negligible across banks currently," Kotak said.

As per Kotak estimates, overall gross NPLs increased 33 per cent in January-March period compared to preceding quarter at 7 per cent of loans.

Challenge continued for banks, which showed large losses in the fourth quarter. While revenue growth was at 11 per cent year-on-year, it was better than third quarter of 8 per cent.

"Banks faced another weak quarter with high provisions for bad loans resulting in a loss for most public banks and sharp growth deceleration for private banks.

"These challenges will extend to the first half of the current fiscal though the quantum of deceleration could be sharply lower as critical sectors have seen a fair share of recognition," it added.

However, the report noted that better-than-expected asset quality performance was the key highlight for **NBFCs**.

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