

## Bank profits seen caught in bad-loan squeeze

PSU banks seen leading 22% decline in post-tax profits, sharp rise in NPA

Nupur Anand | Mumbai April 09, 2016 Last Updated at 00:40 IST



Bad loans are expected to rise on the back of the assets (loans make up the chunk of assets) review that banks have done in the March quarter. Hence, profits are going to remain under pressure in the January-March quarter.

"We expect our banking-universe 'profit after tax' to decline 22 per cent y-o-y (year-on-year) in the quarter, led by a poor show from public sector banks. Slippages from failed restructured cases, coupled with pain from asset review, should keep the stress on assets elevated," said Religare.

Even in the October-December quarter, banks had done an asset review, which had pressured the balance sheet. This was done at the RBI (Reserve Bank of India, or central bank)'s request, which aimed to ensure that banks were active in correctly classifying their loan portfolios, and making full provisions to clean up, with a 2017 deadline. As a result, 15 government-owned banks reported losses on their domestic operations in that quarter, due to increased provisions for doubtful assets or loss of assets, and write-offs for bad loans

"We expect 15 per cent quarter-on-quarter (q-o-q) increase in gross non-performing assets (bad loans), following a 33 per cent q-o-q increase in the December quarter. SDR (strategic debt restructuring) and 5:25 refinancing will continue to add stress to the banking system," said Ambit Capital.

Provisions are expected to remain elevated, up by 30 per cent year-on-year, which will be a further drag on earnings. A loan-loss provision is an expense set aside as an allowance for bad loans.

A report by Kotak pointed out that the credit cost (or the cost of funds for a bank) is expected to go up 50 per cent, resulting in flat net interest income (NII). The report added that public sector banks would report 87 per cent y-o-y net profit decline and private banks would report only five per cent y-o-y growth. Consequently, net interest margin (NIM), a key indicator of bank's profitability, will also be under pressure.



### SADDLED WITH BAD ASSETS

## Figures of public sector banks (₹ cr)

	Total gross advances	Gross NPA	Gross NPA Ratio	
Mar '13	40,55,874	1,55,890	3.84	
Mar '14	45,90,458	2,16,739	4.72	
Mar '15	49,16,113	2,67,065	5.43	
Dec '15	49,57,692	3,61,731	7.30	

Source: Parliamentary questions

Another key challenge for the bank remains that the credit growth, even though it has inched up to double digits, continues to be only 10-11.5 per cent, leading to slow growth in advances.

"Credit growth is still hovering around multi-year lows. This will continue to pressure banks' revenue growth, especially corporate-heavy public sector banks. This, along with NIM pressure, will restrict NII growth," said Edelweiss.