

Big banks can breathe easy ahead of Q4 results

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NSE Gainers (PSUBANK)		21-Apr-2016 13:34		
Company Name	Current Price (₹)	Previous Close (₹)	Change (%)	Volume (in No.s)
Punjab Natl.Bank	90.25	84.30	7.06	14,414,809
Canara Bank	208.80	197.15	5.91	4,019,454
Union Bank (I)	134.45	127.25	5.66	7,307,640
Bank of Baroda	161.20	152.65	5.60	13,958,095
Oriental Bank	98.65	93.55	5.45	3,044,364
Allahabad Bank	61.45	58.55	4.95	3,620,133
Syndicate Bank	72.10	68.75	4.87	3,160,864
St Bk of India	195.75	187.30	4.51	21,227,281
Andhra Bank	56.75	54.80	3.56	1,749,736
Bank of India	98.05	94.70	3.54	3,994,229
IDBI Bank	73.15	71.90	1.74	4,916,987
I O B	31.75	31.55	0.63	952,913

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No provisioning needed for loans extended to firms removed from 'asset quality review' list

BL Research Bureau:

For many public sector banks that took a massive hit in their December quarter earnings due to the RBI's asset quality review (AQR), the leeway now given on provisioning of certain loans is certainly welcome.

According to news reports, the RBI has knocked off a few corporates from the AQR list, implying that banks will not have to make provisioning for such loans in the March quarter. Major banks, however, declined to comment on this. Public sector bank stocks rallied 3-5 per cent post this news on Thursday.

Big relief for biggies

According to news report, the RBI has told banks individually that they don't have to provide in the March quarter for outstanding loans to 20 firms, including Jaiprakash Associates and Coastal Energen, out of the 150 it had listed in December.

The December quarter was one of the worst for the banking sector, where the RBI's drive to clean up banks' balance sheets led to a sharp rise in bad loans. The AQR activity forced banks to recognise certain loans as bad even if they were not delinquent. This led to a spike in bad loans and provisioning for most banks, taking a toll on their earnings.

For instance, PNB's bad loans increased to 8.5 per cent of its total loans in the December quarter from 5.9 per cent last year. Provisions for NPAs more than doubled from last year and profit was less than one-tenth of that reported in the same quarter last year.

Bank of Baroda also saw a 64 per cent jump in bad loans sequentially. For Bank of India, bad loan provisions trebled over last year. The story was no different for SBI, India's largest lender, which reported a 61 per cent slump in profits during the December quarter.

With larger PSBs taking the maximum blow due to their larger exposure to stressed corporates, the RBI's decision to prune the AQR list is likely to benefit them more.

Bank of Baroda, Bank of India, SBI, PNB, Indian Overseas Bank and IDBI Bank are among those that are likely to see a sharp respite in earnings in the March quarter.

Amongst private sector banks, ICICI Bank and Axis Bank, which have high exposures to such stressed corporates, had felt the heat in the December quarter. About half of the slippages (about ₹1,000 crore) during the quarter for Axis Bank had been due to the recognition of bad loans in accordance with the RBI's AQR. For ICICI Bank, about ₹4,000 crore was the addition to bad loans due to the RBI's directive.

Staggering pays off

Many banks chose to implement RBI's diktat on stressed accounts in a staggered manner, recognising only 50-70 per cent of the bad loans in the December quarter. These banks are likely to benefit more from the central bank's leeway.

For instance, SBI added about ₹20,000 crore to bad loans in the December quarter, of which three-fourths were due to the RBI's review. With the lender deciding to spread the risk between two quarters, similar stress was expected in the March quarter as well. For PNB too, for which over ₹5,000 crore of incremental slippages were due to the RBI directive, had indicated a similar amount to be recognised as slippages in the March quarter as well.

The pain was expected to continue for private lender ICICI Bank too, with the management indicating the possibility of similar addition to bad loans as in the December quarter.

Banks, such as Bank of Baroda and Axis Bank, as a matter of prudence, accounted for the entire stressed accounts in the December quarter itself. It is unclear whether these banks will be allowed to write back the provisions made for loans to the 20 companies now excluded from the list.

According to the news report, the latest order from the RBI includes loans to companies that can be again converted to standard accounts (performing loans). This will offer respite to some banks, which can write back their provisions.

(This article was published on April 21, 2016)