

## SBI's tale no different from the rest

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*The largest lender's bad loan troubles more than overshadowed an otherwise decent performance across other parameters*

BL Research Bureau:

SBI that was set to face another quarter of pain did not disappoint the market — at least on this count.

In the March 2016 quarter, the addition to bad loans went up to about Rs. 30,300 crore from the already steep Rs. 20,600 crore in the December 2015 quarter.

Provisions for bad loans more than doubled over the last year, leading to net profit for the March quarter more than halving year-on-year.

The net profit would have been much lower had the bank not dipped into its floating or countercyclical provisions kitty (to the tune of Rs. 1,149 crore) to make provisions for bad loans.

The somewhat decent performance across other parameters, such as credit growth and core net interest income, has been more than overshadowed by SBI's bad loan troubles.

### Under watch-list

While the chunk of slippages in the March quarter for most banks has been due to the RBI's asset quality review, for SBI, only about 30 per cent has been due to this. Of the Rs. 30,000-odd crore of slippages, about Rs. 20,000 crore has been slippages from the large corporate book, aside from Rs. 9,000 crore from RBI's review.

SBI has large exposure to corporates in the troubled iron and steel and infrastructure sectors. A large portion of the bank's loan delinquencies has been from the SME, mid-corporate and agricultural segments — gross non-performing assets in each of these segments is high at 7.8 per cent, 17 per cent and 6.9 per cent, respectively.

While the bad loans have moved up from about Rs. 56,700 crore in FY15 to around Rs. 98,000 crore in FY16, the restructured book has fallen due to sharp slippages from these accounts into NPAs.

From 10.7 per cent in March 2015, slippages from the restructured book have gone up to 22 per cent in March 2016.

SBI has created a watchlist of loans worth about Rs. 31,000 crore, which is 2 per cent of its total loans. About 45 per cent of these loans are from those under the 5:25 and SDR schemes, and restructured book.

While the bank has taken a massive hit on account of bad loans in the last two quarters, the risk of slippages from the watchlist accounts (the management on a conservative basis expects about 70 per cent to slip into NPAs) remain a concern.

The management has indicated that it has about Rs. 3,380 crore of additional provisions to help it tide over such stress. Important to note though is that SBI's provision cover has fallen from 69 per cent in FY15 to 60 per cent in FY16.

### Core performance

At a time when peers such as Bank of India and Bank of Baroda have seen their loan book shrink SBI witnessed loan growth of 13 per cent (year-on-year), higher than the overall sector credit growth of about 8-9 per cent in the March quarter.

The loan growth was driven by a healthy 20 per cent growth in retail loans, which is about a fifth of the bank's loans. Both home and auto loans grew at a healthy clip.

But the bank's net interest margin (domestic) has fallen by about 30 basis points over the past year, as yield moved lower offsetting the benefit from lower cost of funds.

Core net interest income hence, has risen by a muted 3 per cent in FY16 over FY15. But for a healthy 24 per cent growth in other income, net profit for FY16 — that has fallen by 24 per cent over the previous year — would have been more dismal.

### Snapshot

**Bad loans at 6.5% of loans**

***Slippages from restructured book at 22%***

***Provision cover at 60%***

(This article was published in the Business Line print edition dated May 28, 2016)

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