

Lower slippages and provisioning aid earnings

RADHIKA MERWIN

PRINT · T+

Share

Share

But pressure on net interest margin continues

BL Research Bureau: A substantial sequential fall in slippages, lower provisioning and marginal improvement in core performance aided Axis Bank's earnings in the December quarter.

While the positive surprise on the profitability front is welcome, sustainability of asset quality performance, meaningful recovery in the bank's core net interest income and pace of recoveries and upgrades in NPAs in the coming quarters, will be imperative for the bank to draw investor interest.

Bottom of NPA cycle?

There have been several positive developments in the bank's asset quality in the December quarter. Notably, slippages have halved to Rs. 4,428 crore in the December quarter, from the previous quarter.

Also, provision-coverage ratio has seen a significant improvement from 60 per cent in the previous quarter to 66 per cent in the December quarter (68 per cent on IBC accounts).

However, sustainability of these trends will be keenly watched.

Given the sharp bad loan divergences pertaining to FY17 reported in the September quarter, steep fall in slippages in the December quarter is not altogether surprising. Also, at Rs. 4,428 crore, slippages are still at elevated levels, when compared to the June or even September quarters (sans divergences).

Also, while upgradation and recoveries have shot up from Rs. 1,048 crore in the September quarter to Rs. 4,008 crore in the December quarter, a major portion of this pertains to two accounts which were declared NPAs in the September quarter (of the nine reclassified as NPAs after the RBI's annual risk-based supervision).

While the bank has indicated that the focus, going forward, will be on resolution rather than on recognition of bad loans, it needs to be seen how the pace of recoveries pans out.

Pressure on NIM

In the December quarter of last year, loan-loss provisions had grown five-fold. On such a high base, a relatively lower provision in the latest December quarter has led to a 25 per cent y-o-y growth in net profit.

While the fall in bad-loan provisioning has aided earnings, a meaningful recovery in the bank's core net interest income is still awaited.

Shift in loan portfolio to better-rated corporates and reset of loan rates (lower) pegged to MCLR (marginal cost of funds-based lending rate) have impacted the bank's net interest margin (NIM).

Hence, despite a strong loan growth of 21 per cent y-o-y in the December quarter, the bank reported a sluggish 9 per cent growth in its net interest income.

Axis Bank recently raised its one-year MCLR by five basis points to 8.3 per cent. As liquidity in the banking system tightens, pricing power may return to banks, leading to a rise in lending rates. This can offer some cushion to margins in the coming year.

While the bank has indicated that the focus, going forward, will be on resolution rather than on recognition of bad loans, it needs to be seen how the pace of recoveries pans out

(This article was published in the Business Line print edition dated January 23, 2018)