

RBI diktat on stressed assets sees ICICI Bank slippages surging

RADHIKA MERWIN

0



It remains to be seen if the quarterly slippages of the bank remain elevated in the coming quarters as well -
REUTERS

But provisioning dispensation for IBC cases offers some respite to the private lender

BL RESEARCH BUREAU

For investors in ICICI Bank, the lacklustre performance of the bank over the past three years had tempered expectations. Nonetheless, the sharp 30 per cent drop in net profit in 2017-18, owing to a significant rise in bad loan provisioning, remains worrisome.

Just as in the case of Axis Bank, what continues to concern investors is whether the NPA recognition cycle is finally complete or if more pain is to be expected in the coming quarters.

Going by the sheer amount of slippages reported in the latest March quarter, one would presume that the bad loan issue is bottoming out. ICICI Bank reported slippages of ₹15,737 crore in the latest March quarter, of which, about ₹9,900 crore has been on account of the RBI's new framework for stressed assets, which in effect, does away with all the old restructuring schemes. A significant reduction in the bank's stressed pool assets is also a positive.

The bank had a notable ₹19,000 crore of outstanding accounts in the watchlist (key source of future stress in the corporate loan book) as of December 2017. This has shrunk to ₹4,728 crore as of March 2018.

Weak links

There are, however, several weak links that still need monitoring.

For one, the bank's slippages have been in the ₹4,400-4,900-crore range in the first three quarters of FY18. These slippages are still above the levels seen prior to the December 2015 quarter, when bad loans started to rise sharply.

Hence, it needs to be seen if the quarterly slippages remain elevated in the coming quarters as well.

Two, the RBI's revised framework for stressed assets, supersedes all old restructuring schemes, except where they have been already implemented. For ICICI Bank, such accounts under 5/25 or S4A restructuring schemes (under implementation), stood at about ₹3,000 crore. These will need to be watched in the coming quarters.

Also, while the bank has taken a one-time hit on account of the RBI's circular in its restructured book, the framework requires banks to report even one day default and draw up resolution plans thereupon.

The potential impact where cases may get referred to IBC on failure of a resolution plan still needs to be seen. Lastly, the watchlist is still over ₹4,000 crore, which could slip into NPAs in the coming quarters.

Optical relief

ICICI Bank has also made use of the dispensation given by the RBI on provisioning norms for large accounts under IBC. Provisioning for the secured portion of the large accounts (from the RBI's first and second list referred to IBC) up to March 31, 2018, has been brought down from 50 per cent to 40 per cent. Given that the bank had provided for around 56 per cent provisioning for the first list of IBC cases and 36 per cent for the second, the RBI's leeway has offered respite to earnings in the March quarter.

Also, the bank classified three borrower accounts in the gems and jewellery sector as 'fraud' and 'non-performing'. In the March quarter it made a provision of ₹290 crore through P&L account and ₹505 crore by debiting reserves and surplus as permitted by the RBI. This, too, has offered some optical relief to earnings.

Had it not been for the dispensation in provisioning for IBC cases and the relief on the P&L, earnings may also have slipped into the red in the March quarter.

While on the core front ICICI's credit growth, driven by retail is noteworthy, in the coming quarters, the performance on the asset quality front will remain the key driver of valuations.