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Good credit growth to help banks' numbers

BY [JOEL REBELLO](#), ET BUREAU | JAN 08, 2019, 08.30 AM IST

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MUMBAI: Higher credit demand, better pricing power due to liquidity woes at competing para banks, more trading income because of the decline in government bond yields, and quickening bad loan recoveries should buttress the profits at Indian lenders in the [December quarter](#).

Bank credit growth has revived in the second half of the fiscal, helped by a favourable base effect and demand from individuals to buy homes, cars and other consumption goods and services. Liquidity constraints at NBFCs have helped banks step up their lending in the fiscal third quarter.

[IndusInd Bank](#) kicks off this quarter's earnings season for Indian lenders on Wednesday.

Bank credit growth improved to a year-on-year rate of 15% in the fortnight ended December 21, the latest RBI data showed, compared with 10% growth recorded a year earlier. Analysts said stronger demand for loans and better margins are likely to help banks in the third quarter.

[Jefferies](#) expects an aggregate 28% on-year increase in banking profits in the quarter. "Overall credit growth has picked up steadily for banks...although personal loans continue to grow strongly, credit to the services sector has picked up in the past few months. Large corporate infrastructure credit has picked up over the past few months, albeit from a low base," Jefferies said.

Trading income should provide support to banks due to fall in yields. The value of bonds rises when yields fall. Yields on the benchmark 10-year government bond dropped to 7.36% at the end of December from 8% at the start of the quarter, and that should help banks make mark-to-market gains on their investments. "G-sec yields have sharply declined versus the consensus view, two months ago, of rising interest rates. This entails positive earnings impact for banks in the form of higher treasury gains, more so for PSU banks than private," Edelweiss said.

The recovery of bad loans is another area benefitting lenders. Banks will benefit from the improvement in recoveries by the upgradation of the [Jayaswal Neco](#), [Binani Cements](#) and [Uttam Galva](#) loan accounts, Elara Capital said.

Jayaswal Neco, a maker of cast iron pipes, was in the second list of loans referred to the bankruptcy court by RBI. It owed lenders Rs 3,522 crore. Last month, some lenders led by SBI sold their loans to an assets reconstruction company headed by Bank of America. SBI has recovered 65% of its Rs 1,363 crore dues from the company.

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