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Credit growth may save the blushes for banks

BY **JOEL REBELLO**, ET BUREAU | APR 15, 2019, 07:56 AM IST

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Mumbai: Strong **credit growth** at the expense of non-banking finance companies, a slowdown in fresh slippages and government-led **recapitalisation** for public sector **banks** will support the sector in the fourth quarter of the fiscal 2019. But, lack of any large write-backs and elevated ageing-related provisions will keep profits in check.

Bank earnings will kick off with **DCB Bank** and **RBL Bank** on April 18. Analysts said a steady 13.5 per cent loan growth, weaker competition and a slowdown in fresh slippages will boost bank numbers. "We expect banks' core operating performance to be steady (up 23 per cent YoY) with growth and asset quality tailwinds on the horizon. Weakening competition and portfolio buyouts bolster banks to sustain growth," Edelweiss Securities said in a note. But lack of any meaningful resolutions will keep pressure on bank earnings.

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What's to be Expected

According to analysts, the following will boost bank numbers:

13.5%: Loan growth

- Weaker competition
- Slowdown in slippages



Two things will be followed closely: how banks provide for two large accounts of IL&FS and Jet Airways. Total banking exposure to IL&FS is considered to be upwards of Rs 90,000 crore and though there is a moratorium on classifying IL&FS as NPA, some banks may choose to take a provision upfront.

"IndusInd Bank would have a challenging quarter (due to IL&FS exposure) while focus on HDFC Bank would be on revenue composition. Yes Bank would see a sharp slowdown in business growth and the commentary from the new management would be a key monitorable. We see banks showing further improvement in key metrics. Impairment ratios

to decline led by lower slippages, recovery as well as high provisions for bad loans. Recapitalisation would result in most public banks reporting a sharp decline in net NPL ratios," Kotak Institutional Equities said.

"Year-on-year provisions will be lower because there was an extraordinary event with the Feb 12 circular last year but there could be ageing-related provisions and some large provisions due to big accounts like IL&FS. Agriculture-related portfolio could throw some surprises, especially ahead of polls and there is some slowdown on the commercial vehicle and passenger vehicle portfolio but loan growth is strong," said Siddharth Purohit, SMC Securities.

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