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Some banks make record provisions against bad loans

BY JOEL REBELLO & ASHWIN MANIKANDAN, ET BUREAU | MAY 22, 2019, 07.37 AM IST

MUMBAI: Banks have used the past one year to improve their provision coverage ratio (PCR) as they clean up their books and strengthen balance sheets amid a slowdown in fresh additions to bad loans.

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PCR is at record levels for some banks, which is a positive because it makes bank numbers more reliable and increases chances of a write-back from bad assets.

Data analysed by ET showed that there has been a secular upward trend in PCR.

For example, State Bank of India's (SBI) PCR increased to 78.73% in March 2019 from 74.63% a year earlier. For ICICI Bank, the upward move has been even sharper — to 80.60% from 60.40% a year earlier.

PCRs for Kotak Mahindra Bank, Axis Bank, RBL Bank and also state-owned banks such as Canara Bank and Bank of India have also climbed.

PCR is the ratio of provisioning to gross non-performing assets and indicates the extent of funds a bank has kept aside to cover loan losses.

A 100% PCR means that a bank has set aside 100% of doubtful loans to cover eventual losses.

Analysts said higher PCR is also related to higher provisions banks may have had to take for NPAs that have aged.

“Banks have taken additional provisions during the quarter on ageing related NPAs and also in a few cases, 100% provisions on some NCLT accounts. This resulted in overall PCR going up for most banks. Higher PCR is certainly a positive outcome for banks,” said Siddharth Purohit, analyst at SMC Global Securities.

“Banks will continue to take additional provisions in FY20 as well, largely due to ageing related provisions, based on the RBI regulations.”

A fall in new additions of nonperforming assets for banks has also resulted in higher PCR.

Some analysts said that bank PCRs may be near their peaks. “Because of stringent norms, banks are providing provisions due to which NPAs are bottoming out, especially for PSBs, this quarter,” said G Chokkalingam, founder of research and advisory firm Equinomics.

“Most banks also finished their last leg of provisioning for IL&FS. We have reached the maximum provision coverage ratio for most banks because most have provided for old NPAs, with no new major additions to slippages.”Analysts said high provision coverage ratio, slowing slippages and possibilities of writebacks, especially from NCLT cases, should boost profitability in the coming quarters.