With improving financials, banks may lend more

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Analysts say fourth quarter results of banks indicate a significant decline in NPAs

Amidst slowing economic growth and continued crisis in non-banking financial firms, the improvement in the financials of banks could prove to be a silver lining and could help improve credit growth and demand.

Analysts point out that fourth quarter results of most banks indicate that there has been a significant decline in non-performing loans and a steady improvement in operating metrics.

“Growth in net advances (including overseas advances) increased to 10 per cent year-on-year in 2018-19 from 6 per cent in 2017-18, with private banks witnessing 19 per cent growth. Adjusted for weak growth in overseas credit, domestic loan growth is expected to be nearly 300 basis points higher,” said a report by Reliance Securities.

It also noted that the operating metrics for banks remained healthy in the fourth quarter of 2018-19 with a 21 per cent growth in net interest income.

Another report by Kotak Institutional Equities said banks now seem to be on a path to recovery with declining NPAs.

Gross NPAs fell by 220 basis points year-on-year and (80 basis points quarter-on-quarter) to 7.2 per cent of loans with PSBs reporting 300 basis points annual decline, while private banks reported 70 basis points annual decline, it said.

MSME lending

It further noted that loan growth was robust at about 15 per cent annually for banks with a trend towards retail lending though it has moderated.

“Corporate loan growth has started to revive at a slow pace and in the absence of strong traction in the capex cycle, corporate loan growth will be muted,” the report said, adding that loans to micro, small and medium enterprises and MFIs will continue to dominate.

While being hopeful of another round of rate cut by the Reserve Bank of India (RBI) in the monetary policy review, bankers said that loan growth tends to moderate during election period.

Policy actions

“With the elections now over and a stable government at the Centre, lending is likely to see a growth in the second half of the fiscal when companies will start to make investment plans. Also, from a retail perspective, the festive season sees more demand for loans,” said an executive with a private sector bank.

However, monetary policy transmission by banks continues to remain an issue. Despite two successive rate cuts by the RBI, banks have not followed suit with a similar quantum of cuts.

"Indian banks have barely transmitted RBI's prior policy actions. Based on publicly available data till April, while policy rates have been reduced by 50 bps since February, average bank lending rates have declined by only 5 bps," Goldman Sachs said in a recent research report, noting that several banks have cut the marginal cost of lending rate (MCLR), but only by a symbolic 5-15 bps. Several banks have increased deposit rates since February, it further said.

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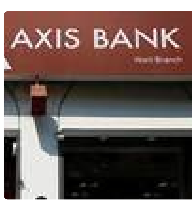
COMMENTS



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