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Market Watch

Suddenly, a question mark over banking revival. NIM pressure, NPA spike ahead

BY RAHUL OBEROI, ETMARKETS.COM | UPDATED: AUG 28, 2019, 09.08 PM IST

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Domestic lenders had the best quarter in recent memory in April through June. Add repeated RBI rate cuts and the government's frontloading of fund infusion in PSU banks, it becomes a sweet deal for them, which is why bank stocks bounced first and most earlier this week in reaction to the Finance Minister's booster package.

But investors on Dalal Street are suddenly staring at a new reality in this space, which is of margin pressure for the lenders as the government nudges them to pass on RBI rate cuts.

Shares of top lenders SBI, ICICI Bank, HDFC Bank, Kotak Mahindra Bank and Yes Bank all trended down in morning trade on Wednesday, as the market paused a two-day winning streak and gave up some gains.

Meanwhile, fears of a possible spike if bad loans have returned as some analysts are expecting a likely surge in defaults by select NBFCs and lower-rated companies amid tight credit conditions. Debt of Rs 2.4 lakh crore is currently being put through the central bank's June 7 framework to resolve stressed assets, but what is worrying analysts is that at least 70 per cent of this is chronically stressed and could lead to another wave of bad loans, ET reported this morning.

[Credit Suisse](#) said stressed loans is again going to exceed 12 per cent as 2.8 per cent of bank loans are likely to see a fresh wave of inter-creditor agreements (ICAs). Bank NPAs declined from 11.7 per cent in March 2018 to 9.6 per cent in June quarter.

Lower provisions coupled with healthy treasury gains as well as other incomes aided [Indian banks](#) to report profit for June quarter at an aggregate level for the first time in one-and-a-half years. It was the highest aggregate profit for public and private sector banks in 11 quarters at Rs 13,200 crore against a Rs 6,000 crore loss in the same period last year and over Rs 20,000 crore loss in the sequential quarter ended March 31, 2019.

Analysts believe this trend may not sustain going forward, as pressure on banks to pass on the recent rate cuts is likely to pressure net interest margins (NIM) going forward.

Abhimanyu Sofat, Head of Research, IIFL said, "Earlier, there were expectations that earnings of banks will grow at 50 per cent, but now we don't see such growth because we have seen more stress and challenges coming out with issues like CG Power. Transmission of interest rates that the government is talking about may further impact NIMs of most banks."

Shares of CG Power tumbled over 50 per cent in five sessions during August 19-26 on serious accounting lapses at the company. Several banks, including Yes Bank, have large exposures to the company.

Pankaj Pandey, Head of Research, ICICIdirect, says earnings of major banks in the Nifty50 pack may grow of 40 per cent CAGR going ahead due to a low base effect.

With a view to giving a boost to PSU banks as well the economy, the government on Friday announced an immediate infusion of Rs 70,000 crore into public sector banks besides an additional Rs 20,000 crore support to housing finance companies (HFCs) as part of measures aimed at reversing the economic slowdown.

The fund infusion is likely to support banks, which are in urgent need of capital and give them a lot of liquidity to grow credit offtake. "The recapitalisation will benefit PSU banks. We continue to remain positive on corporate banks," Pandey said.

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Ace investor Rakesh Jhunjhunwa told ETNOW on Monday morning that the steps announced by the Finance Minister would revive sentiment in the economy and lending would revive. "Banks will have to lend," he said.

Banking stocks have been going through one of the worst phases on Dalal Street as seven of the 10 worst-performing bank stocks globally are now from India, with YES Bank falling the most year to date at 68 per cent.

Shares of IDBI Bank, Central Bank of India, The Lakshmi Vilas Bank, Punjab & Sind Bank, Andhra Bank and Corporation Bank have dropped 40-60 per cent so far this year.

Based on promising June quarter earnings and the government's recapitalisation plan, analysts have turned positive on select private lenders. "We continue to prefer private lenders such as ICICI Bank, Kotak Mahindra Bank and Axis Bank because they have better ability for rate transmission," Sofat said.

Nomura said the upfront capital infusion is positive for PSU banks, but faster rate transmission will arrest expected NIM improvement. "This should be positive for Bank of Baroda, Punjab National Bank and Union Bank," the global brokerage firm said.

SBI, the country's biggest lender by assets, has indicated in the past that it does not need government support for capital raising.

Reliance Securities prefers lenders with limited exposure to select leveraged names. "We like ICICI Bank and HDFC Bank from the largecap space and Federal Bank in the midcap space," the brokerage said.

In aggregate, public sector banks managed to post a standalone net profit of Rs 147 crore for June quarter against a net loss of Rs 16,037 in the same period last year. They posted an aggregate net loss of Rs 30,905 crore for March quarter. On the other hand, private lenders continued to post robust traction in profits at Rs 13,070 crore in Q1FY20, up 30 per cent YoY.

Provisions and contingencies declined 28 per cent YoY and 49 per cent QoQ to Rs 54,067 crore.

Fresh slippages continued to remain elevated, which were offset by higher writeoffs and recoveries. This led to steady asset quality with absolute gross non-performing assets remaining flat QoQ and down around 8 per cent YoY at Rs 9.24 lakh crore, according to ICICI Securities.

Now all eyes will be on transmission of rate cuts. Of late, the Finance Minister said banks have decided to pass on RBI rate cut benefits to borrowers through MCLR reduction. "Quicker transmission of rate cuts, faster recapitalisation of banks and external benchmarking of rates are likely to aid credit offtake," said Garima Kapoor, Economist at Elara Capital.

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