Banks set for a profit quarter despite slumping credit demand

BY ASHWIN MANIKANDAN, ET BUREAU | OCT 06, 2019, 11.48 PM IST

MUMBAI: Domestic banks are likely to register an increase in quarterly profits on the back of earnings from treasury gains and steadying net-interest margins, even as credit growth is set to remain moderate due to slowing demand across various pockets of the consumption economy.

Furthermore, slower-than-expected recovery of stressed accounts may impact banks that had made accelerated provisions on multiple such accounts in the past few quarters on expectations of receiving write-backs on these provisions.

As per brokerages, private sector banks will see their credit growth above the industry average of 10 to 12% due to strengthening retail portfolios.

“We build in 15% YoY loan growth for private banks, which is higher than industry and led from retail loan growth. Certain other domestic sectors will also drive growth, but selectively,” Prabhudas Lilladher said.

The domestic brokerage expects HDFC Bank, India’s most valuable lender, to see a revival in loan growth after a slowdown in the previous quarter, whereas it believes Axis Bank and ICICI Bank would post ‘steady’ growth rates.

Profits of some public-sector banks with higher gross Non-Performing Assets (NPAs) are likely to be impacted as lenders would look to synchronise their Deferred Tax Assets (DTAs) with newly prescribed tax rates.

At present, every bank must provide or provision for stressed loans. However, for taxation, a different percentage for the same loans is prescribed which creates a mismatch wherein many banks get a balance DTA on the asset side.

“Public Sector Banks’ earnings will see recovery but will be impacted from DTA markdown and are likely to spread the impact over three quarters and make impact manageable,” according to the brokerage.

The choppy demand and prudential measures taken by most banks in expanding their loan books in sectors such as corporate and SME may cause further moderation in wholesale credit growth, Yes Securities said. And the reduction in deposit rates in recent months may not be reflected in the quarterly earnings yet, said the brokerage.

“For banks, while the deposit mobilization has improved, the growth in CASA (Current Account and Savings Account ratio) has been tepid,” said an analyst at Yes Securities. “The significant term reductions in recent months may not find enough reflection in Q2 2020; however, the cooling-off in wholesale funding rates would find manifestation.”

The first half of the fiscal between April and September also saw assets worth Rs 1.38 lakh crore being downgraded, according to rating agency CRISIL - the highest since the central bank initiated an asset quality review in FY16.

This may impact the asset quality of many lenders, especially those with exposures to real estate funds and housing developers. Provisions for defaults by developer financiers Altico and incremental provisions to debt-laden DHFL, where a bank-led resolution process is underway, may further impact the profitability of banks with such exposures.