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Market Watch

Axis Bank more than doubles loan provisions for troubled sectors

BY PTI | UPDATED: DEC 01, 2019, 04.36 PM IST

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Mumbai: Third largest private sector lender [Axis Bank](#) is setting aside more capital, more than twice over the regulatory requirements, for loans in sectors it has identified as "stressed", a senior official has said. The bank is maintaining a standard asset provisioning of 1 percentage point for bad loans in such sectors, as against the regulatory provision of 0.40 per cent, its executive director Rajiv Anand told .

The move, which is being followed at least since April, comes amid continuing concerns on high quantum of non-performing assets in its book. The high level of NPAs and the ensuing provisioning have impacted the profits of a majority of lenders, including Axis Bank, over the past four years.

"In sectors identified as high risk, we have increased the standard provisioning to 100 bps as against the mandated 40 bps to take care of any concerns," Anand said.

In April 2019, the bank had first disclosed that it had started to provide extra capital, but had not given out the exact levels of the additional provisioning or spelled out the sectors.

When asked if the troubled sectors like real estate or non-bank finance companies (NBFCs) are included on the list, Anand declined to specify the sectors which the bank has identified as stressed.

"We have not closed lending to any sector because of the difficulties that it may be going through. In each sector, there are always strong names which is better rated and has a resilient business model," Anand made it clear.

Concerns on higher capital burn due to policies like these can be placated by ensuring that the lending to a particular sector is not very high, which is decided by an internal team.

Anand said the bank has overhauled its risk assessment framework, wherein loan origination is separated from underwriting, and has a chief credit officer reporting directly to the chief executive.

Amid reports of its larger rival [ICICI Bank](#) shuttering its project finance, Anand hinted that Axis Bank is also following a similar strategy.

"We generally avoid project finance and our focus is now much more towards cash flow generating businesses and look at the relationship in a manner where we can deliver the full capabilities of our group to the customer," he said.

Anand avoided a direct reply when asked if there is demand from greenfield projects but said it will not be apt to classify the loans merely as refinance, adding it is witnessing working capital demand as well.

The bank is targeting to grow its overall book 5-8 per cent above the system average, and that private sector banks have been garnering a higher percentage of market share in both loans and deposits lately whereas state-owned banks still are starved of [growth capital](#).

In the comments that come amid difficulties on asset quality or mergers plaguing public sector banks, Anand said over half of the incremental liabilities are coming to the private sector banks, while in loans, the share is at a much higher 75 per cent.

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On the macro economic prospects, Anand pins hopes on more monetary easing and growth-enhancing measures put forth by the government, but concedes that the second half will also be difficult.

The pick-up will be visible from the first half of FY21, he said, on the back of growth slipping to an over six-year low of 4.5 per cent for the September quarter.

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