

After bad loan issue, experts see more pain ahead for Bank of Baroda

Credit costs could stay elevated in the coming financial year

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Government-owned Bank of Baroda (BoB) is yet to come out of the woods. Some more pain — it reported a spike in bad loans during the December quarter — is possible, say analysts, given the economic slowdown. Credit costs could stay elevated in the coming financial year.

Says Lalitabh Shrivastawa, deputy vice-president at financial services entity Sharekhan: “In the September quarter, the bank’s slippages were expected to have peaked out. However, even after removing the divergence-related impact, the quantum of slippage continued to remain elevated in Q3 (October-December). We expect asset quality pain to continue in the near term, while the growth is likely to be tepid.”

The bank’s gross non-performing assets were Rs 73,140 crore at end-December, from Rs 69,969 crore at end-September. The figure at end-December 2018 was Rs 74,322 crore.

The extra slippage in Q3 of 2019 was a little over Rs 10,000 crore. Of these, Rs 4,500 crore was on account of divergence (gap between BoB’s assessment of bad loans and those estimated by the Reserve Bank of India for 2018019). This pushed

the slippage ratio to 6.78 per cent in Q3, from the earlier 3.95 per cent.

ASSET QUALITY UNDER LENS

BoB financials over the past 5 qtrs

	Gross NPA's (₹ cr)	Slippage ratio (%)	Credit cost (%)
Q3FY19	74,322	3.65	2.64
Q4FY19	69,924	4.94	8.13
Q1FY20	69,714	3.56	1.81
Q2FY20	69,969	3.95	2.02
Q3FY20	73,140	6.78	3.88

Source: Bank presentation

Factors that will influence bank's asset quality profile

- Economic, business slowdown, and recovery
- Default risks in MUDRA loans
- Recoveries from large stress accounts

S L Jain, executive director in BoB, said at a meeting with analysts that the divergence was due to two factors. One, shortfall in provisioning which happens due to the value of security, which deteriorates with the time for which you have to provide these. Two, asset qualification due to interpretational issues. The bank had, he said, provided in Q3 for all the divergence RBI suggested.

Jain said about Rs 2,000 crore was due to a big financial services entity and Rs 2,000-3,000 crore was due to the segments of agriculture, retail and small & medium enterprises. More from the loan book of BoB than those of Dena and Vijay Bank. The later two merged into BoB at the start of this financial year.

Broking house Motilal Oswal says BoB continues to report

weak numbers as fresh slippage stays elevated and business growth moderates. The appointment of Sanjiv Chadha as managing director and CEO removes one concern. However, the standing watch-list and SMA-2 assets in a slowing economy remain a concern, it said. Jain said the bank was not unduly worried over the watch-list accounts; it was regularly monitoring these.

Vibha Batra, co-founder at Fairconnect Business Advisors, said one has to be watchful of the burden of provisioning for some accounts. The macro economic environment would also have abearing on the asset quality profile.