Covid impact: Private banks set aside over 75% of operating profit as provisions in Q4

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The lenders together logged an operating profit of Rs 37,082 crore, of which Rs 28,078 crore were set aside as provisions. Two of them — Yes Bank and Axis Bank — actually provided far more than their respective operating profits. With an operating profit of Rs 106 crore, Yes Bank took a provisioning hit of Rs 4,872 crore.

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Prashant Kumar, MD & CEO, Yes Bank, told analysts that the bank had worked to achieve a 74% provision coverage ratio (PCR) by providing for both loans and investments. “So basically, (an) attempt has been made to insulate the balance sheet from any past event, so 74% is more or less in alignment with the LGD (loss given default) and we believe going forward, we need to take clear or visiting requirement more or less only for the fresh slippage,” Kumar said.

Axis Bank said it had taken a specific formula-based approach to provisioning on its exposures to weak standard assets in its BB-rated pool. It has also provided for security receipts and reduced the size of its bond book before participating in the targeted long-term repo operations (TLTROs). Axis Bank has also turned more cautious on its unsecured retail book and provided accordingly.

Amitabh Chaudhry, MD & CEO, Axis Bank, told analysts, “On the retail side, we have stringent rule-based provisioning norms which are higher than regulatory provisioning norms. We recognise NPAs (non-performing assets) on a daily basis and fully provide for NPAs on 90 days on personal loans and credit cards.” The lender’s provisioning for Covid-19 risks aggregated to Rs 3,000 crore in Q4, and its total pool of provisions for various contingencies stood at Rs 5,983 crore.

Analysts say banks are justifiably front-loading provisioning as the Covid outbreak will throw up fresh risks even as the asset quality landmines of the past have been adequately dealt with. In a note dated May 21, India Ratings & Research said that Covid-19 may cause total slippages of up to Rs 5.5 lakh crore. Much of this incremental slippages — about 40% — could emerge from the retail segment.

“Ind-Ra believes the Covid-19 situation will significantly aggravate the stress in retail portfolio, specifically the unsecured portfolio; in the last five years, the delinquencies have increased by 50%,” the note said, adding, “The impact could be higher especially for private sector banks whose unsecured retail portfolio accounts for 16.6% of the total bank credit as against 6.3% for public sector banks (PSBs).”