S&P says Indian banks highly stressed, quotes Axis Bank Q4 results

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It said Axis Bank identified that more than 10% of its customers (25% of its loan book by value) as on April 25 availed the payment moratorium.

Large unanticipated asset quality shocks could result in a downgrade of the bank, S&P said.

S&P on Tuesday said Axis Bank's results for the year ended March 31 underscore high levels of stress and uncertainty across the Indian banking system.

"The negative outlook on Axis (BBB-/Negative/A-3) reflects our view that the economic risks for the banks, and the Indian economy at large, remain high," the agency said in its report.

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"In our opinion, systemic pressures for Indian banks could rise owing to the recently announced extension of the nationwide lockdown to check the Covid-19 spread," the global rating agency wrote.

It said Axis Bank identified that more than 10% of its customers (25% of its loan book by value) as on April 25 availed the payment moratorium. The bank's additional bad-loan provisioning of Rs 7,700 crore, including Rs 3,000 crore related to the Covid-19 pandemic, triggered its Rs 1,400-crore after-tax loss for the quarter ended March 31.

"Axis' credit costs for the quarter ended March 31 are higher than we anticipated, but some of it is precautionary, in our view. Prudent provisioning will certainly help the bank take care of future credit costs. The significant number of the bank's borrowers opting for moratorium could be partly due to some of the stronger borrowers also opting to conserve liquidity in these tough times. We will compare the proportion of customers availing the moratorium to see if Axis is an outlier to peers. We expect the bank to maintain its strong market position and adequate capitalisation over the next 18 months," the agency said.

Large unanticipated asset quality shocks could result in a downgrade of the bank, S&P said. Such a situation could arise if Axis' stressed assets rise significantly beyond the system average or economic risks in India rise sufficiently for a downward revision of the banking industry country risk assessment on the country, it said.

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