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Treasury gains to buffer bank profits but bad loans may play spoilsport in Q1

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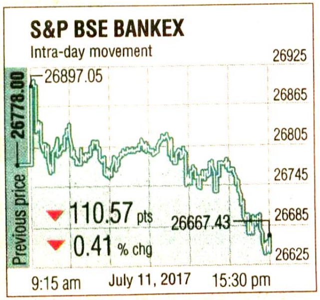
Mumbai: Reserve Bank of India (RBI)'s move of asking banks to fast track and resolve non-performing assets (NPAs) will dim the performance of the corporate-focused banks while banks with a larger share of retail loans are expected to do better. The regulator asking banks to keep aside 50% as provisions for 12 large accounts that comprise 25% of the gross NPAs, will also dent balance-sheets of banks.

However, the treasury profits are going to be a big cushion during the quarter.

Reliance Securities said in a report, "Besides the 50% provisioning, RBI has given a timeframe of six months (till December 31, 2017) to resolve several other large stressed accounts. In case



the banks fail to resolve these accounts by the given timeframe, they might have to refer them to Insolvency and Bankruptcy Code (IBC). Hence, we expect earnings of the corporate-focused banks to remain subdued in Q1FY18."

Darpin Shah, an analyst at HDFC Securities, said, "The divergent performance of the banking sector is expected to continue in the first quarter (Q1). Corporate-heavy banks are expected to report subdued performance, slower growth and elevated provisions (even tough some of these banks have superior provision coverage ratio,that is high provisions).".

Bucking the trend will be banks with higher retail and consumer portfolio like HDFC Bank, IndusInd bank, Federal Bank, Development Credit Bank will do well. IndusInd which already reported its first quarter results on Tuesday posted a 26% rise in its profits. Romesh Sobti, MD and CEO, IndusInd Bank, said in a release, "The quarter saw the momentum of the economy gradually picking up as the process of remonetization moved towards completion." **Turn to p3**

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"With consumption activity slowly picking up, there is a sustained rise in credit uptake. The bank posted net profit up 26% and net interest margin (NIM) for the current quarter stood at 4.00% as against 3.97% in the corresponding quarter of the previous year," Sobti said.

If you look at the banking sector credit growth up until June 23, 2017 it was a paltry 6% . And the year-to-date growth in loan book stood at negative 0.3%, which clearly indicates muted growth in loan book in Q1FY18, especially of the corporate focused PSU banks. Further, deposit growth also remains higher due to massive deposit inflow during the demonetization drive," Reliance Securities added in its report.

The excess liquidity in the system also led to lending rates falling sharply which moderated NIM, which is the difference in the rate at which the bank earns on its loans and cost of its deposits. The flush of liquidity continues to keep lending rates low which is forcing banks to cut the rates on their deposits.

"However, the sector has got positively impacted by the shift in RBI monetary policy stance from neutral to accommodative due to sharp fall in inflation. G-Sec yield declined sharply post May 2, 2017, which resulted in mark-to-market (MTM) gain on non-HTM (held to maturity) investment portfolio of the banks" Reliance securities added in its report.. As the banks have deployed major chunk of excess liquidity from the demonetization drive in these government bonds., they have option to book profit from this portfolio. Further, the treasury gain is expected to remain sequentially higher, which would support their profitability, said the report.