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THE COMPASS

SBI has some more book cleaning to do

Higher slippages from retail, SME and agri portfolios disappoint Street

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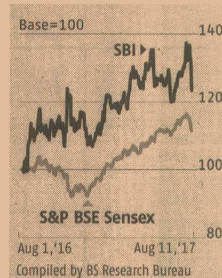
The stock of State Bank of India (SBI) was the top loser among Sensex stocks, shedding 5.4 per cent on Friday. The June quarter (Q1) results were way below estimates, due to higher-than-anticipated slippages in the non-corporate book. Operationally, too, there wasn't much to be excited about. On a comparable basis (adjusting for the merger of subsidiaries), net interest income (NII) declined 3.5 per cent year-on-year (y-o-y) to ₹17,606 crore.

About 60 per cent of the loan book has migrated to the MCLR (marginal cost of funds-based lending rate), which explains the NII weakness. SBI has passed on 200 basis points of interest rate reduction to customers, as required under MCLR regime. While NII fell, operating expenses increased 3.7 per cent year-on-year to ₹13,738 crore. Thus, profit before provisioning of bad loans fell 13.7 per cent to ₹11,874 crore as little support came from NII. Year-ago numbers, however, were padded by ₹907 crore of gains from stake sale in the National Stock Exchange. Change in accounting policy of certain non-fund instruments also hampered non-interest income. Some relief came from reduction in provisioning, down 26.3 per cent year-on-year, which helped net profit to zoom from ₹374 crore a year-ago to ₹2,006 crore in Q1. However, bad loan provision increased 7.6 per cent y-o-y to ₹12,125 crore. Provision write-back in a few standard assets helped the provisions look better. On a consolidated basis, asset quality remained weak again, with gross non-performing assets (NPA) at ₹1,88,068 crore, up 37 per cent y-o-y, to 9.97 per cent of loan book versus 7.4 per cent a year ago and 9.11 per cent in March 2017 quarter.

A disturbing factor was the lack of comfort in judging if the slippages were plateauing for SBI. The March quarter was considered to be last lap in the book-cleaning process. But, slippages (loans that turned bad) at ₹26,249 crore shook the Street. While loans above ₹50 crore were in sync with the parent bank's standard processes, those below that might take a few more quarters to get aligned. So, slippages from corporate book were contained at ₹8,363 crore, with 95 per cent coming from the watch list. However, non-corporate slippages (₹17,886 crore or 68 per cent of total slippages) were a surprise, largely due to the merger of associates into SBI, something the Street hadn't factored in fully.



Compiled by BS Research Bureau

Factors such as farm loan waiver in some states and absence of RBI dispensation (relaxation in NPA recognition) for loans less than ₹1 crore announced after demonetisation also contributed to the spike. With SBI expecting total non-corporate slippages at ₹30,432 crore in FY18, investors should brace for two or three quarters of pain from this portfolio. For now, the confident management guidance – reduction of slippages ratio to 3.3 per cent and credit cost to 2.25 per cent in FY18 from 5.38 per cent and 2.48 per cent, respectively, in Q1 was the only assuring takeaway. Asutosh Mishra of Reliance Securities said this perhaps was the first time SBI has come out with such string guidance.