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Losses in g-secs due to higher yields, uncertain leadership also weigh on them

High Provisions may Dent Bank Profits This Quarter

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Mumbai: Higher provisions due to rising non-performing assets, losses on account of marked-to-market investments in government securities and uncertainty on leadership will weigh on banks as they set to report fourth-quarter results.

Analysts expect net profits of large banks to fall as elevated provisions continue to take a toll.

"Results for all banks will be under pressure. And, for some like Punjab National Bank (PNB) which is recovering from a banking fraud, the losses will be high," said Alpesh Mehta, an analyst at Motilal Oswal.

Brokerage firm Jefferies expects PNB to report a loss of ₹8,759 crore in the quarter through March, compared with a profit of ₹262 crore a year earlier, as provisions are likely to triple to ₹16,026 crore, due to the ₹13,578-crore scam.

"We expect PNB to report a large loss owing to higher provisions. We expect net interest margins to improve and loan growth at 10% y-o-y. We look for the next round of capital infusion as CET 1 (common equity tier 1 capital) is bordering the regulatory minimum," Jefferies said. Banks, however, will get some relief because of two temporary leeway given by the RBI.

Earlier this month, RBI said provisions for accounts referred to the NCLT can be reduced to 40% of dues from 50% just for the March quarter.

Banks have also been allowed to spread out their trading losses over four quarters, after a steep rise in bond yields over the past two quarters. The benchmark 10-year bond yield has moved in the 7.21-7.82% range, touching a 2-year high during the quarter ended March which exposed banks to marked-to-market losses.

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> ASUTOSH MISHRA, Reliance Securities

But the real concern is an old one: elevated NPAs from the corporate sector. "We expect banks with significant exposure to corporate term loans to report elevated levels of provisioning. Further, the new RBI framework on stressed assets resolution, along with ageing of existing NPAs and write-down of security receipts from sale to ARCs, may keep credit cost at elevated levels in 4QFY18," Asutosh Mishra of Reliance Securities wrote in a note.

Higher provisioning due to the RBI's directions in February, asking banks to take all NPA cases where a bank's exposure exceeds ₹2,000 crore to the National Company Law Tribunal (NCLT) for bankruptcy proceedings, will also hurt banks.

"Fresh slippages are expected to increase sequentially as many large stressed loans, which were under implementation for various earlier restructuring schemes, may get classified as NPA under the new stressed asset framework," Mishra from Reliance Securities said.

There are concerns over leadership, especially in private sector banks. Axis Bank chief executive Shikha Sharma is set to quit amid questions over the bank's performance, while ICICI CEO Chanda Kochhar is under the scanner over nepotism charges. "We believe the street has written-off the quarter as a bad one and hence downside ought to be limited," Jefferies said. "Yes Bank is our top pick other than the steady HDFC Bank."