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MID AND SMALL-SIZED state-owned banks still in the woods, weighed down by sticky loans

Large PSU Banks Show Signs of a Turnaround

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Mumbai: Large state-owned banks, which have been grappling with mounting bad loans for the past few years, have shown first signs of resilience as their profits have increased and provisions have dropped in the quarter ended March 2017. However, mid- and small-sized state-owned banks continue to languish, weighed down by sticky loans.

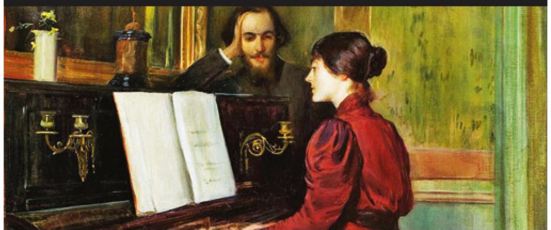
Top four public sector banks have either swung back to profits from a loss last year, or have posted a large jump in profits as provisions decreased. Punjab National Bank (PNB), Bank of Baroda (BoB) and Canara Bank have all posted profits in the quarter ended March 2017 from a loss a year earlier, while State Bank of India's (SBI) profits have more than doubled, mainly because its provisions for bad loans came down.

Analysts said the results showed that these banks had already recognised most of their bad loans and may have taken the first step to a long awaited recovery.

"This quarter's results have definitely made me more confident that the large state-owned lenders have taken the first step towards recovery because their recognition in some cases has been more proactive than private sector lenders. Now when the resolutions happen, these banks will enjoy higher recoveries and upgrades which will benefit them from the fiscal 2019 onwards," said Asutosh Kumar Mishra, analyst at Reliance Securities.

But not all these big banks reported profits led by performance, though provisions for all these lenders fell sharply. PNB, for instance, reported a net profit of ₹262 crore, compared with a loss of ₹5,367.14 crore a year ago, mainly as it wrote back provisions of ₹2,027 crore for employee pensions and gratuity, which its external auditors have noted as done 'without qualifying opinion'.

WITH A STRONGER BOOK



SANTIAGO RUSINOL, *A Romance*

Broadly all these large lenders reported profits riding on a fall in provisions. SBI's standalone net profit more than doubled to ₹2,815 crore from ₹1,264 crore, primarily because provisions dropped 9.4% YoY even though its operating profit improved by 13%.

"Operating profit for these large lenders has improved which has helped them to clean up their balance sheet. Lower cost of funds and operating expenses have also helped them, but we would like to see at least a couple of more quarters of performance to see if this recovery is solid," said Gautam Duggad, head of research at Motilal Oswal Securities.

What has impressed analysts is the low divergence of what these large banks had declared as bad in the last quarter in fiscal 2016 and those assessed by the Reserve Bank of India (RBI).

"Clearly the state-run banks have come out stronger after the RBI assessment. Though this is a positive, it does not mean their problems are over. Public sector banks continue to add fresh bad loans at a fast clip and they do not have the retail franchise of their private sector counterparts. So, a recovery for these lenders is still a long way off," said Punit Srivastava, analyst at Daiwa Capital.