THE ECONOMIC TIMES

Mon, 31 Jul-17; Economic Times - Mumbai; Size : 325 sq.cm.; Circulation:-;
Page : 12

RISING DEFAULTS While HDFC Bank's NPAs had risen to the highest level in 7 years, Axis Bank saw deterioration in loans outside its watch list

Farm, SME Stress Add to Private Sector Bank Woes

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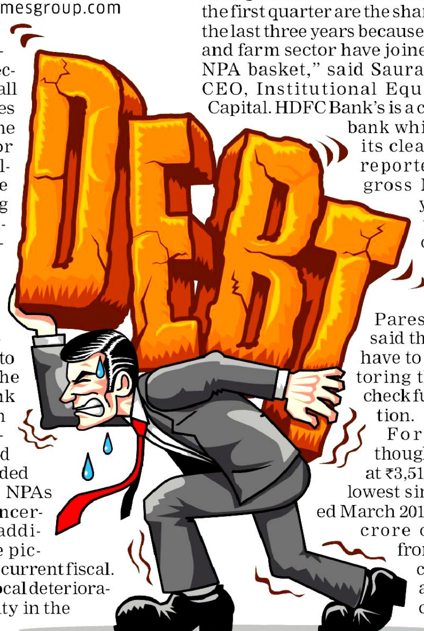
Mumbai: Rising defaults from the farm sector and stress from small and medium enterprises (SMEs) have added to the woes of private sector lenders which were already reeling under the rising non-performing assets (NPAs) from infrastructure linked sectors.

Results released last week showed that HDFC Bank's NPAs had risen to the highest in seven years due to slippages linked to the farm sector. Axis Bank saw deterioration in loans outside its so-called watch list and though ICICI Bank added the slowest amount of NPAs in seven quarters, uncertainty about future additions has clouded the picture for the bank in the current fiscal.

"There is an unequivocal deterioration in the credit quality in the first quarter. The additions in the NPAs in the first quarter are the sharpest increase in the last three years because loans from SME and farm sector have joined the corporate NPA basket," said Saurabh Mukherjea, CEO, Institutional Equities at Ambit Capital. HDFC Bank's is a case in point. The bank which is known for its clean asset quality reported the highest gross NPAs in seven years mainly due to deterioration of some farm loans even as deputy managing director Paresh Sukthankar said that the bank will have to continue monitoring this portfolio to check further deterioration.



For Axis Bank though fresh slippages at ₹3,519 crore were the lowest since quarter ended March 2016, around ₹1,500 crore of these came from outside the so called watch list accounts, raising concerns on future NPA additions for the banks. However, it is ICICI Bank which worrying analysts even though the bank added ₹4,975 crore in gross NPAs during the three month ended June 2017, the slowest in seven quarters.

"The total stressed loans for ICICI at 14% are one of the highest among private banks. Comparatively, only 6.5% of Axis' loans are stressed. What is more worrying is the fact that ICICI's provision coverage ratio is low at 41% compared to Axis' 65%. Clearly, ICICI Bank is the lowest in the pecking order among large private sector lenders," said Asutosh Mishra, banking analyst at Reliance Securities.

The stress in ICICI's loan book was evident by the 2.6% year on year growth in the bank's corporate loan book to add to the 25% shrinking in the bank's international loan book which is having a negative impact on the bank's profitability as reflected in the meagre 3% growth in the loan book.

"This also means that ICICI could lose market share to well capitalised or better placed lenders like HDFC Bank which will create challenges for it in the future," Mishra said.

Analysts said the subdued profitability and clouded outlook on asset quality are likely to drag the bank down in the current fiscal year.

14% Rise in total stressed loans for ICICI Bank

2.6% Stress in ICICI Bank's corporate loan book y-o-y

25% Shrinking international loan book

NPA Additions

Axis Bank — **₹3,519cr** Fresh slippages; **₹1,500cr** Came from outside the watch list accounts

ICICI Bank — **₹4,975cr** Addition to gross NPAs during three month ended June 2017