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SBI reports Rs2,416 crore loss as bad loans surge

Jim Rogers says next market rout will be worst in his lifetime
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The bank set aside Rs3,400 crore as a mark-to-market provision due to rising bond yields

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MUMBAI

State Bank of India (SBI), India's biggest lender by assets, on Friday reported a net loss of Rs2,416 crore for the fiscal third quarter after setting aside funds to cover rising bad loans and losses on its bond portfolio.

It had reported a net profit of Rs1,582 crore in the September quarter.

This was the lender's first quarter under the chairmanship of Rajnish Kumar, who took over in October.

In a post-results teleconference, Kumar said that in addition to provisions related to non-performing assets (NPAs), the bank kept aside Rs3,400 crore as a mark-to-market provision on account of rising bond yields. It also made a Rs700 crore provision for the next round of employee wage hikes.

The previous wage revision agreement for employees of state-owned banks expired on 31 October.

In the December quarter, yield on the 10-year benchmark government bond rose by 66 basis points. Banks have to revalue their bond portfolio at the end of every quarter. In case the value of the securities is lower than the market rate, they are mandated to keep aside funds as mark-to-market provisioning.

SBI chairman Rajnish Kumar.

The rise in bad loans was because of a Reserve Bank of India (RBI) review which revealed a divergence in reporting of gross NPAs based on fiscal 2017 results. Such divergence—the difference between RBI's assessment and that reported by the lender—was around Rs23,239 crore at the end of March 2017.

Of the divergence, loans worth Rs2,835 had already been recognized as NPAs in the June quarter, while Rs4,338 crore was upgraded to standard category later. The remaining amount was tagged as bad loans in the three months ending December. Accordingly, total slippages rose to Rs25,836 crore, compared with Rs9,026 crore in July-September.

Kumar said 90% of the slippages had already been recognized as stressed accounts and restructured under various RBI schemes.

Gross NPAs as a percentage of total loans stood at 10.35% as on 31 December, up from 9.83% reported in the previous quarter.

In the third quarter, SBI made a loan loss provision of Rs17,760 crore, as compared with Rs9,662 crore a year ago. Provision coverage ratio improved to 65.92% at the end of December, from 58.96% a year ago.

According to the bank's management, NPA recognition has peaked and is not expected to rise here on.

"Many of the resolutions will happen in the June quarter. I don't want to sound very optimistic on the fourth quarter (March), and neither very pessimistic," Kumar said, adding that the bank is working on a strategy to capture growth opportunities.

"Looking forward, 2019 onwards, we have certain estimates and plans to achieve a certain level of return on assets. That is what is on our horizon. Today I am sitting in February, in 45 days no miracle will happen. But we can hope for much better performance in the next (fiscal)," he said.

SBI expects both loan slippage ratio and credit cost, or the percentage of provisioning against total advances, to be within 2% in the next fiscal. Currently, slippage ratio stands at 4.17% and credit cost at 3.18%.

Udit Kariwala, senior analyst, financial institutions, at India Ratings, said that while fresh slippages in the banking sector are slowing, it is not the end of the asset quality pain as large pool loans are still not recognized as stressed.

"Our analysis shows that approximately Rs2 trillion of corporate loans in the banking sector can turn NPA in the next 12-18 months," he said.

While net interest income, or the difference between interest earned and expended, rose, a fall in non-interest income, which includes treasury gains and fee income, contributed to the loss. In the third quarter, non-interest income declined by 29.75% year-on-year to Rs8,084 crore, mainly due to lower profit on sale of investments.

SBI clocked a year-on-year loan growth of 2.52%, supported by growth in retail products such as home and auto loans, and also by credit to small and medium enterprises. Outstanding loans as on 31 December stood at Rs19.24 trillion.

Kumar said that with an economic revival underway, SBI is targeting a loan growth of 10.3% in the next financial year. To support such growth, the bank plans to raise Rs20,000 crore in 2018-19.

According to Ashutosh Mishra, banking analyst at Reliance Securities Ltd, there will be some negative reaction to SBI's stock in the next few sessions as such a large divergence was not expected.

"But overall, it reflects that crystallization of stressed assets on the balance sheet and profit & loss account has taken place and things should improve from the next financial year," he said.