

Banks' bad loan hiccups resurface in June quarter

Breaking four consecutive quarters of decline, NPAs rose partially due to falling advances; gross NPAs rose 9.7% in Q1 from 9.5% last quarter

SUNITHA NATTI @ Hyderabad

JUST as the bad loan clean-up exercise was drawing to a close, gross NPAs shot up once again in the June quarter of this fiscal, ending four consecutive quarters of decline.

Strangely, as a percentage of total advances, the rising NPAs aren't strictly due to more good loans turning bad, but because of falling advances as well.

During the June quarter, gross NPAs as a percentage of total advances rose to 9.7 per cent from 9.5 per cent in March quarter of the previous fiscal, as gross advances declined to ₹95.8 lakh crore in Q1FY20 from ₹96.8 lakh crore during Q4FY19. In June 2018, it was 11.5 per cent.

In absolute terms, however, bad loans marginally grew to ₹9,26,760 crore from ₹9,21,673 crore, rising a mere 0.5 per cent, although they reduced by 7.6 per cent over last year. "Gross NPAs as a percentage has gone up in June 2019 from March because of decline in gross advances, which is typical in Q1 because of seasonal decline in bank credit. Otherwise, gross NPAs and net NPAs have largely remained the same," Anil Gupta, vice-president and sector head, financial sector ratings, ICRA, told *TNIE*.

Gross slippages rose to ₹83,800 crore in Q1FY20 from ₹74,000 crore in Q4FY19, but stood lower than last year's ₹94,700 crore.

The annualised fresh slippage ratio rose to 3.8 per cent during Q1 after four consecutive quarters of decline, primarily due to MSME loans after the expiry of forbearance in NPA classification norms, which was earlier extended to 180 days from 90 days. ICRA estimates that MSME advances of banks, which were under forbearance, stood at ₹9,100 crore or 0.9 per cent of total MSME advances as on March.

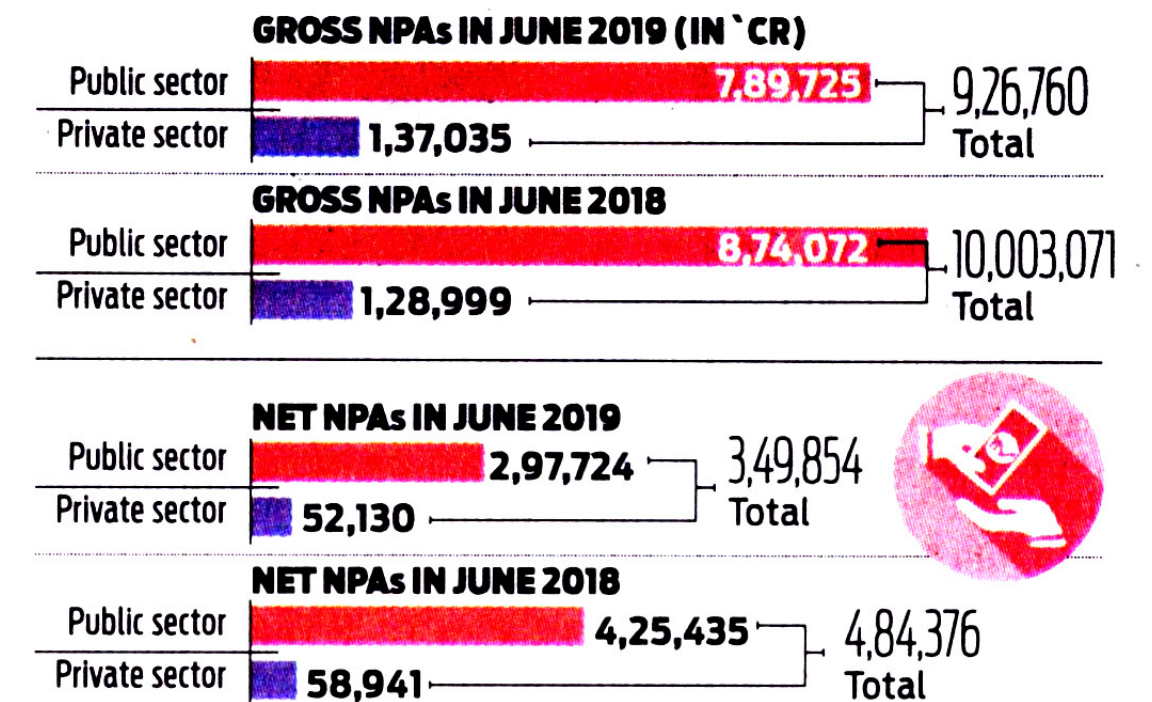
"Furthermore, in line with the one-time restructuring for MSME advances, which was allowed by RBI in January 2019, banks undertook restructuring worth ₹6,500 crore or 0.6 per cent of the MSME advances as

on March 2019. Given the window is available till March 2020, we expect MSME restructuring to increase further in the coming months," Gupta explained.

Apart from MSME advances, some private lenders saw higher slippages in agriculture and corporate sectors. Adding to this was the classification of Ratnagiri Gas and Power.

"Going forward, we expect the slowing economic environment and increased refinancing challenges may exert pressure on asset quality of lenders, even as reduction in benchmark lending rates may reduce the interest servicing burden of borrowers and buttress their debt servicing ability amid above challenges," Gupta added.

7.6% decline in NPAs on year



Source: ICRA