BANKING Q2 SCORECARD

One-time tax expense hits Axis hard

Profit before tax doubles, but deferred tax asset impact pushes bank into loss

NIDHI RAI
Mumbai, 22 October

Private sector lender Axis Bank on Tuesday reported a 109 per cent rise in its profit before tax (PBT) for the quarter ended September 30, 2019. But the bank suffered a net loss of ₹112 crore for the quarter due to a ₹2,138-crore one-off deferred tax asset (DTA). It decided to fully adjust the impact in this quarter itself. But for this, the bank would have reported a profit after tax (PAT) of ₹2,026 crore, up 157 per cent year-on-year (YoY).

Net interest income (NII) grew 17 per cent YoY to ₹6,102 crore during the quarter, from ₹5,232 crore in the corresponding period of the previous year. Net interest margin (NIM) increased sequentially to 3.51 per cent, from 3.40 per cent, which is the highest in the last nine quarters. Last year, the NIM was at 3.39 per cent in the same quarter. Axis said the NIM improved because of a decline in the cost of funds which fell by 8 basis points quarter-on-quarter. Cost of funds stood at 5.62 per cent, compared to 5.70 per cent sequentially.

Domestic loan book grew 19 per cent YoY, retail book by 23 per cent, and domestic corporate loans grew 18 per cent. Fee income grew 11 per cent, led by retail fees, which grew 16 per cent. Total deposits on quarterly average basis grew 23 per cent, and the bank raised equity capital of ₹12,500 crore through a qualified institutional placement to enhance its capital adequacy position. Under Basel III, the capital adequacy ratio (CAR) and Tier I CAR stood at 18.45 per cent and 15.25 per cent, respectively.

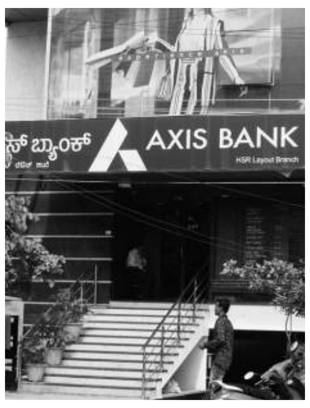
Kajal Gandhi, vice-president (research) at ICICI Securities, said: "The operational numbers are looking good and the asset quality is also reasonable. I don't think the Street will react negatively to these set of numbers. The Street can react in a neutral to positive manner."

The gross and net non-performing assets (NPAs) book fell for the sixth straight quarter. GNPA and NNPA ratios were 5.03 per cent and 1.99 per cent, compared to 5.25 per cent and 2.04 per cent in the first quarter. GNPA and NNPA for the second quarter of 2018-19 were at 5.96 per cent and 2.54 per cent, respectively. Gross corporate slippages for the quarter stood at ₹2,862 crore, of which 97 per cent came from 'BB' and below-rated clients (loan and investment exposures). The bank also holds ₹2,600 crore of provisions towards various contingencies

Commenting on the slippages, Axis Bank Managing Director Amitabh Chaudhry said, "We have recognised that we need to work in some areas. The bank slippage numbers have remained elevated in this quarter, reflecting the situation in corporate lending. Almost all our slippages came from previously disclosed 'BB' and below-rated clients." He said: "We have a residual stock of stress built up over the years. While slippages continue to come from this stock, the current macro environment is not enabling a quick rundown of the pool. We expect the slippages to remain elevated from this stock. There are examples where slippages from this stock are likely to be recovered in the next quarter."

Regarding retail loan, Chaudhry said, "Consumer debt levels have gone up marginally in recent years, but remain significantly below developing country averages in almost every product category."

On the liquidity crisis in the non-banking financial sector, Chaudhry clarified in the small and medium business segments, there are some sign of stress due to delayed payments. "We need to remain cautious, as the funding issues in NBFCs could have a bearing on this segment, too," he said.



Q2 FINANCIALS

Figures in ₹ crore

	Q2FY19	Q2FY20	Chg (%)
Net interest income	5,232.1	6,101.8	**16.6**
Operating profit	4,094.0	5,951.6	**45.4**
Provisions and contingencies	2,927.4	3,518.4	**20.2**
Profit before tax	1,166.6	2,433.2	**108.6**
Provision for taxes	377.0	2,545.3	**575.1**
Net profit	789.6	-112.1	**PTL**
Gross NPA	30,938.3	29,071.4	**-6.0**
Gross NPA (%)	5.96	5.03	**-93 bps**

Source: Capitaline

Kotak Bank profit surges

SUBRATA PANDA
Mumbai, 22 October

Kotak Mahindra Bank posted a 15.5 per cent rise in consolidated profit before tax (PBT) at ₹2,944.71 crore for the quarter ended September 30, 2019, (Q2FY20), from ₹2,549.91 crore in the year-ago quarter.

Its net profit jumped 38 per cent to ₹2,407.25 crore in Q2FY20, against ₹1,747.37 crore a year ago, on account of higher net interest income (NII), which is the difference between interest earned and interest expended. Total consolidated income was up 15.8 per cent year-on-year (YoY) to ₹12,543 crore.

On a standalone level, which represents the banking operations, PBT at ₹2,100.63 crore was up 20.6 per cent YoY, while net profit was up 51 per cent YoY to ₹1,724.48 crore.

The bank's NII grew 25 per cent to ₹3,350 crore in Q2FY20, against ₹2,676 crore in the year-ago quarter. Net interest margin (NIM), a measure of profitability of banks, stood at 4.61 per cent, compared to 4.19 per cent a year ago. Margins were helped by an increase in the share of low-cost current account and savings account (CASA) to 53.6 per cent in Q2, from 50.2 per cent in the September 2018 quarter.

On the asset quality front, gross non-performing assets (NPAs), on a standalone basis, for Q2FY20 rose to 2.32 per cent, from 2.15 per cent in the year-ago quarter. Gross NPAs rose on sequential basis, too, from 2.19 per cent in the June 2019 quarter. Net NPA stood at 0.85 per cent, up from 0.81 per cent a year ago and 0.73 per cent in the June 2019 quarter. The provision coverage ratio of the bank, excluding the technical write-offs, was at 64 per cent in Q2FY20. Total advances, on a standalone basis, grew 15 per cent to ₹2.13 trillion, while deposits grew 13 per cent to ₹2.33 trillion YoY. The capital adequacy ratio, on a standalone basis, as of September 2019, stood at 18.2 per cent with Tier 1 capital at 17.6 per cent.

Disclosure: Entities controlled by the Kotak family have a significant holding in Business Standard Pvt Ltd

RBL Bank posts 67% fall in PBT

HAMSINI KARTHIK
Mumbai, 22 October

RBL Bank on Tuesday reported a 67 per cent fall in profit before tax (PBT) year-on-year (YoY) to ₹102.5 crore, while its net profit fell by 73 per cent YoY to ₹54.3 crore. Its net interest income, however, increased by 47 per cent YoY to ₹868.7 crore in the second quarter (Q2).

Provisioning cost, which rose by 281 per cent or nearly three times YoY to ₹533.3 crore, did the damage. While gross non-performing asset (NPA) ratio increased from 1.4 per cent a year ago to 2.6 per cent in Q2, net NPA ratio came at 1.56 per cent versus 0.74 per cent last year. With this, the bank has breached its full-year gross NPA guidance of 2-2.5 per cent provided after June quarter results.

RBL Bank's stock declined by 2.81 per cent on Tuesday to end at ₹286.95, ahead of the results (after after market hours).

Provisioning coverage ratio dipped from 61.5 per cent last year to 58.4 per cent in Q2, indicating that there could be more clean-up in the coming quarters. The bank has also reported an increase in identified pool of stressed assets from ₹1,000 crore guided earlier to ₹1,800 crore in Q2.

Bank of Maharashtra's profit rises

Bank of Maharashtra on Tuesday reported profit before tax (PBT) at ₹751.78 crore for the second quarter (Q2) ended September 30 (Q2FY20), down from ₹794.34 crore in the same quarter a year ago.

Its net profit jumped over fourfold to ₹114.66 crore in Q2, due to fall in bad loan proportion leading to decreased provisioning requirement. The total income of the bank during Q2FY20 rose to ₹3,295.91 crore, against ₹3,192.80 crore in the same period previous year. BS REPORTER

MEGA MERGER PROTEST

Banking operations across India were partially hit on Tuesday as 400,000 employees of PSBs, a few old-generation private and foreign banks, went on a one-day strike to protest the Centre's mega-merger plan and reduction in interest rates on deposits. In Maharashtra, 40,000 bank employees from 10,000 branches were on strike. The one-day strike had been called by two unions — All India Bank Employees Association and Bank Employees Federation of India PHOTO: KAMLESH PEDNEKAR

Banks may face capital shortfall of $50 bn: Fitch

ABHIJIT LELE
Mumbai, 22 October

Rating agency Fitch Ratings on Tuesday said Indian banks might face a capital shortfall of $50 billion in the event of a systemic crisis in the non-banking financial company (NBFC) sector.

The stress test conducted on the banking entities show that the credit profiles of state banks would come under significant pressure. The weakest, including those with viability ratings in the 'B' range, would face heightened solvency risks without capital injections from the government, the agency said.

The agency assumes that 30% of banks' NBFC exposure becomes non-performing, but the figure reflects the proportion of the sector that is characterised by riskier business and financial profiles

The sector is already $7 billion short of the capital required to meet a 10 per cent weighted-average common equity tier-1 (CET1) ratio, the level that would give them an adequate buffer above regulatory minimum. The gap would rise to about $50 billion by financial year end (FYE) 2021 under the stress scenario. Banks would also be $10 billion short of the capital required to meet the regulatory minimum of 8 per cent that is set to apply from end-March 2020.

The stress test conducted on banks examined the potential impact on banks of liquidity pressures in the NBFC sector developing into widespread failures. The rating agency assumed that 30 per cent of banks' NBFC exposure becomes non-performing. This is as close to a worst-case scenario, but the figure also reflects the proportion of the sector that is characterised by riskier business and financial profiles.

The agency said it also pictured a scenario where 30 per cent of banks' property exposure becomes non-performing, due to tight liquidity and weak sales. The property development sector is particularly reliant on the NBFC financing.

These defaults would reverse recent progress that banks have made in reducing their non-performing loan (NPL) ratios. The banking system's gross NPL ratio would rise to 11.6 per cent by FYE21, from 9.3 per cent in FYE19, compared with the baseline expectation of a decline to 8.2 per cent. Increased credit costs and a weaker economic environment would result in significant losses over the next two years.