IDBI Bank's net loss narrows to ₹3,459 cr ...

OUR BUREAU
Mumbai, November 8

IDBI Bank's net loss in the September quarter has narrowed to ₹3,459 crore, against a net loss of ₹3,602 crore in the same period last year.

Net interest income, or the difference between interest earned on loans and that paid on deposits, increased 25 per cent to ₹1,631.48 crore, from ₹1,301 crore in the corresponding period last year.

Other income, which includes core fee income, gained 28 per cent to ₹1,033 crore in the period under review.

Net interest margin improved by 53 basis points to 2.33 per cent, against 1.80 per cent logged in same period last year.

Net NPAs reduced to ₹7,919 crore in September quarter from ₹27,295 crore as on September 30, 2018, and ₹10,963 crore in June quarter.

First-time NPAs reduced by 41 per cent to ₹2,059 crore (₹3,489 crore).

CASA deposit has crossed the one trillion mark and stands at ₹1,04,027 crore as on September 30, against ₹90,071 crore recorded in same period last year, an increase of 15 per cent.

Structured Retail Assets portfolio increased by ₹8,180 crore to ₹56,320 crore (₹48,140 crore).

... but how long can LIC and Centre rescue the lender?

Q2 COMMENT

RADHIKA MERWIN
BL Research Bureau

LIC-owned IDBI Bank has been dogged by abysmal capital levels, large bad loan book, and PCA (prompt corrective action) status, throwing up big concerns for investors and its benefactors (LIC and the government).

Scan & Share

In the latest September quarter, bolstered by the ₹4,743-crore capital infusion from LIC and ₹4,557 crore from the government – totalling ₹9,300 crore – capital concerns appear to have eased for now.

The bank has also increased provisions significantly, bringing down its net non-performing assets (gross NPA less provisions) sharply.

With higher capital ratios and lower net NPAs, IDBI Bank has now moved out of the RBI's risk threshold levels under PCA on these parameters (still falls short on the profitability front though, with negative returns).

So, is the worst over for the bank? Much of the relief for the beleaguered bank has come due to the tidy capital infusion by LIC and the Centre.

With a higher capital buffer, the bank was able to set aside higher provisions for its bad loans, taking the provision cover up to 91 per cent. But given that the bank is still consolidating its loan book (6 per cent year-on-year decline in domestic loans), carries a large bad loan and stressed asset book, and continues to report loss (₹3,459 crore in the September quarter), the issue of capital may surface yet again in the coming quarters.

This, once again, begs the question: How long can LIC and the Centre rescue IDBI bank? In the June quarter, the bank's CET 1 (Common Equity Tier-1) ratio and Tier I ratio had slipped to a precarious 5.9 per cent (against regulatory requirement of 7.375 per cent) and 6.1 per cent (8.875 per cent), respectively. In the September quarter, thanks to the capital infused by the government and LIC, CET1 ratio has moved up to 9.27 per cent and Tier 1 to 9.52 per cent.

Importantly, IDBI Bank's net NPA ratio fell to 5.97 per cent in the September quarter.

Still on life support IDBI's core performance continues to be weak

Lingering concerns

However, bad loan provisioning in the September quarter remained elevated at ₹3,545 crore. Importantly, the bank's bad loans is still a large ₹52,000 crore (against market cap of just ₹25,000 crore), forming 29.4 per cent of the bank's loans. The bank's SMA book (special mention accounts where payments are overdue by 1-90 days) has risen, too.

From ₹10,272 crore in the June quarter, the SMA book has gone up to ₹13,465 crore, implying persisting stress in the bank's books, which can continue to keep slippages and bad loan provisioning elevated in the coming quarters.

As such, the bank's core performance is weak. IDBI Bank's loans (domestic) shrunk by 6 per cent in the September quarter. While the bank's net interest income grew by 25 per cent, it was on a low base (net interest income had fallen by 22 per cent in the September quarter last year).

Bank of Baroda Q2 net soars 73% to ₹737 cr ...

OUR BUREAU
Mumbai, November 8

State-owned lender Bank of Baroda posted a 73.2 per cent jump in its July-September quarter net profit at ₹736.68 crore from ₹425.38 crore a year ago. The bank's total income rose to ₹22,097.91 crore for the second quarter of FY20, compared to ₹13,429.95 crore last year.

The lender's gross non-performing assets (NPAs) reduced to 10.25 per cent (₹69,968.95 crore) of the gross advances by the end of September 2019, compared with 11.78 per cent (₹55,121.37 crore) in the year-ago period.

Net NPAs fell to 3.91 per cent (₹24,894.38 crore) from 4.86 per cent (₹21,059.22 crore) during the September quarter.

Shares of Bank of Baroda closed at ₹93.80 a share on Friday, down 2.39 per cent from the previous close on BSE.

... but weak core performance and higher slippages suggest pain in the coming quarters

Q2 COMMENT

RADHIKA MERWIN
BL Research Bureau

Bank of Baroda, after the merger with Vijaya and Dena Bank, continues to witness pressure on profitability and asset quality. In the latest September quarter, weak growth in the core net interest income – on the back of modest loan growth, higher slippages and elevated provisioning – has led to a modest profit of ₹737 crore. A still large stressed assets pool, higher addition to bad loans, and significant write-offs suggest that there could be more pain for the merged entity in the coming quarters.

Asset quality woes

Bank of Baroda has a large bad loan book of nearly ₹70,000 crore, as of September 2019, which is likely to keep provisioning high in the coming quarters. As such, slippages have moved up during the quarter, which is also a concern. From ₹5,583 crore in the June quarter, fresh slippages have moved to ₹6,001 crore in the latest September quarter. Write-offs, at ₹3,355 crore, is also significant, which implies that unless recoveries on large accounts happen, earnings could be under pressure in the coming quarters. Bank of Baroda has a total exposure of about ₹49,000 crore to accounts under IBC, against which it has made a provisioning of about 87 per cent.

Negative factor BoB's large bad loan book of nearly ₹70,000 crore is likely to keep provisioning high in the coming quarters

The bank's stressed assets book needs a close watch. As of September, the watchlist of the merged entity is a large ₹14,500 crore (though down from the previous June quarter). Ninety per cent of the slippages during the quarter came from the stressed book. In the coming quarters, slippages from the watchlist accounts can lead to higher provisioning. Power, road and NBFC sector are the top exposures for the bank within the watchlist.

On the core performance front, domestic credit growth stood at a modest 6-odd per cent in the September quarter. Further consolidation of loan book and weak credit off-take in the corporate segment may continue to weigh on credit growth. Bank of Baroda's Tier 1 capital inched upto 10.9 per cent in the September quarter (from 9.5 per cent in the June quarter).

The government has infused ₹7,000 crore in the bank during the quarter.

Moody's change in outlook may not have major impact on rupee

OUR BUREAU
Mumbai, November 8

Rating agency Moody's decision to change its outlook for India to negative from stable is unlikely to have a major impact on the rupee. Rushabh Maru, Research Analyst, Currency and Commodity, Anand Rathi Shares and Stock Brokers, said that Moody's change in outlook on India is a matter of concern, but is unlikely to have major impact on the rupee in the near term. "There is lot of optimism regarding the trade deal between the US and China. Hence, this may provide relief to the rupee," he said.

In the near term, the rupee may trade in the range of 70.80 and 71.60, Maru added.

The other factors that are in favour of the rupee is that both domestic and global equities remain strong. This may also support the rupee.

RBI's 2015 report had pointed to 'serious' deficiencies at PMC

FORUM GANDHI / SURABHI
Mumbai, November 8

Almost five years before the actual fraud was unearthed, the Reserve Bank of India had raised red flags on various aspects of lending by Punjab and Maharashtra Cooperative Bank.

The RBI, in its inspection report for 2014-15, had noted that the bank had last reviewed its credit policy on August 30, 2014. "A serious flaw detected in the credit policy was the fact that the cash credit limits were sanctioned for three years at a stretch and were not subject to an annual review…," it had noted.

The RBI report had also said that PMC Bank's credit appraisal and post disbursement supervision needed improvement. Significantly, the report at that time had observed that the bank did not maintain names of the entities related to the directors.

"The bank had maintained a list of directors and their relatives in the bank's intranet website. However, it did not maintain the names of entities in which the directors and relatives were interested in the system," the report said.

The report was made available to activist Girish Mittal in response to an RTI application filed with him. *BusinessLine* has reviewed the report shared by Mittal.

Much of this seems to be in line with the confession letter of the bank's former MD Joy Thomas and the investigations so far. The EOW of the Mumbai Police has identified Waryam Singh, former chairman of the PMC, as the key entity in keeping the fraud under cover.

The RBI report also highlighted that the audit policy of the bank was deficient and that the audit committee was not constituted as per guidelines of the RBI.

Allahabad Bank loss widens to ₹2,114 cr

OUR BUREAU
Kolkata, November 8

Dragged down by higher provisioning, Allahabad Bank saw its losses widening to ₹2,114 crore for the quarter ended September 30, 2019, when compared to ₹1,823 crore in the same period last year. Provisions and contingencies during the quarter under review grew 16 per cent to ₹2,741 crore, against ₹2,356 crore in the same period last year. Provisioning for NPA spiked to ₹2,722 crore, when compared to ₹1,992 crore.

The bank, which had come out of the prompt corrective action (PCA) framework of the Reserve Bank of India in February this year, had reported a net profit of ₹128 crore for the first quarter of this fiscal. Net interest income grew by 11 per cent to ₹1,276 crore (₹1,150 crore). Other income increased by 24 per cent to ₹511 crore (₹411 crore). Operating profit increased by around 19 per cent to ₹633 crore. The bank's net interest margin stood at 2.61 per cent as on September 2019. The bank's asset quality saw some deterioration during the quarter under review.

Gross non-performing assets (NPA), as a percentage of total assets, increased to 19.05 per cent (17.53 per cent), while net NPAs increased to 5.98 per cent (7.96 per cent).

'Demonetisation provided us an opportunity to go digital'

THOMAS ABRAHAM
Bengaluru, November 8

Karthi Marshan, Chief Marketing Officer, Kotak Mahindra Group, oversees marketing efforts across all verticals, including insurance, banking, brokerage, and asset management, among others. An alumnus of IIM Bangalore, Karthi previously helmed the marketing function at IDBI Bank. He is also a co-founder of Sharekhan. In a conversation with *BusinessLine*, Marshan shares his vision and approach at Kotak Mahindra Group. Excerpts:

We used the chance like a judo player would, leveraging the most significant financial event in the history of India to catapult our product into the brains and hearts of Indians, practically overnight

KARTHI MARSHAN
Chief Marketing Officer
Kotak Mahindra Group

THE BL INTERVIEW

How has Kotak Mahindra Bank's advertising and marketing strategy evolved with the merger of ING Vysya Bank?

The merger of ING Vysya with Kotak Mahindra Bank couldn't have been better timed. We started the Kona Kona Kotak campaign with the merger of ING Vysya. The nation was bursting with enthusiasm, fresh ideas and youthful energy. We acknowledged it, saluted it, and chose to play our role in transforming the mood of the nation.

Kona Kona Kotak was an expression of our commitment to support the dreams of an ambitious nation and its people in every corner of India. We stayed with that expression for a few seasons, adding on the tadka of our marquee product promise of up to 6 per cent interest on savings deposits.

When demonetisation happened, we instantly saw in it an opportunity to partner India's journey to go cash-free. We launched a radical social experiment just weeks after November 8. We sent a documentary film maker on a 3,000-km solo adventure across India for 30 days, with zero cash in his pocket; he had to survive using Kotak's card products, mobile banking app and his wits. We dubbed this digital campaign, Kona Kona Cash Free.

Every day he made videos of the most interesting incidents. For instance, he ran into a problem with a chaiwala, who didn't have the means to accept payments in any other way except cash. So, the film maker told him to top up his mobile balance in lieu of the tea served.

Thus, the filmmaker used barter and other creative methods to survive those days without cash.

The bank launched Kotak 811 in March 2017, pledging to double its customer base in the next 18 months. What role did marketing play in achieving this goal?

We saw an opportunity in demonetisation to go disruptively digital with our product suite. We launched 811, India's first and most successful downloadable bank account. While the first campaign that announced the birth of 811 necessarily focussed on educating the consumer, we followed it up with the platform of 'India Invited'.

Also, we saw in 811 the opportunity to live up to the promise set in Kona Kona Kotak, of being accessible to every Indian, in every corner of India. 811 didn't just break the shackles of geography, it also cut through barriers of class, gender and every other divisive force that has kept large swathes of disenfranchised Indians outside the financial ecosystem.

By all accounts, launching a product that has not only derived its origin, but also its name, from the historical date of demonetisation was not without considerable risk. But that is precisely the job of a courageous marketer. We used the chance like a judo player would, leveraging the most significant financial event in the history of India to catapult our product into the brains and hearts of Indians, practically overnight.

As marketing guru Peter Drucker has said, marketing's job is to make selling superfluous. While I won't go that far, I daresay we made the selling much easier than it had been in the past.