Bad loans of private banks also spurt, keep pace with PSU counterparts

The RBI’s Financial Stability Report says that a severe credit shock is likely to impact capital adequacy and profitability of a significant number of banks.

Written by **George Mathew** | Mumbai | Published:November 10, 2017 2:17 am

State owned banks also showed a similar trend. Gross NPAs of PSU banks were Rs 176,000 crore in June 2013 which rose to Rs 829,338 crore by June 2017, a rise of 371 per cent.

Private banks have reported a massive rise in bad loans in the last five years, in a sign that they are not far behind their public sector counterparts when it comes to stressed assets in the banking system. Gross non-performing assets of private banks soared to Rs 100,481 crore at the end of September 2017 against Rs 22,020 crore in September 2013, a rise of 356 per cent.

During the 12 month ended September 2017, 12 private banks have added another Rs 30,000 crore to the NPA list, according to figures compiled by Care Ratings for The Indian Express. Bad loans of private banks were Rs 70,386 crore in 2016 and Rs 34,958 crore in 2015. This is at a time when the Reserve Bank of India (RBI) unearthed several instances of under-reporting, or divergence, of actual bad loans by private banks.

371 per cent. “The rise in NPAs of private banks is as steep as their PSU counterparts. Private banks also have exposure in many of the highly leveraged and stressed corporates, especially steel, infra and telecom companies,” said an PSU bank official.

Gross NPA ratio of 12 private banks, when combined, have increased from 3.5 per cent of total advances in September 2016 to 4.3 per cent in September 2017. The spurt in NPAs happened in the last two years. There was only a marginal increase in the ratio from 1.91 per cent in September 2013 to 2.1 per cent in September 2015. “There’s a belief that only PSU banks were reporting huge NPAs. It’s not true. The stress in the banking sector is across the board,” he said.

The jump in the NPA ratio in the last two years can be attributed to a combination of the recognition norms being pursued by banks after the RBI highlighted the same in late 2015 — Asset Quality Review (AQR) initiated by the then RBI Governor Raghuram Rajan — as well as inadequate progress in the health of the companies. The banks were supposed to clean up their balance sheets by March 2017.

According to Care Ratings, private banks set aside around Rs 33,000 crore towards provisions and contingencies in the last five years with Rs 11,394 crore provisions in the 12 months ended September 2017 and Rs 13,536 crore in September 2016. Provisions which were only Rs 2,318 crore in 2013, have zoomed by close to 400 per cent in five years.

However, the divergence, of NPAs announced by private banks has raised concerns about the classification of loans. While Yes Bank reported NPAs of Rs 2,018.6 crore, bad loans as assessed by the RBI were Rs 8,373.8 crore, showing a divergence of Rs 6,355 crore for the fiscal 2017. Axis Bank disclosed Rs 5,633 crore worth of divergence in its gross NPAs after the RBI inspection. HDFC Bank which did not disclose any divergence amount was asked by the banking regulator to classify one account as NPA. The saga of under-reporting of NPAs is continuing. Many banks are waiting for the RBI to come out with its assessment for the September 2017 quarter. “The RBI’s assessment of NPAs is yet to come to us. It will be disclosed in the next quarter,” said the chief executive of a leading private bank.

contribution will increase further.

Concerned over the impact of hidden real NPAs on share valuations, the Securities and Exchange Board of India (Sebi) had recently asked listed banks to make disclosures if the provisioning and NPAs assessed by the RBI had exceeded 15 per cent of their published financials. Market valuations of banks which showed divergence had taken a hit. The Sebi directive came after the RBI issued a circular asking banks to disclose divergence in the asset classification and provisioning.

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