

NPAs in PSBs

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Results of 13 PSBs are available for Q4-FY17 and their NPA trends are analyzed here. It may be recollected that the asset quality review concept was spoken of by the RBI in August 2015, which virtually was implemented from Q4-FY16 onwards. This did lead to a jump in the overall level of NPAs, which doubled to Rs 2.33 lkh crore for these banks compared with Rs 1.16 lkh crore in March 2015. The major acceleration in such recognition was witnessed in the fourth quarter of FY16 with an increase in NPAs from Rs 1.67 lkh crore as of December 2015 to Rs 2.33 lkh crore in March 2016 – an increase of around 57%.

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Growth in NPAs

Since March 2016, these banks have continued to witness an increase in NPAs with an increment of about Rs 50,000 crore in the next four quarters till March 2017. This increase was spread quite evenly across the four quarters – Rs 20,217 cr in Q1, Rs 11,128 cr in Q2, Rs 8,318 cr in Q3 and Rs 10,642 cr in Q4 (Chart 1). Compared with March 2015, growth by March 2017 was 143%. These high NPAs have been a major reason for pressure on profitability as they have been making progressively higher provisions on this count.

Movements in Gross NPA ratio

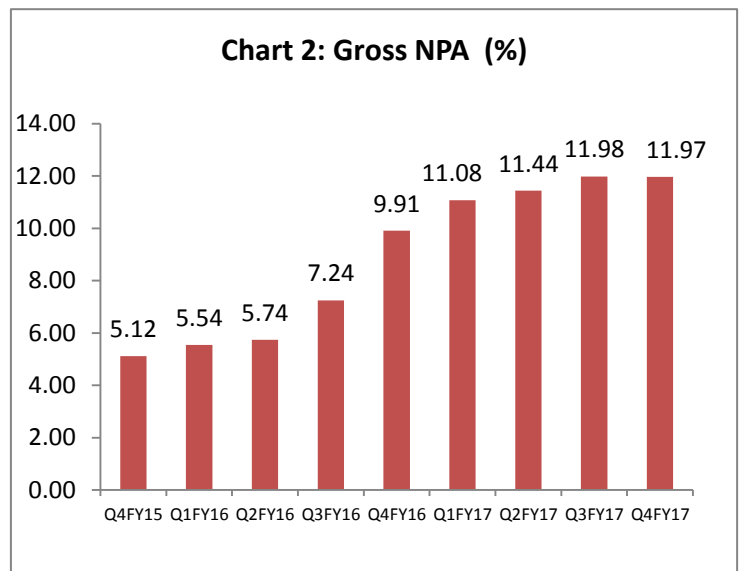
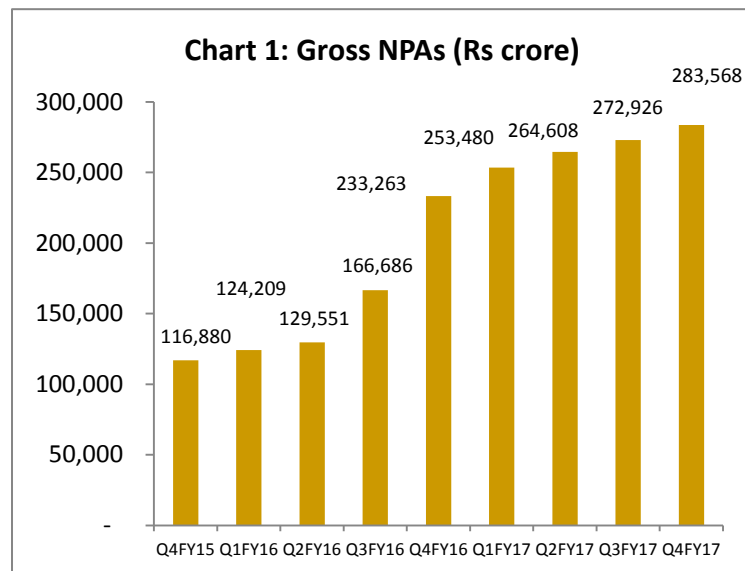
In terms of the Gross NPA ratio (Chart 2), there has been a continuous increase from March 2015 onwards, with two sharp spikes witnessed first in December 2015 by 1.5% and then by 2.67% in March followed by 1.17% in June 2016. Subsequently, the NPA ratio has almost touched 12% by December 2016 and remained virtually unchanged by March 2017.

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The question posed is whether this is a plateau reached by these banks or whether the number could increase in the coming quarters. Some of these banks have reported that they have managed to lower the volume of NPAs at a faster pace than fresh slippages, which is a positive sign for the system as it does indicate that the worst may be behind us.

It may be pointed out here that the RBI had asked banks to complete the process of asset quality recognition by March 2017 and hence prima facie there is reason to believe that the numbers

should not increase subsequently and whatever is recognized would be more on new loans rather than the existing portfolio. This would hold especially for banks which have recorded lower NPA ratios in March 2017 compared with December 2016.



Some bank specific points: (Table 1)

- In March 2015, the average GNPA ratio was 5.12% with 7 banks being above the average. These were: Andhra Bank, Bank of Maharashtra, Canara Bank, Dena Bank, Oriental Bank of Commerce, PNB and UCO. These banks continue to be above the average of 11.97% in March 2017.
- Of the 13 banks, only 4 had ratios of less than 10% by March 2017 with Vijaya Bank and Indian Bank being less than 8%.
- Q1 FY17 has been the phase when the NPA ratio was above 10% for 8 of the 13 banks considered here. These banks have not been able to scale it down to the single digit level subsequently while another bank joined this list in March 2017.
- Gross NPAs had peaked in December 2016 and was just about maintained on an average basis. 8 of the 13 banks did bring their NPA ratios down by March 2017, which could be an indication that these levels could come down in future. These are Canara Bank, Indian Bank, OBC, PNB, Syndicate, UCO, Union Bank and Vijaya Bank.
- Five banks have peaked in terms of NPAs in March 2017. These are central, Bank of Maharashtra, Dena Bank, Andhra Bank, and PSB.

The indication is that there is a mixed picture for PSBs so far, and while at the aggregate level, it appears to have stabilized, the ratio has come down for 8 of the 13 banks which could improve going ahead. For the other 5 another quarter's performance would be critical for drawing any conclusion on whether or not the worst is over.

Table 1: Gross NPA ratio of banks: Movements over 8 quarters

Company Name	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Vijaya Bank	2.78	3.39	3.98	4.32	6.64	7.31	7.07	6.98	6.59
Indian Bank	4.40	4.65	4.61	5.61	6.66	6.97	7.28	7.69	7.47
Syndicate Bank	3.13	3.72	3.72	4.61	6.70	7.53	7.72	8.69	8.50
Canara Bank	3.89	3.98	4.27	5.84	9.40	9.71	9.81	9.97	9.63
Punjab & Sind Bank	4.76	5.17	4.92	5.29	6.48	7.23	8.63	9.40	10.45
Union Bank	4.96	5.53	6.12	7.05	8.70	10.16	10.73	11.70	11.17
Andhra Bank	5.31	5.75	5.71	7.00	8.39	10.30	11.49	11.88	12.25
PNB	6.55	6.47	6.36	8.47	12.90	13.75	13.63	13.70	12.53
OBC	5.18	5.85	5.70	7.75	9.57	11.45	12.36	13.80	13.73
Dena Bank	5.45	6.20	6.84	9.85	9.98	11.88	13.79	14.79	16.27
Bank Of Maharashtra	6.33	7.86	7.98	7.97	9.34	12.64	14.08	15.08	16.93
UCO Bank	6.76	7.30	8.51	10.98	15.43	17.19	16.51	17.18	17.12
Central Bank	6.09	6.70	6.86	8.95	11.95	13.52	13.70	14.14	17.81

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