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Bank NPAs may improve to 10% in March 2019: Icra report

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The gross non-performing assets (GNPAs) of the banking sector is likely to improve to 10 per cent in March 2019, from 11.52 per cent as on 30 June 2018, as nearly 60 per cent of the bad loans of the sector are under active resolution, a report said.

The net NPA is also expected to decrease to 4.3 per cent, from 5.92 per cent as of June-end this year, Icra said in its report.

The rating agency, however, cautioned that GNPA and NNPA may be higher at 12.2 per cent and 5.6 per cent, respectively, in absence of resolution.

With expiry of the 180-day period provided in RBI's 12 February circular for resolution of large stressed borrowers, Icra estimated that 70 big companies accounting for around Rs 3.8 trillion of debt may be heading for resolution under the Insolvency and Bankruptcy Code (IBC).

"With ongoing resolution of stressed assets, despite fresh slippages, we expect GNPAs and NNPAs for banking sector are likely to reduce to close to 10 per cent and 4.3 per cent respectively by March 2019," Icra's head of financial sector ratings, Mr Anil Gupta, said.

However, he was quick to add that the same may be higher at 12.2 per cent and 5.6 per cent, respectively, in absence of resolution. The GNPAs declined to 11.52 per cent as on 30 June 2018, from 11.68 per cent as on 31 March 2018, while the NNPAs decreased to 5.92 per cent, against 6.27 per cent.

Mr Gupta said with Rs 4 trillion of debt across 40 large borrowers already under resolution and likelihood of more large borrowers being resolved under IBC, nearly 60 per cent of the bad loans of banks are now under active resolution.

The pick-up in the pace of resolution is positive; however, he cautioned that tough times are expected to continue for banks given the limited recoveries being witnessed in many of the earlier cases undergoing resolution, except for accounts belonging to the steel sector.

With 85-90 per cent of these NPAs belonging to state-run banks, the recoveries from these accounts will be a major driver of their profitability and the capital requirements during the current fiscal, the Icra report said.

Assuming 60-65 per cent provisioning requirements on accounts to be resolved and normal slippages of around 3 per cent for FY19, Icra estimated the credit provisions for public sector banks (PSBs) at Rs 1.4-2 trillion in FY19, compared with Rs 2.71 trillion in FY18. It also expects many PSBs to report losses during FY19 after factoring in the marked-to-market losses on bond portfolios.