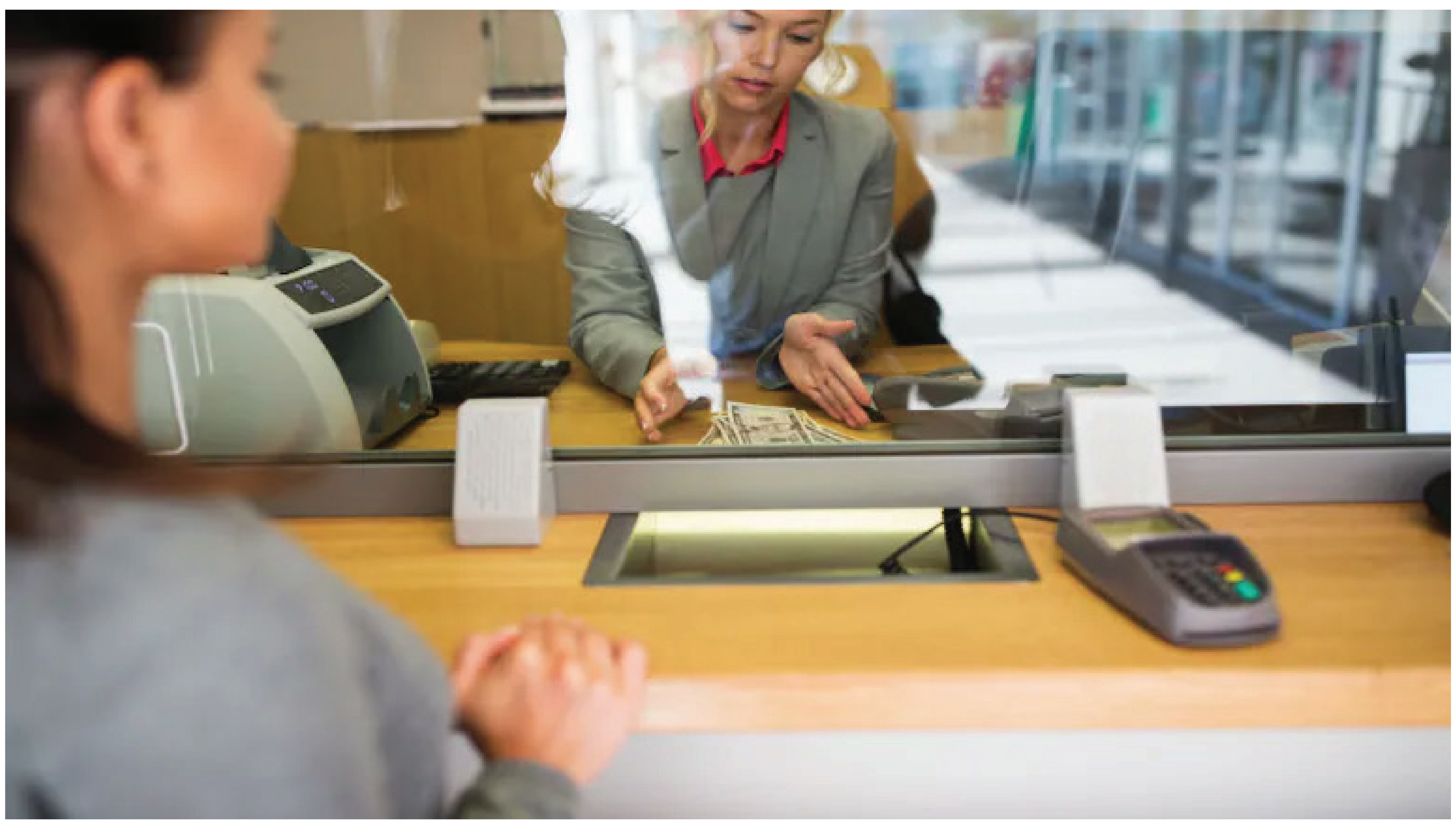
moneycontrol

Shritama Bose | June 02, 2021 / 06:08 PM IST

COVID-19 crisis: Banks may beef up provisions to year-ago level in April-June quarter, say analysts

While banks have so far been cautious about forecasting credit costs, analysts see the fresh provisioning burden at around Rs 56,000 crore.



Provisions refer to the money set aside to cover the likely losses on loans when customers fail to pay back on time.

Hit by the second wave of COVID-19, banks are preparing to aggressively increase provisions for the April-June quarter to guard against the potential losses on their loan books due to the pandemic resurgence. Provisions refer to the money set aside to cover the likely losses on loans when customers fail to pay back on time. A loan becomes an NPA if there is no repayment of interest or principal in 90 days.

Though lenders have so far refrained from offering guidance on the quantum of provisions, analysts estimate that the quantum of fresh provisioning for the banking sector could stand at around Rs 56,000 crore in the backdrop of the impact of COVID second wave.

While COVID cases in India have started declining in the last few weeks, April and May have been bad months for collections in the financial system. Lockdowns across many states and the fear of catching the virus did not allow many collection staff to do their job. In Q4 of FY20, banks had provided quite aggressively to the tune of Rs 95,000 crore and then in successive quarters, the amount kept falling, said Anil Gupta, vice president & sector head -- financial ratings, ICRA.

Given the degree of provisions made last year, barring a few large private banks, lenders have so far not made large additional provisions for COVID in Q4FY21.

“With the relatively weaker environment of May and June, the asset quality is likely to be impacted and the provisions to remain elevated in Q1FY22,” Gupta said, adding, “However, we do expect it not to increase beyond the levels seen in Q1FY21, which is around Rs 56,000 crore or 2.3% of advances (annualised).”

The high provisions may hurt the profits of banks, said Gupta.

In a report dated April 15, analysts at Brickwork Ratings wrote that banks must hold capital more than regulatory requirements "Considering the existing asset quality stress and likely increase in the near term, BWR views that maintaining the capital adequacy ratios with a supportive cushion of at least 1% over and above the Basel III guidelines shall assist the appetite of banks for enhancing their credit risk," the report said.

HDFC Bank made total provisions of approximately Rs 1,300 crore in Q4FY21, including additional contingent provisions. ICICI Bank made additional COVID-19 related provisions of Rs 1,000 crore during Q4FY21, while Axis Bank set aside COVID provisions of Rs 5,012 crore during the quarter.

On their part, banks have been wary of giving guidance on credit costs or provisioning. State Bank of India chairman Dinesh Khara told analysts that the micro, small and medium enterprises and agri loan segments need to be watched. “Ideally speaking, we would like to keep it (credit cost) at 1.12% where it is this quarter. But in any case, less than 2% by all means,” Khara said after SBI's Q4FY21 results. Similarly, HDFC Bank refrained from taking a view on provisions, going ahead. “There is not enough information on the economic impact of a second wave right now to sit and dimension (project)

exactly what we have. But in a sense, we do think over the last several quarters, we have developed more than adequate buffers,” Jimmy Tata, head, credit and market risk, HDFC Bank, told analysts after the bank’s Q4FY21 results.

There are others like Axis Bank, who said that they have made the provisioning process completely non-discretionary. “We have assessed and do not anticipate any further tightening of our provisioning rules or accounting policy changes in FY22 that could have a material impact on our reported numbers,” MD & CEO Amitabh Chaudhry said after the Q4 results.

Chaudhry added that COVID provisioning continues to stand at Rs 5,012 crore at the bank despite a 50 percent reduction in the stress as compared to what its stress models had estimated last year around the beginning of the pandemic.

A few lenders such as Bank of Baroda (BoB) expect credit costs to trend down.

Yet, it may be imperative for banks to shore up their capital buffers at some point, especially as the regulator continues to nudge them to do so. Last month, Reserve Bank of India governor Shaktikanta Das met top executives of public sector and private sector banks separately and called on them to focus on strengthening their balance sheets proactively.