

## BANKING

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### SC verdict on moratorium dispels overhang for banks

We interacted with the senior management of various banks for a perspective on the Supreme Court's verdict vacating the interim relief on NPA recognition and its directive on the 'interest on interest' issue.

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#### Key takeaways

- Now that the SC has lifted the standstill on NPA classification, banks will declare actual and not proforma NPAs in Q4FY21.
- As banks have been declaring non-paying accounts under proforma slippages in any case, Q4FY21 may not see a spike in slippages.
- Non-tagging of NPAs has hindered recoveries as lenders could not initiate resolution proceedings. With the standstill at an end, GNPA's could potentially reduce in coming quarters, but legal proceedings including accounts that have to be referred to NCLT could prove time consuming.
- The SC in its ruling directed that "there shall not be any charge of interest on interest for the period during the moratorium and **any amount already recovered** shall be refunded to the **concerned borrowers**". One of the bankers we spoke to highlighted that this statement suggests the waiver of interest on interest may not be applicable on all loans but only to borrowers that opted for moratorium.
- The government had earlier agreed and submitted to the court that it would bear the interest on interest, but banks are awaiting official clarification on whether this applies to loans above Rs 20mn.

#### Our view

- We continue to prefer large banks as their strong liability franchise and high capitalisation levels give them the leeway to exploit growth opportunities and improve return ratios.
- ICICI Bank, HDFC Bank and State Bank of India are our top picks in the sector.

#### REPORTED AND PROFORMA NPAs FOR OUR COVERAGE AS ON Q3FY21

Bank (%)	Reported ratios		Proforma ratios		Variance	
	GNPA	NNPA	GNPA	NNPA	GNPA	NNPA
AXSB	3.4	0.7	4.6	1.2	1.1	0.5
HDFCB	0.8	0.1	1.4	0.4	0.6	0.3
ICICIBC	4.4	0.6	5.4	1.3	1.0	0.6
KMB	2.3	0.5	3.3	1.2	1.0	0.7
IIB	1.7	0.2	2.9	0.7	1.2	0.5
FB	2.7	0.6	3.4	1.1	0.7	0.5
DCBB	2.0	0.6	3.7	1.9	1.7	1.3
RBK	1.8	0.7	4.6	2.4	2.7	1.7
IDFCFB	1.3	0.3	4.2	2.0	2.9	1.7
SBIN	4.8	1.2	5.4	1.8	0.7	0.6
CBK	7.5	2.6	9.0	3.9	1.5	1.3

Source: Banks, BOBCAPS Research



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### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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