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MARKET STATS		26,697 ▲ 182.58	8,221 ▲ 51.00	27,543.00 ▼ -123.00	67.54 ▲ 0.12			



# PSU bank space a black hole, will become next BSNL/MTNL

By Chiranjivi Chakraborty, ECONOMICTIMES.COM | Updated: Jan 13, 2016, 02.13 PM IST [Post a Comment](#)

NEW DELHI: The public sector banking space has been one of the biggest wealth destroyers in last 12 months. The Nifty PSU Bank index, a collection of public lenders' stocks trading on NSE, has tanked 48 per cent in last one year.



At the stock level, shares of Bank of India, Oriental Bank of Commerce, SBI, Punjab National Bank and others have dropped up to 65 per cent during the same period. Many of these stocks have touched fresh 52-week lows in the past nine sessions.



Ajay Srivastava, CEO of Dimensions Consulting, called the PSU bank space a 'black hole' and believes that these lenders are on their way to becoming the next BSNL or MTNL.

"Nationalised banks are something of a black hole, and you know what happens to a black hole at the end of the day. They keep absorbing everything that goes in and nothing comes out of it," he said.

India's PSBs are plagued by the resurgent issue of non-performing assets or NPAs. These NPAs cumulatively stood at \$50 billion for the banking sector at large, the majority of which belongs to the public banks. With every successive quarterly earnings, these numbers are becoming worse, as was reflected in the December quarter numbers of Federal Bank, the first PSU lender to come out with its earnings.

"A turnaround, at least in the public sector bank space, is probably some time away. Recapitalisation of PSU banks is something that needs to be done, and the government has taken some baby steps on that front. But we are probably at least a couple of quarters away from a real turnaround in their fortunes," said UR Bhat, MD, Dalton Capital Advisors.

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Srivastava said the policies of the government and RBI to handle the NPA situation had been ineffective and said asset quality of public lenders is one of the major reasons for the flagging growth in the economy.

"The failure of the NPA policy of the government and the Reserve Bank of India is, to my



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Pankaj Sharma, Executive Director at Equirus Securities, said the weakening global and domestic outlook on the back of a slump in the commodities market would hurt banks with asset quality issues. Banks are highly correlated to the growth in the economy and as that founders, companies with exposure to high debt obligations would start turning bad, further deteriorating the asset quality of these banks.

"That will not be a pleasant scenario for the banks, especially when you are struggling with asset quality issues. When you are not seeing any meaningful revival in the broader economy, it is not something that is in the price. So I would still be concerned about asset quality as long as the revival is not taking place. We are not there yet, let us see how long it takes."

Srivastava advised investors to stay away from the space, as investing in stocks of public lenders would get you no returns. "Public sector banks, till they don't become honest with their balance sheets, will end up as somebody rightly put it, on the path of becoming the next BSNL or MTNL."

They are good trading stocks, and they will have their occasional bounces but as an investment, just forget them. "They are the BSNL in the making. If you want to invest, do it at your own risk," Srivastava said.

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