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PSU banks may face further stress on asset quality: Moody's

By PTI | Updated: Apr 17, 2016, 01:45 PM IST

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NEW DELHI: Flagging "under-recognition" of bad loans by banks as a concern, ratings agency **Moody's** said **asset quality** of the 11 rated **PSU banks** may face further stress as restructured loans may eventually turn into **NPAs**.

"Banks still have meaningful under-recognition in loans to some large corporate groups, operating primarily in the steel and power sectors. In addition, we expect that around 40 per cent of standard restructured loans would ultimately slip into **non-performing loans (NPLs)**," Moody's Investors Service VP (Financial Institutions Group) Alka Anbarasu said.

Banks have started classifying non-viable loans as bad assets as per RBI norms, which has started impacting their balance sheet.

"From a timing perspective, the front-ending of problem loans recognition and provisioning requirement has up fronted the capital requirements of the Indian public banks. Hence, unless the government revises upwards its capital infusion plan, there will be negative pressure on the credit profiles of these banks," Anbarasu told PTI.

She said that the problem relating to the banks' exposure to the large corporate groups is spread across the public and private sector banks.

"Nevertheless, given the relatively weak capitalisation and earnings profile of some of our rated banks like Indian Overseas Banks, Central Bank of India, IDBI Bank, we expect these banks are more vulnerable to further asset quality stress," Anbarasu said.

The other PSU banks rated by Moody's are State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Canara Bank, Syndicate Bank, Union Bank of India and EXIM Bank.

Moody's said private sector banks can absorb a fair degree of asset quality stress because of their relatively strong core operating earnings capacity and capitalisation levels.

"The fully recognised NPL ratio for the 11 rated public sector banks could be about 10.5-12 per cent as compared to the 7.2 per cent reported at the end of December 2015," Anbarasu said.

Finance Minister Arun Jaitley has said the government has been trying to address the problem of NPAs in sectors such as steel, textile, highways and infrastructure, which are on account of economic slowdown.

"I think the NPA resolution process will now begin. The sectors which have caused distress... I have always said that there are two kinds of NPAs. One is because of economic environment, the losses in certain categories of industry. Now those areas we are trying to address," he had said.

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