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## State-owned lenders saddled with bad loans are focused less on growth, say analysts

By [Palak Shah](#), ET Bureau | Updated: Jul 14, 2016, 02.21 AM IST

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MUMBAI: Is the recent rally in public sector banks overdone? As the fourth quarter results season begin, analysts are advising caution in state-owned lenders, which have outperformed benchmark indices, as higher provisioning for bad loans could result in sharper-than-expected fall in profits.

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"The current share price of PSU banks factors in more than expected growth in the near future. Any cash infusion too may see dilution of equity," said Rajesh Cheruvu, head of equities at Sanctum Wealth Management. "Growth has taken a back seat and only focus for PSU banks is loan recovery, which is not exciting for investors."

The BSE PSU Bank index is up 25% since March, while the broader Bank Nifty on the NSE has gained 38%. The Sensex has gained 17% and CNX Nifty of NSE has gained 18% during the period. Shares of 19 PSU banks rose between 30-100%.

"Financial Year 2017 will be a washout for banks," Macquarie research analyst, Suresh Ganapathy and Sameer Bhise said in a report. "In our meetings that we had with banks, rating agencies and NBFCs, the tone was clearly guarded and managements are focusing more on NPL (non-performing loan) recoveries and resolution of bad assets. Retail is the only bright spot in the sector."

Analysts said the loan recovery process for these banks may stretch for years due to slow legal process and delays in resolution of bad assets. Brokerage Ambit said significant credit risk to 3% of banks' standard loan persisted. Also, commodity companies form significant portion of bank NPAs and any crash in commodity markets could pile pressure on banks.

"The situation is dire with a \$130-billion hole in PSU banks' balance sheets. An assumed 50% loan loss on bad loans would need capital support of \$20 billion (excluding any growth capital) against budgeted recap of \$4 billion. Remain negative on PSU banks," it said "Outperformance of Bank Nifty is led by select PSUs on high expectations but we are yet to witness significant improvement in asset quality," ICICI Securities report said.

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