

Gap between small & large PSU banks will widen: India Ratings

By [Joel Rebello](#), ET Bureau | Updated: Feb 15, 2017, 04.59 PM IST

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Large public sector banks have better access to growth capital, better market valuation, and also some non-core assets to divest holding them in good stead to their smaller counterparts.

Small and mid-sized public sector banks will continue to struggle due to a large stock of non performing assets (NPAs) and weak capitalisation widening the gap between their larger government owned counterparts, [India Ratings](#) (Ind-Ra) said in its outlook for the banking sector for the next fiscal year ending March 2018 on Wednesday.

Large public sector banks have better access to growth capital, better market valuation, and also some non-core assets to divest holding them in good stead to their smaller counterparts. However mid and small sized public sector banks have no such luxuries and are dependent on bailout capital from the government.

“Ind-Ra expects large PSBs with better access to capital and private sector banks with their robust capitalisation to navigate another year of low growth and high credit costs with a stable outlook. The agency retains its negative outlook on mid-sized and smaller PSBs,” the Fitch owned rating agency said.

Banks like Vijaya Bank, Dena Bank, Andhra Bank, Punjab & Sind Bank, Syndicate Bank and Central Bank of India have a one year funding gap of 30% to 40% according to Ind-Ra. Ind-Ra defines funding gap as deposits and borrowings maturing in one year minus loans and investments maturing in one year minus interbank assets divided by total assets of the bank.

Ind-Ra said that the funding gap would mean that these banks will find it increasingly difficult to grow given increasing capital requirements and large funding gaps impeding their ability to compete on spreads. However, long term ratings of all public sector banks remain resilient on expectations of continued government support, the rating agency said.

Around 10 mid-sized public sector banks are running high asset liability mismatches which could potentially impact their ability to transmit any easing or compete aggressively on marginal cost lending rate. The rating agency predicts that net interest margins (NIMs) of the banking sector will remain stable at 2.9% for the next fiscal about 15 to 20 basis points lower than the long-term average. One basis points is 0.01 percentage point.



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Ind-Ra estimates that Indian banks will require Rs 91,000 crore in tier-1 capital (including Rs 50,000 crore of Additional Tier-1 (AT1) bonds) including a residual Rs 20,000 crore from the government's bank recapitalisation programme till March 2019 to grow at a bare minimum pace of 8%-9% compounded annual rate.

The rating agency expects stressed assets in the banking sector to peak at 12.5% to 13% in the next two years as well as credit costs easing to 185 basis points from 230 basis points in the fiscal ended March 2016 as a large proportion of the recently acquired higher-bucket non-performing loans keep aging.

"On the other hand, significant proportion of unrecognised stress pertains to sectors such as infrastructure, realty and capital goods which potentially have long-term viable assets but would increasingly need cash flow restructuring to avoid slippages," Ind-Ra said.