

S&P says Rs 10,000 crore very little for banks recapitalisation

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Global rating

agency S&P today said the Budget announcement to infuse Rs 10,000 crore into public sector banks is highly insufficient and the lack of capital may delay the clean-up of their balance sheets.

While presenting the Budget, finance minister [Arun Jaitely](#) allocated Rs 10,000 crore for recapitalisation of the NPA-laden public sector banks for next financial year.

"We believe that this amount (Rs 10,000 crore) is clearly insufficient to recapitalise public sector banks. We think the requirement is much higher. Our estimate is in the region of Rs 2.5 trillion," S&P senior director for financial institutions ratings Geeta Chugh said in a webcast.

She, however, said the finance minister's assurance to provide additional allocation to state-run banks, in case they require, gives some comfort.

She also warned that some of these banks have become so weak that they "could even become a takeover targets."

Chugh said with less capital infusion from the government, public sector banks will have to raise money from insurance companies, other government related companies and or they will be required to tap capital markets.



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"We think that this has an implication as valuation of public sector banks is not so attractive," she said.

With softer interest rates, she expects state-run banks to raise more money through additional tier I bonds.

According to Chugh, "if the banks are starved for capital, it will delay their balancesheet clean-up,

which will also mean that smaller public sector banks, which are more starved for capital, will struggle to grow."

She said a few banks have tried to consolidate their balance sheet and have degrown in the last one-and-a-half years to meet their capital requirement.

Chugh said the larger and better performing public sector banks are relatively better placed.

Under the Indradhanush roadmap announced in 2015, the government will infuse Rs 70,000 crore in state banks over four years while they will have to raise a further Rs 1.1 trillion from the markets to meet their capital requirement in line with global risk norms, known as Basel III.

In line with the blueprint, public sector banks have been given Rs 25,000 crore in each fiscal, 2015-16 and 2016- 17. Besides, Rs 10,000 crore each would be infused in 2017-18 and 2018-19.

The government has already announced fund infusion of Rs 22,915 crore, out of the Rs 25,000 crore earmarked for 13 state-run banks for the current fiscal. Of this, 75 per cent have already been released.