

Banks' mark-to-market losses may hit Rs. 15,500-cr: ICRA

OUR BUREAU

PRINT · T+

Share

Share

Mumbai, January 2: Banks may face mark-to-market (MTM) losses aggregating about Rs. 15,500 crore on their investment portfolios in the October-December 2017 quarter due to surge in the yield on the benchmark 10-Year Government Security (G-Sec) by 67 basis points in the said quarter, according to credit rating agency ICRA.

The yield on G-Secs surged on the back of higher-than-budgeted fiscal deficit concerns of the government for FY2018. One basis point equals one-hundredth of a percentage point.

Reduced cushion

The agency observed that with reduced cushion to absorb interest rate movements, the recent surge in bond yields is expected to result in MTM losses on the Available for Sale (AFS) portion of their investment portfolio.

Karthik Srinivasan, Group Head, Financial Sector Ratings, ICRA, said, "As on September 30, 2017, public sector banks (PSBs) had a larger share of the AFS book in their total investment portfolio with longer duration in relation to private sector banks (PVBs).

"Accordingly, PSBs are likely to account for 80 per cent share of overall MTM losses as per our estimates."

ICRA assessed that with losses before tax of Rs. 5,624 crore during the April-September (first half) FY2018, MTM losses will further add to losses and erode capital ratios for PSBs.

In contrast, PVBs are relatively better placed to absorb the MTM losses with profit before tax of Rs.30,994 crore during H1FY2018.

Karthik observed that with the unexpected surge in yields and consequent increase in losses, the GoI may need to increase the capital it intends to frontload into the PSBs through recapitalisation bonds.

With yields ending Q3FY2018 at 7.33 per cent levels, according to ICRA estimates, the banking sector is likely to report MTM loss of Rs. 15,500 crore during the quarter.

Limited gains

"Gains from divestments of non-core assets by banks during the quarter to offset the losses on bond portfolios of banks, are also expected to be limited.

"While the recent capital mobilisation by some PSBs through the QIP route during December 2017 would help them limit the capital erosion, losses on the investment portfolio may necessitate higher quantum of capital frontloading into PSBs by the government during FY18," Karthik said.

(This article was published in the Business Line print edition dated January 3, 2018)