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## Capital infusion will help stressed banks to exit prompt corrective action

BY [SANGITA MEHTA](#), ET BUREAU | JAN 24, 2018, 09.51 PM IST

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MUMBAI: The generous capital given to stressed [banks](#) will help them wriggle out of the regulator's stifling prompt corrective action and brighten prospects of raising fresh funds with better ratings to clean their books, officials and analysts said.

The government on Wednesday said that it would infuse Rs 88,139 crore in 20 state-owned lenders, including Rs 52,311 crore to banks that face restrictions from the Reserve Bank of India.

"The fresh capital with government's support and fund raising through QIP will help in strengthening our balance sheet and give a boost to our core operations," said R Marathe, CEO of [Bank of Maharashtra](#). "We have developed a business revival plan to improve asset quality and efficiency."

The regulator has initiated prompt corrective action ([PCA](#)) in as many as 11 banks, prohibiting them from undertaking fresh business activities such as opening branches, recruiting talent or lending to risky companies.

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The recapitalisation will be in form of bonds issued by the government to the banks for 10 to 15 years. This will enable banks to meet their capital requirements and provide for losses due to the sharp increase in bad loans. PCA has been initiated mainly in banks that have incurred losses for two consecutive years and reported net non-performing loans of 10%.

According to a senior [IDBI Bank](#) official, the additional capital will enable it to meet the regulatory requirement on Common Equity Tier 1, which is 7.375% and currently stands at 6.5%.



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"Since we would be able to meet the regulatory capital requirement, our credit ratings will improve and this will enable us to raise cheaper resources. Secondly, [capital infusion](#) will enable us to reduce net NPA, which has been one of the triggers for PCA," the IDBI Bank official said.

IDBI Bank, which is among those facing PCA, received the highest amount of capital, amounting to Rs 10,610 crore. This is over and above Rs 2,729 crore it received a fortnight ago.

"In case of PCA banks, they should be able to reach the regulatory capital requirement. Also, given the strict monitoring conditions spoken about, there would be better credit appraisal in pre-sanction stage as well as robust monitoring post-sanction," according to a report released by Madan Sabnavis, chief economist at Care Ratings.

Indian Overseas Bank, which received Rs 4,694 crore and was the first to face PCA, welcomed the move.

"This will help the bank meet regulatory requirements and provide fair headroom for growing credit in our niche areas... It also reaffirms the trust in public sector banks and support by the sovereign state," it said.

Bank of India received Rs 9,232 crore and UCO Bank got Rs 6,507 crore.

The government allocated Rs 8,800 crore for State Bank of India, the country's largest lender, and Rs 5,473 crore for Punjab National Bank.

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