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Fitch: Indian banks risk skipping coupons, despite forbearance

BY SALONI SHUKLA, ET BUREAU | UPDATED: MAR 09, 2017, 10.08 AM IST

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MUMBAI: Some Indian banks remain at risk of skipping coupon payments on capital instruments over the next couple of years; despite measures by the Reserve Bank of India says Fitch Ratings. Mid-sized state banks are the most at risk of breaching capital triggers.

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Distributable reserves at small- to mid-sized state banks were down by one third in 9M17 compared with financial year 2015, reflecting persistent losses and weak internal capital generation.

Five state-owned banks suffered losses that were equivalent to more than 30% of distributable reserves in 9M17 alone.

The RBI's recent decision to allow banks to make additional Tier 1 (AT1) coupon payments from statutory reserves may have helped mitigate short-term coupon-deferral risks, but state banks' reserves are likely to continue falling, the report said.

The RBI has made several regulatory adjustments in the last few years to avoid potential damage to sentiment in the domestic market for capital instruments.

These changes have been applied to the sector as a whole and are not unique to India, but their timing suggests the RBI has felt pressure to provide headroom to state banks.



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Some banks are also at risk of missing coupon payments on capital instruments as a result of breaching minimum capital requirements.

Fitch's analysis indicates that the total capital adequacy ratio (CAR) of 12 banks was at or below the 11.5% minimum that will be a prerequisite for payment of coupons on both legacy and Basel III AT1 capital instruments by FYE19.

There were also 11 banks with CET1 ratios at or below the 8% minimum that will be required to make coupon payments on AT1 instruments by FYE19.

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