

A few PSBs may emerge from PCA framework

By: [FE Bureau](#) | Mumbai | Published: February 3, 2018 3:26 AM



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State-run banks, which have seen their capital adequacy ratio plummet to amongst the lowest in the industry, are likely to see a sharp turnaround with the first tranche of the recapitalisation funds coming in, paving the way for them emerge from the central bank's prompt corrective action (PCA) framework.

Public-sector banks such as Dena Bank, UCO Bank, IDBI Bank and Bank of Maharashtra will see a 3.8-5.9% accretion to their common equity tier -1 capital (CET1), Morgan Stanley Investment Management wrote in a recent report.

“This improves the CET1 for these banks meaningfully and could potentially help some of them come out of PCA,” Morgan Stanley said. “Large banks like State Bank of India, Punjab National Bank and Bank of Baroda will see increases in CET1 of around 50 basis points (bps), 120 bps and 125 bps, taking their CET 1 ratios to 10.8%, 10.4% and 9.8%, respectively.”

In January, the government said it would provide capital infusion of Rs 80,000 crore through recapitalisation bonds and about Rs 8,139 crore through budgetary support. The government allocated most of the capital to the weaker banks, with around 60% of the capital designated for banks that have been placed under the PCA framework.

IDBI Bank received Rs 10,610 crore, UCO bank received Rs 6,507 crore, Dena Bank received Rs 3,045 crore and Bank of Maharashtra was allocated Rs 3,173 crore. “This is a good allocation of capital as it provides higher amounts of capital to banks with weaker capital and profitability. This should allow these banks to make proper provisions on their bad loans, helping to clear system asset quality. Small banks could do well in the near term, given the quantum of capital,” Morgan Stanley said.

“With the capital that has been promised to the banks, over a sufficient period of time, they will be able to clean up their balance sheets and return to profitability. On an average, it could take about two years, but it will vary from bank to bank,” said an analyst with a foreign brokerage who did not wish to be named.

The second tranche of the overall `2.11 lakh-crore recapitalisation fund will be given to the state-run banks in FY19.

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