

PSB slippages may widen after new rules

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Axis Bank, a major private lender, reported slippages of Rs 165.4 billion during the March 2018 quarter, a major chunk of which came from the corporate segment on account of new rules about non-performing assets (NPAs) issued by the Reserve Bank of India on February 12, 2018. This could be a precursor to even larger slippages in public sector banks (PSBs), given their bigger exposure to large corporates and the pool of stressed assets.

According to an executive with Union Bank of India, it is going to be a big obligation to provide for slippages during the quarter mostly on account of the RBI's new rules for restructuring loans.

As of December 2017, large corporate accounts of the top five PSBs had more than a quarter share in their gross advances and the standard restructured asset pool was equivalent to 3.2 per cent of their advances. This indicates a higher chance of additional slippages in the fourth quarter.

The leeway for banks from various restructuring schemes such as S4A, 5/25 and CDR —which allowed banks to treat stressed accounts as

restructured but standard assets — is no longer available in case of large accounts with exposure of Rs 20 billion or more under the revised NPA rules.

Moreover, given their feeble capital base, provisioning will be more difficult for PSBs and will render insufficient the recent capital infusion by the government. Net NPAs and standard restructured assets of the five major PSBs are 57-200 per cent of their respective net worth as of December 2017.

“Private sector banks have a sufficient capital base to absorb the burden of incremental provisions. But PSBs have limited or negligible room to take on the extra burden.

The government, which has announced a Rs 2.1 trillion capital infusion plan, will have to review their capital requirements after all the PSBs declare results,” the Union Bank of India executive said. Recent frauds will further drag down profits and, in turn, the capital base of banks such as Punjab National Bank.

On the flip side, Bank of India will get some relief during the quarter due to recovery of Rs 90 billion in bank guarantees.

“The bank has been able to recover Rs 90 billion, by invoking guarantees, in this quarter from accounts that were downgraded in the last quarter. This amount will help to partly take care of the provision burden. Hence, the effect of the new NPA rules will be less severe for the bank,” said D Mahapatra, managing director and chief executive, Bank of India. But, still the bank's net NPAs as on December 2017 are more than its net worth.