

Tightrope walk: 4 PSBs left with under 1% of capital base for lending

By: [Shritama Bose](#) | Mumbai | Published: June 5, 2018 3:05 AM

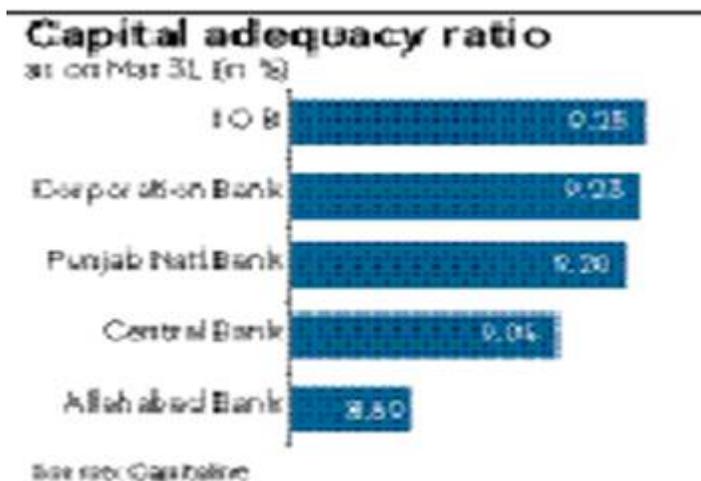


Four public-sector banks (PSBs) are left with less than 1% of their capital base for lending and another, Allahabad Bank, is already in breach of regulatory capital requirements under Basel-III, showed data from Capitaline. (Reuters)

Four public-sector banks (PSBs) are left with less than 1% of their capital base for lending and another, Allahabad Bank, is already in breach of regulatory capital requirements under Basel-III, showed data from Capitaline. While the Kolkata-based lender has been barred from increasing its risk weighted assets or, in other words, taking fresh exposure to corporates, with a capital adequacy ratio (CAR) of 8.69%, it is anyway left with no capital for growth. The Reserve Bank of India ([RBI](#)) mandates a CAR of 9% for scheduled commercial banks, excluding capital conservation buffers.

Of the four PSBs that ended March with CARs just above 9%, three – Central Bank of India, Corporation Bank and Indian Overseas Bank (IOB) – are under the RBI’s prompt corrective action (PCA) framework. The fourth, Punjab National Bank (PNB), is reeling under the impact of the Nirav Modi fraud and reported a CAR of 9.2% at the end of March. It is widely expected to be the next lender to be brought under PCA.

Last year, the government had announced a plan to shore up capital position of PSBs through a recapitalisation programme of Rs 2.11 lakh crore. This does not seem viable anymore as the PSBs deal with increasing slippages, losses on bond portfolios, the early recall of additional Tier 1 (AT-1) bonds and the Nirav Modi fraud. This has led to a sharp drop in PSBs’ share prices and reduced their ability to raise money from the markets.



In a recent note, ratings agency Icra said that the efficacy of the recapitalisation programme has been significantly reduced as 27% of the fresh infusion was envisaged as fund-raising from the markets. Karthik Srinivasan, senior vice president & group head, financial sector ratings, Icra, said in the note, “Through the recapitalisation plan, Rs 90,000 crore of capital infusion has been done in FY18. However, the fact that this is less than sufficient got reflected after announcement of regulatory forbearances during the first week of April 2018, which was intended to shore up their financial year-end reported capital ratios.”

Adjusted for regulatory forbearances allowing them to defer loss provisions by a few quarters, the Tier I capital could be lower than 7% for some PSBs, Srinivasan said. Unless these banks raise capital immediately, they will need to provide for these losses in their subsequent quarterly results.