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Despite poor financials, PSU banks still kings on deposits

BY [JOEL REBELLO](#), ET BUREAU | UPDATED: JUL 26, 2018, 02.18 PM IST

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MUMBAI: State-run banks outside of the Reserve [Bank of India's](#) Prompt Corrective Action maintained their market share in loans when peers under the PCA lost their position to private banks. But despite their poor financials, they held on to their dominance in deposits, depriving the private sector of the gains that they had in loans, said rating company ICRA.

Private sector banks will continue to take market share away from public sector banks bound by RBI's so-called prompt corrective action (PCA) norms. However, recoveries due to the bankruptcy code and capital infusion by the government will help these lenders pose competition to their private sector counterparts from fiscal 2021, it said.

“Private sector banks (PVBs) market share is expected to increase from 30.9% (as on March 31, 2018) to around 38-40% in the foreseeable future and stabilise at that levels,” ICRA said. Most of this market share is likely to be wrested away from PCA public sector banks while non-PCA banks are expected to be maintained at 50-51%.

The 11 banks on RBI's PCA list are [Allahabad Bank](#), United Bank of India, [Corporation Bank](#), IDBI Bank, [UCO Bank](#), Bank of India, Central Bank of India, [Indian Overseas Bank](#), Oriental Bank of Commerce, Dena Bank, Bank of Maharashtra. These banks have been put under this watch list because of their weak operational and financial metrics are restricted from opening new branches, increasing their loan book, hiring new staff and lending to companies below the investment grade.

However, private sector banks have not been able to make inroads into the deposit base of public sector lenders, ICRA said.

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“Unlike the gain in advances market share, private banks were unable to gain significant market share in deposits given the strong deposit franchise of public sector banks. As against an increase of 5.1 per cent in share of advances for during last 2 years, their increase share in deposits was lower at 3.5 per cent. Within PSBs, non-PCA PSBs held on to their market share at around 52-53 per cent, however, deposit market share of PCA PSBs declined to 21.9 per cent as on March 31, 2018 from 25.1 per cent as on June 30, 2016,” ICRA said.

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Last week, the government also announced a total capital infusion of Rs 11,337 crore into five public sector banks, in the first such capital infusion this year. Allahabad Bank, Andhra Bank, Corporation Bank, Indian Overseas Bank and Punjab National Bank are the weakest among the public sector lenders in terms of core capital.

Capital infusion along with likely recoveries from bankruptcy cases will help these lenders regain strength in the next couple of years ICRA predicted.

“Private sector banks may face issues in sustaining such a high loan-to-deposit ratio given the statutory liquidity ratio (SLR) and cash reserve ratio (CRR) requirements of 19.5 per cent and 4 per cent, respectively unless they are able to improve their incremental share in deposits. Accordingly, we also expect that the advances market share of private banks shall stabilise at best at 38-40 per cent in foreseeable future,” said Anil Gupta, head financial sector ratings, ICRA.

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