Banks' outlook negative till capital position improves: Fitch

OUR BUREAU

CARE Ratings says it is unclear if all legacy problems in NPAs have been resolved

MUMBAI, AUGUST 13

The outlook on Indian banks will stay negative due to weak core capitalisation, expectation of elevated credit costs, and poor earnings, Fitch Ratings said on Monday.

“This poses (a) downside risk for banks’ standalone credit profiles unless capital is replenished – be it through the State, capital markets, or asset sales,” it said in a new report.

While the viability ratings of public sector banks (PSBs) are at greater risk, some private sector banks have also witnessed pressure due to significant deterioration in the last 12-18 months, the Fitch report said.

The report comes at a time when most banks have released their first quarter results, revealing continued losses and bad assets. Private sector lender ICICI Bank posted its first-ever quarterly loss of ₹120 crore in the April-June quarter, while State Bank of India registered a net loss of ₹4,876 crore in the same period.

Fitch said banks need about $40-$55 billion in capital to meet Basel-III capital standards by the end of the fiscal and also to sustain credit growth, while meeting a loan-loss cover of 65-75 per cent. The Centre’s plan to inject $1.7-billion of fresh capital in five State banks will provide a short-term reprieve, but is insufficient, Fitch said.

“State banks are most in need, as almost half the 21 banks have common equity tier 1 (CET1) ratios below the FY19 minimum of 8 per cent,” the report noted.

While most legacy problems in non-performing loans have been recognised, Fitch also warned that the brisk pace of unsecured retail loans and SME funding provided over the previous few years renders these two segments vulnerable as interest rates rise. “Real estate and low-income housing loans could also cause higher NPLs where banks have a direct exposure or are indirectly exposed via non-banks,” it said.

Profits under pressure

Meanwhile, in a separate analysis of the first quarter results of 35 banks, CARE Ratings said that though the bad loan problem seems to be stabilising, net profit continues to remain under pressure for these banks.

The cumulative net loss of all banks stood at ₹2,244 crore for the first quarter of the fiscal, as against a growth of about 6.8 per cent in the year-ago period. Private banks witnessed a decline of over 18.5 per cent in net profits during the quarter.

“There has been an improvement of growth in credit and deposits,” it further noted.

The report also said that while non-performing assets (NPAs) are lower in the first quarter compared to a year ago, it is still not clear whether all legacy problems have been resolved.

"Another quarter of moderation in growth of NPAs could indicate that the recognition cycle is over," it said. Gross NPAs stood at ₹8.71-lakh crore as of June 2018, of which ₹1.29-lakh crore resided in private banks and ₹7.42-lakh crore in PSBs.

Published on August 13, 2018

TOPICS rating banking

RELATED

Fitch downgrades viability rating of SBI, Bank of Baroda

Core capital buffers also vulnerable to moderate shocks, says the ratings ...

Previous Story
Moody's assigns GB1 grade to Axis Bank's green bond issue

Next Story
Uniform insured value for vehicles from Oct 1

More From The Hindu Business Line


Who really owns NDTV?

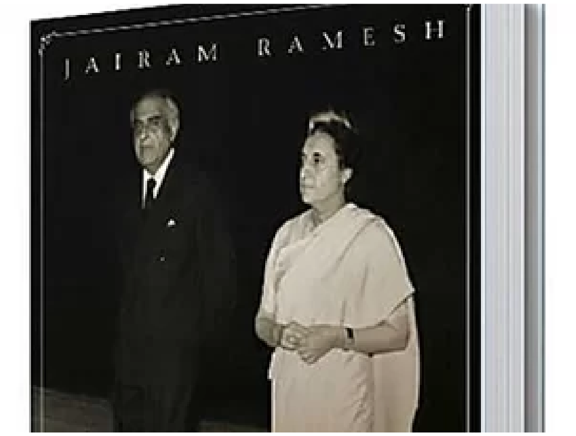

Reliance to launch fixed line broadband for homes, enterprises: Mukesh Ambani


Shree Ganesh Jewellery promoter arrested in multi-crore fraud case


A white elephant in the making


IITM-DoMS wins Boardroom Challenge semis


‘India has taken a quantum jump in the wrong direction after 2014’



The man behind India’s Iron Lady

The dark side of Croatia’s soccer ‘soft power’

Amara Raja Batteries gets board nod for Rs 700 cr greenfield automotive battery…

MORE FROM BUSINESSLINE

800-km stretch of dedicated freight corridor to be opened this year

Almost 800 km of the Dedicated Rail Freight Corridor is set to open this fiscal, with the remaining stretch of 1,500 km to be commissioned next year.The project is only 50 per cent complete in terms o

HDFC Bank’s Aditya Puri says Sukthankar’s decision to quit was personal

Bank will begin process of selecting next MD 18 months before Puri’s retirement

Banks shy away from lending to affordable housing under CLSS

Capital constraints, fear of default likely reasons for lenders keeping away, say experts

TALK OF THE TOWN

When singing became sinning

Former Speaker Somnath Chatterjee passes away

1. Comments will be moderated by The Hindu Business Line editorial team.
2. Comments that are abusive, personal, incendiary or irrelevant cannot be published.

3. Please write complete sentences. Do not type comments in all capital letters, or in all lower case letters, or using abbreviated text. (example: u cannot substitute for you, d is not 'the', n is not 'and').
4. We may remove hyperlinks within comments.
5. Please use a genuine email ID and provide your name, to avoid rejection.