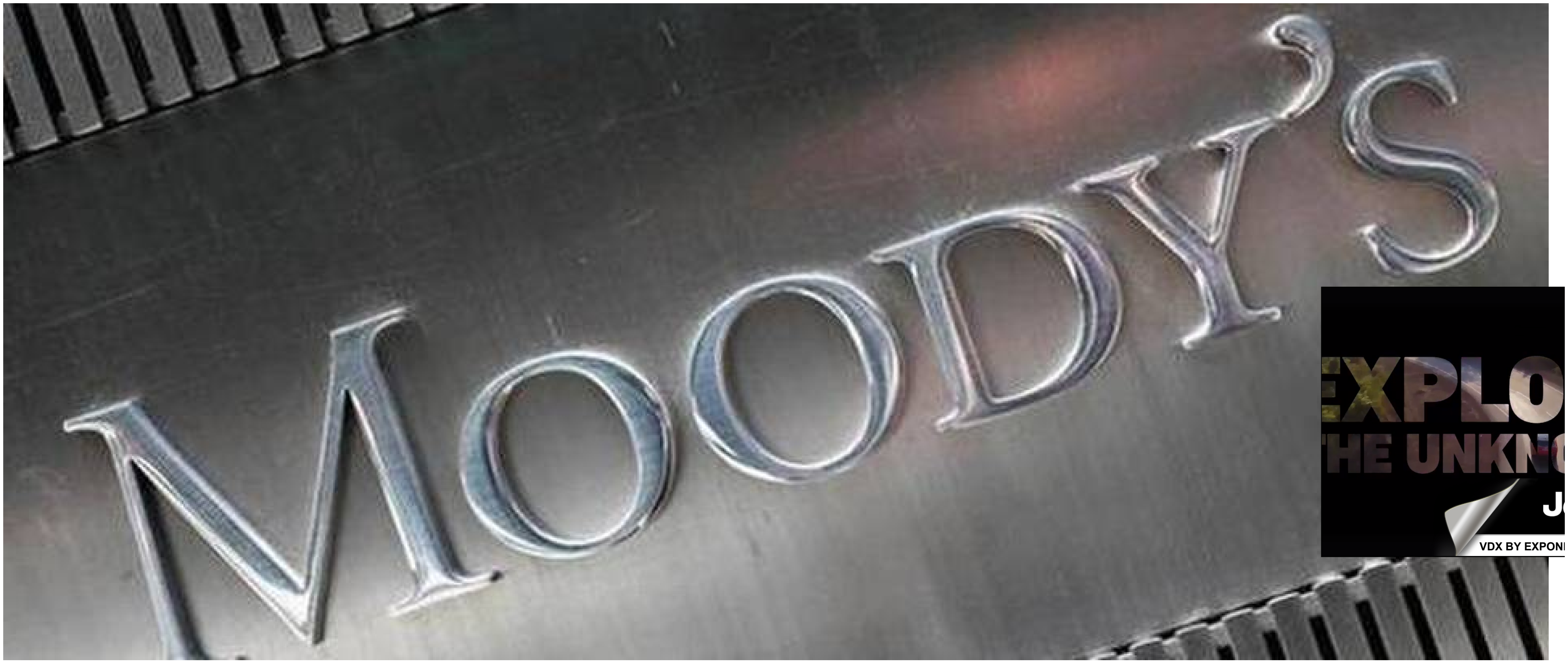
Govt aid will give capital relief to banks, but stress will remain: Moody's

PTI



NEW DELHI, AUG 21

Moody's Investors Service today said the government's plan to provide more capital support to public sector banks in the current fiscal will restore capital adequacy and improve loan-loss coverage at many loss-making banks, but stress would persist.

The government plans to provide Rs 65,000 crore of new capital to public sector banks (PSBs) in the year ending March 2019 (fiscal 2019), after infusing Rs 90,000 crore in the prior year. Of the Rs 65,000 crore, the government allocated Rs 11,300 crore to five banks in July.

"The large-scale recapitalisation plan, which was meant to improve capital buffers, loan-loss reserves and also support sufficiently strong loan growth, will now be just enough to shore up capital ratios above regulatory requirements because the banks' capital shortfalls have grown larger than the government's initial projection," said Alka Anbarasu, a Moody's Vice-President and Senior Credit Officer.

Moody's said the PSBs' external capital needs will not grow much further after fiscal 2019 because the banks' profitability will gradually improve as credit costs moderate in tandem with progress in an ongoing balance-sheet clean-up.

"Our analysis shows that the capital injections will only be enough to enable all the banks to achieve Common Equity Tier-1 (CET1) ratios of at least 8 per cent by March 2019, satisfying the 2.5 per cent conservation buffer on top of the 5.5 per cent minimum under Basel III norms in India and giving the banks a capitalisation profile comparable to those of their similarly rated peers globally," Anbarasu said.

In a report 'Banks - India: Government aid will give capital relief to public sector banks but stress will remain', Moody's said to maintain capital buffers at regulatory levels, the banks will have to keep loan growth modest, at 5-6 per cent. "This means the government has little choice but to increase capital support if it seeks faster loan growth to support economic expansion," Anbarasu said.

Moreover, while the capital injections will enable the banks to strengthen their provision coverage, it may still not be sufficient if they take large write-downs on the non-performing loans (NPLs) they sell as part of new resolution proceedings. An increase in provisions could raise their capital needs significantly.

Although government support will help the public sector banks build their capital and provisioning buffers against losses, the improvements are likely to prove only temporary, barring a broader reform to fundamentally strengthen their weak underwriting practices, the rating agency said.

"Without reform, the government will continue to have to inject capital into the banks when they face stress, which will strain its own finances and hinder its efforts for fiscal consolidation," it added.

Published on August 21, 2018

TOPICS

NPAs restructuring and recapitalisation Moody's public sector banks

RELATED

PSU banks plan to raise over Rs 50k cr in FY19

Public sector banks are planning to tap the markets to raise more than Rs ...

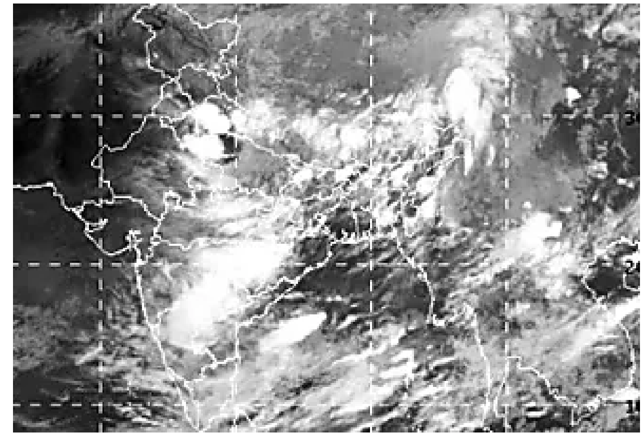
Previous Story
ClearScore forays into India

Next Story
Kerala deluge: LIC relaxes claim settlement process

More From The Hindu Business Line

Sonali Bendre diagnosed with “high grade” cancer

Imran Khan comes out in support of Sidhu, calls him ambassador of peace



NDMA warns of heavy rainfall in 16 States including Kerala in next two days

Mukesh Ambani goes after Jeff Bezos

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

Who really owns NDTV?

A white elephant in the making

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

RBI to issue new Rs 100 note in lavender colour

MORE FROM BUSINESSLINE

Flipkart to sell refurbished products on new platform; will use lessons learnt from eBay.in

Flipkart is set to launch its own platform to sell refurbished, unboxed goods after the e-commerce giant closed down the operations of eBay.in last week.The new platform will be based on Flipkart's le

BJP will lose seats but win 2019 Lok Sabha polls, says survey

An opinion poll has predicted a decline in seats for the ruling NDA and the BJP and an increase for the UPA and the Congress if general elections were to be held today.According to the India Today's M

India looks to keep Iran oil lines open in face of US sanctions

In talks with EU to ease pressure

0 comments ♥ **Recommend 0**

Write a comment

1000

or

Name

Email

I agree with Vuukle's Privacy Policy

POST

TALK OF THE TOWN

10% growth estimate under UPA is not official data: Govt

9 comments

Why the less affluent need equities

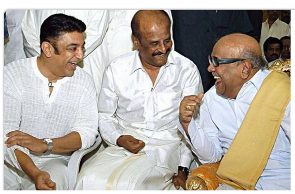
5 comments

Govt may swat GM mosquitoes

4 comments

Prabhu to visit Uzbekistan to promote trade, economic ties

3 comments



The last of the Mohicans

3 comments

Rupee hits record low of 70.32 as trade deficit widens to over 5-year high of $18.02 billion

3 comments

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.