# PSBs likely to see tough days ahead: ICRA

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Tangled With the expiry of the RBI’s deadline to lenders to restructure loans, many are likely to post losses - PAUL NORONHA

## Losses seen surpassing the government’s capital infusion of ₹65,000 crore for FY2019

**MUMBAI, AUGUST 28**

The total loss before tax for public sector banks (PSBs) in FY2019 is estimated at ₹41,900-1,01,600 crore, depending on the credit provisioning on stressed assets undergoing resolution, according to credit rating agency ICRA.

The agency said that these losses are likely to surpass the budgeted capital infusion of ₹65,000 crore by the government for FY2019. It added that many PSBs will be reporting loss during FY2019.

PSBs posted a loss before tax of ₹24,000 crore during Q1 FY2019 and ₹1.30-lakh crore in FY2018, said ICRA. During FY2018, too, these losses surpassed the capital infusion of ₹90,000 crore by the government.

In a scenario of higher provisioning and losses, the agency felt that the government may need to upsize the budgeted capital infusion for FY2019.

On the back of higher losses reported by the banks in relation to the capital infusion during FY2018 and continued losses during Q1 FY2019, ICRA observed that nine PSBs reported Tier 1 capital ratio lower than 7.5 per cent as on June 30, 2018, against the minimum regulatory requirement of 7 per cent, indicating limited ability of these PSBs to absorb further losses.

"Meeting the regulatory minimum capital ratios being a prerequisite for servicing debt capital instruments, prompted the government to front-load the capital infusion during July in some PSBs, which was in line with our expectations.

ICRA believes there will be a further announcement of capital infusion in a few more PSBs during September and October 2018 to support their capital ratios and, hence, their debt servicing, said Anil Gupta, Head – Financial Sector Ratings, ICRA.

Assuming 60-65 per cent provisioning requirements on accounts to be resolved and normal slippages of about 3 per cent for FY2019, the credit provisions for PSBs are estimated at ₹1.4-2.0-lakh crore for the year (₹2.71-lakh crore during FY2018), the agency said. Factoring in the marked-to-market losses on bond portfolios will lead to many PSBs reporting losses during FY2019 as well, it added.

With the expiry of the 180-day period provided in the February 12, 2018, circular of the Reserve Bank of India (RBI) for resolution of large stressed borrowers, and limited number of accounts where banks have been able to implement resolution plans, the agency felt that many of the 70 large borrowers accounting for about ₹3.8-lakh crore of debt may be heading for resolution under the Insolvency and Bankruptcy Code (IBC), 2016.

"With ₹4-lakh crore of debt across 40 large borrowers already under the RBI-directed resolution through IBC, and the likelihood of more large borrowers being resolved under IBC, about 60 per cent of the non-performing loans (including loans earlier written off) of the Indian banking sector are now under active resolution," added Gupta.

While the pick-up in the pace of resolution is positive, the agency cautioned that tough times are expected to continue for banks, given the limited recoveries being witnessed in many of the earlier cases undergoing resolution, except for accounts belonging to the steel sector.

With 85-90 per cent of these non-performing advances belonging to PSBs, the recoveries from these accounts will be a major driver of their profitability and capital requirements during the current fiscal.

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