

S&P says banks may see a turnaround from 2019-20

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The RBI is conducting another asset quality review, focusing on 240 corporate loans.

Govt recap plan may not be sufficient

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Global rating agency Standard and Poor's on Tuesday said that the worst may be over for debt-ridden Indian banks and they may see a turnaround in their finances from 2019-20.

"Another year of high provisioning is likely as public sector banks clean up their balance sheets and provide for losses on their stressed assets. Other drags on earnings include lower treasury income amid rising interest rates," the agency said in a report.

S&P however, warned that the recovery in the the earning performance of banks could be further delayed if large unexpected bad loans materialise in the agriculture sector. The loan-against-property segment may also be vulnerable, it further cautioned.

S&P said its stable outlook on banks is underpinned by expectations of a very high likelihood of government support and said the current recapitalisation of Rs 2.1 lakh crore may not be sufficient.

"While we no longer think this programme is sufficient to meet the sector's capital needs, we believe the government could arrange additional support as needed," S&P Global Ratings Credit analyst Geeta Chugh.

S&P said ratings are more likely to be raised than lowered in the next two years but warned that weak risk management and internal-control practices limit the potential for considerable upside.

"We estimate that Indian banks' recognised non-performing loans now cover a substantial part of weak loans in the system, which comprise about 13 per cent to 15 per cent of total loans," said Chugh.

With more stringent provisions introduced by the Reserve bank of India, banks will increasingly find it more difficult to window-dress accounts to hide the true level of weak assets, she added.

The RBI is also conducting another asset quality review, focusing on 240 corporate loans.

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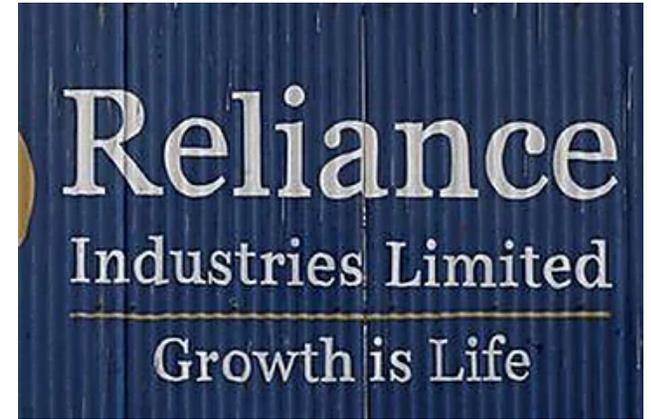
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