

Centre exhausts a third of recap funds on just 5 PSBs so far

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Recent infusion of ₹3,000-odd cr into Allahabad Bank follows a ₹1,790-crore infusion at the beginning of the fiscal

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The Centre infusing yet another round of capital into hard-hit Allahabad Bank, after just four months of pumping in ₹1,790 crore, does not paint a very comforting picture on the recapitalisation front this fiscal.

Of the ₹65,000 crore earmarked for this fiscal, the Centre had infused about ₹11,300 crore into five PSBs – IOB, Corporation Bank, Allahabad Bank, PNB, and Andhra Bank – in July. But lingering asset-quality issues and high provisioning have eaten into banks' capital, requiring more rounds of capital infusion into these banks. The Centre infused ₹1,500 crore into Allahabad Bank in FY18 (more than double the total amount infused between FY15 and FY17).

Despite this, the bank's Tier I capital stood at an abysmal 6.7 per cent as of March 2018 (below the mandated 7 per cent). In the June quarter, the bank posted a loss of ₹1,944 crore, and its Tier I capital stood at a low 4.9 per cent.

The Centre had infused ₹1,790 crore in July, and now has infused a much higher ₹3,054 crore, implying that the bank's performance may have turned from bad to worse. The bank's September quarter results are expected next week.

The Centre was also forced to infuse a second round of capital into scam-hit PNB this fiscal. Despite the Centre's tidy capital infusion of ₹5,473 crore into PNB in FY18, the bank's Tier I capital stood just above the mandated 7 per cent requirement in the June quarter. This fiscal, after the Centre infused ₹2,816 crore into the bank in July, it once again pumped ₹5,431 crore in the September quarter.

The bank's Tier 1 capital is still a worrisome 7.7 per cent at the end of the September quarter.

Running dry

Last fiscal, the Centre had infused about ₹88,000 crore into 20 PSBs.

In the current fiscal, the Centre has infused nearly ₹20,000 crore of its ₹65,000-crore recapitalisation kitty into just five PSBs so far.

The second round of capital infusion into two of these PSBs implies that the Centre may find it difficult to meet the requirements of such banks with its earmarked kitty.

Going by the recent quarter numbers, there are still a few banks that appear to be in dire need of funds – Oriental Bank of Commerce, Dena Bank, and UCO Bank (as per June quarter results) have a Tier 1 capital ratio of a little over 7 per cent – and have not been considered for funding so far.

As always, capital infusion at PSBs leads to erosion in book value due to the abysmal valuation at which the infusion takes place. What has been particularly worrying is that massive capital infusion in many banks over the past year has been close to or even higher than their market cap, leading to much higher erosion in book value.

The current market capitalisation of Allahabad Bank is about ₹4,600 crore.

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