Under PCA framework, yet 11 PSBs report rise in share of retail loans, says Jefferies

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The 11 state-run banks, which are under the RBI's prompt corrective action (PCA) framework, have seen a 400 basis points increase in their share of retail loans at 19 per cent in the four years ending September 2018, says a report.

The RBI began to place state-run banks under the PCA framework for the first time in September 2016, when their NPAs soared beyond the regulatory tolerance levels.

But the present data is for the period between March 2015 – when their retail share was only 15 per cent – and September 2018, when it rose to 19 per cent, according to the American brokerage Jefferies.

A report by the brokerage said on Friday it is often misreported that banks under PCA are not allowed to grow (gross loans have indeed fallen 10 per cent since March 2015).

"Yet their retail and home loans are up 16 per cent and 53 per cent. Their share of retail loans has risen from 15 per cent in March 2015 to 19 per cent in September 2018, while their share of home loans in retail has climbed from 46 per cent to 61 per cent in the same period," the report said.

IDBI Bank worst hit

The PCA framework puts restrictions on weaker banks on many aspects, including fresh lending and expansion, and salary hikes, among others.

Of the 21 state-owned banks, as many as 11 are under the PCA framework now, and these banks' NPAs hover in high double-digits. Bad loans of IDBI Bank is the highest at close to 33 per cent in the September 2018 quarter.

The 11 banks under the PCA are: Allahabad Bank, United Bank of India, Corporation Bank, IDBI Bank, UCO Bank, Bank of India, Central Bank of India, Indian Overseas Bank, Oriental Bank of Commerce, Dena Bank and Bank of Maharashtra. These banks together control over 20 per cent of the credit market.

Among the current crop of 11 banks under the PCA, the first to fall in line was United Bank of India, in early 2014.

Private banks

The report, however, suspects that banks under the PCA have lost market share to private sector banks in corporate loans and unsecured personal loans, and that it will be a Herculean task for the affected banks to claw this back.

The report said so far 11 banks are under the PCA framework, but latest data suggest that 17 banks would be classified under the PCA, which could be the reason for the debate on the framework.

It can be noted that PCA has been one of the 12 serious breaking points between the government and the RBI, and a key issue raised in one of the three letters that the government shot off to the RBI on October 10 under the never-before-used provision of Section 7 of the RBI Act.

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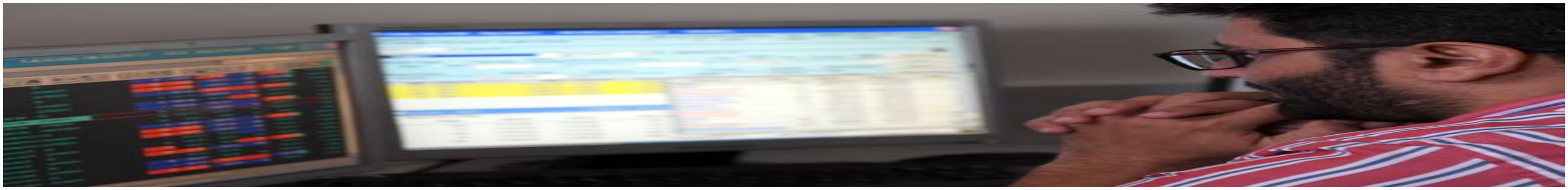

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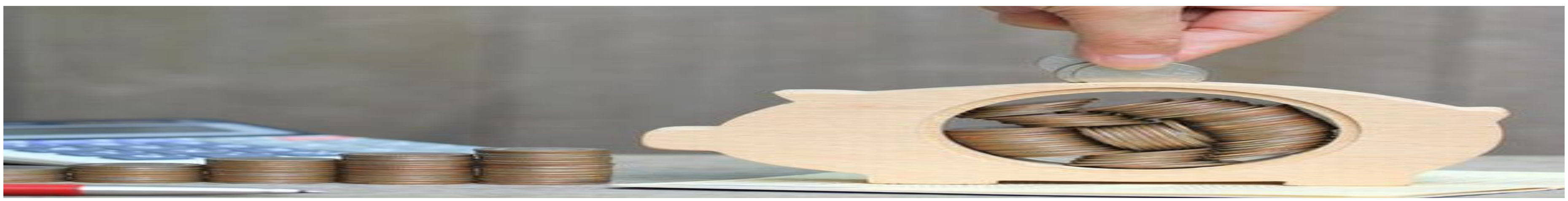

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