

PSU banks: Rs 70,000 crore recap unlikely to drive growth

By: FE Bureau

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The budgeted Rs 70,000-crore capital infusion in public sector banks (PSBs) may translate into limited credit growth at these lenders, as much of it goes towards meeting provisioning and regulatory requirements, analysts at India Ratings said on Thursday.

“As per our analysis and estimates, we think this Rs 70,000 crore is likely to meet the minimum regulatory (requirements) for the PSBs because there are banks who are close to the minimum regulatory threshold,” said Ruhi Pabari, analyst – financial institutions, India Ratings. “With respect to growth capital, banks would have to organically generate the room to grow. We don’t really think this Rs 70,000 crore would be able to contribute to the growth in the system.”

The infusion was envisaged with the express aim of pushing credit in the economy. Finance minister Nirmala Sitharaman had said in her Budget speech, "Having addressed legacy issues, public sector banks are now proposed to be further provided Rs 70,000 crore capital to boost credit for a strong impetus to the economy."

Between FY14 and FY19, the government and Life Insurance Corporation of India have together infused Rs 3 lakh crore in PSBs. The current market value as on July 29, 2019 of the government and LIC's stake stood at Rs 4.4 lakh crore, up from Rs 2.2 lakh crore in FY14. The increase in market capitalisation during the period under review is significantly lower than the capital infused.

According to India Ratings, only nine of 19 PSBs reported current value of investment higher than the investment amount. These include Indian Bank, State Bank of India, Bank of Baroda and Canara Bank.

The reason for this was a sharp deterioration in asset quality over the last few years, which led to accelerated provisions among all PSBs. "This caused banks to suffer massive losses, which, in turn, led to failure in meeting objectives of the Indradhanush Scheme, such as recapitalising banks based on their performance and their ability to support credit expansion. In reality, the capital infused was largely consumed to tide over losses resulting from provisions required on non-performing assets," the report said.

Between FY14 and FY19, PSBs also saw a massive erosion in their share in incremental credit generation, which shifted to other market participants, including private banks, foreign banks, non-bank financial companies, housing finance companies and mutual funds. The market share of PSBs dropped to 46.5% in FY19 from 60.9% in FY14. "More importantly, in terms of incremental credit, the share of PSBs has been 26.2% over FY14-FY19," the report said.

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