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Private banks' market share in loans likely to rise to 40% by FY20: ICRA

In FY17, it was 27.5%; hit by asset quality issues, public sector banks have tightened lending, says rating agency

OUR BUREAU

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Here's a warning that public sector banks (PSBs) and their owners — the government — need to sit up and take notice. Private sector banks (PVBs) will increasingly eat into PSBs' market-share on the advances front, going by credit rating agency ICRA's assessment.

The agency has assessed that the market share of PVBs in banking sector advances is expected to increase to about 40 per cent by FY 2020 from 27.5 per cent as on March 31, 2017.

According to ICRA, this increase in PVBs' market-share is after considering the capital constraints of PSBs, and assuming an incremental market-share of 80 per cent for PVBs and a credit growth of 7-9 per cent for the banking sector during FY 2018-2020.

Incremental credit

PVBs had an almost 100 per cent share in the incremental bank credit in the trailing twelve months (TTM) at the end of Q1 (April-June) FY18, said ICRA.

Karthik Srinivasan, Group Head Financial Sector Ratings, ICRA, opined that the Indian banking industry is currently going through a transition and PVBs and PSBs are facing different challenges.

Underscoring that PSBs are plagued with asset quality issues leading to higher credit costs and losses, he said with increasing regulatory capital requirements, weak internal accruals and limited capital infusion by the government in relation to requirements, these banks have been into capital-conservation mode by constraining their lending activities.

"PVBs, on the other hand, face challenges of increasing competitive intensity because of weak credit demand, and the buoyant debt capital markets pose challenges of balancing growth and profitability.

Credit growth

"Notwithstanding these challenges, PVBs have performed well and capitalised on the opportunities by delivering a credit growth at three-year CAGR (compounded annual growth rate) of 17.8 per cent, as against 2.5 per cent for PSBs, and with relatively better asset quality," said Karthik.

ICRA has assessed that the Tier-I capital of PSBs stood at 9.7 per cent (of risk weighted assets) as on June 30, 2017, as against regulatory requirements of 9.5 per cent required by March 31, 2019, indicating the limited capital cushion available to grow the advances. PSBs' advances grew by less than 1 per cent year-on-year during Q1 FY18.

As for PVBs, the agency said with Tier-I capital of 14.1 per cent as on June 30, 2017, they are well capitalised to capture the lending opportunities ceded by PSBs.

Importantly, sustaining such high levels of growth going forward will be critically dependent on their ability to provide better services and to leverage technology to improve deposit mobilisation, it added.