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Private banks' share in advances to hit 38-40% by FY20: Icra

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Private banks have been taking the space vacated by capital-short public sector banks in the credit market. Private banks' share in banking sector advances will reach 38-40 per cent by March 2020, from 27.5 per cent in March 2017, according to rating agency Icra.

Indian banking is going through a transition, with private and public sector banks (PSBs) facing different challenges. The latter are plagued with asset quality issues, leading to higher credit costs and losses, Icra said.

As a result, capital-short PSBs have been constraining their lending. Their tier-I capital was 9.7 per cent of risk-weighted assets as on end-June, against the 9.5 per cent required by regulations by end-March, 2019.

PSB advances grew less than one per cent over a year before during the June quarter (Q1) this financial year.

In contrast, private banks' tier-I capital was 14.1 per cent as on end-June, well capitalised to capture the lending opportunities ceded by PSBs. Their year-on-year growth in advances during Q1 was 15.3 per cent.

Assuming incremental market share of 80 per cent for private banks and credit growth of 7-9 per cent for the sector during FY18-20, the market share of private banks is expected to increase to 38-40 per cent by FY20.

The banking industry reported marginal growth of 2.2 per cent in FY17, compared with 6.9 per cent in FY16. The growth in advances was mainly led by a rise of 14.4 per cent in advances of private banks; those of PSBs dropped 0.6 per cent in FY17.