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Icra: Provisions may dip, but PSBs to stay in red

FE BUREAU
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RATING AGENCY ICRA on Thursday said that although provisions by public sector banks (PSBs) are expected to decline, these are expected to surpass the operating profits, resulting in continued losses for them, even as the profitability of the private banks improves in FY19.

According to Icra, provisioning rose to ₹3.17 lakh crore (4.0% of advances) in FY18 compared to ₹2.03 lakh crore (2.7%) in FY17, far surpassing the operating profits of the banks. Net losses increased to ₹46,300 crore during FY18 compared to a net profit of ₹35,000 crore during FY17.

With the likely resolution of large stressed borrowers under the Insolvency and Bankruptcy Code (IBC) 2016 and proposed resolution of stressed assets, the recoveries and upgrades are expected to surpass the fresh addition to gross non-performing assets (NPAs) during FY19, Icra said.

Karthik Srinivasan, senior vice-president, Icra, said, as of now, there is a heightened interest in the steel sector given that it is turning around. "So, resolution could be faster in that segment but since the intent is to have a timely resolution of all accounts, you would need to take a decision on those as well," he said.

Srinivasan added that interest in the non-steel sector cases in the NCLT has been very low and, possibly, in such cases banks would have to take higher haircuts. "The haircut on the second list of NCLT accounts seem to be higher than the first one but a 50-55% provision coverage on the entire set of impaired assets should be comfortable," he explained.

This is expected in turn, Icra said, to result in a decline in the GNPAs and net NPAs to below 9% and 5%, respectively, by March 2019. "In absolute terms as well as in percentage terms, the gross NPAs will come down and with provisioning requirements declining in case of no other unforeseen events, we should see similar reduction in the net NPA numbers as well," Srinivasan said.

Meanwhile, Moody's Investors Service expects the government's recapitalisation plan will still broadly resolve the regulatory capital needs of 21 PSBs. "The PSBs' capital shortfalls are larger than the scale that the government had expected when it announced the recapitalisation in October 2017, mainly because the banks have failed to raise additional capital from the market and it may be difficult for them to raise more capital given the substantial decline in their share prices since the beginning of 2018," said Alka Anbarasu, a Moody's vice-president and senior credit officer.