Business Standard

Copyright©2022 Business Standard

Mon, 18 Mar-19; Business Standard - Mumbai; Size : 554 sq.cm.;
Circulation:14800; Page : 1

THE SMART INVESTOR:

Large fund infusions in PSBs fail to deliver

15

The Nifty PSU Bank Index is flat since the Centre announced a ₹2.11 trillion recapitalisation plan in October 2017; experts say stick to top stocks such as SBI and BoB. **SHREEPAD S AUTE & VISHAL CHHABRIA** write

Large fund infusions in PSBs fail to deliver

The Nifty PSU Bank index is flat since the government announced a ₹2.11-trillion recapitalisation plan in October 2017; experts say stick to top stocks such as SBI and BoB

SHREEPAD S AUTE & VISHAL CHHABRIA
Mumbai, 17 March

Despite the government infusing a whopping ₹1.9 trillion towards the recapitalisation of public-sector banks (PSBs) between October 2017 and February 2019, a 4x increase over the amount infused during FY15 to FY17, the move has failed to enthuse investors. The Nifty PSU Bank index is almost at the same level as on the day of the announcement of recapitalisation.

In fact, barring State Bank of India (SBI), stocks of all PSBs, which benefitted from recapitalisation, are down by 16-57 per cent during this period. Even in absolute terms, the combined market capitalisation of the 20 PSBs is up just 24 per cent from October 24, 2017, to ₹5.09 trillion as of March 15, 2019. Without SBI, the combined gain for others is just ₹50,668 crore against a fund infusion of ₹1.9 trillion. Indian Bank is the only PSB which did not receive a penny.

RECAPITALISATION REPORT

₹ crore	Recapitalisation	Market cap		Provisioning	Net profit/(loss)	
	Oct '17 till date	24-Oct-17	15-Mar-19	Apr '17-Dec '18	FY18	9MFY19
State Bank of India	8,800	2,19,687	2,65,685	1,08,719	-6,547	24
IDBI Bank	12,471	14,349	33,189	34,285	-8,238	-10,198
Punjab National Bank	19,628	29,387	32,697	67,547	-12,283	-5,226
Bank of Baroda	5,375	32,984	31,204	21,725	-2,432	1,425
Bank of India	23,956	16,637	25,066	29,464	-6,044	-5,799
Canara Bank	4,865	18,946	19,950	22,485	-4,222	899
Oriental Bank of Commerce	10,257	4,114	12,306	15,635	-5,872	-147
Allahabad Bank	13,240	5,481	11,470	16,808	-4,674	-4,500
Central Bank of India	11,746	15,141	11,424	16,963	-5,105	-3,164
UCO Bank	12,913	5,638	10,033	13,037	-4,436	-2,769
TOTAL (For 20 banks)	**1,90,954**	**4,12,167**	**5,08,833**	**4,57,430**	**-86,630**	**-43,447**

All figures rounded off; list sorted by market capitalisation, 9MFY19: Apr–Dec 2018, Note: IDBI Bank has been taken over by LIC effective January 2019;

Sources: Banks, Capitaline, ICRA, compiled by BS Research team

It was October 24, 2017, when the bad loan-ridden PSBs saw their rebirth with the government announcing an ₹2.11 trillion recapitalisation programme. The Nifty PSU index had gained 27 per cent in a day. But the hopes did not last, thanks to multiple factors weighing on asset quality of PSBs, leading to higher provisioning and losses. Data shows that the total bad loan provisioning made by PSBs during April 2017-December 2018 was ₹4.57 trillion, or about four times the ₹1.2 trillion infused during from October 2017 to November 2018. From December 2018 to February 2019, another ₹71,364 crore was infused.

With the announcement of ₹2.1 trillion recapitalisation, investors were expecting this would not only take care of the provisioning with then existing non-performing assets (NPAs or bad loans) but also help balance sheet growth, says Anil Gupta, vice president and head-financial sector ratings at Icra. However, some big events such as the RBI's new stringent NPA regulations shattered all hopes.

On February 12, 2018, the RBI scrapped all existing loan revamp schemes such as corporate debt restructuring. And, said if there is even one-day delay in fulling debt obligations by a borrower with ₹2,000 crore or more exposure, it should be considered as a stressed asset and lenders should initiate resolution process. If nothing turns out in 180 days, then the account should be referred under the Insolvency and Bankruptcy Code (IBC).

Though the move is a long-term positive, it raised concerns about PSBs' near-term earnings as they account for around three-fourths of the total corporate lending and the IBC demands 50 per cent upfront provisioning.

The other jolt came just two days after the RBI's new NPA rules, when Punjab National Bank reported fraud of ₹11,000 crore by Nirav Modi, raising concerns around governance at PSBs. The Nifty PSU Bank index lost 11 per cent in just five trading sessions with these two developments.

More importantly, there are structural issues. Ajay Bodke, CEO & Chief Portfolio Manager (PMS), Prabhudas Lilladher, explains: The issues that hobble the performance of PSBs includes short tenure of CMDs (chairman and managing director), constraints in lateral hiring and lack of proactiveness of employees to source new business. But, barring the top 2-3 PSBs, do they have the requisite credit appraisal skills, is still a question.

Because, PSBs are inferior on metrics like net interest margins, growth, asset quality and operating expenses, the market has rightly punished them, adds Bodke.

PSBs' financial performance has been worse than expected. Gross NPAs expanded by a huge 350 basis point to 12.9 per cent in FY18 with slippages (accounts turning bad) at 9.3 per cent in FY18, highest at least from FY13. Thus, credit cost or provisioning as a percentage of loan book, too, soared to 4.2 per cent in FY18. The combined net loss of 20 PSBs stood at a whopping ₹86,630 crore in FY18, against a combined loss of ₹932 crore a year ago. The impact also percolated in subsequent quarters in FY19.

Post PNB fraud, the discontinuation of letters of undertaking (LoUs) by the RBI also impacted overseas loan book, which grew only 4 per cent as against 15 per cent domestic loan book growth in December 2018, Gupta highlights.

Moreover, recapitalisation also led to a significant equity dilution as it was done when PSBs' valuation was below their book value, thereby keeping share prices under pressure, says Rohan Mandora, analyst at Equirus Securities.

Though PSBs' asset quality is now improving and some banks have recently moved out of the RBI's Prompt Corrective Action (PCA) framework, experts say everything is not hunky-dory. Barring SBI, we are not positive on PSBs. Concerns over exposure to MSMEs, the impact of farm loan waiver and loss of market share remain, says Dhananjay Sinha, Head-Institutional Research at Emkay Global.

Bodke believes PSBs can, at best, be tactical buys and cannot form part of the core portfolio as they haven't generated wealth for investors over the long term. I would rather focus on top PSBs like SBI and Bank of Baroda, he says.

Unless PSBs focus on consistency and predictability of performance and their top brass is assessed on wealth creation, investors are unlikely to find themselves on the winning side. There is still a dearth of growth capital at PSBs, opine experts.