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How will the ₹20,000 cr be distributed among 12 PSBs?

ANALYSIS

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Even as the Centre's announcement of ₹20,000-crore capital infusion into public sector banks this fiscal brings some respite, the bigger question looms over how this sum would be distributed among the 12 PSBs.

Given that the Tier 1 capital ratios of many of these banks are just above the regulatory requirement, bad loans are elevated and core earnings remain weak, the Centre's recap kitty will have to be split in many ways.

Punjab National Bank, Indian Overseas Bank, Union Bank, Central Bank of India, UCO and Bank of Baroda are among the PSBs that have seen steady and notable capital infusion over the past three fiscals. The latest June quarter results suggest that many of these PSBs, along with others such as Bank of Maharashtra and Bank of India, may also require capital infusion in FY21.

After the four big mergers in the beginning of this fiscal, the anchor banks – PNB, Canara Bank, Indian Bank and Union Bank – will also need to beef up their capital position to absorb integration-led costs and disruption in business, aside from tackling weak core earnings and uncertainty over asset quality.

Low capital buffer

PSBs felt the full impact of the Covid-led slowdown in the June quarter and reported weak core performance on the back of subdued loan growth. While some relief came in from the moratorium, leading to stable asset quality, overall earnings remained subdued for many of them.

The tier 1 capital ratios (as of June) of Canara Bank (9.29 per cent), UCO Bank (8.9 per cent), Union Bank (9.49 percent), Central Bank of India (9.2 per cent), Bank of India (9.48 per cent) and Punjab Sind Bank (9.46 per cent) are just above the regulatory requirement of 8.875 per cent. IOB's tier 1 capital ratio at 8.38 per cent is below the regulatory threshold. All these banks will require capital infusion (sizeable at that) in the coming quarters.

Fraud-hit PNB received around ₹30,000 crore of capital in the past two fiscals alone. With the merger of Oriental Bank of Commerce and United Bank with PNB this fiscal, the bank will continue to require capital in FY21. The bank's GNPA stood at 14 per cent in the June quarter.

Given the uncertainty around loan moratorium, interest waiver on such loans and restructuring, all PSBs will need to increase their capital buffer.

ICRA estimates PSBs' capital requirement at ₹20,000-55,500 crore in FY21. The Centre's announcement is at the lower end of these estimates, which implies that it expects some PSBs to raise capital from the market, according to ICRA.

This may be a tall task, as investor appetite for PSB stocks has been dismal over the past four to five years despite cheap valuations (0.4-0.6 times book). SBI, however, may be able to raise capital from the market, and the bank's potential to unlock value in subsidiaries is a key positive.

It also appears that the Centre may have to revisit its recap plan (increase it substantially) in the latter part of the fiscal to meet PSBs' requirement.