Banks need Rs 91,000 crore capital to sustain 8-9% growth: India Ratings and Research

Indian banks will require Rs 91,000 crore in tier-1 capital till March 2019 to sustain a minimum annual growth rate of 8-9 per cent, according to a report by India Ratings and Research (Ind-Ra).

Ind-Ra has maintained a stable rating and sector outlook on private sector banks and large PSBs while it has retained the negative sector outlook for small and mid-sized state-owned banks for 2017-18. (Source: IE)

Indian banks will require Rs 91,000 crore in tier-1 capital till March 2019 to sustain a minimum annual growth rate of 8-9 per cent, according to a report by India Ratings and Research (Ind-Ra). This includes Rs 20,000 crore of residual tranches from the government's capital infusion in public sector banks under the under 'Indradhanush' programme. The domestic rating agency said it "believes" there is an increasing divide between the large and smaller PSBs, with the former having some access to growth capital, better market valuation, and also some non-core assets to divest while the latter would only receive bailout capital if required. It further said the "long tail of credit costs" is expected to subdue profitability of domestic banks despite plateauing their stressed assets.

Ind-Ra has maintained a stable rating and sector outlook on private sector banks and large PSBs while it has retained the negative sector outlook for small and mid-sized state-owned banks for 2017-18. It expects large PSBs with better access to capital and private sector banks with their robust capitalisation to navigate another year of low growth and high credit costs with a stable outlook.

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The agency had retained its negative outlook on mid-sized and smaller PSBs with weak capitalisation and large stock of aging non-performing loans (NPLs).

"These banks will find it increasingly difficult to grow given increasing capital requirements and large funding gaps impeding their ability to compete on spreads," said Ind-Ra.

According to Ind-Ra's sector-wise stress analysis, sectors such as iron and steel and textiles have seen a fair bit of recognition but provisioning might still not be adequate to protect against eventual loss given defaults.

On the other hand, significant proportion of unrecognised stress pertains to sectors such as infrastructure, realty and capital goods which potentially have long-term viable assets but would increasingly need cash flow restructuring to avoid slippages.