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'Bad Loan-hit Banks Need Bankruptcy Code, Government Support'

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CHENNAI: Credit rating agencies have stepped up focus on banking sector, which is reeling under severe bad loans.

On Friday, if Care Ratings said passing of the bankruptcy code could help reduce bad loans, Fitch Ratings said bank's credit profile may come under pressure unless they are adequately capitalised.

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State Bank of India	72,791.73
Bank of Baroda	38,934.11
Bank of India	36,519.14
Punjab National Bank	34,338.22
Indian Overseas Bank	22,672.40
Canara Bank	19,813.44
IDBI Bank	19,615.22
Union Bank of India	18,495.16
Central Bank of India	17,563.83
UCO Bank	14,931.80
Oriental Bank	11,824.90

(Public sector banks' gross non-performing assets (in ₹ cr)

Corporation bank	10,706.97
Allahabad Bank	9,802.10
Syndicate Bank	9,602.80
Andhra Bank	9,520.92
Bank of Maharashtra	7,986.34
Dena Bank	7,916.47
Indian Bank	7,071.35
United Bank of India	6,112.21
Vijaya Bank	3,871.28
Punjab & Sind Bank	2,161.29

SOURCE: BSE

Non-performing assets (NPAs) have spiralled over the past few years and the banking regulator has been aggressively going after banks to clean up the balance sheets. According to Fitch, banks need an its estimated \$140 billion capital for the system to be reassessed, given the losses.

“The stand-alone credit profile of many Indian public sector banks should come under pressure unless there is meaningful action to restore capital adequacy,” Fitch said.

Average gross NPAs across all banks increased from 4.4 per cent in Q4 of FY15 to 4.7 per cent in Q1 FY16 to 4.9 per cent in Q2 FY16 and 8.1 per cent in Q3 FY16. Most of the increase in the NPAs can be attributed to the public sector banks.

“A warning signal is when growth in NPAs exceeds that in credit on a continuous



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basis of 3-4 quarters. While there is concentration of NPAs in PSBs, the problem is generalised for all banks including those in the private sector and foreign banks," Care noted in its report. It added that better monitoring of assets, especially those with high value and separate departments to address the issue, are "some thoughts on reducing NPAs."

According to Fitch, the sudden deterioration in profitability of PSBs during the third quarter of FY16 was triggered due to higher provisioning. It is "unusual" for RBI to be driving state-owned banks to raise provisioning so quickly, which indicates that earnings pressure will continue in the fourth quarter of this fiscal and possibly beyond, Fitch added.

"But the suddenness and speed of the provisioning in the second half of FY16 highlights how long it has taken to address poor balance-sheets. It also raises questions over the pace and implementation of bank recapitalisation and reforms, especially when central bank intervention is required in identification of bad assets," it added.

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