Indian business & finance

India bank shares fall as Covid surge raises default fears

Lockdowns put borrowers under more pressure and compound lenders' losses from last year

Delhi police conduct checks as authorities in India's big cities stepped up lockdowns to contain a new wave of coronavirus cases

Benjamin Parkin in New Delhi 8 HOURS AGO

Shares of Indian banks have tumbled as investors fear a wave of defaults owing to the surge in Covid-19 infections and a new round of local lockdowns.

The National Stock Exchange's Nifty Bank index, which tracks Indian lenders, has fallen 17 per cent since a record high in February as India's second coronavirus wave has accelerated, compared with a loss of 6 per cent in the broader Nifty 50 index over the same period.

India on Monday reported more than 275,000 new Covid-19 infections from the previous day, more than any other country, along with more than 1,600 deaths.

This has forced state governments to reimpose restrictions, with Maharashtra — home to India's financial hub Mumbai — and the capital New Delhi going back into effective lockdowns this month.

The new wave risks setting back what was expected to be a robust economic rebound from last year, when a blanket nationwide lockdown sparked a historic contraction.

Rating agencies and analysts say this in turn risks undermining Indian banks' own recovery as vulnerable borrowers such as small businesses struggle to withstand a renewed shock.

"All of this will definitely impact credit growth. Small businesses will struggle to get more lines [of credit] when their businesses are going to be down. That puts pressure on distressed credit or assets in the banks' books," said Ajay Mahajan, chief executive of Care Ratings and a former banker. "When they had started to feel more confident, the second wave has come as a rude shock."

India's banks, which struggled with one of the world's highest ratios of non-performing loans even before Covid, were largely shielded from the worst of last year's contraction by emergency relief measures.

For example, the Reserve Bank of India introduced a moratorium on loan repayments for six months last year, along with a one-time debt restructuring scheme for stressed borrowers.

Banks are still tallying the extent of the damage from last year. S&P, which has estimated the proportion of non-performing or restructured loans on the banks' books at 11 to 12 per cent of gross loans, said it had anticipated reported defaults would rise even before accounting for the latest wave.

"The systemic risks facing the banks still remain high, especially in the wake of this wave of Covid infections," said Deepali Seth Chhabria, an S&P banking analyst.

Uddhav Thackeray, chief minister of Maharashtra, wrote to prime minister Narendra Modi asking for a moratorium on loan repayments for small businesses in the state.

While some analysts, such as Mahajan, believe there could be new or extended relief measures, others disagreed.

Jefferies argued that "no such support is likely this time as the lockdowns are/would be local and not national". The brokerage said it expected bank stocks' underperformance to continue as long as India's cases rose.

One positive has been many banks' ability over the past year to bolster their capital reserves to help withstand any spike in bad loans. This, however, has proved easier for better-performing private lenders rather than many of the state-owned banks that make up the majority.

Fitch estimates that private banks' core capitalisation is at nearly 16 per cent, compared with 10 per cent for state banks.

Yet some fear that many small businesses, bruised by last year's contraction, may struggle to withstand more shocks. This could hurt bank balance sheets.

"There's absolutely no cushion left any more," said Ravi Venkatesan, the former chair of state-owned Bank of Baroda. "It has felt fragile for a long time. Now I think it's really on the edge."