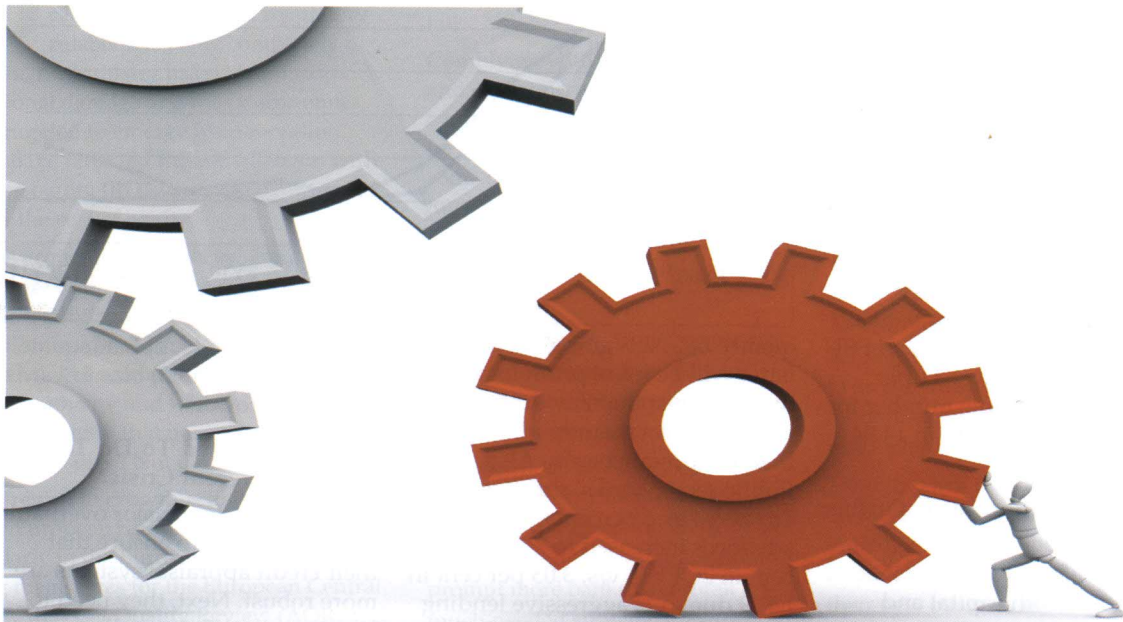


# Public Sector Banks

## Challenges Galore



**Capital infusion by the government works in the short-term, but is evidently not the solution. We need to ideologically decide on public holding in these banks so that they should be able to access the market on their own to raise resources. This will also help them to become more competitive, avers Rajesh Mokashi, Deputy Managing Director, CARE RATINGS, Mumbai.**

**P**ublic sector banks, being the dominant group in the system, run the risk of losing out to competition on account of a relatively stable growing cake being distributed among more banks. Therefore, entry of new banks will lower their market share progressively, which was witnessed even earlier when the first set of private banks came in. This said, they still retain the advantage of rural spread and given their high levels of penetration would continue to have an advantage in terms of meeting the

requirement of inclusive banking which is a challenge even for existing private banks which have to invest more in this area.

### **NPAs – Only to Rise!**

On NPA front, the PSBs do have legacy issues. Also due to extraneous interference they have additional pressures unlike the private banks. Further, they also are more active in priority sectors some of which have a higher propensity to turn sour which in turn puts pressure on balance sheet management. This problem will continue to get accentuated as long as the economy is in a downswing, which is the case today. The gross NPA level of the public sector banks has reached ~4.5 per cent in 2QFY14 as compared to the private banks' 2.04 per cent.

The gross NPA level is expected to be ~4.3 per cent in FY14e for the overall banking industry. In our opinion, internally PSU banks have to strengthen their systems and ensure they are better prepared with their risk management systems to face this challenge.

### **Boosting Capital, Another Key Challenge**

Capital is one major challenge for the state-owned banks as they are restrained from raising capital in the market given their ownership structures. The Union Budgets will not be able to provide the requisite capital infusion as the government has its own fiscal constraints which will mean that the government has to take a call on disinvestment. With their profit margins under pressure,

