Government Recapitalisation of Public Sector Banks

Contact:
Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
+91-22-6754 3489

Saurabh Bhalerao
Associate Director
Saurabh.bhalerao@careratings.com
+91-22-6754 3519

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
+91-22-6754 3515

The Public Sector Banks (PSBs) have played a significant role in the India development story by lending to various large infrastructure projects. In the past few years, because of a variety of legacy issues, large projects were stalled or became non-viable and consequently the lenders were also affected leading to an increase in NPAs.

This rise in the level of Non-Performing Assets (NPA) has resulted in significant increase in provisioning requirement which has impacted profitability and increased capital requirement for growth as well as maintenance. The PSBs which constitute majority of the banking assets in the country have not generally been as successful as the private counterparts in raising capital from market for various reasons and have depended on the government for their capital requirements.

In August 2015, as a part of a seven step 'Indradhanush' plan, the government assessed the capital requirement of the PSBs at Rs 1,80,000 crore which would be raised over the next four years until 2019. The government would infuse Rs. 70,000 crore and the balance Rs 1,10,000 crore would be raised by banks. The planned year-wise break-up of the government's recapitalization plan was provided as under:

S. No.	Year	Rs Cr
1	FY16	25,000
2	FY17	25,000
3	FY18	10,000
4	FY19	10,000
	Total	**70,0000**

The government infused capital of Rs. 59,435 crore in PSBs under the Indradhanush plan. The residual amount under the Indradhanush plan would be provided through budgetary provisions. Further in January 2018, the Govt. proposed a Front-loaded Bank Recapitalisation of Rs. 2,11,000 crore in 2018 and 2019. This recapitalisation was to be done through budgetary provisions (including remaining Indradhanush amounts), recapitalisation bonds and raising capital from the market. The table below provides the amounts proposed to be raised through these heads:

The recapitalisation bonds were to be issued in two tranches of Rs 80,000cr in FY18 and Rs 65,000cr in FY19.

S. No.	Year	Rs Cr
1	Budgetary Provision	18,139
2	Recapitalisation Bonds	135,000
3	Capital from the Market	57,861
	Total	**211,000**

The government has infused capital into PSBs whenever required since the beginning of financial sector reforms in 1992. The following table summarises the annual actual budgetary expenditure for five years along with the provisions for the subsequent two years.

Recapitalization of Public Sector Banks (PSBs)	Actual Expenditure					Rev.	Budget
	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Recapitalization of PSBs	12,517	14,000	6,990	25,000	24,997	90,000	65,000

Excludes any capital infusion not specifically for the purpose of recapitalization
Source: Budget Document, Portion of the expenditure budget of the Department of Financial Services under the Ministry of Finance

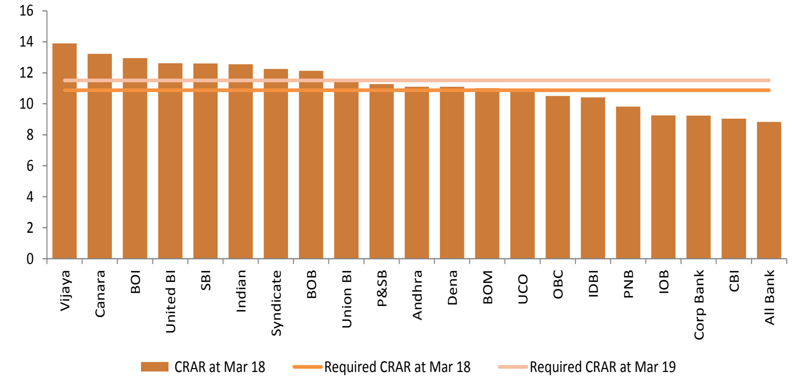
The following table summarises the bank wise capital infusion undertaken by the government directly. The capital infusion excludes share capital purchase by LIC and other similar entities as well as any bonds issued by the banks.

S. No.	Bank Name	Government Support (Rs cr) FY14	FY15	FY16	FY17	FY18	FY19*	Total
1	Allahabad Bank	400	320	690	451	1,500	1,790	**5,151**
2	Andhra Bank	200	120	378	-	2,990	2,019	**5,707**
3	Bank Of Baroda	550	1,260	1,786	-	5,375	-	**8,971**
4	Bank Of India	1,000	-	3,605	2,838	9,232	-	**16,675**
5	Bank of Maharashtra	800	588	394	300	3,173	-	**5,255**
6	Canara Bank	500	570	947	745	4,865	-	**7,627**
7	Central Bank of India	1,800	1,617	535	1,980	5,158	-	**11,090**
8	Corporation Bank	450	-	857	508	2,187	-	**4,002**
9	Dena Bank	581	140	407	1,046	3,045	-	**5,219**
10	IDBI Bank	-	-	2,229	1,900	7,881	-	**12,010**
11	Indian Bank	400	280	-	-	-	-	**680**
12	Indian Overseas Bank	1,200	-	2,009	2,651	4,694	2,157	**12,711**
13	Oriental Bank	150	-	300	-	3,571	-	**4,021**
14	Punjab National Bank	500	870	1,732	2,112	5,473	2,816	**13,503**
15	Punjab & Sind Bank	100	560	-	-	785	-	**1,445**
16	State Bank of India	2,000	2,970	5,393	5,681	8,800	-	**24,844**
17	Syndicate Bank	200	460	740	776	2,839	-	**5,015**
18	UCO Bank	2,023	-	935	1,925	6,507	-	**11,390**
19	Union Bank Of India	500	111	1,080	541	4,524	-	**6,756**
20	United Bank	700	800	480	1,026	2,634	-	**5,640**
21	Vijaya Bank	1,450	-	220	-	1,277	-	**2,947**
	Total	**15,504**	**10,666**	**24,717**	**24,480**	**86,510**	**8,782**	**170,660**

Excludes any capital infusion not specifically by the government, Includes conversion of preference shares into equity capital
** Data from news reports/ press releases as at July 27, 2018*
Source: Annual Report of banks

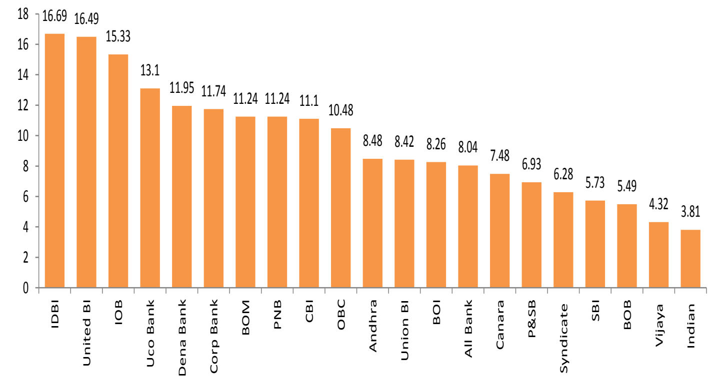
Despite the substantial capital infusion by the government as demonstrated in the table above, the Capital to Risk (Weighted) Assets Ratio for several banks remains an area of concern amongst other factors due to 1) High level of PSBs losses and 2) elevated levels of NPAs.

Capital to Risk (Weighted) Assets Ratio for PSBs at March 2018



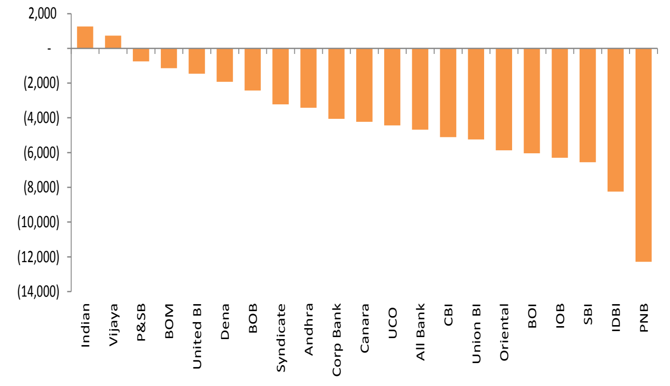
Source: Bank Annual Reports and Presentations

Elevated levels of Net NPAs (%) for PSBs at March 2018



Source: CMIE, Bank Annual Reports and Presentations

High level of PSBs losses for FY18 (Rs cr)



Source: ACE Equity

Concluding remarks

Along with private investors, several public insurance companies and the government have already infused significant levels of capital in the public sector banks and as a part of the capital raising exercise is poised infuse additional capital into the PSBs for meeting the required CRAR levels. The PSBs are also planning to raise additional capital via the capital markets to augment Tier-I and Tier-II Capital for strengthening capital adequacy ratio and for enhancing business prospects. However, additional provisioning for NPAs, possible losses from restructured assets other weak assets could further erode capital and raise requirements for additional capital in the coming years.