

Brickwork Ratings maintains 'stable' outlook for Indian banking sector

Our Bureau

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Rating agency Brickwork Ratings has maintained a "stable" outlook for the Indian banking sector in the coming six to twelve months.

This action comes in the backdrop of different rating actions taken by other rating agencies such as Moody's and Standard & Poor's recently. While Moody's had downgraded the banking sector, Standard & Poor's upgraded the sector last week.

RATIONAL VIEW

Mr Vivek Kulkarni, Managing Director, Brickwork Ratings, said that the 'stable' outlook was based on a rational view of past performance of the banking industry, the positives and the challenges faced by banks, the regulatory environment, and the implications of the Euro zone crisis.

He cited inflation, high interest rates, possibility of more non-performing assets (NPAs), increased oil prices and higher revenue deficits of State

governments as challenges that the banking system has to confront this year.

Elaborating on the issue of State government deficits, Mr Kulkarni said that the period between 2003 and 2007 saw revenues of State governments going up on the back of higher sales tax revenue due to industrial activity as well as higher stamp duty revenue due to real-estate boom.

REVENUE DEFICITS

This growth has tapered off in the recent past and, thanks to populist schemes, there has been a gradual increase in revenue deficits. He pointed out that according to their estimates, State governments had lost nearly Rs 3,500 crore because of inefficient cash management.

And their cash surplus of nearly Rs 1,30,000 crore was parked in 14-day treasury bills earning on the average about 4 per cent, while they often borrowed from the market at close to 8 per cent.

These moves taken together have weakened

the ability of these State governments to support loss-making State electricity boards, he said.

THE POSITIVES

On the positive side, Mr Kulkarni said that Indian banks' NPA management was much better than before.

The NPA ratio, which was as high as 20 per cent two decades ago, was brought down to 2 per cent last year. And provision coverage remains at 77 per cent, which is quite comfortable, he said.

Government ownership of banks, a sturdy retail franchise in deposits and mature management in Indian banks were strong positives, he added.

Brickwork has rated 14 public sector and private banks that account for around 55 per cent of the total business in the Indian banking sector.

Brickwork-rated banks have reported an average return on assets (RoA) of 1.05 per cent, gross NPA of 2 per cent, provision-coverage ratio of 77 per cent, net NPA of 0.80 per cent and leverage of 17.32.