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RECAP, DFI BOOST FOR PSBs



VP NANDAKUMAR
MD & CEO, MANAPPURAM FINANCE

A progressive and growth-oriented Budget that has given serious consideration to some of the persistent problems of the banking & financial services sector.



ANDREW HOLLAND
CEO, AVENDUS CAPITAL PUBLIC MARKETS ALTERNATE STRATEGIES

Key message is big push for growth. A 34% rise in infra capex not only is good for employment but also to have a positive multiplier effect.



A BALASUBRAMANIAN
MD AND CEO, ADITYA BIRLA SUN LIFE AMC

Budget will give impetus to capital markets. Focus on capital expenditure will revive capital goods sector and boost employment. Vehicle scrapping policy should benefit auto & auto ancillaries segment.

RECAP, DFI BOOST FOR PSBs

DFI is meant to enable PSU banks to reduce exposure to infra projects and enhance credit to other industries

SHRITAMA BOSE

THE ANNOUNCEMENT of a ₹20,000-crore recapitalisation round and the establishment of a new development finance institution (DFI) could together help ease the capital constraints faced by public sector banks (PSBs), industry executives said. However, concerns remain about the adequacy of the outlay for recapitalisation, especially in the event of a fresh asset quality review (AQR) exercise.

Finance minister Nirmala Sitharaman said the intent behind setting up a new DFI is not just to spur infrastructure spending, but also to encourage the creation of competing institutions from the private sector. "The needs of this country

are such that just one development finance institution set up by the government cannot adequately cater to its requirements. Therefore, we see a future where a DFI which is partly funded by the government and raises capital from the market is also competing with private-sector DFIs," she said.

The DFI will have an initial outlay of ₹20,000 crore from the government with more being invested later, and will eventually be used for raising ₹5 lakh crore over the next three to five years.

The launch of a DFI will help PSBs, which have traditionally been the primary financiers for infrastructure projects, diversify their focus areas, said Anil Patwardhan, senior director, Brickwork Ratings. "This will enable the PSBs to

reduce their exposure to infrastructure projects and enhance their credit to other industries."

Bankers took a positive view of the announcements. SS Mallikarjuna Rao, MD & CEO, Punjab National Bank, said, "Further recapitalisation of ₹20,000 crore for PSBs in FY22 is a welcome step. Setting up of a professionally managed development finance institution will catalyse infrastructure funding."

Analysts said the amount allocated for recapitalisation was on expected lines. In addition, pending disbursements from the previous round of recap should help too, said Prakash Agarwal, head – financial institutions, India Ratings and Research. "From the announcements made last year, ₹14,000 crore is

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yet to be disbursed. These put together should provide reasonable support for PSBs to grow their balance sheet," he added.

Some bank unions, though, took the view that the recapitalisation plan barely accounts for losses banks may suffer after a likely AQR exercise.

Devidas Tuljapurkar, general secretary, Maharashtra State Bank Employees Federation, said, "The government has provided ₹20,000 crore for recapitalisation of PSBs, which is inadequate if they have to grow in business. In the eventuality of an asset quality inspection, once again banks will have to face huge non-performing assets and may once again be dragged into losses, with their capital getting eroded."