THE HINDU BusinessLine

Mumbai, 24th October

Recapitalisation: Bankers, credit rating agencies upbeat

Will help banks lend to crucial sectors of the economy, clean up balance sheet

The government's 'Diwali bonaza' announcement of recapitalising capital-starved and bad-loans laden public sector banks to the tune of ₹2 lakh crore is a huge positive as it will not only help them lend to crucial sectors of the economy such as MSMEs and infrastructure but also deal with balance sheet clean-up.

Of the ₹2.11 crore support, which will be spread over two years with most of it expected to materialise in this financial year itself, ₹18,139 crore will come from budgetary provisions, ₹1,35,000 crore via recapitalisation bonds, and the balance (₹58,000 crore) will be raised by banks from the market with dilution in government holding in them.

Rajnish Kumar, Chairman, State Bank of India, said: "This milestone announcement on recapitalising banks in one-go is a bold and courageous move and was indeed the need of the hour. It will generate balance in overall demand and supply by bringing more investments in sectors like infrastructure."

These funds will also help in efficiently managing risk and credit capital-related requirements of the banks, he added.

"The steps will also encourage private participation, thus boosting growth, going forward. The thrust to infrastructure will generate direct and indirect positive cascading effects for a lot of related sectors and will create a feel-good factor for all stakeholders," said the SBI chief.

> *Bengaluru-headquartered Brickwork Ratings said the government's recapitalisation announcement is a credit positive step for the NPA-plagued sector. Due to this, PSBs' credit profile is expected to improve significantly. The credit rating agency believes that this step should be monitored by enforcing strict conditions for banks to optimally utilise the allocated funds, have clear targets to reduce NPAs and develop strong balance sheet, moving ahead.*
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> *Vivek Kulkarni, Founder Managing Director, Brickwork Ratings, said: "This step also takes care of excess liquidity banks are facing currently on account of last year's demonetisation. Banks can cleverly invest these funds in the recap bonds which will ultimately be routed back as equity in the system. This step will also ensure that the bond market will not be impacted by such a large issuance for private sector issuers."*

Karthik Srinivasan, Group Head - Financial Sector Ratings, ICRA, said: "The bank recapitalisation plan is significantly positive for the PSBs, given the quantum of the capital infusion, as it will address both the issues of growth capital and capital required to absorb losses arising out of elevated provisioning requirement on NPAs."

He observed that most likely the recapitalisation bonds are likely to be subscribed by the banks, whereby their investments, net worth and hence, capitalisation will increase to the extent of recapitalisation bonds received by them.

"This is also likely to be liquidity non-disruptive and hence, have minimal impact on liquidity condtions and market yields. The applicability of SLR (statutory liquidity ratio) status of these bonds remains to be seen, which could have marginal impact on market yields," said Karthik.