Recapitalization of Public Sector Banks

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Abstract –Public sector banks were created in 1969 after nationalisation. From the onset the government has relied on them to dispense credit to the vital sectors of the economy.The primary purpose of this article is to look closely at the recapitalization of banks by the Government of India over the years and the impact this has had on the functioning of the banks. The questions that this study asks are all related to one basic theme, viz., is it worthwhile to keep pumping capital into banks without first putting in place a revamped management that can do justice to the funds so received. The data used for this study is taken from the annual reports of the banks and Prowess database of the CMIE. The article concludes that banks continue to function in the way they always have and that the infusion of capital has had no impact on bank policies and strategies.

Keywords: Recapitalisation, Non Performing Assets, Capital Adequacy

I. INTRODUCTION

Banks offer a critical service to the economy through the intermediation process. It offers a safe sanctum for the deposit of savings of millions of individuals and these funds are made available to entrepreneurs and traders for various economic activities. As banks are heavily leveraged and operate on the basis of borrowed funds the decisions they take with regard to choice of borrowers has an impact on all those who have reposed their trust in banks and deposited their money with them. It is therefore essential that banks have good credit appraisal systems in place that ensure that the loans are disbursed to good quality borrower who have the ability to use these funds productively and repay the bank. Portfolio selection is therefore very important. In the event of the bank giving loans to poor quality borrowers the chances of default are very high. Once borrowers begin to default loans become non-performing assets (NPAs). The bank is now required to create provisions for the non performing asset. The provisions come out of the earnings of the bank and hence reduce the profits and retained earnings. Thus not only is the future income of the bank, in the form of interest from performing loans, affected the existing position is also adversely impacted as a result of the provisions. With less retained earnings the growth of the capital and reserves of the bank declines. The funds of the banks get blocked in these non-performing loans reducing its ability to give further loans.

Public sector banks were created in 1969 after nationalisation. From the onset the government has relied on them to dispense credit to the vital sectors of the economy. Government ownership has meant that the banks have been mandated to grant loans to priority sectors, which include the agriculture, micro, small and medium industries, small business and retail traders and self-employed professionals. As banks have to ensure that 40% of the loans are given to these segments the portfolio of loans that a bank builds up over a period of time is heavily influenced by the pool of borrowers available in these segments. As more and more loans are given to these segments the quality of borrowers goes down creating an adverse selection problem. This is one of the reasons for the heavy default in these sectors resulting in the creation of NPAs.

At the other end of the scale banks offer commercial loans to corporate borrowers. The size of these loans is large and banks have to ensure that their appraisal of the borrowers is satisfactory. In the event of a less than satisfactory appraisal there is every chance that the loans will be granted to corporates that have poor repayment capacity and result in defaults. This in fact has happened over the years. The problem is compounded by the difficulties banks face in enforcing their rights over the mortgaged/hypothecated assets of the borrowers. In the event of the matter being taken to the courts the recovery is further delayed as a result of the time taken to decide cases.

It is in this background that this study has been undertaken. As non-performing assets of Banks have increased over the years and earnings have declined and banks have gone into loss the capital of the banks has been eroded. Banks require to maintain a CRAR as per regulatory requirement which is currently 9% of risk weighted assets. In the absence of the required CRAR banks cannot lend. The purpose of bank lending is to earn profit and keep building up the Capital and Reserves. However, for this to happen banks must ensure that their quality of assets are good and interest is earned on all assets. As can be seen from the above this has not happened. Over the years banks have failed to ensure good quality loans as a result of which credit risk (risk of default) has increased exponentially. This can be seen from the table below:

Year	Total Advances(Mn)	GNPA	GNPA%	CAR %
2010	2792312.17	40619.13		13.08
2011	2802320.17	45797.13	13%	13.02
2012	3273641.8	105415.71	130%	12.79
2013	3764339.54	152876.96	45%	12.29
2014	4327042.28	199234.29	30%	11.27
2015	4648403.67	257312.23	29%	11.4
2016	4511341.66	205940.39	-20%	11.55
2017	4559809.21	606209.47	194%	12.02
2018	4970420.02	823931.39	36%	11.05
2019	5326504.20	774102.29	-6%	11.95

The table above shows how the NPAs have increased and Capital adequacy declined over the period. Due to this declining trend the banks' capital has been eroded and banks today are in loss. Many of these banks have been placed under the restrictive Prompt Corrective Action framework which means in practice that they have to resort to narrow banking and are not permitted to make regular advances. This will further restrict their earnings and loss is likely to increase. As public sector banks are a vehicle through which the economic and monetary policies of the government are implemented a situation in which banks stop lending cannot be allowed to persist by the government. Hence the only option is recapitalisation. In view of this the government has recapitalized the banks from time to time.

Objectives of the Study

The objective of this work is to examine the extent of recapitalisation of public sector banks and the impact this has had on their financial health. As recapitalisation is made with a view to strengthening the balance sheet of the bank and allowing it conduct normal banking business so as to regain its financial health the objective of this study is to analyse whether this infact has taken place. The questions that we seek to answer are:

- Has recapitalisation led to the banks improving their asset quality and their profitability?
- Has recapitalisation led to an overall improvement in the health of public sector banks?

*Research methodology:*A sample of large and small public sector banks has been chosen for the study. Data on recapitalisation of these banks over the period 2009-2019. has been compared with their performance during the same period. The performance is assessed on the basis of certain specific parameters such as the growth of advances, the level of non performing assets, the profit/losses and capital adequacy over the study period. The purpose is to ascertain whether recapitalisation resulted in an improvement in the performance of each bank and whether any effort was made to change the strategy to ensure that the infused capital was used in a manner that improved the health and working of the bank. This sample includes large public sector banks such as State Bank of India and Punjab National Bank and three smaller banks, viz., Andhra Bank, Bank of Maharashtra and Union Bank of India.

Sources of Data: The data of each of the banks for the financial years 2009-2019has been sourced from the annual reports of the banks published on their official websites. Apart from this additional data has also been taken from Prowess data base of the CMIE and from moneycontrol.com and yahoofinance.com.

Scope and Limitation: The study is limited to 5 banks and as such is not comprehensive. Moreover, the data is collected for only 10 years. Further no additional data has been generated from primary sources. Given the resource and time constraints of the researcher this work leaves room for more detailed and elaborate enquiries into the same subject.

LITERATURE REVIEW

1.Siraj and Sudarsanan Pillai studied efficiency of various bank groups and managing NPA and their finding resulted in relative efficiency of the banks which is considered as major reason for the resilience of Indian banks lead to financial crisis. (Siraj and Pillai, 2013). Efficiency and quality of the asset of bank are highly correlated. Along with profitability the quality of assets it holds is also considered as a factor for efficiency. Threat for banking growth and stability is Non-Performing Assets (NPA).

2. Recapitalization can help public sector banks to reduce their NPAs and improve earning quality (Manu, Gnanendra and Gupta, 2018).Their work studied the effect of recapitalization on PSBs over the period 2016 -2017.

3 .Manivannan in his study of public sector banks found that banks had shown a preference for giving credit to corporates neglecting sectors like agriculture and small-scale industries. (Manivannan, 2013). In consequence of this their asset quality has suffered leading to a decline in profits and capital. This has led to the government having to take steps to recapitalize banks.

4.Devi and Arati stated that managing NPA is high level discussion subject to fact that NPA is growing year by year especially in open division bank and scope was to analyse NPA of the Public and private banks for 5 year from 2012-2016. Devi and Pant, 2018) The study helps bank to together get better regulation of banking sector.

5. Another study on the performance of public sector banks has found that there has been an accumulation of non performing assets leading to a situation where these banks are finding it difficult to maintain their credit growth. The study states that the problem of non performing assets is in part due to the sluggish growth of the corporate sector. Government has to introduce new schemes to revive the capital structure of banks so that they reform . this paper aims to find the effect of recapitalization on the balance sheet of the banks and see how the new schemes helped banks to get back on track (Chakraborty, 2018). Can you send me this article?

6.The study by Rathore, Sangeeta, Sunita Sharma focuses on the status of non-performing assets of NPA of Indian scheduled commercial banks along with their impact and to know the recovery of NPAS through different channels. (Pro. D.S. Rathore, Dr. Sangeeta Malpani, Sunita Sharma, 2016) The study used secondary sources to know the credit facility by banks.

7.Shraddha, Dr Shriram in their paper studied the relationship between NPA level of public sector with their capital adequacy ratio over a period of time (Shraddha Kokane, Dr Shriram Nerlekar, 2017) The research suggest whether the recent policy made in the form of Indradhanush along with union budget 2016 for recapitalizing PSBs stand appropriate or not. Can you send me this article?

8.A study made by Reddy and Naidu stated that credit was granted without proper credit appraisal of borrowers along with this post credit sanction was also not stronger (Dr.K.SreeLatha Reddy, M.V.Sivaram Naidu, 2018). This research paper explores the root causes of NPA and its impact on profitability also focused on dynamics of various categories of NPA.

9.India witnessed two business cycles in last ten years during which growth was steady and high revenue , high profit were taken for granted. Jeevan analysed the performance of major public, private and foreign banks based on financial parameters. (Jeevan Jayant Nagarkar, 2015)

10.Koley in her paper explained the measure of financial position, efficiency and performance of SBI & HDFC (JyotirmoyKoley, 2019). Her study examined the significant difference in the performance of selected banks and used CAMEL model to assess the financial strength of the banks.

11.Karunakar, Vasuki and Mr.Saravanan stated that the solution of problem to NPAs is through a proper risk management and credit assessment mechanism. And also states that it would be better to place rigorous and proper credit appraisal mechanism in order to avoid NPAs at later stages (Karunakar, Vasuki and Saravanan, 2008). Their research was focussed on finding answers to factors contributing to NPA, reasons for NPA, magnitude of NPA, and their impact.

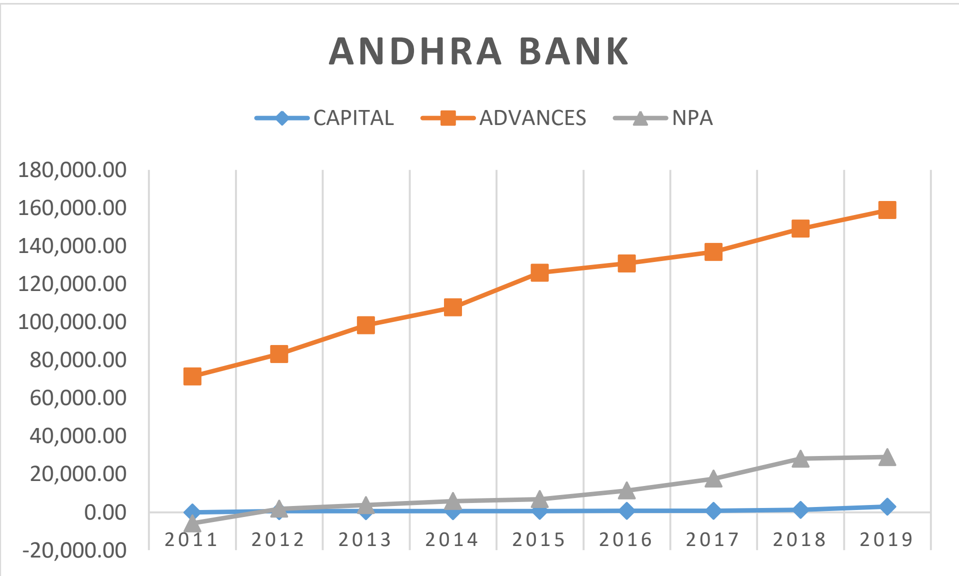
12.Gross NPA as a proportion of total assets are 10.8% as of March 2018 and has been rising for the past few years. Jayaraman, Keshmeer and Sharma studied the micro and macro-economic factors that affect bank NPA and found that real GDP growth, gross advances, price levels and expenditure are the main determinants of NPA in Indian commercial banks (Jayaraman, KeshmeerMakun, Sharma, 2018).

13.Non-performing assets are considered to be main concerns for Indian banks. Omid, Javaid, highlighted the trends and status of public sector banks profitability for a period of 7 years from 2009-2015. (Sharifi and Akhter, 2016) the study revealed that NPA has negative impact on public bank's financial performance and the growth.

Analysis and Interpretation

Andhra Bank

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Amount of equity capital raised during the year					2000	1200	5144.8			
Capital adequacy ratio (in per cent) (Time series)	13.93	14.38	13.18	11.76	10.78	10.63	11.58	12.38	11	13.68
Opening gross NPA	3681.4	4878.7	9956.4	17980	37145	58576	68765.4	114436.3	176699.8	281243.6



2013-14

Capital

- The Bank's Capital Adequacy as on 31.3.14 is in conformity with the requirements for Basel III as prescribed by RBI. However, to meet the growing business requirements, the Bank may have to supplement its Capital funds, especially by increasing Common equity in future and infusion by Government of India of Rs. 2000 crores.

Gross NPA

- Gross NPAs of the Bank stood at 3714.5 crores as on 31.03.2014 which increased by 1916.5 crores compared to FY 2013. GNPA as percentage increased by 106.5% from 31.3.2013 to 31.3.2014.

Advances

- Advances of the bank grew by 927 crores i.e. from 9837 crores to 10764 croresinFY 2013. Where as increase in percentage is 9.42% from 2013 to 2014.

2015-16

Capital

- The Paid-up Capital of the Bank as on 31.3.15 was Rs.602.85 Crore and the Capital Adequacy Ratio of the Bank as on 31.03.2015 was 10.63% which is well above the 9% stipulated by the Reserve Bank of India. However, in view of the growth plans of the Bank, the implementation of BASEL-III norms and consequent capital charge, there is a need to increase the capital to further strengthen the Capital Adequacy Ratio which is done through issuing share capital.
- The Bank has also raised Rs.800 crores through the issuance of 10.95% - Basel-III compliant Additional Tier-I Perpetual Debt Bonds on private placement basis to augment Additional Tier-I Capital and overall capital of the Bank for strengthening the Capital Adequacy as per Basel III requirements.
- The Bank has raised Rs.500 crores by issuance of 8.58% - 10 years Basel-III compliant Tier-II Bonds (Series-A) and Rs.500crores by issuance of 8.63% - 10 years Basel-III compliant Tier-II Bonds (Series-B) on private placement basis through bidding route to augment Tier-II capital and overall capital of the Bank for strengthening the Capital Adequacy as per Basel-III requirements and for enhancing the long term resources.

Gross NPA

- Gross NPAs of the Bank stood at 68765.4 Mn as on 31.03.2016 which increased by 10189.4 Mn compared to PY 2014. GNPA as percentage increased by 17.39% from 31.3.2015-31.3.2016.

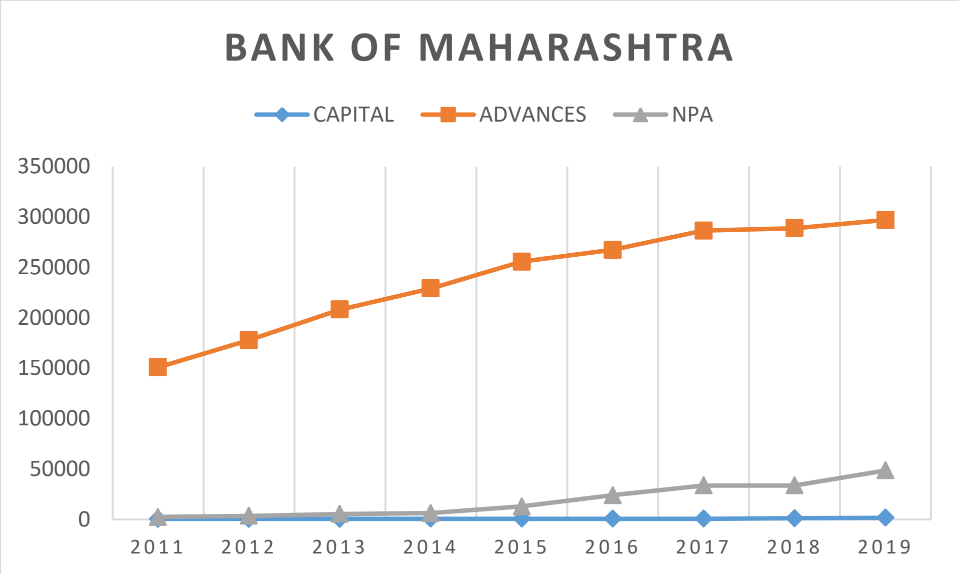
Advances

- Advances of the bank grew by 4833.16 Mn i.e. from 125954.73 Mn to 130787.89 Mn compared to PY 2015. Whereas increase in percentage is 3.83% from 2015 to 2016.

The government of India infused Rs.2000 crore in 2014 and the bank has been able to raise Additional Tier I and Tier II capital in FY 2015 and FY 2016. However this has not resulted in a change of policy with regard to the creation of assets and their management. Though growth of advances has slowed over this periodNPAs have continued to increase. It appears that a course correction has not been made and there is no change in the credit policy of the bank.

Bank of Maharashtra

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Amount of equity capital raised during the year					1776.2	2240.8	1051.5		34865.5	47030
Capital adequacy ratio (in per cent) (Time series)	12.78	13.35	12.43	12.59	10.79	11.94	11.2	11.18	11.01	11.86
Opening gross NPA	7984.1	12097.9	11737	12970.3	11375.5	28598.5	64020.6	103858.5	171887	184332.3



2013-14

Capital

- Capital from Government of India- During the year, the Bank received equity share capital amounting to Rs. 800 crore (including share premium of Rs. 622.38 crore) from Government of India (GOI) through allotment of shares on preferential basis. With capital infusion, the share holding of GOI in equity share capital increased to 85.21% as on 31.03.2014.
- The Bankhasraisedequitycapitalof800.00crore(includingshare premium)through preferentialallotmentbasistoGovernment ofIndia, duringtheyear

Gross NPA

- Gross NPAs of the Bank stood at 1137 crores as on 31.03.2014 which decreased by 159 crores compared to FY 2013. GNPA as percentage decreased by 12.29% from 31.3.2013 to 31.3.2014.

Advances

- Advances of the bank in terms of amount grew by 1344 crores i.e. from 7547 crores to 8892 crorescompared to FY 2013 whereas increase in percentage is 17.82% from 2013 to 2014.

2014-15

Capital

- Capital from Government of India: The Bank issued 13, 33, 63,574 equity shares amounting to Rs.588.00 crore (including share premium) to GOI on preferential allotment basis, being conversion of equal amount of Perpetual Non Cumulative Preference Shares

Gross NPA

- Gross NPAs of the Bank stood at 28598.5 Mn as on 31.03.2014 which increased by Rs. 17223 Mn compared to FY 2014. GNPA as percentage increase by 151.4% from 31.3.2014-31.3.2015.

Advances

- Gross Advances have increased from Rs.90368.67 crore as on 31.03.2014 to Rs. 101210.26 crore as on 31.03.2015, registering a growth of 12.00% on Y-o-Y basis. The bank credit crossed the milestone of Rs.1,00,000 core.

2015-16

Capital

- Capital from Government of India The Bank issued 10,51,50,787 equity shares amounting to ` Rs.394.00 crore (including share premium) to Government of India on preferential allotment basis.Consequent upon the capital raised during the year, as above, the share holding of Government of Indiain equity share capital stood at 81.61%.

Gross NPA

- Gross NPAs of the Bank stood at Rs.64020.6 million as on 31.03.2014 which increased by 35422.1 millioncompared to FY 2015. GNPA in percentage terms increased by 123.8% from 31.3.2015 to 31.3.2016.

Advances

- Gross Advances have increased from Rs. 101210.26 crore as on 31.03.2015 to Rs.111240.28 crore as on 31.03.2016 registering a growth of 9.91% on Y-o-Y basis.

2017-18

Capital

- The Government of India has infused total additional capital of Rs.3173 crore in two tranches; Rs. 650 crore on 29.12.2017 and Rs. 2523 crore on 27.03.2018.

Gross NPA

- Gross NPAs and Net NPAs stood at 19.48% (Rs.18433 crore) and 11.24% (Rs.9641 crore).

Advances

- Gross advances of the Bank stood at Rs. 94645 crore as on 31.03.2018 in comparison to Rs.101537 crore as on 31.03.2017 as a result of Bank's policy to focus more on retail advances instead of dependence on big corporate advances.

2018-19

Capital

- Capital from Government of India: The Government of India has infused total additional capital of Rs. 4703 crore in two tranches; Rs. 4498 crore on 31.12.2018 and Rs. 205 crore on 21.02.2019.

Gross NPA

- Gross NPAs of the Bank stood at 184332.3 million as on 31.03.2018 which increased by 12445.2 million compared to FY 2019. GNPA as a percentage increased by 7.2% from 31.3.2018 to 31.3.2019.

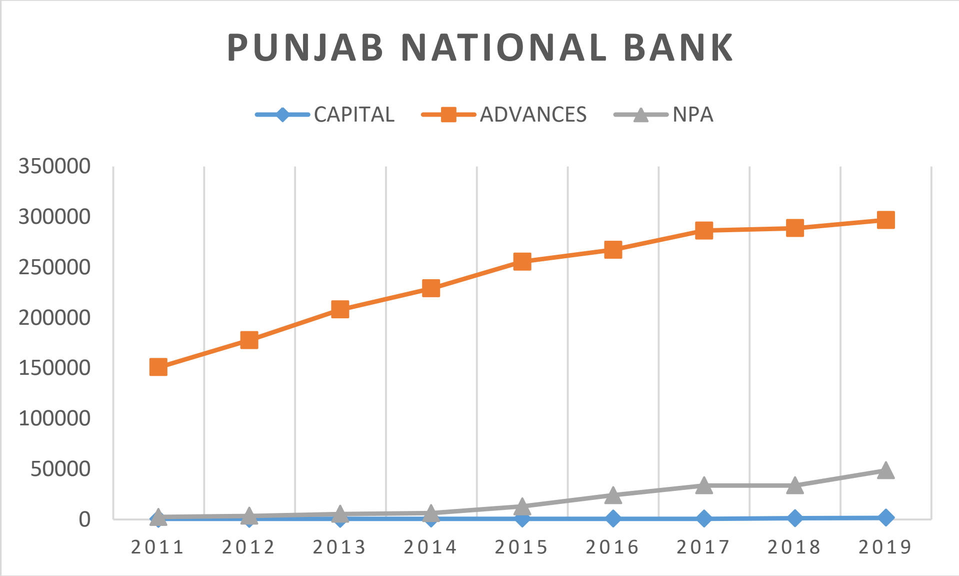
Advances

- Gross advances of the Bank stood at Rs. 93466.70 crore as on 31.03.2019 in comparison to Rs.94645.20 crore as on 31.03.2018 as a result of Bank's policy to focus more on retail advances instead of dependence on big corporate advances.

The Government of India infused capital into this bank during the FYs 2014, 2015, 2016, 2018 and 2019. After this continuous infusion of capital the bank has managed to retain the regulatory capital adequacy requirement. However there is no change in the functioning of the bank. The NPAs have continued to grow and there is no indication that any change has been made in the credit policy of the bank. There is no mention in the annual report of any initiative taken for the recovery of non performing assets of the bank.

PNB

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Amount of equity capital raised during the year					86	88.4	218.1	21120	104730	148040
Capital adequacy ratio (in per cent) (Time series)	14.16	12.42	12.63	12.72	11.52	12.21	11.28	11.66	9.2	9.73
Opening gross NPA	25069	32144.1	43793.9	87196.2	134657.9	188800.6	256948.6	558183.3	553704.5	866200.5



2016-17

Capital

- The Government plans to come out with 'Indradhanush 2.0', another comprehensive plan for recapitalization of Public Sector Lenders for banks to remain solvent and fully comply with global capital adequacy norms, Basel-III. Under 'Indradhanush' roadmap, a target of Rs.70000 crore till 2019 was set for infusion in the public sector banks.

Gross NPA

- The Bank's Gross NPA stood at 55370 crore in FY'17 (FY'16: 55818 crore) and the Net NPA stood at 32702 crore in FY'17 (FY'16: 35423 crore). In terms of ratios, Gross NPA ratio stood at 12.53% in FY'17 (FY'16: 12.90%) and Net NPA ratio stood at 7.81% in FY'17 (FY'16: 8.61%). Gross NPA as well as Net NPA percentage has come down. Provision Coverage Ratio has also improved from 51.06% in FY'16 to 58.57% in FY'17. In absolute terms also both Gross NPA and Net NPA as on 31.03.17 reduced as compared to 31.03.16.

Advances

- Net advances of the bank at Rs 4.19 lakh crore grew 1.7% on YoY basis.

2017-18

Capital

- During the year, Bank raised 5000 crore through Qualified Institutional Placement (QIP) to boost capital. Further, the Govt. infused 5473 crore in March 2018.

Gross NPA

- The Bank's Gross NPA stood at 86,620 crore as at 31st Mar'18 (55,370 crore as at 31st Mar'17) and the Net NPA stood at 48,684 crore as at 31st Mar'18 (32,702 crore as at 31st Mar'17). In terms of ratios, Gross NPA ratio stood at 18.38% in Mar'18 (Mar'17:12.53%) and Net NPA ratio stood at 11.24% in Mar'18 (Mar'17: 7.81%).

Advances

- Gross global advances increased to Rs 471297 crore as on March 18 showing YoY growth of 6.7%. Global Net Advances were Rs. 433735 croreas on March'18 showing YoY growth of 3.4% domestic credit was at Rs 430294 crorewith YoY growth of 9.8%.

2018-19

Capital

- The capital infusion by the Government under the Recapitalization plan further strengthened the CRAR. The Bank's CRAR stood at 9.73% as on 2019with Tier I capital of 7.49% and Tier II capital of 2.24%.

Gross NPA

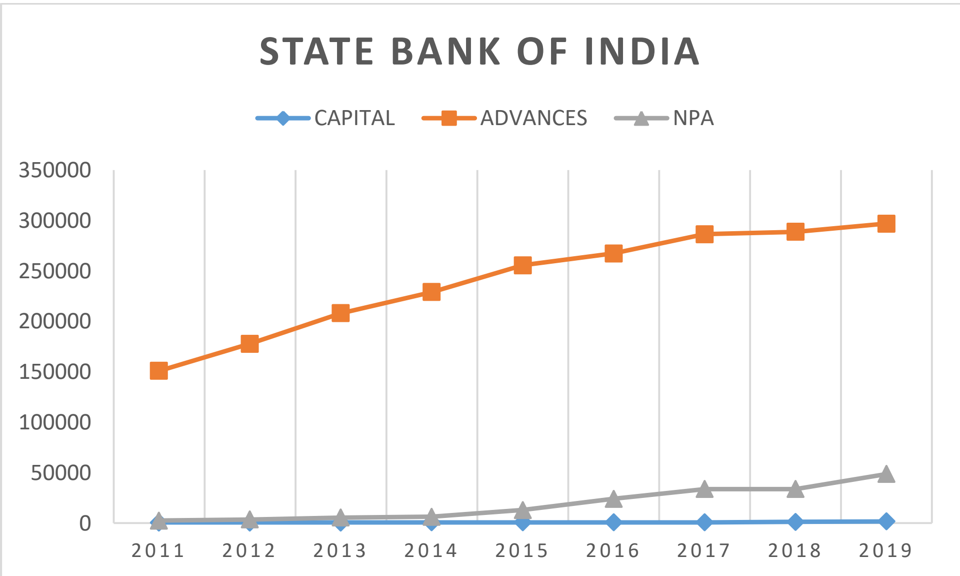
- Gross NPAs of the Bank stood at 18433 crores as on 31.03.2018 which increased by 1244.2 crorecompared to FY 2019. GNPA as percentage increased by 7.2% from 31.3.2018-31.3.2019.

Advances

- The Net Advances of the Bank increased by 5.65% to Rs 4.58 lakh crore from Rs 4.34 lakh crore. Investment increased by 0.91% to Rs. 2.01 lakh crore from Rs 2.00 lakh crore as at 31st March 2018.

SBI

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Amount of equity capital raised during the year				30040.7	100316.5	29700	53930	56810	238136.9	3.8
Capital adequacy ratio (in per cent) (Time series)	12	11.98	13.86	12.92	12.44	12	13.12	13.11	12.6	12.72
Opening gross NPA	157140	195348.9	253262.9	396764.6	511893.9	616053.5	567253.4	981728	1123429.9	2234274.6



2013-14

Capital

- Capital infusion of Rs.2,000 crores by the Government of India.

Gross NPA

- As a whole the Gross NPA and Net NPA were contained to 4.95% and 2.57% respectively vis-à-vis 4.75% and 2.10% in FY 2013.

Advances

- Large Corporate advances rose from Rs.1,75,831 crores in Mar 2013 to Rs.2,42,719 crores in March 2014, registering a robust growth of 38.0%. Bank's loan to Mid-Corporate increased by 11.5% from Rs. 2,04,853 crores to Rs.2,28,384 crores.

2015-16

Capital

- During FY16, the Government infused Rs.5393 crore while the Bank raised Rs.10,500 crore through Tier II issuance.

Gross NPA

- The Gross NPA went up by 225 bps to 6.50% in FY16 as against 4.25% in FY15. Net NPA on the other hand went up by 169 bps to 3.81% in FY16 as against 2.12% in FY15.
- Gross NPA Ratio in Agricultural loans also declined from 8.90% in FY15 to 6.93% in FY16. Gross NPA Ratio in SME loans remained stable at around 7.8%.

Advances

- The Advances of your Bank crossed the 15,00,000 crore mark, and grew at 13.04% to the level of 15,09,500 crore by March 2016 from the previous year level of 13,35,424 crore.

2017-18

Capital

- During FY16, the Government infused 5393 crore while the Bank raised 10,500 crore through Tier II issuance. Revaluation of Real estate Assets is yet to be reckoned in capital adequacy calculations

Gross NPA

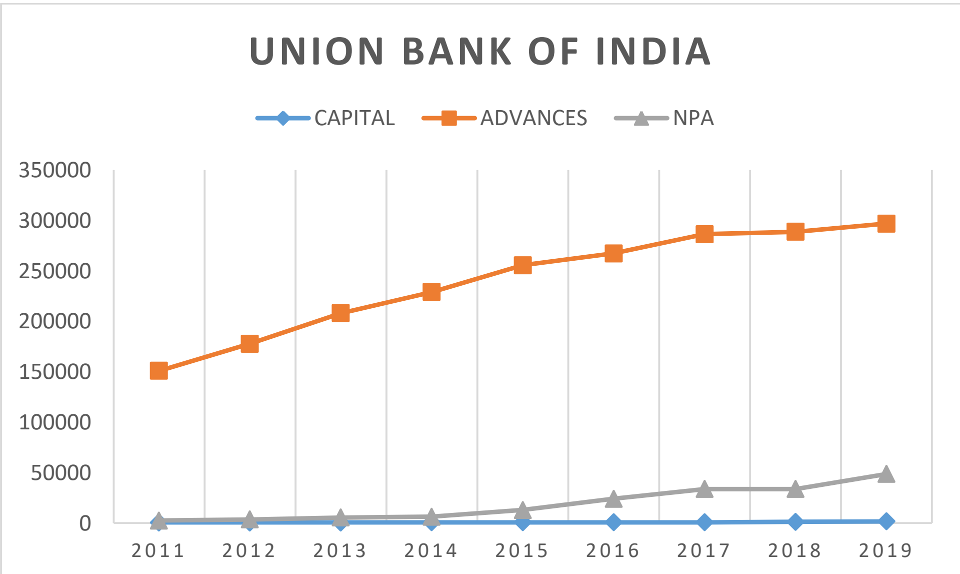
- Gross NPAs of the Bank increased from Rs.1,77,86crore as on March 2017 to Rs. 2,23,42 crore as on March 2018.

Advances

- Retail Advances grew by 15.5% during FY'18 with 16.6% growth in Housing Loan Segment.

UNION BANK OF INDIA

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Amount of equity capital raised during the year					335.1	54.7	516.6		70650	46803.2
Capital adequacy ratio (in per cent) (Time series)	12.51	12.95	11.85	11.45	10.8	10.22	10.56	11.79	11.46	11.78
Opening gross NPA	19233.5	26708.9	36228.2	54498.6	63138.3	95637.4	130308.7	241708.9	337122.8	493699.3



2017-18

Capital

- To revitalize capital position of the bank, government of India infused Rs 4,524 Cr during FY 2017-18.

Gross NPA

- Gross Non-Performing assets (GNPA) of the bank stood at Rs 49370 Cr as on 31.3.2018 compared to Rs 33712 Cr as on 31.3.2017. GNPA as a per cent of total advances increased to 15.73 % in March 2018 compared to 11.17% in March 2017.

Advances

- Gross Advances of 3,13,860 crore as on March 31, 2018, an increase of 4.04%.
- In Advances as of March 31, 2018, Retail, Agriculture & MSME sectors increased by 8.35% and contributed more than 55% of domestic loan book.

2018-19

Capital

- Based on estimated growth the directors have decided to raise equity share capital of upto Rs.4900 crores through capital infusion by Government of India.

Gross NPA

- Gross NPA as on March 31,2019 stood below 15% (14.98%) compared to 15.7% as of March 31,2018.

Advances

- Gross advances stood at Rs 3,25,392 crore as on March 31, 2019 compared to Rs 3,13,860 Cr as on March 31, 2018. Domestic advances increased by 7.8% to Rs 3,10,932 Cr as on March 31,2019 compared to Rs 2,88,336 Cr as on March 31,2018.

Conclusion

The above data on the conduct and performance of public sector banks throws up questions of governance. As can be seen in the case of all the selected banks the Government of India has infused capital in different years. However it is clear that this infusion of capital has become a regular feature from 2014 onwards. Infact the Indradhanush programme of the Government has set aside Rs.70000 crores for the recapitalisation of banks which indicates that this policy of regular infusion of capital into banks is set to continue. Banks have also taken the opportunity to raise Additional Tier I capital in some cases and Tier II capital in some cases through the mechanism of Qualified Institutional Placements. These actions have allowed the banks to retain their capital adequacy level at a mark above the regulatory requirement.

However, it is also clear that the banks have made no effort to put in place measures that can lead to the sanction and disbursement of credit to a better quality of borrowers. The trend of financing to priority sectors continues. The only other type of advance that is noticeable is that of Retail Advances which is a healthy trend as it will ensure diversification of risk and less concentration in the hands of a few borrowers. The interest rates on retail advances and recovery rates are both better than in other sectors. However, advancing to the retail sector cannot serve as a panacea to the ills that banks are plagued with as the volunes of such advances are low. As a percentage of total advances these advances are not enough to lead to a change in the sectoral deployment of funds.

The other disturbing trend that is clear from a perusal of the figures given above for all the selected banks is the continued deterioration in the quality of assets. Non Performing Assets have risen without exception for all the banks in the sample and it appears will continue to grow. The provisions made for the Non Performing Assets will continue to grow and this will continue to be a huge burden on the profitability of banks in the near future.

Finally it may be said that it is in the interest of the nation that bank managements initiate policies that lead to an reversal in the present trend of asset creation and an improvement in the financial health of the banks. It is also the duty of all stakeholders to flag these issues and ensure that a course correction is brought about.