

India Ratings
& Research


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2016

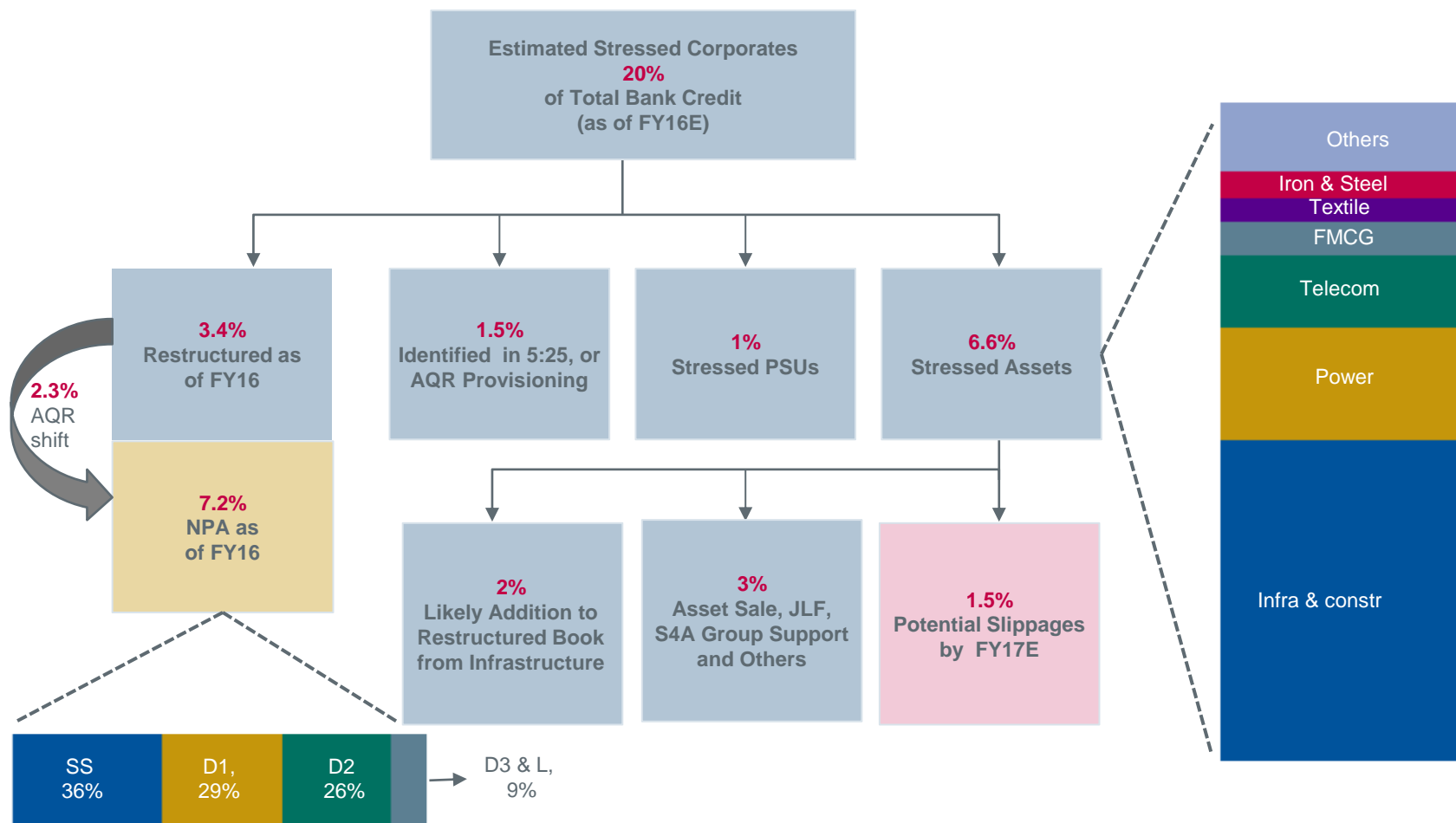
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Key Themes in the FI landscape

	BANK'S		NBFC'S
	Private	PSB	
Outlook	Stable	Negative	Stable
Asset Quality	Pressure ↑	Pressure ↑↑	Moderating (LAP-Cautious)
Capital Situation	Comfortable	Critical - Need > Govt's plan (FY17 crucial for AT1 Placement)	Opportunity 
Profitability	Comfortable	Pressure ↑↑↑ (LCR compliance & MCLR)	Comfortable
Credit Costs	Moderate	High	Rising (changing NPA recognition)

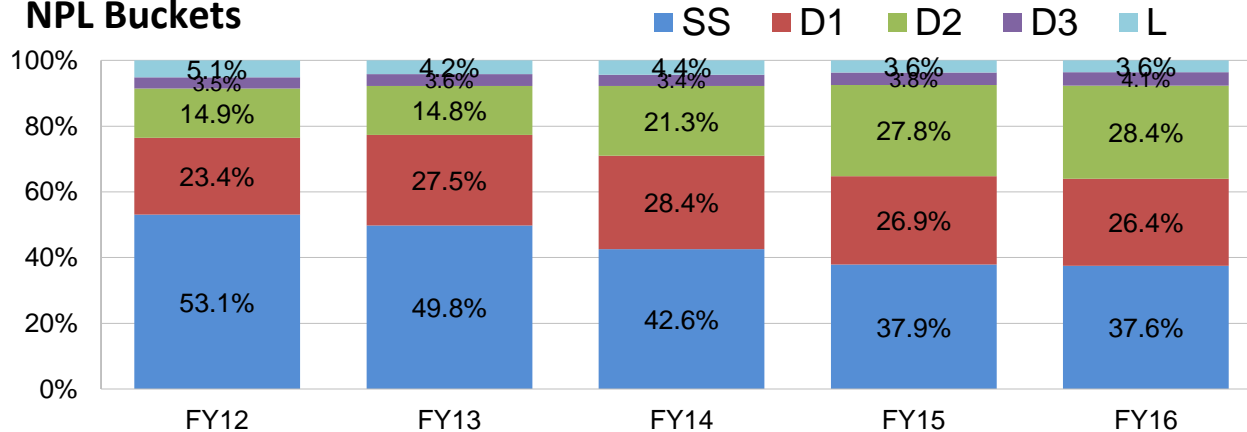
Post AQR Landscape

Fresh slippages to moderate; unrecognized stress has higher infra mix



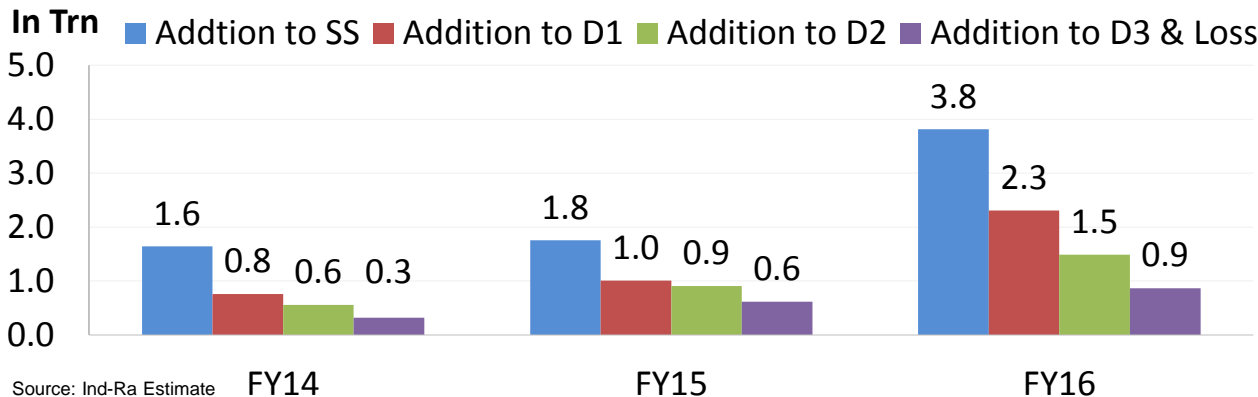
NPL Aging would keep credit costs high

NPL Buckets



Source: RBI; AceEquity

Addition to NPA

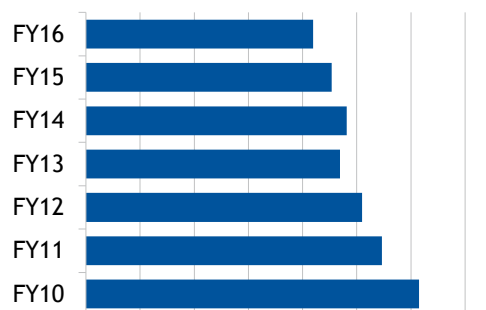


Source: Ind-Ra Estimate

- Expect credit costs to drop to 170-180bps for FY17 compared to 280bp for FY16
- A large proportion of this is likely to be driven by NPL Aging
- The non-funded exposure to some recognized stressed accounts could also add to credit costs

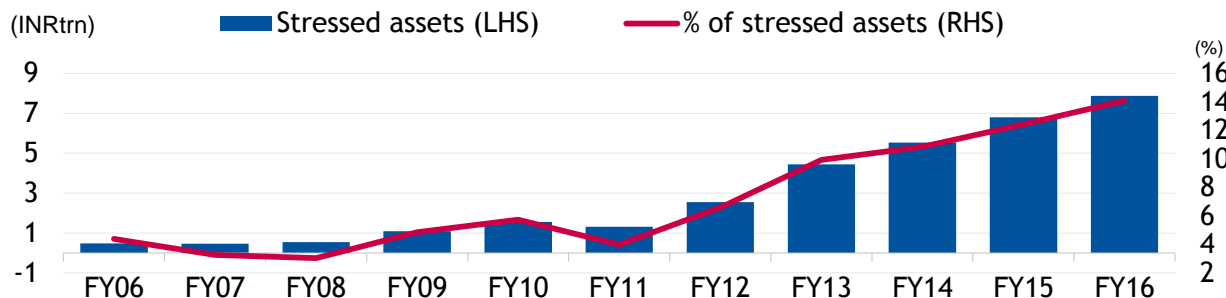
Stressed Asset Ratio trends

Top 20 Exposure to Equity



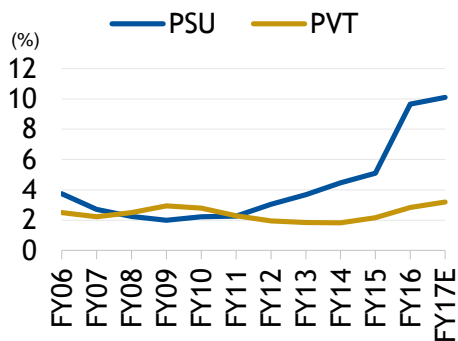
Source: Ind-Ra

Stressed Assets – PSBs



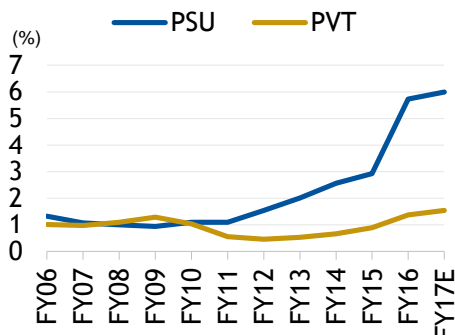
Source: Company

Gross NPA



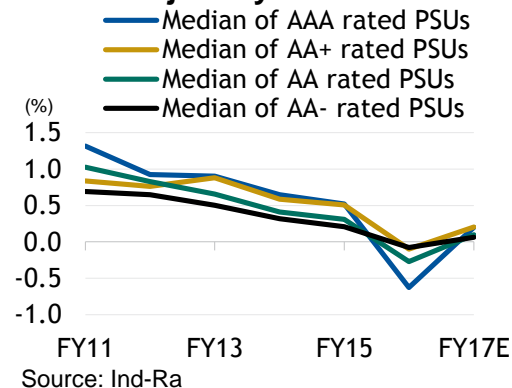
Source: Company

Net NPA



Source: Company

ROA – Trajectory



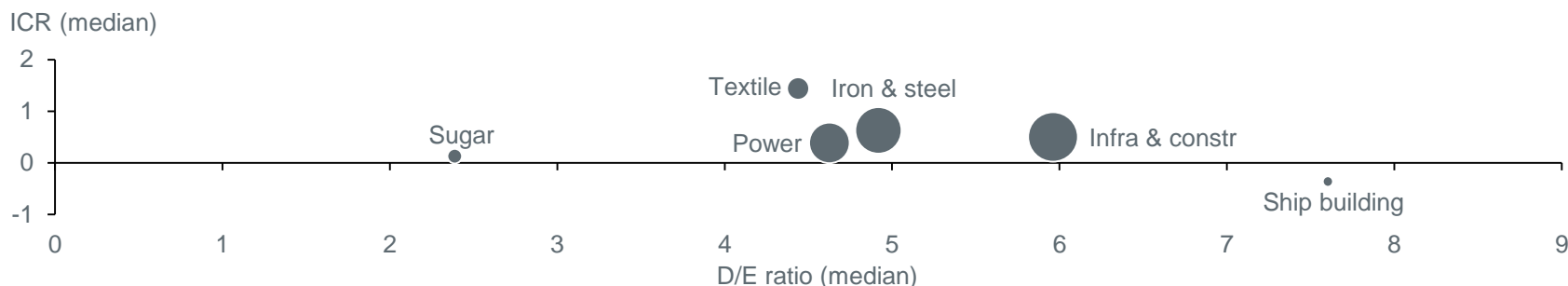
Source: Ind-Ra

Source: Ind-Ra's estimates

Stressed Sectors – how they look

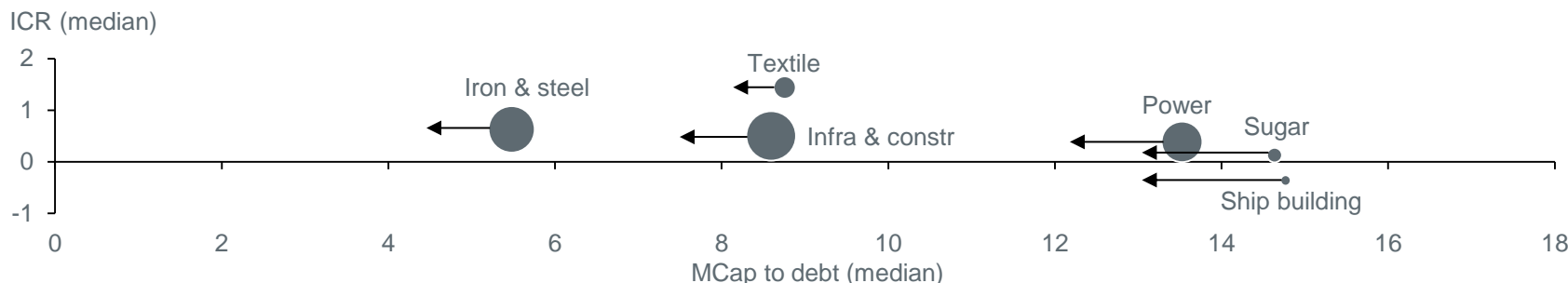
- Top stressed corporates by filtering ratios like interest coverage ratios (<1.5x), Debt to equity Ratio (>2.5x) , market cap to debt ratio (<20%) and Debt to EBIDTA ratio (>5x)

Debt to Equity and ICR Across Stressed Corporates by Sector



Source: Ind-Ra's estimates, Ace Equity. Size of bubble represents bank debt amount

Market Cap to Debt and ICR Across Stressed Corporates by Sector

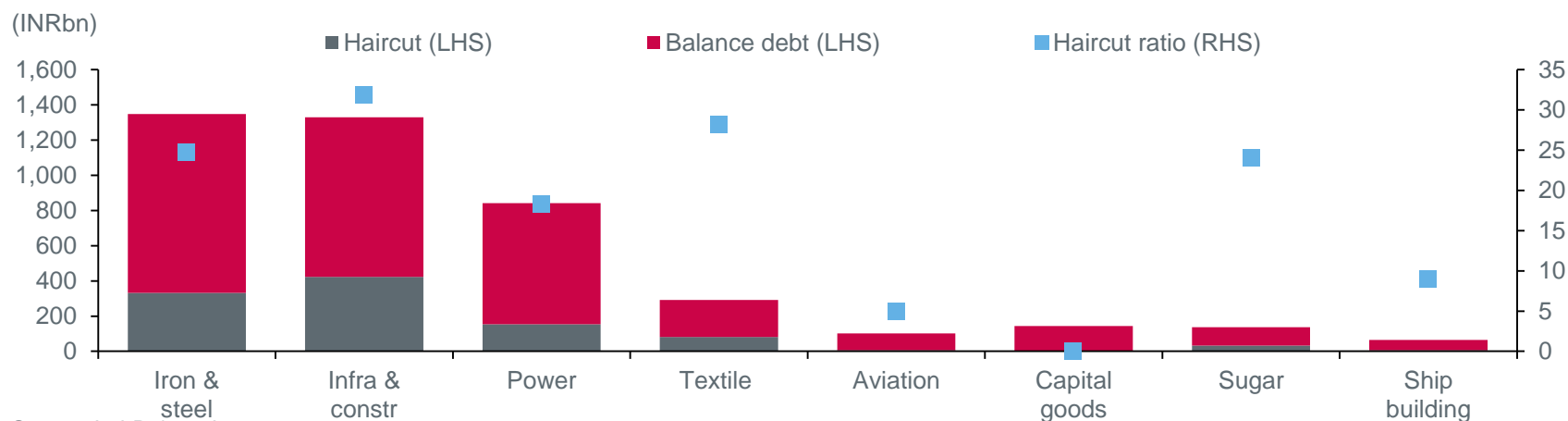


Source: Ind-Ra's estimates, Ace Equity. Size of bubble represents bank debt amount. Arrows represent MCap/Debt shift between March 2015 and September 2015

Potential Haircut from a going-concern perspective

- On a blended basis we estimate a minimum 23% reduction in current debt amount would be sustainable for comfortable debt servicing by these corporates.
- In terms of the capital bill about INR 0.7 trillion in additional CET1 would be desirable to cover unexpected loss on account of these exposures (post AQR)
- In terms of CET1 ratio the impact of providing for viability gap would be further 0.6%-0.8%
- S4A likely to be a useful enabling platform – currently very few accounts would make the cut

Amount and Ratio of Potential Haircut Needed in Each Sector

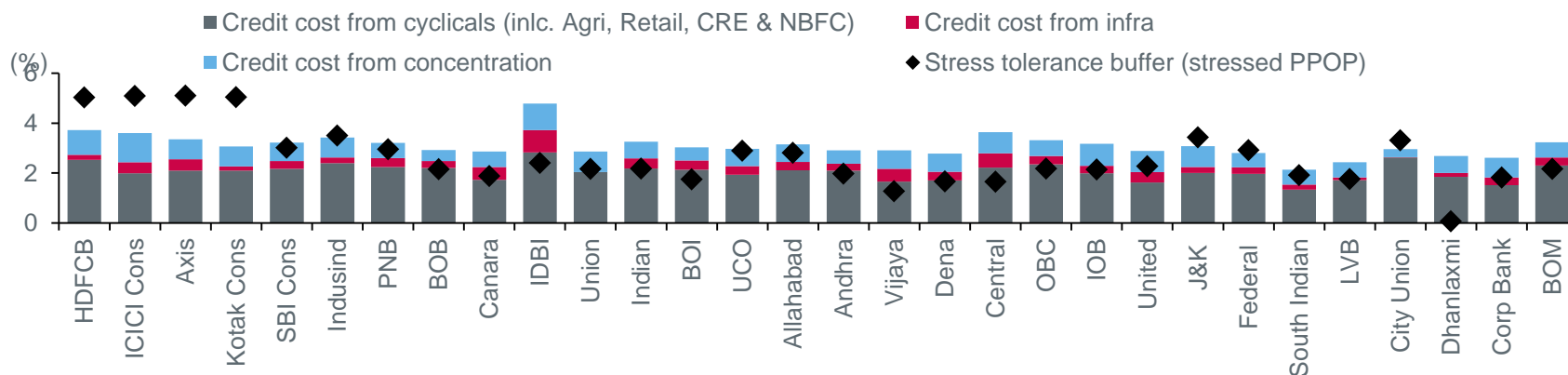


Source: Ind-Ra's estimates

Ind-Ra Stress Test : The Gone-Concern Perspective

- Ind-Ra expects (even under severe stress scenario) the potential equity requirement (or the bailout cost), to avoid approaching the point of non-viability (PONV) triggers, to be manageable at INR85bn- INR100bn. This assumes restoration of common equity tier -1 (CET1) ratio to the Basel-III compliance level even under severe stress conditions.
- Consequently, the support floor for Ind-Ra’s Long-Term Issuer Rating (which is used to benchmark senior bonds and Basel-III Tier-2 instruments) on PSBs remains unchanged unless the government of India’s (GoI) support stance changes.

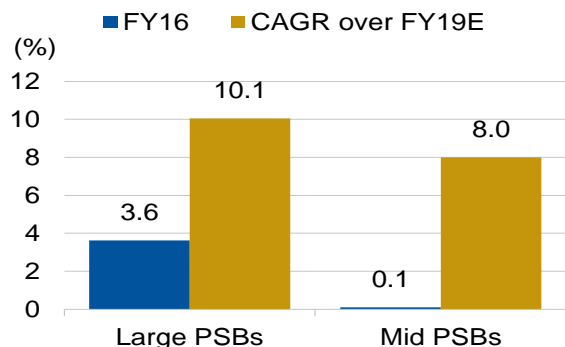
Ind-Ra Stress Test: Stressed Credit Costs and PPOP



Source: Annual reports, Ind-Ra's estimates

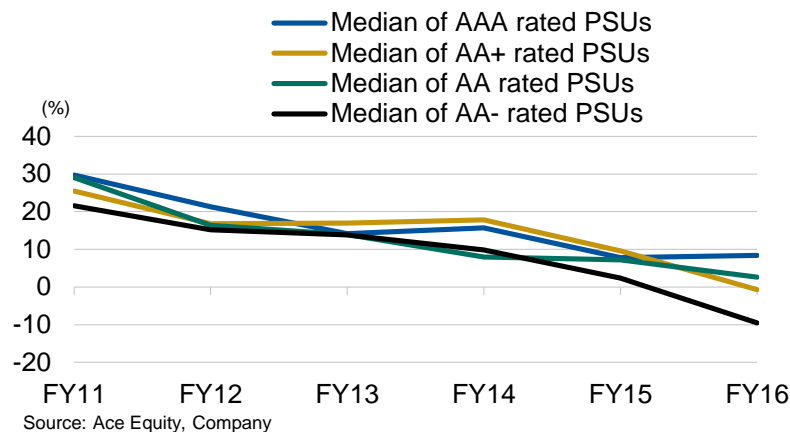
The Capital situation : Growth to be constrained

Loan Growth Estimate



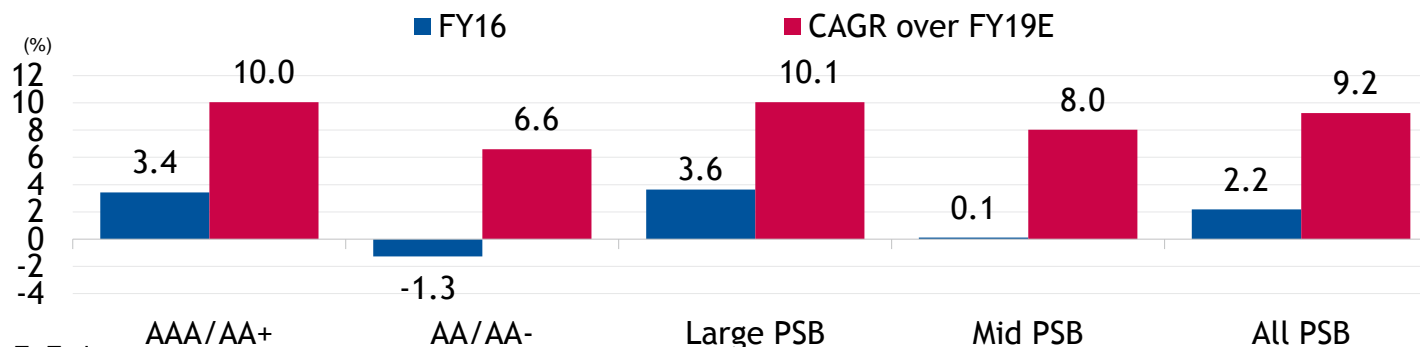
E: Estimate
Source: Company, Ind-Ra

Loan Growth Trajectory



Source: Ace Equity, Company

Loan Growth



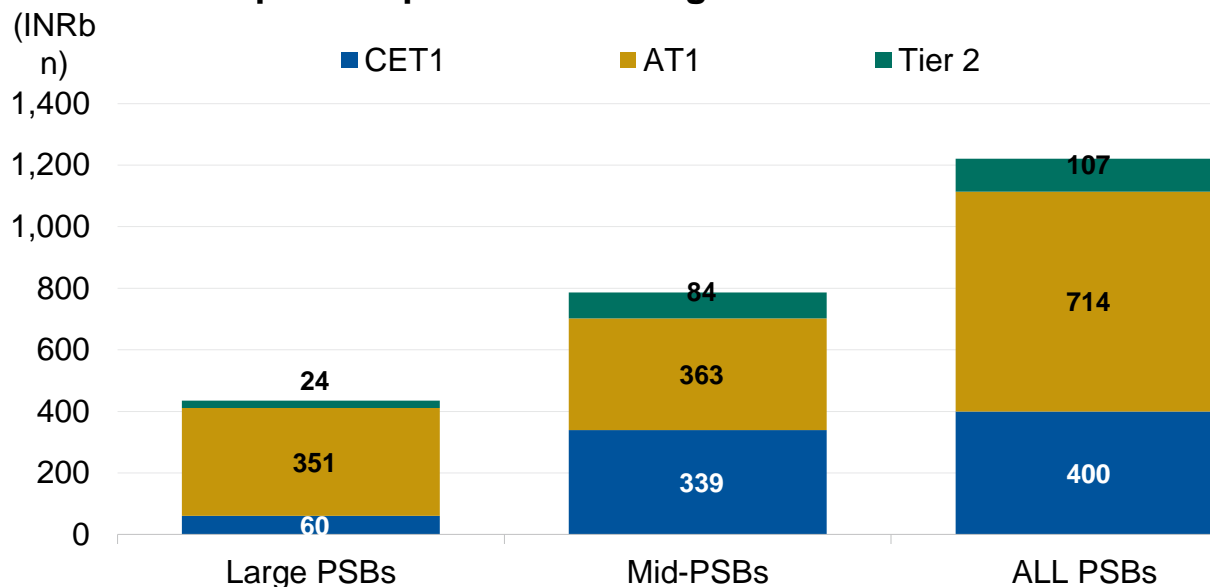
E: Estimate
Source: Company, Ind-Ra

Capital Requirement for Basel III Transition

- Tier-1 requirement of INR 1.1trn over FY17-19 even at this constrained growth rate

Indian Banks: Capital Projections for Basel III Transition

Minimum Capital Requirement Through FY19



Source: Ind-Ra

Capital Requirement Assumptions

CCB and DSIB included in calculations. Additional buffer of 50bp built in for all PSBs

FY16-FY19 blended risk weighted assets CAGR of 9% assumed for all banks – this is the bare minimum growth needed to absorb potential expenses and protect CET1 ratio.

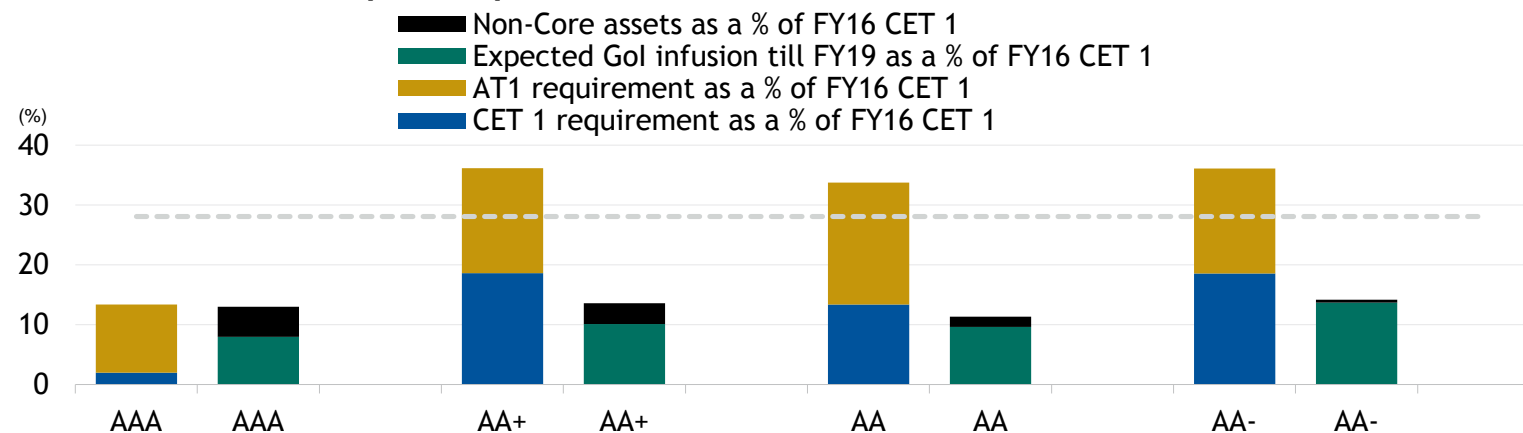
Govt ownership unchanged from FY16-FY19

Capital committed under Indradhanush excluded from requirement calculations

Profitability assumptions build in credit cost impact of NPL aging and likely fresh slippages.

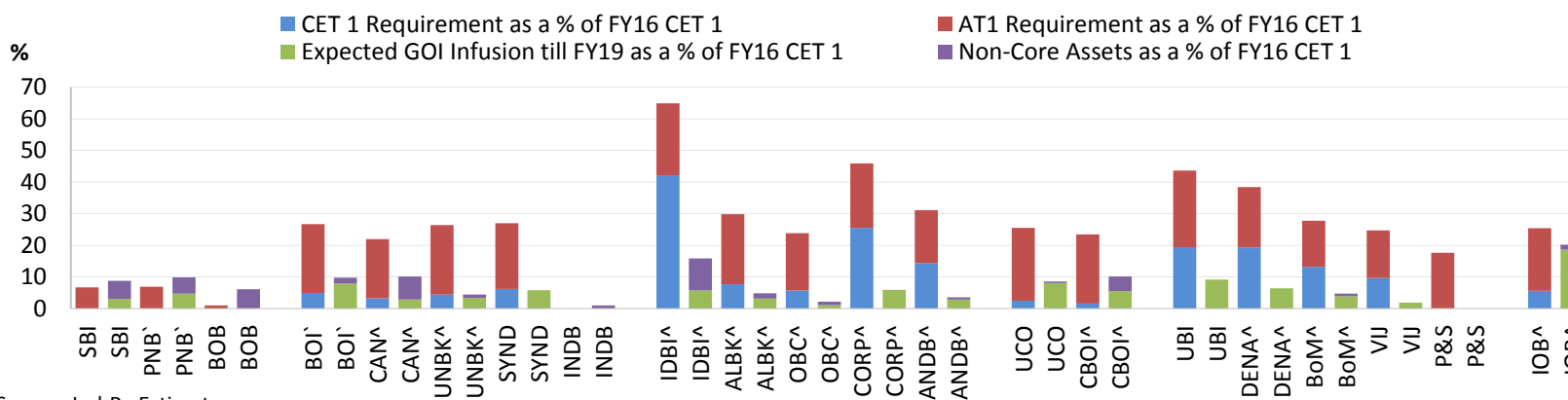
Capital Requirement for PSBs

Ind-Ra's Estimate of Capital Requirement Over FY19



Source: Ind-Ra's estimate

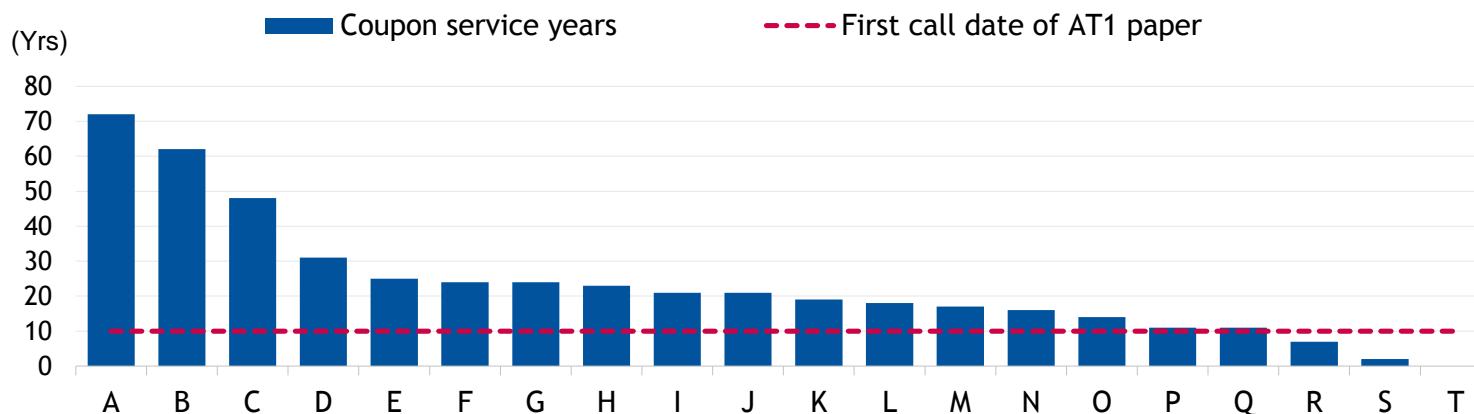
Ind-Ra's Estimate of Capital Requirement Over FY19



Source: Ind-Ra Estimate

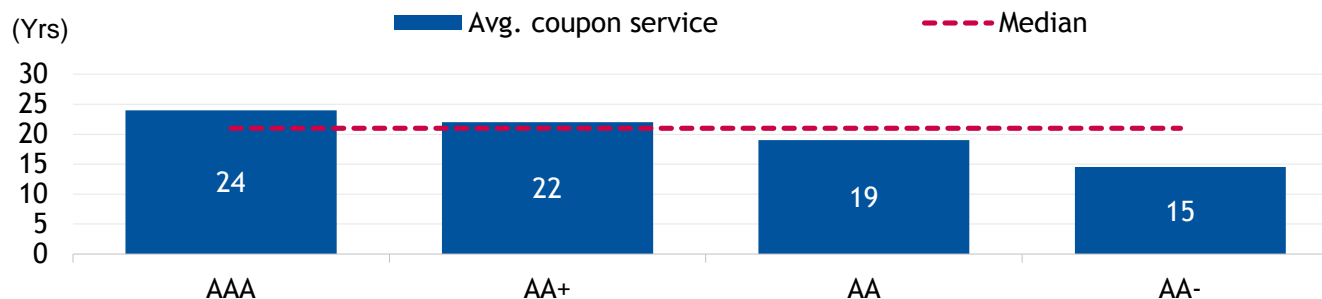
AT1 Coupon Servicing could be under pressure for few PSBs

Coupon Servicing Ability



Source: Ind-Ra

AT1 Coupon Service Years



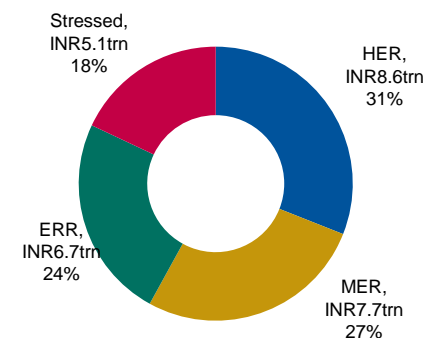
Source: Ind-Ra's estimate

Bank Credit : The demand side perspective

2/3rd refinancing from ERR and Stressed

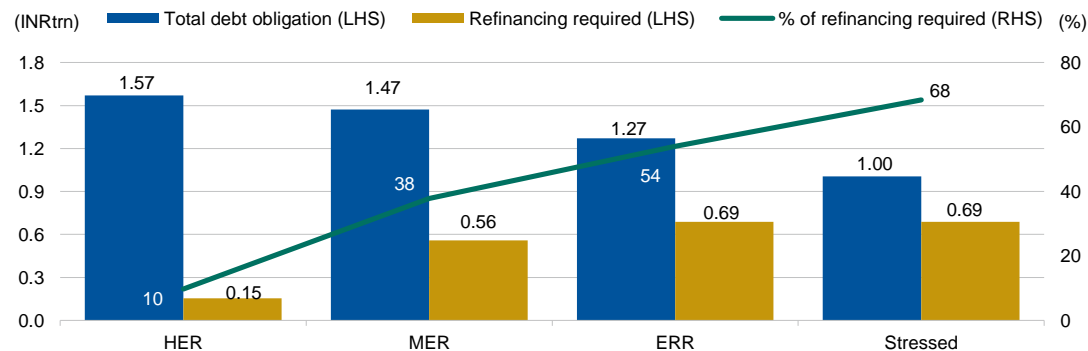
- Internal cash generation rank orders with categorisation
 - Impact of slowdown less visible on HER and MER
 - Stressed and ERR require funding in an increasingly risk averse bank market
 - Flexibility beyond cash flows limited, asset sale could be a driver

Debt-wise Break-up of Categories: INR28.1trn



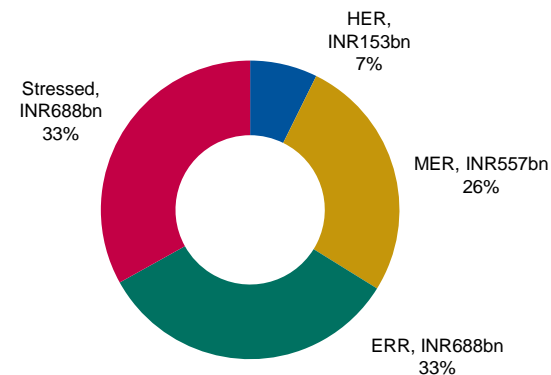
Source: Ind-Ra's analysis, Ace Equity

Requirement Skewed Towards ERR and Stressed



Source: Ind-Ra's analysis, Ace Equity

Refinancing Requirement: INR2.1trn



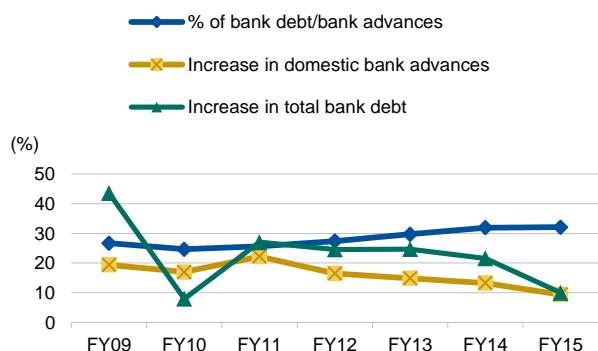
Source: Ind-Ra's analysis, Ace Equity

Mapping Banks Risk Appetite

Trends indicate limitations, is capital market an option?

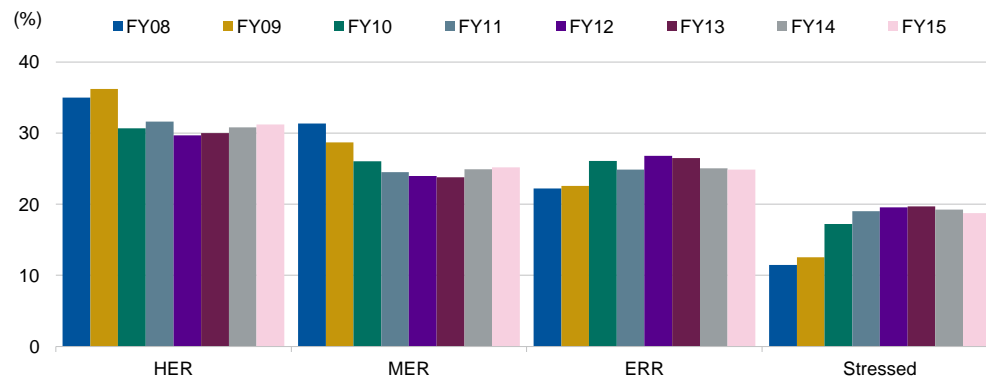
- Ind-Ra expects total bank debt of the top 500 borrowers to be 25%-30% of the FY17 bank advances (FY15: 32.1%).
- Banks rationing credit to ERR and Stressed entities
 - Trend likely to have accelerated in FY16 and could be more pronounced in FY17
- Exposure to the HER and MER increasing since FY12
- Capital markets remain an option for HER and MER, supply to be muted with low capex
 - UDAY bonds could dampen demand

**Growth in Domestic Bank Advances
Lowest in 10 Years**



Source: Ind-Ra's analysis, Ace Equity, RBI

Category-wise Bank Loan Proportion

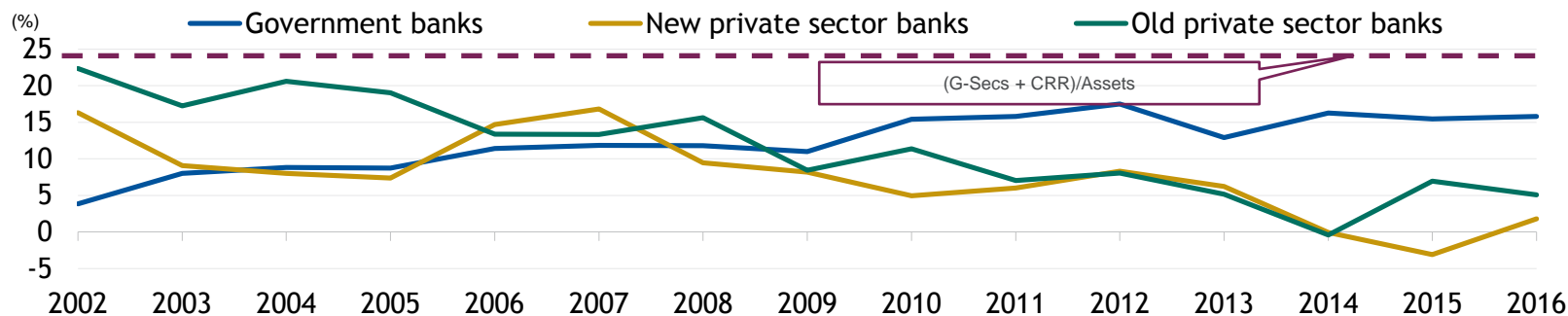


Source: Ind-Ra's analysis, Ace Equity

Refinancing Capability Strong, But Funding Gaps Elevated for Govt. Banks

Ratio of Short-Term Funding Gap to Total Assets

(Deposits and borrowings maturing in 1 year – Loans and investments maturing in 1 year)/total assets)

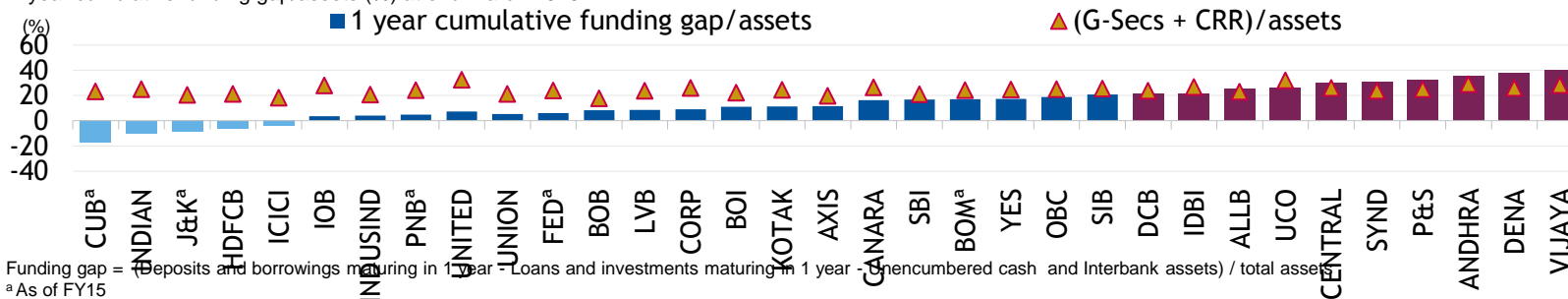


Source: Ind-Ra, RBI. CRR: Cash Reserve Ratio. Data for end-March

Source: Ind-Ra, RBI. CRR: Cash Reserve Ratio. Data for end-March

Funding Gaps in 2016

1 year cumulative funding gap/assets (%) at end-March 2016



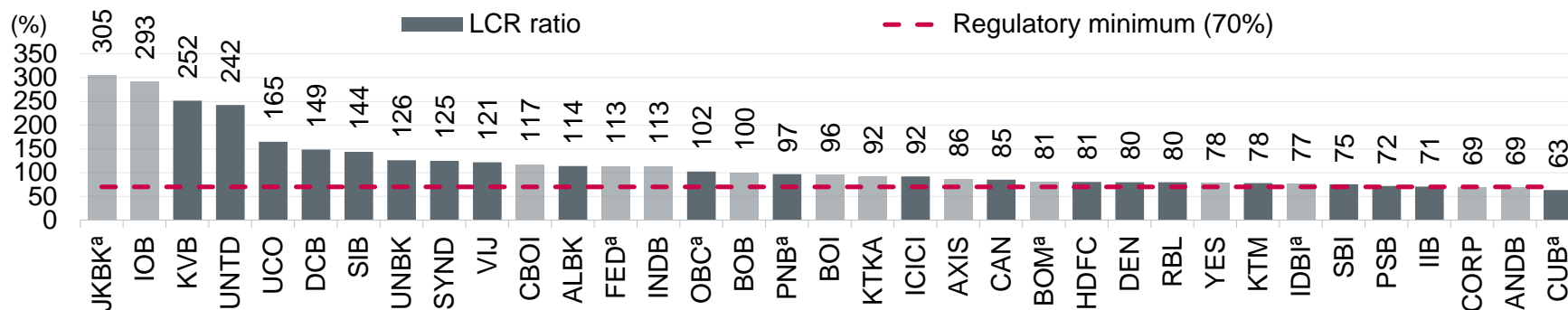
Funding gap = (Deposits and borrowings maturing in 1 year – Loans and investments maturing in 1 year – encumbered cash and interbank assets) / total assets

^a As of FY15

Source: Annual reports, Ind-Ra

Some tailwinds on funding costs but LCR compliance will keep pressure

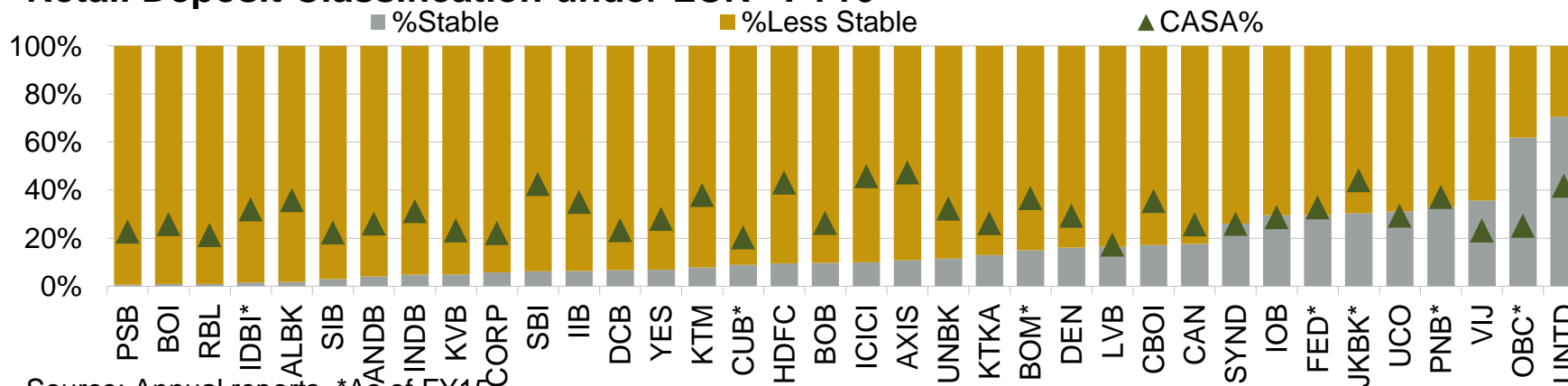
LCR for Indian Banks (Mar 2016)



^a As of FY15

Source: Annual reports. Lighter shade represents private sector banks

Retail Deposit Classification under LCR- FY16



Source: Annual reports

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