Recapitalisation of Banks in India

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ABSTRACT

This study researches the objective of recapitalisation as a move of strengthening balance sheet of the state owned banks through meeting out the capital adequacy requirement and to know the risk of high NPA's that is affecting the PSB's. Recapitalisation of banks means adding fresh equity into them. Indian PSB's are saddled with high nonperforming assets and facing prospect of having to take haircut on loans stuck in insolvency proceedings. Even under the Indradanush road map introduced in 2015.The study analyse how central government influence PSB's to meet their capital requirements in line with global risk Basel-III norms to keep these banks fully solved.

Key Words: Recapitalisation, nonperforming asset, Indradanush, insolvency, Basel-III norms.

INTODUCTION OF THE STUDY:

Recapitalisation is described as a strategy of enhancing the financial base of an entity to overcome a rough financial situation or to enhance its financial health. From the practical angle, capital is the money put by the owners for the running of the enterprise. Hence, recapitalization is the venture of the owner/shareholders to make the firm financially strong.

OBJECTIVE OF THE STUDY:

The study aims to offer

* Awareness and knowledge of recapitalisation of PSB's

* To assess the impact of recapitalisation plan of central government.

* To know how rising NPA's are affecting the capital base and lending of loans of PSB's

REVIEW OF LITERATURE:

Ajayi M (2005) Banking sector reforms and Bank consolidation: Conceptual framework, Bullion, Vol. 29.

Kaur (2013) The finding of the study stressed out that NPA norms are too harsh as compared to global banking norms.

Shyamala (2012) The study emphasis the relation of gross NPA and gross advances.

Shraddha Kokane and Dr Shriram Nerlekar (2018) the paper emphasis the relation between NPA and Capital Adequacy ratio.

RESEARCH METHODOLOGY:

The research is bases on data of Reserve Bank statistics, Budget and Economic survey

RECAPTIALISATION OF PSBS

In the case of Public Sector banks, recapitalization is injection of capital mainly through equity investment by the government to financially strengthen them. Since the government is the majority shareholder of PSBs, the responsibility of adding capital to them falls on the shoulders of the government.

Recapitalisation was necessary because the PSBs are facing financial problems and they need money in the context of rising bad debts. Similarly, they need funds to meet the higher capital requirements under Basel III norms. Altogether, there are following three sound reasons for recapitalization of PSBs.

1. Rising volume of bad assets has led to erosion of capital.

2. The Basel III capital norms requires higher capital in banks.

3. Expanding credit needs in the economy can be made only with higher capital.

The compelling need for large scale recapitalisation is the first factor ie., rising volume of bad debts. Higher NPAs and very low asset quality including the problem of loss asset requires replacing such funds by using money from the capital base. As per the 2017-18 trend, PSBs account for nearly 90 per cent of Gross Non-Performing Assets (GNPAs) of the entire banking sector. According to the CAG Report, GNPAs of PSBs increased from Rs 2.27 lakh crore (31 March 2014) to Rs 6.83 lakh crore (provisional) as on 31 March 2017. This has again estimated to be increased to Rs 8.2 lakh crores as on July 2017. So, the main thrust of government's recapitalization effort is to tide over the bad debt problem of PSBs.

The Government has been making recapitalization by providing funds through the budget in the past. A significant portion of the money obtained from disinvestment was put into PSBs for recapitalisation. According to the Comptroller and Auditor General's Report (2017), the government had infused Rs 1,18,724 crore in PSBs between 2008-09 to 2016-17. Second wave of recapitalization of Rs 2.11 lakh crores was announced by the government on October 24, 2017.

Remarkably, recapitalisation is backed by corrective or supportive measures by the bank management and employees. For this, government is signing a triparty memorandum of understanding with bank management and employee unions.

2015-16	25000
2016-17	25000
Total	118724

Source: CAG Report on Recapitalization, 2017

IMPLICATION:

- Crowling out of private investors
- Less money left in the market
- Counter- if banks health would improve, they will give out more loans
- Increase in interest payment liability.

DATA ANALYSIS AND INTERPRETATION:

The correlation of NPA and capital adequacy ratio of PSB's, as the capital infusion affects the capital ratio.

BANKS	CORRELATION
Andhra bank	-0.953
Allahabad bank	-0.978
Bank of India	-0.655
Canara Bank	-0.562
Corporation bank	-0.8445
Dena Bank	-0.847
IDBI bank	-0.155
Punjab National bank	-0.722
Union bank of India	-0.985
UCO bank	-0.012
Vijaya bank	-0.632
United bank of India	-0.961
Oriental bank of commerce	-0.722

From the above we can say that the correlation of PSB's show a negative relation that means higher the NPA lower will be the capital base resulting in downfall in lending loan.

CONCLUTION:

As the NPA level of PSB's are increasing resulting in not meeting the Basel III norms, government is taking various measures to promote the lending of PSB's in spite the banks has to recognise the NPA's to reduce the problem and improve the health.

REFRENCE:

Deepak singhal R(2012) prudential norms and income recognition

Kaur (2013) The finding of the study stressed out that NPA norms are too harsh as compared to global banking norms.

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