

Banks require Rs 2.7 lakh cr capital for Basel-3: Crisil

Rating agency CRISIL today said that Indian banks will need to raise Rs.2.7 lakh crore by March 2018 to meet Tier-I capital requirements under Basel III capital framework which mandates tier-1 capital of 8% for the banks.

Of this the banks need to raise Rs 1.3 lakh crores as equity tier 1 capital and up to Rs.1.4 lakh crore as non-equity tier 1 capital.

CRISIL said that while the banks can comfortably raise the equity capital, raising non-equity Tier-1 capital will be challenging, as the instruments features are riskier than under Basel 2.

Development of bond markets to help banks raise the non equity capital component is important CRISIL said. Also there is need to refinance infrastructure projects to conserve the capital of the banks Infrastructure Debt Funds (IDFs) will facilitate in refinancing said Pawan Agarwal, senior director CRISIL Ratings.

Reserve Bank of India had estimated total capital requirement (including tier-1 and tier-2) for the Indian banks at Rs 5 lakh crore. It had estimated Rs 3.25 lakh crore of equity capital and Rs 1.75 lakh crore of non equity capital for Basel-3 requirements.

Banks will face difficulties in raising Rs.1.4 lakh crore as non-equity Tier-1 capital because the instruments will carry higher risks for their equity-like features including discretion on coupon payments and likelihood of coupon non-payment and principal loss if a bank's equity capital falls below prespecified thresholds.

Ramraj Pai, president, CRISIL Ratings said "it will limit investor appetite for such instruments and they will also reduce their attractiveness for banks, as these instruments will be costlier than those under Basel II.

Holding company structure of PSBs also needs to be relooked added Pai. Holding company structure will be helpful in raising investor confidence in non equity instruments he said.

The rating agency further said depth of investors in such instruments can be expanded by the measures like allowing insurance provident funds to invest in the bond markets.

Banks are well placed to raise equity capital as government has committed continuous capital support for the PSBs in wake of Basel-3 and private banks ability to raise such capital time to time.

CRISIL has made this estimates keeping in mind 18% growth of the banking sector for next five years.

Earlier C Rangarajan, chairman of PMEAC had also said that required non-equity capital may be difficult to achieve.

Of Rs 2.7 lakh crore, Rs 2.1 lakh crore will be required to raise by the PSBs while rest by private banks. In case of PSBs the share of equity capital would be Rs 90,000 crore while Rs 1.2 lakh crore would be non equity capital. Private banks need to raise Rs 40,000 crore of equity capital and Rs 20,000 crore of non equity capital.

Implementation of Basel -3 guidelines in India will start in phases from April 2013. Earlier it was supposed to be implemented from January 2013.

CRISIL estimates Rs 2.7 lakh crore tier 1 capital requirement for Basel-3

Rs 1.3 lakh crore of equity capital and Rs 1.4 lakh crore of non equity capital according to CRISIL

RBI estimates Rs 5 lakh crore total capital requirement

Rs 3.25 lakh crore of equity capital and Rs 1.75 lakh crore of non equity capital according to RBI

(Business Standard)