
Slowdown signs -NPA up by 26pct in Q2 - ASSOCHAM

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Non performing Assets and Capital Adequacy Ratio reported by commercial banks, which are an indication of their financial strength, reflect a mixed picture for the second quarter results of Indian banking sector.

This is because the net non performing assets have risen by an average 26% while capital adequacy ratio improved by 1.60 percentage points in Q2 of current fiscal as compared to the corresponding period of previous year.

Improvement in CAR reflects better financial health of banks and government recent move to recapitalize weak PSU's bank is a right move while increase in NPAs is a matter of concern as it directly affects the solvency and profitability of banks.

According to ASSOCHAM, the increase in NPA of the compared period should inspire government to quickly move towards banks consolidation as it will bring down their risks and expand banks balance sheet size to global standard to take on emerging challenges in the financial sector.

Solvency Analysis of Indian Banking Sector as carried out by ASSOCHAM reveals that on an average 26% rise in net non performing assets have been registered by 21 public sector and commercial banks during the second quarter of the FY'10 as against Q2-FY'09. Dr Swati Piramal president of ASSOCHAM said that however the average capital adequacy ratio of the banks improved to 13.68% in Q2-FY '10 from 12.08% in the previous year.

The analysis of the Indian banking sector was based on the quarterly results posted by 21 Indian banks. For a macro analysis, the total 21 banks included an aggregation of 19 public sector banks and 2 major private sector banks.

It is also based on two broad parameters including net non performing assets and capital adequacy ratio and also the new enhanced provisioning coverage ratio and additional provisioning on commercial real estate standard assets.

Dr Piramal said that "Although the Indian banking sector has remained insulated from the global financial crisis, the emerging trends show mixed signals."

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