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3 PSU banks have Rs 9,922 cr of NPAs in roads sector. Delays, low toll collection blamed

The banks shared data with the parliamentary panel on transport, tourism and culture, which was looking at aspects of lending to the road sector.

MOUSHUMI DAS GUPTA 15 January, 2021 **The Print**

New Delhi:

Three public sector banks, including State Bank of India (SBI) and Punjab National Bank (PNB), are saddled with Rs 9,922 crore of non-performing assets (NPAs) in the roads sector, according to documents shared by the banks with the parliamentary panel on transport, tourism and culture.

NPA is defined as a loan for which the interest or principal have not been repaid by the borrower for a period of 90 days.

Among the PSBs, the State Bank's NPAs stood at Rs 4,077 crore as on 30 June 2020, which is about 7 per cent of its outstanding credit of Rs 55,941 crore to the roads sector, showed the documents. The bank's total exposure to the sector is Rs 71,546 crore.

Punjab National Bank's bad loans in the sector stood at Rs 3,548 crore as on 30 September 2020. Its total outstanding to roads and ports sector was at Rs 30,400 crore, according to the documents.

The Central Bank of India's NPA in the sector stood at Rs 2,297 crore as on 30 November 2020, which is 48 per cent of its outstanding credit, according to data shared with ThePrint by an MP who is part of the parliamentary panel.

ROADS WEIGH HEAVY ON PSBs

BANK	TOTAL OUTSTANDING	NPA
State Bank of India*	Rs 55,941 crore	Rs 4,077 crore
Punjab National Bank**	Rs 30,400 crore***	Rs 3,548 crore
Central Bank of India****	Rs 4,786 crore	Rs 2,297 crore
Total outstanding of banks to roads sector: Rs 1,94,921 crore		

*As on 30 June 2020
**As on 30 September 2020
***To roads and ports
****As on 30 November 2020

Source: Banks' data, sources

Graphic: Ramandeep Kaur/ThePrint

The total outstanding of Indian banks to the road sector is Rs 1.95 lakh crore, showed the documents, which were presented by the banks to the parliamentary standing committee, which is led by BJP Rajya Sabha member T.G. Venkatesh, at a meeting on 8 January.

During the meeting, the panel heard the views of the representatives of PSBs and financial institutions on lending to the road sector. SBI chairman Dinesh Kumar Khara, PNB managing director and chief executive S.S. Mallikarjuna Rao and Central Bank of India MD Pallav Mohapatra were among those who attended the meeting.

ThePrint sent emails and WhatsApp messages to corporate communication officials at the State Bank of India and the Punjab National Bank Thursday morning for their comments, but did not get any response until the time of publishing this report.

Delay in land acquisition among challenges

According to the MP mentioned above, representatives of various banks and financial institutions highlighted delay in land acquisition as one of the main challenges facing them.

"SBI chairman Dinesh Singh Khara told the members that there are many instances where project construction got delayed due to non-availability of land for actual construction purpose," the MP told ThePrint.

Khara suggested that the National Highways Authority of India (NHAI) should provide details of land acquisition on its website at the bidding stage to all bidders. This detail should be updated every fortnight. The NHAI should also declare the appointed date — the official date for the highway developer to start work — based on such published details to avoid any contractual disputes at a later stage, the MP quoted Khara as saying.

PNB's Rao also noted the issue of land acquisition delays, according to a second panel member who attended the meeting. Rao also flagged the poor quality of detailed project reports prepared for highway plans and how revenue generation from tolling did not match the traffic study estimate, affecting the projects' financial viability.

The PNB MD also suggested that if toll collection is stopped on account of any court order or other unforeseen reasons, the NHAI should compensate the lenders promptly, the MPs said, adding that bankers also raised concerns over delays in obtaining the required environment and forest clearances.

Dedicated funding agency needed

Highlighting the need for large funding for the road sector, as envisaged in the National Infrastructure Pipeline, SBI's Khara said a dedicated financing agency for the sector should be established on the lines of similar agencies set up for the power sector like the Power Finance Corporation and the Rural Electrification Corporation.

“MPs including BJP’s Rajya Sabha member Sushil Modi supported the idea of establishing a dedicated bank with the expertise to appraise and finance road and port projects,” said the first MP quoted above.

PNB’s Rao suggested developing bond markets for long-term infra project financing supported by credit enhancement mechanisms.

In the 2020-21 Union budget, the road sector was allocated Rs 91,823 crore, a 10 per cent rise over the previous fiscal.

But officials in the Ministry of Road Transport and Highways said the funding requirement has increased substantially, with the government launching a number of big-ticket projects including Bharatmala and Delhi-Mumbai expressway.

SBI’s Khara told the parliamentary panel that the bank is in talks with the NHAI and state authorities for funding of large-scale greenfield projects such as the Delhi-Mumbai Expressway and the Ganga Expressway.

“Khara said that SBI has recently increased its internal exposure ceiling for the road sector by Rs 24,500 crore to ensure an adequate supply of credit,” said the first MP.

Finance Ministry and Niti Aayog had raised red flags before Adani’s clean sweep of six airports

This assumes significance given that on August 31 last year, the Adani Group signed another deal to acquire a controlling interest in the country’s second largest airport, in Mumbai — the Airports Authority of India cleared that takeover on January 12.

by Pranav Mukul , Anil Sasi | New Delhi | January 15, 2021

Last August, Adani Group signed deal to acquire a controlling interest in country's second largest airport in Mumbai. File

BOTH THE FINANCE Ministry and Niti Aayog had put on record objections regarding the 2019 airport bidding process, which were over-ruled, clearing the way for a clean sweep of six airports by the Ahmedabad-based Adani Group, records accessed by The Indian Express show.

This assumes significance given that on August 31 last year, the Adani Group signed another deal to acquire a controlling interest in the country's second largest airport, in Mumbai — the Airports Authority of India cleared that takeover on January 12.

Aviation is one sector the Competition Commission of India has marked for review of market dominance. From running a private air-strip Finance, Niti Aayog raised red flags before Adani's clean sweep of 6 airports at Mundra, the Adani Group is today the country's largest private developer in terms of number of airports handled; and the second largest, in terms of passenger traffic, over a span of just 20 months.

The seven airports — Ahmedabad, Mangalore, Lucknow, Jaipur, Guwahati and Thiruvananthapuram, alongside Mumbai — together handled 7.90 crore passengers during the last fiscal (2019-20). This translates into nearly a fourth of the 34.10-crore domestic air passenger traffic.

In addition to this, the Mundra airport, to where commercial flights started in 2018 under the government's regional connectivity scheme, has also been cleared to be converted into a full-fledged international commercial airport. Following the GVK deal, Adani also has a controlling stake in the upcoming Greenfield airport in Navi Mumbai.

Records show that before bids were invited for the privatisation of the airports at Ahmedabad, Lucknow, Mangalore, Jaipur, Guwahati and Thiruvananthapuram – the NDA government's biggest privatisation programme so far — the Centre's Public Private Partnership Appraisal Committee (PPPAC) discussed the Civil Aviation Ministry's proposal for the process on December 11, 2018.

During the discussions, according to minutes of the meeting accessed by The Indian Express, a note from the Department of Economic Affairs said: "These six airports projects are highly capital-intensive projects, hence it is suggested to incorporate the clause that not more than two airports will be awarded to the same bidder duly factoring the high financial risk and performance issues. Awarding them to different companies would also facilitate yardstick competition."

The DEA's note, dated December 10, 2018, to the PPPAC was submitted by a director in the department's PPP cell.

To buttress its argument, the DEA cited the precedent of the Delhi and Mumbai airports, where GMR, despite being the only qualified bidder originally, was not given both the airports.It also referred to the privatisation of Delhi's power distribution. "In the case of Delhi Power Distribution privatisation, the city was carved out into three zones and given to two companies," it said.

At the PPPAC meeting, according to the minutes, there was no discussion on this red flag raised by the DEA.

On the same day as the DEA note, the NITI Aayog also raised a separate concern regarding the airport bidding. Said a memo prepared by the PPP vertical of the government's key policy think-tank: "A bidder lacking sufficient technical capacity can well jeopardise the project and compromise the quality of services that the government is committed to provide".

In response to this, the PPPAC, chaired by the then DEA Secretary SC Garg — the first note of objection was, ironically, from his department — said that the EGoS (empowered group of secretaries) had already decided that "Prior airport experience may neither be made a prerequisite for bidding, nor a post-bid requirement. This will enlarge the competition for brownfield airports, which are already functional".

Garg, who was transferred from the finance ministry to power ministry in July 2019 and is now an advisor to Andhra Pradesh Chief Minister YS Jagan Mohan Reddy, did not respond to queries on the issue.

A year after it won the bids for the six airports, the Adani Group signed concession agreements for Ahmedabad, Mangaluru and Lucknow airports in February 2020.

A month later, the Adani Group invoked a Covid19-linked force majeure to seek a delay until February 2021 in taking over the three airports from AAI, citing difficulties in the transitioning processes, particularly with regard to the airport staff. The AAI had asked the Group to take over the three airports by November 2020. Three of these six airports — Ahmedabad, Mangaluru and Lucknow — were consequently handed over to the Adani Group in November 2020. The concession agreement for the other three airports — Jaipur, Guwahati and Thiruvananthapuram — were signed between AAI and Adani Group in September.

Just under six months after it sought more time from AAI citing the Covid-19 pandemic, the Adani Group went on to acquire a controlling interest in the country's second largest airport in Mumbai and the upcoming Greenfield airport in Navi Mumbai from the Hyderabad-based GVK Group.

During the bidding process for the six AAI-run airports, the Adani Group outbid its rivals, including experienced players such as GMR Group, Zurich Airport and Cochin International Airport Ltd in addition to other infrastructure players, by a big margin in each of the six bids, thereby winning the rights to operate all six airports for a period of 50 years.

This is a departure from the privatisation of Delhi and Mumbai airports, where the concession period was 30 years, in addition to the AAI holding 26% equity in both these airports.

Incidentally, the government's first target to hand the airports over to Adani Group in November 2019 coincided with a clearance from the Competition Commission of India for the group's acquisition of a minority stake in Mumbai airport from two South African companies Bidvest and Airports Company of South Africa (ACSA).

In its order, the CCI pointed out the nature of an airport's "geographical monopoly" and said that the geographic market, in this case, "appears to be as narrow as each of the airport of the parties (i.e. Adani and MIAL), as for providing or availing any services at the airports, the service provider/consumer needs to have access to the facilities / premises of the concerned airport".

Establishing this, the CCI said that presence of both the parties in the same line of business was not likely to raise any competition concerns "as presently no other airport wherein Adani group has stake operates within the vicinity of MIAL".

Even as CCI cleared the minority stake purchase in Mumbai airport by the Adani Group, concerns flagged by the Department of Economic Affairs about a single company having a significant hold over several key infrastructure projects were reinforced.

The GVK Group, which had signed an agreement with investors including India's sovereign fund NIIF in October 2019, trying to fend off Adani Group from getting into Mumbai airport, gave in and agreed to cooperate with the Ahmedabad-based conglomerate in August 2020.

On August 31, GVK Group signed an agreement to let Adani Enterprises acquire its stake in Mumbai airport and Navi Mumbai airport.

According to a notification by the CCI, the acquisition of MIAL by Adani Group was "deemed approved", given that there was no overlap of businesses offered by either of the parties in the relevant geographic market. The CCI notification was uploaded in September 2020. The AAI, which holds 26 per cent in MIAL, has also approved Adani Group's acquisition of the country's second largest airport.

Incidentally, just a month before it decided to throw in the towel, GVK Group had to face the heat from multiple investigative agencies. On July 7, the Enforcement Directorate registered a complaint under Section 3 of the Prevention of Money Laundering Act (PMLA) against the GVK Group and its chairman GVK Reddy, his son GV Sanjay Reddy and a few others, based on an FIR filed by CBI against them on June 27. The CBI alleged irregularities of over Rs 705 crore in the development of Mumbai international airport.

E-mails sent to the Adani Group and the Ministry of Civil Aviation did not elicit a response. Sources at the Adani Group said the bidding was as per specified norms that followed "due process and due diligence." Asked about the delay in taking over the three airports from AAI, they said that was on account of "difficulties anticipated in transitioning of airport staff and personnel in the middle of the pandemic".

Budget 2021 Expectations: 'Govt must specially focus on healthcare innovations by supporting startups'

By Dr (Prof) Deepak Agrawal | Jan 14, 2021

THE FINANCIAL EXPRESS

Healthcare providers have embraced technology with virtual consultations, robot-assisted procedures, wearables (AI in medical equipment), and many more innovations that aid smooth delivery of healthcare

The key solution is government-backed technology-driven innovations that facilitate the production and delivery of heath-tech within the country

With countries still fighting one of mankind's biggest health crisis, gaps in the healthcare infrastructures in even some of the most developed economies has raised alarms across the world. India, which was struggling to meet the healthcare requirements due to lack of access to even basic healthcare facilities like ICUs, ventilators, and other essential medical equipment-even before the pandemic, had to struggle to stay afloat by enforcing one of the most stringent lockdowns anywhere in the world! The question is do we have to wait for a pandemic to hit us to make remarkable transformations in this field for better delivery of healthcare and then align our resources/budget in this direction?

On a positive note, this pandemic has been a wake-up call for the healthcare sector in India, where the authorities came face to face with issues plaguing the medical technology industry. The key solution to addressing this gap in accessibility and affordability of healthcare is making homegrown technology-driven innovations that facilitate production and delivery of medical devices within the country, provided the policymakers use this opportunity to align the resources/budgets to ensure accessible, equitable, and quality healthcare for the citizens of India. This lacuna needs to be addressed in the budget this year with a specific allocation of the budget for healthcare delivery, healthcare personnel, infrastructural developments, and a special focus on innovations in healthcare by supporting startups in this field. It is evident that this pandemic has fast-tracked the need and adoption of technology-driven solutions in healthcare and this trend is here to stay. Healthcare providers have embraced technology with virtual consultations, robot-assisted procedures, wearables (AI in medical equipment), and many more innovations that aid smooth delivery of healthcare.

Last year the finance minister had allocated a paltry Rs 69,000 crore (1.29 per cent of GDP), inclusive of Rs 6,400 crore for Jan Arogya Yojana, to the healthcare budget. While this was more than what was allocated to health the year before, it remains minuscule in a country aspiring to be known as a developed country. The key solution is government-backed technology-driven innovations that facilitate the production and delivery of heath-tech within the country. The pandemic has made us realise the importance of telemedicine, remote monitoring of NCDs, indigenous medical equipment, and the need for 'surge capacity' in healthcare. There is an expectation that the Finance Minister will finally talk about the elephant in the room in this year's budget with specific allocation for healthcare delivery and innovations with a long-term vision for healthcare in India.

Some key considerations for this year's budget should be:

- Establishment of centrally funded hospital cum medical college in each of the 739 districts of India. This has the potential to radically change the healthcare landscape of India and ensure quality cost-effective healthcare to the citizens.
- Country-wide unified EMR (electronic medical records) system with disease registries and healthcare worker databases for optimised resource allocation. This needs a financial 'Carrot & stick' policy for nationwide implementation.
- Establishing and funding a National Healthcare Audit Authority (NHAA) which audits the functioning and quality of care of all healthcare institutions in the country using objective KPI's with minimum quality standards set for the care given at every step, based on the healthcare facilities (primary, secondary or tertiary).
- 5-year plan in PPP funding model for developing high cost imported medical equipment like MRI machine, CT scanner, Ultrasound machines, Ventilators, Dialysis machines, etc., with a clear roadmap that within 10 years all medical equipment should be 'made in India' and every important healthtech should be indigenised.
- Expand the PMJAY to include all taxpayers. It is the minimum the government should do, considering that the world's largest health scheme is funded by taxpayers' money but excludes them.

Health is wealth. I sincerely hope that these thoughts are translated into actual policy decisions for improving the health and wealth of India.

Budget 2021 Expectations: Modi govt must look into these 5 suggestions from Education sector in Union Budget

Debjit Sinha | New Delhi | January 14, 2021

THE FINANCIAL EXPRESS

With just a fortnight to go for the Budget 2021, experts following the education sector have an array of expectations from Finance Minister Nirmala Sitharaman

The Covid pandemic has not only affected the health of our nation but has also left millions of our students struggling to cope up with their education

Covid pandemic has a detrimental impact on education even as there has been a paradigm shift in the mode of learning as well as the teaching method. Along with Coronavirus, the unveiling of National Education Policy 2020 by the Narendra Modi government has brought back discussions over the reforms in the education sector.

With just a fortnight to go for the Budget 2021, experts following the education sector have an array of expectations from Finance Minister Nirmala Sitharaman. Here are the top five expectations from the Education sector in India for Budget 2021.

1. Technology in Education: "The COVID induced Pandemic has shown a real need for implementing technology in education. Higher education needs it more than ever as it is related to the career and future of the students. 40 million students, teachers, and all the stakeholders in the higher education ecosystem require quality access with affordability, which can be solved by leveraging technology. Bottoms up approach would be of great benefit for the students as they come close to finishing their formal education and look to upskill themselves for becoming industry-ready," Sumeet Verma, Co-founder CEO, KopyKitab said.

"Specific to the education sector, NEP's implementation would be closely watched by all the stakeholders. However, in Budget 2021, we would like the FM to extend some relief to the sector in terms of GST and subsidy on education loans given for both formal and skill-based learning. Govt should also look at launching ed tech-focused fund of funds that will flow into the sector and help small and mid-size ed-tech companies and startups incubated inside campuses to raise the much-needed money for a faster scale-up and better experience using tech," Verma said.

"We would like to suggest designing a framework whereby some of our most prestigious institutes can collaborate with ed-tech companies in order to provide their students with international level of exposure and learning because technology has the capability to connect Indian students with the best of the teachers anywhere in India and the world. A structured framework around this can help top universities offer such opportunities to their students," Verma said.

2. Online Teaching: "Online Teaching and Learning is a new reality, and very many organizations have invested time, money, and resources to deliver quality education to students: the government should take cognizance of this fact and must reduce the GST on online education service from the present 18 percent to 5 percent in Budget 2021, this will make online education accessible to more and more students," Sudhir Sharma, Member of Advisory Council, Association of Indian Schools said.

"We have witnessed a huge transformation in the education system in past one year due to the advent of pandemic. We are optimistic and looking forward to some announcements in Budget 2021 in the education sector especially with respect to the New Education Policy with more focus for the K12 segment. We are also ready to have a collaborative approach where we as an edtech platform, can come forward and associate with the private and government institutions to scale up coding education. This will increase our contribution in the industry to provide education to more and more students across the nation. We expect focus on the skilling and STEM based education in schools and colleges will become even more significant than before," said Ankush Singla, Co-founder and CEO, Coding Ninjas.

3. National Education Policy 2020: "The education sector in India is at the cusp of a deeper transformational shift to realize and utilize young India's capabilities. The foundation and vision set by the government, through NEP 2020 will be vital in achieving the objectives of an effective and inclusive education system. The Union Budget 2021 should give guidelines on the 'NEP implementation plan' and further strengthen the focus and investment in Edu-tech to enhance experiential and immersive learning and reinforce the skill development process at par with the global education standards. The year 2021 will be significant as Indian schools step up their preparations to participate in the PISA test in 2022. India will be part of the assessment for the second time after 2009, where it ranked 72 out of 73 countries. The improvement in ranking will help boost India's confidence amongst OECD members and help us showcase our goal to achieve an effective and inclusive education system," Ramananda SG, Vice President, Sales and Marketing, Pearson India said.

"The need of the hour is to build a transparent and progressive ecosystem, that makes learning technologically advance, create room for training and development for educators, and conceives an increased focus on assessments. Hence, the allocation of budgets to promote holistic and scalable teacher training with a clear focus on digital learning to redefine teaching pedagogy, concentrated focus on vocational training in schools, and filling the learning vacuum created by COVID-19 in 2020 through blended learning will be monumental in driving the vision of making India a global knowledge superpower," Ramananda SG said.

4. Rural, Primary Education: "The Covid pandemic has not only affected the health of our nation but has also left millions of our students struggling to cope up with their education. The impact has been particularly severe on the rural population as they don't have access to the internet and rely heavily on government schools. The mid-day meal program and the inoculation drive has been disrupted and as a result our students find themselves not only missing out on their education but also their health and nutritional needs.

The higher education on the other hand faced disruptions due to delays in results, competitive exams and the admissions process thereof. The students who were lucky enough and had the resources could start their degrees in the month of December but a large chunk of students have had to take a gap year," Prateek Kanwal, Co-Founder of Kautilya School of Public Policy said.

"As the union and the state governments now prepare the budget for this fiscal year, they must take into account the precarious conditions of our students. The focus should remain on ensuring 100 percent enrollment at the primary school level and also developing bridge courses which can be offered at the community level. The outlay towards ensuring internet connectivity in rural areas for educational needs should increase substantially. The government must ensure that health and nutritional assessment of every child is carried out the school level and measures must be undertaken to ensure proper coordination between the health and education department. The central and state universities must get grants for technology upgradation to ensure seamless delivery of curriculum at scale. As a nation, there is no bigger priority than educating the future of this country and budget must ensure necessary support towards this endeavor," Prateek Kanwal said.

5. Tax exemption: "In India, Degree or diploma granting authority is given to those institutions that operates as 'not for profit'. They enjoy "Tax exemption" status. However, to obtain tax exemption, institutes need to spend 85 per cent of the revenue earned. Only 15 per cent can be retained to manage future cash flows or crisis. COVID experience has shown that this 15% corpus built up over time is not sufficient to tide over crisis. Many students, takes loan to pay their tuition and hostel fee. Many a time banks are very slow to disburse the loan and also reject applications on flimsy ground. Students thus are not able to pay their tuition fee in time and even find it difficult to take admission. Some are forced to leave the course halfway," Debashis Sanyal, Director, Great Lakes Institute of Management said.

"In Budget 2021, the central government must reduce the 85 per cent expenditure limit to get tax exemption to 75 per cent. The additional 10 per cent may be invested in a fund specially created by the government for educational institutions. This fund should be attractive. May be at PPF rate. This fund should be available to the Institute 'on tap' during crisis (crisis may be well defined) or for sudden infrastructure development for big expansion (stand-alone institute becoming University)," Sanyal said.

"In Budget 2021, institutes, especially those having good NAAC or NBA score, be allowed to retain additional 10 per cent, over and above 25 per cent stated earlier, in an earmarked fund for providing short term loan to students having difficulty in obtaining loan. The student will be required to pay EMI that will include interest. Such interest received from students should not be considered as income for surplus calculation as interest so received will be required to be reinvested to the earmarked fund. Such a provision will go a long way in funding students that cannot provide collaterals to obtain loans," Sanyal said.

Bad bank should have been set up 3-4 years back, not now: Kotak Securities report

Our Bureau Mumbai | January 14, 2021

THE HINDU BusinessLine

Would have been useful just after AQR or earlier when stress was building up and banks were looking to delay bad debt recognition

Establishing a bad bank today would aggregate but not serve the purpose that has been observed in other markets, Kotak Securities Ltd (KSL) said in a report.

Bad bank is perhaps well served in the initial leg of the loan recognition cycle, it added.

“While we are unaware of its probability and design, creation of a bad bank would have been most fruitful three-four years back (perhaps just after the Asset Quality Review) or earlier when the stress was just building up and banks were looking to delay recognition for various reasons.

“Today, the banking system is relatively more solid with slippages declining in the corporate segment for the past two years and high NPL (non-performing loan) coverage ratios, which enable faster resolution,” said KSL analysts M B Mahesh, Nischint Chawathe, Abhijeet Sakhare, Ashlesh Sonje and Dipanjan Ghosh.

Based on insights gained from two key reports of BIS and IMF, the report observed that a successful bad bank needs a critical mass (healthy buy-in from lenders) of impaired assets, robust legal framework for debt resolution, along with strong commitment to reforms.

The analysts observed that segregation of impaired assets without sufficient recapitalisation has insignificant impact on future loan growth and NPL creation. A bad bank is expensive to establish, needs a well-defined mandate, and clear exit strategy.

Further, timing of formation and pricing of assets are crucial as the objective is to release stress from lenders early in the cycle so that they can refocus efforts in creating credit. Finally, there are instances of bad banks not achieving their desired objective, the analysts said.

After nearly a decade of elevated slippages, FY2019-20 saw a much lower slippage trend with evidence of it moving closer to normalisation before the impact caused by Covid-19, the report said.

The analysts said they are yet to assess the impact of Covid-19 but in their view the corporate portfolio appears to be holding quite well.

Public sector undertaking (PSU) banks PSU, in particular, have gone through this with fresh equity (about Rs.3.5-lakh crore over FY2016-21 by the government/Life Insurance Corporation of India) in the past three years and provision coverage ratio (PCR) improving to about 70 per cent from about 40 per cent in the past three-four years.

"A high coverage ratio ensures that faster consensus building is also no longer an issue. We have seen the introduction of IBC as well as consolidation in public banks. We had limited systemic risk from a liability perspective," the analysts said.

The report observed that one of the key objectives of segregating impaired loans is to restore faith in bank balance sheets and help unlock funding market access. However, PSU banks control a large part of the banking system with a high contribution to NPLs.

"Managerial incentives across organisations are probably still fully not aligned to maximising value through early recognition of bad loans," the analysts opined.

Further, given the high contribution of retail deposits, funding stability of these banks is uncorrelated with their financial performance for an extensive period of time.

The analysts said lack of credit growth, especially in the corporate segment, is often attributed to PSU banks' risk aversion (low capital/high NPLs in the past).

"However, we do argue that corporate deleveraging has been quite slow and credit demand, especially by the better-rated and large wholesale borrowers, has been slower," they added.

The behaviour of PSU banks has been different with respect to retail and micro, small and medium enterprise (MSME) lending, as these banks have been helping credit growth, especially in recent years and much higher than trend levels post the Covid-19 outbreak.