







PSBs shine on bumper FY21

Low valuations, expected improvement in financials drive interest among analysts

HAMSINI KARTHIK Mumbai, 4 March

or about 13 years, foreign brokerages had halted sectoral coverage of stocks of public sector banks (PSBs). That has undergone a sea change, with Morgan Stanley's March 3 report listing their analysts' order of preference for PSB stocks.

The reason for this change is three back-to-back quarters of good results in financial year 2020-21 (FY21).

"State-owned banks' balance sheets have improved, and bad loan formation should moderate going forward," the analysts note, and this is the key reason for reviewing their stance on PSBs.

While State Bank of India (SBI) remains their preferred pick, Bank of Baroda (BoB) and Punjab National



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(bps)	FY18	FY19	FY20	FY21E	FY22E	FY23E	— Nifty50
ВоВ	364	282	306	220	173	134	— Nifty PSU Bank 150
Bol	404	461	445	173	139	110	125
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which makes a strong case for considering them as tactical buys. According to Sivaram, with every bank having massively provided for its legacy issues, "there isn't much trouble left, except for those that could crop up because of Covid".

The Covid-related pressure could be higher on agri loans, small and medium business loans, and possibly mortgages. Slippages from corporate book, which accounts for over half of PSBs' loan assets, is seen as quite negligible.

Yet, despite the optimistic outlook on earnings, if the Street lacks strong conviction on PSBs, it is for the want of structural reforms such as a marked improvement in underwriting practices or corporate governance standards.

Analysts at Morgan Stanley note

Put up extra collateral if demanded by lender

If LTV ratio on your loan exceeds the regulatory cap, lender can sell pledged gold to recover dues

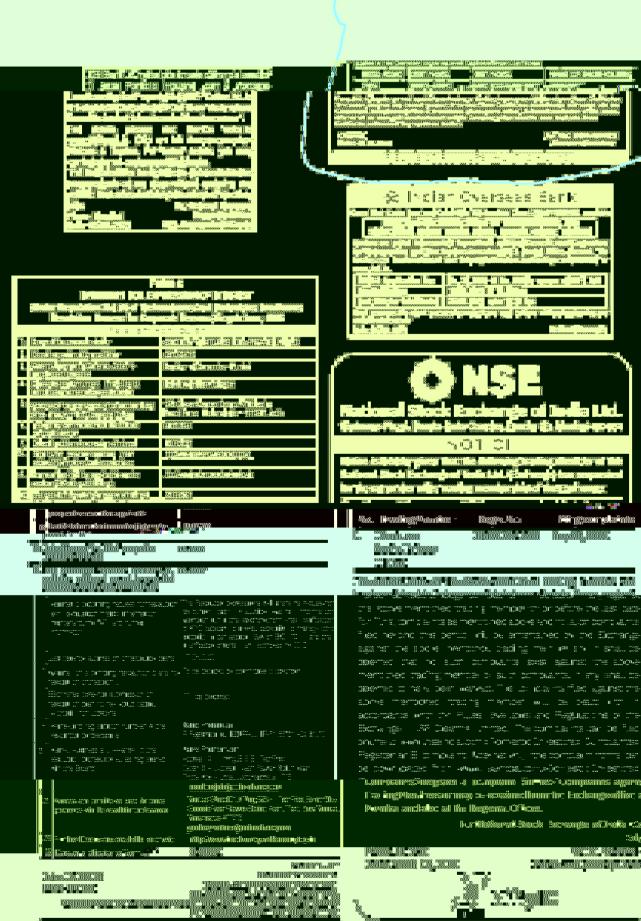
Gold closed at ₹44,663 per 10 grams on Thursday, down 20.1 per cent from the peak of ₹55,901 scaled on August 7, 2020. While this is good news for those looking to buy the yellow metal, it's an entirely different story for those who have taken a gold loan. They need to understand the consequences of falling prices and act promptly.

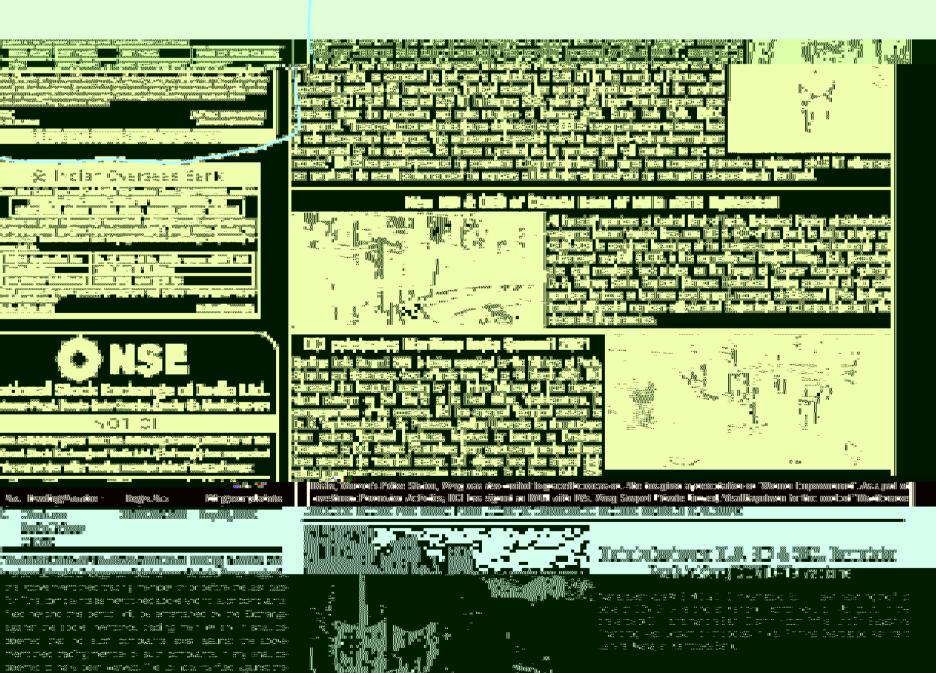
A large number of people took gold loans during the past year to meet financial emergencies. Adhil Shetty, chief executive officer (CEO), BankBazaar, says, "Gold loans are easy to get as they are secured loans."

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Bank	Interest rate/annum (%)						
Punjab & Sind Bank	7.0						
Bank of India	7.4						
State Bank of India	7.5						
Canara Bank	7.7						
Union Bank	8.2						
Karnataka Bank	8.4						
Indian Bank	8.5						
UCO Bank	8.5						
Federal Bank	8.5						
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