Here's why Indian banks are safe

Going by the fiscal 2008 data, none of the Indian banks, big or small, can fail.

This fiscal, beginning April, the situation has changed slightly for certain banks as their non-performing assets, or NPAs, are going up as consumers have started defaulting on their payment obligations with the rise in interest rates. Their exposure to some of the troubled global banks that have either gone under or are staying afloat with government support have also come to the surface. But that is minuscule and will not make any significant dent in their balance sheets.

The best way of judging a bank's health is looking at the most critical parameters such as capital adequacy ratio, asset quality and earnings, which define their ability to pay service depositors. On all these parameters, Indian banks more than meet the accepted norms.

NET WORTH

State Bank of India has the highest net worth—capital and reserves—among all Indian banks, followed by ICICI Bank. Each has about four times the net worth of the third biggest bank in this category, Punjab National Bank. Overall, seven banks have more than Rs10,000 crore net worth.

Net worth (capital+reserve) in Rs crore

NET NPAs

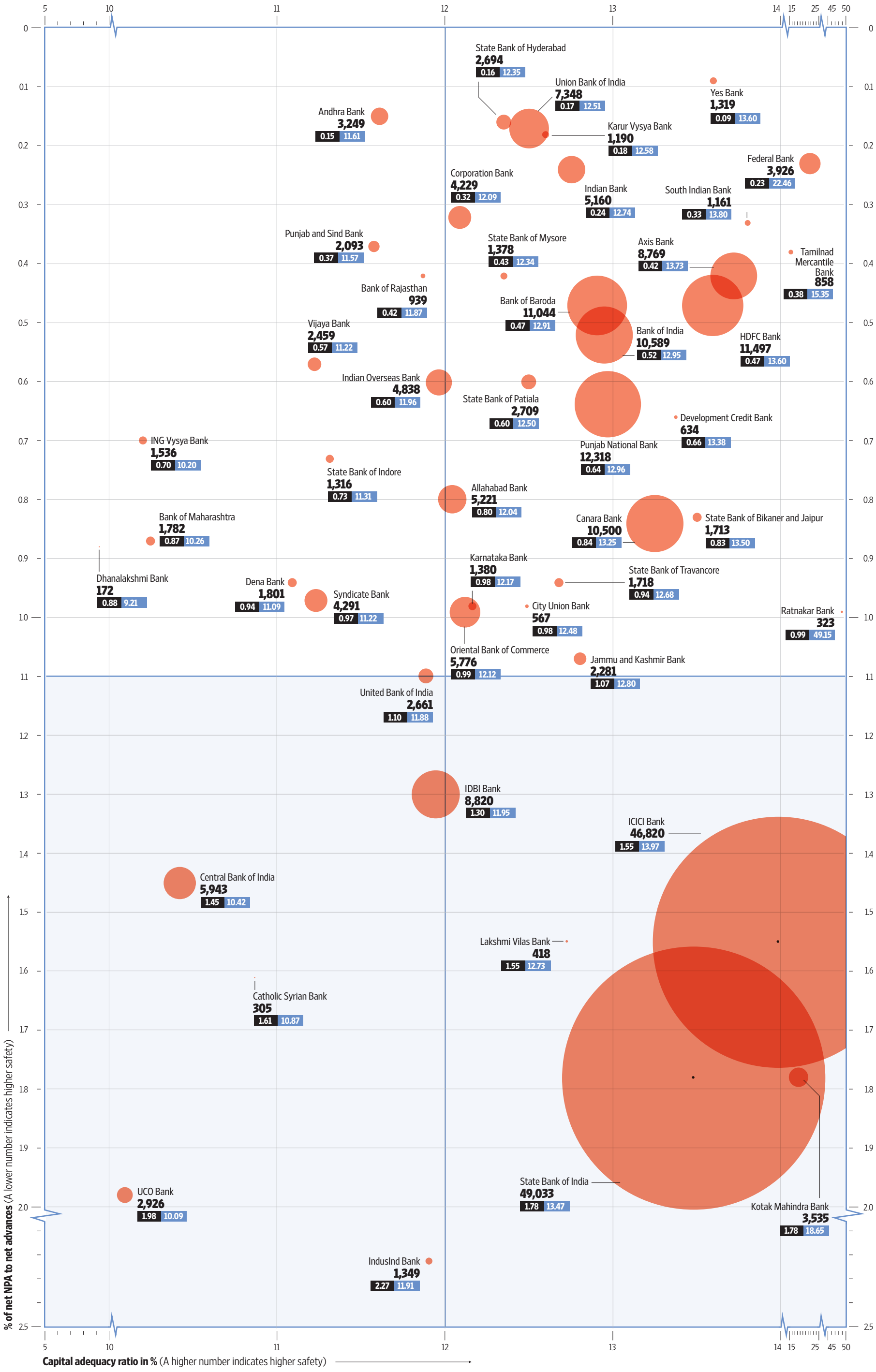
Most Indian banks have less than 1% NPA. The average NPA of all banks operating in India (including foreign banks) is 1%. So, no worry on the quality of assets, as of now.

% of net NPA to net advances

CAPITAL ADEQUACY RATIO

Among the big Indian banks, ICICI Bank has the highest capital adquacy ratio, or CAR—13.97% against the regulatory requirement of 9%. Four banks have a higher CAR than ICICI Bank, but they are relatively smaller banks. Overall, 30 banks have more than 12% CAR. Not a single bank has less than 9% CAR. Under the norms, for every Rs100 worth of assets, banks need Rs9 worth of capital. The higher capital base shows they are less leveraged and, hence, strong.

Capital adequacy ratio (%)



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