RBI seeks to lower NNPA of banks for paying dividends

Draft proposes that net NPA ratio should be less than 6%

MANOJIT SAHA
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The Reserve Bank of India (RBI) on Tuesday proposed to tighten norms for dividend declaration by banks as it lowered the net non-performing asset (NPA) ratio for a lender to be eligible for paying dividends.

In a draft circular released on Tuesday, the RBI said it would not entertain any ad hoc dispensation on the declaration of dividends. Feedback on the draft circular can be submitted by January 31. The RBI proposed the new norms for declaration of dividend for FY25 and onwards.

The RBI proposed that the net NPA ratio, for the financial year for which the dividend is proposed, should be less than 6 per cent. At present, the minimum net NPA requirement is 7 per cent. Banks were also required to meet the applicable regulatory capital requirement for each of the last three financial years, including the one for which the dividend is proposed.

At present, if a bank does not meet the capital adequacy norm but has a capital adequacy ratio (CAR) of at least 9 per cent for the accounting year for which it proposes to declare a dividend, it would be eligible to declare a dividend provided its net NPA ratio is less than 5 per cent. There is no such provision in the draft.

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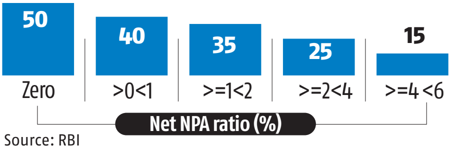
CASA REMAINS UNDER PRESSURE IN Q3 P6

ILLUSTRATION: BINAY SINHA

DIVIDEND PAYOUT RATIO CAP

Maximum dividend payout ratio (%)



Source: RBI

NORMS TIGHTENED

- RBI reviews guidelines in the light of implementation of Basel III standards, revision of PCA framework, and introduction of differentiated banks
- Suggests banks consider divergence in classification and the provisioning for NPAs
- Proposes banks need to consider current and projected capital position vis-à-vis applicable capital requirement and its long-term growth plan

RBI seeks to lower NNPA of banks for paying dividends

Public-sector, private-sector, and foreign banks' minimum capital adequacy ratio requirement is 11.5 per cent. The requirement is a tad higher for domestically systemically important banks. Minimum capital requirement for small finance banks (SFBs) and payments banks is 15 per cent while it is 9 per cent for local area banks and regional rural banks (RRBs). The dividend payout ratio, which is the ratio between the amount of the dividend payable in a year and the net profit for the financial year for which the dividend is proposed, is proposed to be capped at 50 per cent. According to the draft norms, the board of the banks, while considering dividend payout, should consider the divergence in classification and provisioning for NPAs, including its trend, as observed under supervisory findings of the Reserve Bank or National Bank for Agriculture and Rural Development (for RRBs).

Banks also need to consider the current and projected capital position vis-à-vis applicable capital requirements and their long-term growth plan, according to the draft. It clarified that the proposed dividend payable would include dividends on equity shares only. "In case the net profit for the relevant period includes any exceptional and/or extraordinary profits/income, or if the financial statements are qualified (including 'emphasis of matter') by the statutory auditor that indicates an overstatement of net profit, the same shall be reduced from net profit while determining the dividend payout ratio," the proposed norms said. Regarding remittances of profits to head office by foreign banks operating in India in the branch mode, the draft said they were allowed to remit net profit without the RBI's prior approval, provided that the accounts of the bank were audited and in the event of excess remittances, the head office of that lender immediately should make good the shortfall.

The norms will be applicable to all commercial banks, including RRBs, local area banks, SFBs, and payments banks.

The RBI said the guidelines had been reviewed in the light of the implementation of Basel III standards, the revision of the prompt corrective action framework, and the introduction of differentiated banks.

The draft has also proposed to repeal all the previous circulars on dividend declaration and remittance of profit by foreign banks operating in India.

Market experts warned that tensions in the Red Sea, if not contained, could end up pushing commodity prices and posing a challenge to rate cut plans of major central banks.

Higher oil prices will also hurt India, which imports over 70 per cent of its crude oil requirements. News reports suggested that the Red Sea handles about 12 per cent of the world's commerce.

"The markets had a good run but tensions in the Red Sea are now keeping investors worried. There could be a bit of worry around some additional measures by the RBI with regards to lending to AIFs," said Andrew Holland, CEO of Avendus Capital Public Markets Alternate Strategies

Among peer markets, Chinese equities declined sharply after weak manufacturing and home sales data. China's factory activity in December fell to the lowest level in six months; the decline in home sales accelerated.

Domestic institutional investors were net sellers to the tune of ₹1,959 crore, provisional data from exchanges revealed. Foreign portfolio investors (FPIs) were net buyers worth ₹1,602 crore.

The market breadth was neutral, with 1,906 stocks advancing and 1,904 declining. More than two-thirds of Sensex stocks fell.

Going forward the US Federal Open Market Committee (FOMC) minutes on Wednesday, China Services PMI, and other macroeconomic data will determine market trajectory.