Banks Surge as RBI's Rajan Fuels Profit Optimism: Mumbai Mover

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By Anto Antony

Sept. 5 (Bloomberg) -- Indian bank stocks surged the most since May 2009 after the central bank's new governor signaled the easing of a requirement on lenders' government debt holdings and flagged measures to bring down bad loans.

S&P BSE Bankex index, a gauge of 13 banking stocks, rose 7.2 percent to 10,805.31 as of 9:36 a.m. in Mumbai. State Bank of India, the country's largest lender, gained 3.7 percent to 1,549.9 rupees. ICICI Bank Ltd. jumped 7.8 percent, poised for the largest advance since June 2009.

There's a need to cut the requirement for banks to invest in government securities to ensure lending to productive sectors of the economy, the Reserve Bank of India's Raghuram Rajan said yesterday on his first day as governor. The central bank will also look at ways to improve the recovery mechanism for bad loans, propose a database for large loans across lenders and allow some lenders to open branches without seeking RBI approval, he said.

Rajan "made major announcements relating to banks, with a view to accelerating long-pending reform issues," JPMorgan Chase & Co. analysts led by Seshadri Sen said in a report yesterday. The steps "will have a major long-term impact on bank profitability and growth," they wrote.

Rajan's comments on government securities indicate the RBI is recognizing the need to lower the Statutory Liquidity Ratio, which requires lenders to invest as much as 23 percent of deposits in government securities, according to JPMorgan.

The central bank will also allow lenders to borrow as much as 100 percent of their so-called Tier 1 capital, or core capital, overseas in an attempt to bring more foreign currency into India. The limit was earlier fixed at 50 percent of the Tier 1 capital.

Loans at Indian banks grew by 16.6 percent in the 12 months to Sept. 9 after declining to the slowest pace since 2009 in June, RBI data show. Bad loans rose to 3.92 percent of total lending as of June 30, the highest level in at least five years, from 3.4 percent at the end of March, the data show.

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