CEILING TO RISE The plan is to link dividend to a lender's core capital instead of total capital

RBI Proposal may Help Private Banks Pay More in Dividends

Our Bureau

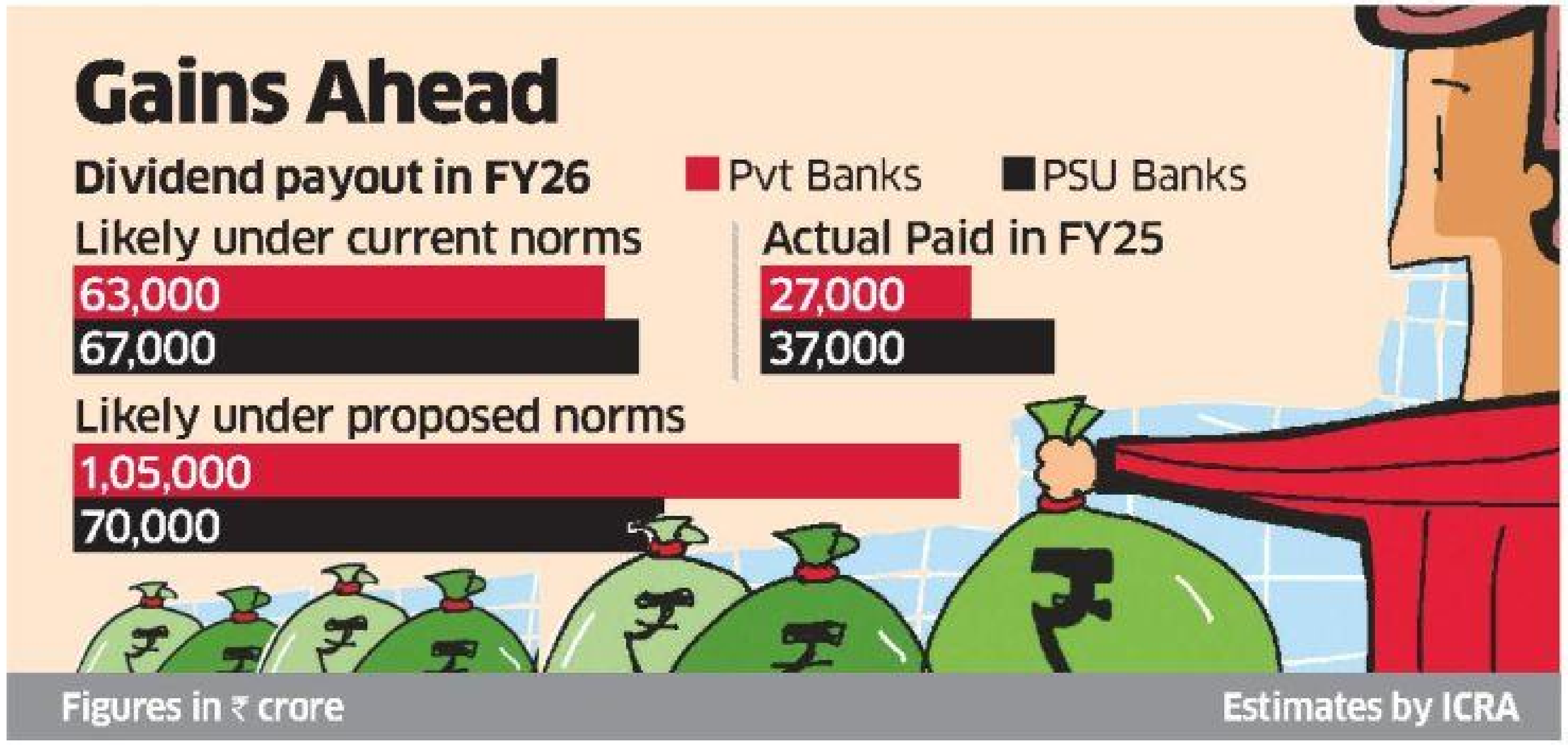
Mumbai: The maximum dividend payout ratio of private banks would substantially improve vis-à-vis state-owned banks, Icra said in a study, after the Reserve Bank of India (RBI) proposed linking the dividend payment with a lender's core capital instead of total capital.

An analysis by the credit rating agency showed that private banks could be poised to pay as much as ₹1.05 lakh crore in dividend next year as against ₹70,000 crore for PSU banks.

Despite the increase in the ceiling in the proposed norms, most lenders will remain far below their allowable limits due to continued capital preservation strategies, Icra said in a research report. In FY25, private banks paid ₹27,000 crore—equivalent to 15% payout ratio. By contrast, PSU banks paid ₹37,000 crore (20%) under the current framework.

Under the proposed draft norms, the payout ratio of private banks would rise to 50% and that for PSU banks to 37%. The differential is primarily because the core equity capital (to which RBI has linked dividend payout) is significantly higher for private banks as compared with PSU banks.

Despite the sharp rise in permissible ceilings, banks are unlikely to raise actual payouts meaningfully. Most public sector lenders paid 20–30% of profits in FY25 while most private banks paid below 20%, well under the limits allowed presently and under the proposed norms.



'CHANGE OVERDUE'

"The proposed changes are positive, given these have been linked to core capital position or CET 1 ratio of the banks. CRAR of the bank, which is criteria for dividend payout in the current regulations, can be boosted by debt capital instruments and, hence, required a change," said Anil Gupta, co-group head financial services sector, Icra.

"We believe lenders will continue to conserve capital to support credit growth and buffer against future shocks," he added.

CRAR refers to the capital to risk-weighted assets ratio, defining a lender's cash buffers against potential losses stemming from assets mapped in line with their default risks.

Icra estimates that 16 banks—seven of 13 state owned banks (including IDBI Bank) and nine of 19 private banks—would see an increase in their maximum permitted dividend payout under the proposed CET 1 based framework. But for the largest dividend paying PSBs, limits will rise only marginally or even decline, while major private banks already distribute far below allowed levels.

Under the proposed 2026 norms, the RBI has linked dividend payout to core equity tier 1 (CET 1) capital, while under the current framework, dividend limits are linked to two metrics—a bank's CRAR and its net non-performing advances (NPA). The proposed rules introduce adjusted PAT, computed as PAT minus NPA minus extraordinary income, fair value gains and provision reversals, preventing banks from paying dividends from one off or unrealised gains. The maximum allowable payout is now 100% of adjusted PAT, capped at 75% of reported PAT.