We don't see bank mergers as a threat: SBI Chairman

SURABHI / THOMAS K THOMAS
Mumbai, November 3

For Rajnish Kumar, Chairman, State Bank of India, heading the country's largest lender for two years has been "full of action". While the banking and financial sector have faced volatile times, Kumar is cautiously optimistic about the prospects. Terming the move to consolidate public sector banks as positive, Kumar, in an interview with *BusinessLine*, said he is also happy about the Supreme Court judgment on the Insolvency and Bankruptcy Code, which has left no "grey areas". Edited Excerpts:

THE BL INTERVIEW

It has been two years for you as SBI's Chairman. What has been your experience at a volatile time like this?
It was a difficult time for the industry as a whole and SBI is no exception to it. But still, the bank is much stronger today in terms of balance sheet, provision coverage, NPA percentage, improvement in operating profit and leadership in digital space. A lot of improvements have been brought about under the guidance of our board in terms of risk management.

It has been full of action, and there was not a single day when one could relax.

The bank went into the red in between. Were you worried that this is not the way you intended it to go?
No CEO would like the company he leads to be in loss. But whatever was the accumulation has got cleared.

So, today, when you look at our PCR, if that was not done, we would not have reached this position.

Some of the losses were partly on account of mark-to-market; it was not just loan-loss provisions. There was a huge movement of yields, and despite forbearance available from the RBI we did not exercise it. So, whatever was the loss, it was booked. March 2018, June and September quarters were bad.

Do you think the worst is behind you?
It is very difficult to make that statement. But, I think, things are not as bad as in March 2018. There are a couple of reasons — AQR happened and a lot of assets were classified as NPA. In March 2018, SBI classified ₹1,000 crore as NPA provision. After that there is no accumulation now. Whatever is there is for the current year.

We will never be facing a situation where such kind of NPA was required to be declared. Banks have adequate capital with the government's recapitalisation efforts. SBI's capital position has improved. For SBI, the balance sheet and pre-provision operating profit are much stronger, and there is a consistent effort in that direction.

Are you seeing a revival in credit demand?
We are lending. In retail, there is fairly good progress. Corporate sanctions are there. We have a fairly good pipeline of sanctions, and I am hoping disbursements will also take place, but there is always a time lag in disbursement of project loans.

So, what we sanction today takes at least six months. What we always want is a robust pipeline, and I am not so worried about disbursements. The working capital limit that we sanction is at the disposal of the corporate; they can draw whenever they want. There are no issues around liquidity.

Which are the sectors that are you upbeat on for lending, apart from retail?
In retail, the advantage is in terms of diversification. In corporate, the problem is that if one large account goes under, it impacts the bank very badly. In our project finance pipeline, there are only three sectors — solar, roads, and oil and gas from where the projects come. In terms of bullishness, we have concerns over the power sector on the health of discoms. It is case-to-case, State-to-State and discom-to-discom.

If the health of discoms was good, then I would have been bullish on renewables. But their financial health is poor and we will never be bullish on the power sector. More than the sector, our bullishness would depend on the quality of the corporate or people behind the project.

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Rajnish Kumar
Chairman, State Bank of India

What do you make of the consolidation in the banking sector?
If executed well, then it is good for the industry and for banks. It was always felt that there is no need for so many public sector banks; so, I think, it is a step in the right direction. The execution part is for the individual banks on how well they execute it.

We don't see it as a worry or threat; it will be better. Maybe some burden will be taken off the shoulders of SBI.

How do you see the IBC playing out?
I am now very happy after the Supreme Court judgment. It has left no grey area according to me. Nobody was happy with timelines in IBC as there were issues. Now, there is no reason why timelines cannot be adhered to. There were a lot of disputes; they were mostly arising out of distribution as there were various claims — operational creditors, unsecured financial creditors. So, that debate is now settled. Thescope for litigation will be reduced.

What about the decision to bring NBFCs to the IBC?
It is a very good move. In the absence of any proper legal framework, the resolution was impossible. ILFS is a different case under Section 242 and it is going on. DHFL we will see, but it is after admission into the NCLT; the process would be same as for any other NCLT account.

What is the recovery percentage for cases referred to the NCLT?
In IBC, if the case is referred at an early stage without delay, then recoveries can be better. It all depends under what stage of stress it is referred. If the company has gone down, then recovery is very difficult. There are certain sectors such as aviation where you go to the NCLT at whatever stage; the recovery will be very poor. Even a telecom company goes into bankruptcy; the recovery will be very poor. NBFC is a different case, though it is classified under the services sector, but when they lend there are underlying assets. But for aviation and telecom, there is no fallback for lenders to recover from.

Are you worried about private sector banks as they are eating into the deposit share of PSBs?
Deposits are mostly a function of interest rates. Today, at SBI, our rates are relatively low as we have enough liquidity. Second is the service quality, which is more around transaction accounts. In the current account space, private sector banks have a better market share. They got the first mover advantage with state-of-the-art cash management products.

For savings bank accounts, I don't think there is much of an issue. PSBs have a very good distribution reach so the impact is not much. And fixed deposit is a function of interest.

Our FDs are growing by 12 per cent year-on-year. If I increase the rate by 50 basis points, the growth may be 17 per cent to 18 per cent.

'Bank amalgamation will not lead to job losses'

PRESS TRUST OF INDIA
New Delhi, December 3

The government, on Tuesday, assured the Rajya Sabha that the merger of 10 public sector banks will not lead to job losses and that employees' interest would be protected.

In August, the government announced a mega plan to merge 10 public sector banks into four to create fewer and stronger global-sized lenders with robust balance sheets that can be used to boost credit and spur growth.

Lending to eastern States
During the Question Hour, Anurag Singh Thakur, Minister of State for Finance, said lending and other banking services to eastern States will pick up after two Kolkata-based banks are merged.

While United Bank of India (UBI) will be merged with Punjab National Bank, Allahabad Bank will be amalgamated with Indian Bank. These two banks are headquartered in Kolkata.

"Merger of banks will strengthen the lending capacity. It has been ensured that no one loses job. The employees of merged banks will benefit the maximum. Merger is being done keeping their interest in mind," he said. "We have taken enough precaution," he said, adding that the Narasimham Committee in 1998 and Leeladhar Committee in 2008 had recommended the amalgamation of banks.

"Amalgamating banks have been advised to duly factor in and draw roadmaps for converging IT systems and HR and to put in place institutional arrangements to ensure expeditious integration," said Thakur.

The Minister was responding to a query from Trinamool Congress member Manish Gupta, who said that about 50,000 employees would be jobless by next year due to the merger. To another query on banking services likely to be affected in the eastern States due to the merger, the Minister said the reach and lending capacity would be "much larger and better" with the amalgamation.

"In today's time of competition, I think expansion of these banks is very important...It was our government that went for asset quality review of bank loans given between 2004 and 2014.

"We adopted an approach for better functioning of the banks and recapitalised them with over ₹2.35 lakh crore for better strengthening and functioning," the Minister said.

CUSTOMER OUTREACH PROGRAMME

PSBs disbursed ₹4.91-lakh cr in Oct-Nov: FinMin

OUR BUREAU
New Delhi, December 3

Public sector banks (PSBs) disbursed ₹4.91-lakh crore in the customer outreach programme during October and November, the Finance Ministry said on Tuesday.

Boost for economy
It may be recalled that the Finance Minister Nirmala Sitharaman had, in September, announced the launch of customer outreach initiative by PSBs to improve credit delivery and support the needs of the economy. This initiative had a particular focus on MSMEs, NBFCs, corporates, retail and agriculture sector borrowers without compromising on prudential lending.

Scan & Share

Customer outreach in October 2019 resulted in total credit disbursement of ₹2.52-lakh crore. In November, it was ₹2.39-lakh crore.

This has raised the total disbursement to ₹4.91-lakh crore.

To boost the MSME sector, public sector banks have disbursed ₹35,775 crore in November, raising the total customer outreach credit disbursed to MSMEs to ₹72,985 crore.

PSBs disbursed ₹25,525 crore in November, increasing sharply from ₹19,628 crore in October, raising the total customer outreach credit disbursed to NBFCs to ₹45,153 crore.

PSBs have sufficient liquidity to support credit growth, an official release said.

Disbursement by public sector banks
Amounts in ₹ crore

Loan category	Oct 2019	Nov 2019
MSME loans	37,210	35,775
Loans to NBFCs	17,163	25,005
Loans to corporates	1,22,785	97,366
Home loan	12,166	15,088
Vehicle loan	7,085	4,003
Education loan	425	686
Agricultural loans	40,504	37,870
Other loans	15,250	23,454
Total	**2,52,589**	**2,39,245**

HDFC Bank sees signs of rural revival

BLOOMBERG
December 3

HDFC Bank sees tentative signs of revival in rural areas at a time when the wider economy is sputtering. "The recent loan outreach programmes have given us the sense that consumption in rural and semi-urban areas is turning more positive," said HDFC Bank Executive Director Kaizad Bharucha. As of September-end, 52 per cent of the bank's outlets were in rural and semi-urban India, a part of the economy that accounts for at least half of the national output.

Prime Minister Narendra Modi's government has unveiled several steps to boost the economy, which is growing at its weakest pace in more than six years, including a corporate tax cut. The Reserve Bank of India is expected to cut interest rates again this week after reports showed that gross domestic product (GDP) growth slowed to 4.5 per cent in the September quarter.

HDFC Bank's recent loan outreach programmes have proved that consumption in rural and semi-urban areas is turning more positive

Loan growth slows down
For HDFC Bank, the weaker economy had led to a slowdown in loan growth, which eased to 15 per cent in the September quarter from 23 per cent a year earlier. But it remained healthy compared to the overall banking system, which saw credit growth slowing to a two-year low just above 8 per cent.

"As a bank we are well positioned to offset a slowdown in either the consumption or investment side as we are present across the spectrum," said Bharucha. The demand for credit is not going away. It may just be subdued for a period of time, he added.

He is also cautiously optimistic about the outlook for corporate investment, based on the bank's soundings with Indian executives. Muted loan growth has hardly dented the upward march in HDFC Bank's shares, which are about 20 per cent higher so far this year. Now valued at about $96 billion, the company trades at around 26 times projected 12-month earnings. That is almost three times more expensive than the Bloomberg World Bank's Index, and is the biggest valuation premium on record.

Meanwhile, non-bank lenders from Dewan Housing Finance Corp to Reliance Capital have been reeling under a 17-month credit crisis after Infrastructure Leasing & Financial Services defaulted on its debt last year. In a further blow to confidence, the Securities and Exchange Board of India placed curbs on operations of Karvy Stock Broking after finding evidence it misused client funds.

But Bharucha does not see a wider industry problem. "There is enough control over stockbrokers and depositories and a default in the segment will not have a systemic impact," he said. The central bank has ensured that there is adequate liquidity in the system and availability of credit is not a problem.

Xiaomi enters digital lending biz with Mi Credit

KR SRIVATS
New Delhi, December 3

Xiaomi, the smartphone and smartTV brand, has forayed into online lending by launching 'Mi Credit'. Personal loans up to ₹1 lakh will be the first product that will be offered through Mi Credit, a curated marketplace for personal loans. In the pilot phase in November, Xiaomi, through the Mi Credit app, disbursed loans up to ₹28 crore.

"Currently, Mi Credit services more than 10 States spanning across 1,500 pin codes. We will expand its availability to 100 per cent of the pin codes by the end of March 2020," said Manu Jain, Vice-President and Managing Director India.

For personal loans, Xiaomi has partnered with five NBFCs and fintechs — Aditya Birla Finance, Money View, EarlySalary, Zestmoney and CreditVidya. "We have been talking to banks as well. Going forward, we may bring some of them on board," Jain told *BusinessLine*.

Banks need 'additional' $7-b capital by FY21 for loan growth, says Fitch

PRESS TRUST OF INDIA
New Delhi, December 3

Indian banks need additional ₹7 billion equity by 2020-21 to support loan growth and cover for bad loans, said Fitch Ratings on Tuesday, adding a slowing economy could exacerbate asset-quality tension for a sector grappling with weak recoveries and ageing provisions.

In its 2020 outlook for 'Asia-Pacific Emerging Market Banks', the agency maintained a negative outlook on Indian banks, based on its expectations of continued weak performance despite trends showing this could be past the trough and ongoing capital requirements.

"Non-bank stress, coupled with rising macro headwinds, pose further challenges for asset quality, particularly at state banks that continue to experience capital constraints, delays in bad-loan recoveries, and poor earnings. More capital is needed to insulate banks' weak balance sheets and to sustain loan growth," it said.

Fitch said the rating outlook for most Indian banks mirrors the stable outlook on India's sovereign rating. It estimated that "Indian banks will require an additional $7 billion of equity by FY21 to support loan growth, achieve 75 per cent NPL (non-performing loan) cover, and build a buffer over the minimum Basel III capital standards."

Syndicate Bank plans to restructure MSME loans

ANIL URS
Bengaluru, December 3

Public sector Syndicate Bank will provide a breather to its MSME customers by restructuring loans.

The facility involves a flexible repayment option, which will prevent their accounts from being classified as non-performing assets.

MSMEs that are GST-registered (except for the ones exempted from it), with an aggregate debt of ₹25 crore or below as on January 1, are eligible to apply for this facility.

Restructuring of loan is a facility given to customers to reschedule the repayment structure of their loan accounts.

The provision is given to those customers whose units are under stress due to various internal or external reasons, thereby helping them to stabilise their business over time.

Mrutyunjay Mahapatra, MD and CEO, Syndicate Bank, said: "MSMEs contribute significantly to our economy's growth. We understand they are facing some difficult times due to various unforeseen reasons. As a segment, MSME has always been a focus for Syndicate Bank as they add prominently to the diversified portfolio of the bank. With this loan restructuring facility, we are hoping to provide them the needed support that will enable them to prosper and grow better."

Facilities offered
Restructuring will provide customers facilities such as rescheduling the repayment by providing them longer repayment periods, give repayment holidays to reduce the loan repayment obligation for their stressed businesses, provide them with additional finance to tide over the situation, convert the working capital loan into term loans, and convert the overdue interest portion in working capital into term loan to offer a staggered repayment.

Pimco jumps on the bandwagon against negative rates

BLOOMBERG
December 3

Bond powerhouse Pacific Investment Management Co (Pimco) has become the latest high-profile critic of negative interest rates, warning that one of the key central bank tools in economically beleaguered Europe and Japan may do more harm than good.

In a report published on Tuesday, Pimco noted three key drawbacks of sub-zero rates. They squeeze the profitability of banks and, thus, might actually reduce lending; they depress market returns and create significant challenges for pension funds and insurers that offer guaranteed payouts; and they create a money illusion in which savers feel poorer and, thus, cut consumption.

While those criticisms have long been levelled at institutions such as the European Central Bank and Bank of Japan, the voice of Pimco – with $1.9 trillion of assets under management – adds to a rising clamour. Goldman Sachs CEO David Solomon called them a failed experiment, and even central bankers have started expressing concerns about the side effects.

The unintended consequences of negative interest rate policy are already evident, portfolio managers Nicola Mai and Peder Beck-Friis wrote. It does not have much further room to run.

Economic theory suggests that cutting interest rates below zero should have a similar expansionary effect to reducing them in a positive-rate environment. It should incentivise people to save less and spend more, boosting growth and inflation.

In practice, the researchers found that while sub-zero rates initially helped ease financial conditions and boost lending, especially in the euro area, that impact has been spent. The ECB is one of just five central banks with such a policy, along with those of Switzerland, Sweden, Denmark and Japan.

Trouble brewing
Pimco said significant trouble is brewing under the surface at banks, which must pay to central bank to hold reserves but can't easily pass the cost on to customers. Deutsche Bank President Karl von Rohr said last month that the region's banks and insurers have lost dramatic amounts of ground to competitors, with only one still ranking in the top 20 globally by market value, compared with six before the global financial crisis.

In Japan, where the policy rate is minus 0.1 per cent, Governor Haruhiko Kuroda is finding it increasingly hard to get support from the country's Shinkin regional cooperative banks, which rely heavily on deposits for funding.

In an attempt to boost their returns, investors are chasing riskier assets that might prove to be harder to sell. That is a particular worry for pension funds, which are often required by law to guarantee a certain level of payments to retirees. Pimco warned of instability and potential capital injections if they fail to deliver.

Finland's Ilmarinen Mutual Pension Insurance Co, with $55 billion in assets, says it is buying fewer easy-to-sell assets, a sign that liquidity has become a luxury of a bygone age.