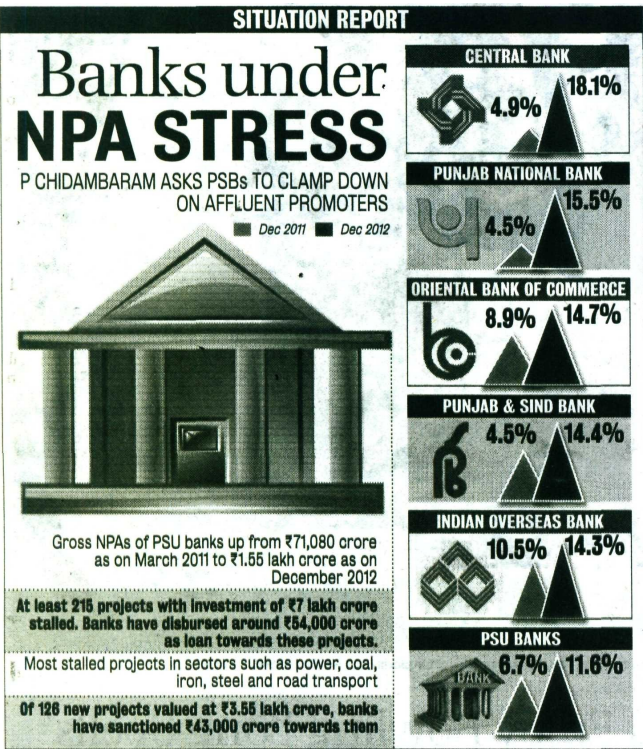


Nationalised Banks in 11.55 lakh cr Debt Trap

Curbing non-performing assets remains biggest challenge for public sector banks in the country, affluent promoters of sick units to face the heat



by Shutapa Paul

An alarming rise in the non-performing assets (NPAs) of public sector banks has become a major cause of worry for Union Finance Minister P Chidambaram. At a recent meeting with PSU bank chiefs, Chidambaram expressed concern over the unmitigated surge in bad loans at state-owned banks. His fear is justified. Recent figures from the finance ministry show that gross NPAs of PSU banks had gone from Rs 71,808 crore in March 2011 to Rs 1.55 lakh crore in December 2012.

PSU banks have shown an exponential increase in NPAs and restructured loans from

2011 to 2012. NPAs rose from 6.7 per cent in 2011 to 11.6 per cent in 2012. The State Bank of India (SBI), Central Bank, Punjab National Bank (PNB), Oriental Bank of Commerce, Punjab & Sind Bank and Indian Overseas Bank are currently reeling under the worst debt burden. Central Bank showed the highest rise in NPAs from 4.9 per cent to 18.1 per cent, followed by PNB from 4.5 per cent to 15.5 per cent.

Marking the worrying movement, the Reserve Bank of India said in its Report on Trend and Progress of Banking in India (2011-12) that "during 2011-12, the NPA stock has risen. The slippage ratio of the banking system,

which showed a declining trend during 2005-08, increased during 2008-12. Banks need to not only utilise effectively the various measures put in place by the Reserve Bank and the Government of India for the resolution and recovery of bad loans, but also have to strengthen their due diligence, credit appraisal and post-sanction loan monitoring systems to minimise and mitigate the problem of increasing NPAs".

Chidambaram has now directed banks to clamp down on affluent promoters of sick units to recover loans. In the case of Vijay Mallya-promoted Kingfisher Airlines, a group of 17 banks, including SBI, has dues of

over Rs 7,000 crore. The account has turned non-performing for most banks, who are mulling attaching some of Kingfisher's grounded properties and liquidating the securities towards loan recovery. "We are blazing all guns and taking all steps for recovery (of Kingfisher loans)... There is a core group. It is assessing what are securities, what can be disposed of quickly, (and) then put on auction," SBI Chairman Pratip Chaudhuri said recently. While SBI has an exposure of Rs 1,600 crore in Kingfisher, PNB and IDBI Bank have Rs 800 crore each. Bank of India and Bank of Baroda have exposures of Rs 650 crore and Rs 550 crore respectively.

SBI, as the country's largest lender, also has the greatest exposure to risk and bad debt. "SBI is worse placed than the industry average vis-a-vis NPAs," Diwakar Gupta, Managing Director and Chief Financial Officer (CFO), SBI told The Sunday Standard. The state-owned bank currently has NPAs of around Rs 33,000 crore with gross NPAs at 5.3 per cent and net NPAs at 2.44 per cent of advances. "NPAs have been the single biggest challenge for us and we are trying to better the situation," Gupta added. The largest Indian bank has reduced its bad debt stock by Rs 10,000 crore; however, the battle to curb NPAs still continues. "We're going for better secured lending and focusing on home and gold loans. We're also trying to collateralise our lending," Gupta said.

In a growing trend, several government-owned banks are resorting to settlements and write-offs rather than actual recovery. Canara Bank and Corporation Bank are trying to opt for the settlement and write-off route. Gupta, however, cautions that write-offs are hardly the way out of this precarious situation. "The moment you write-off (bad stock), your

PCR (Provision Coverage Ratio) comes down. There is a limit to how much you can write off," he said. (PCR is the percentage of the* loan amount that the bank keeps as provision in the case of bad debt.) Therefore, SBI isn't writing off the Kingfisher loan and the priority remains to see whether the carrier can be saved. SBI has at least eight accounts, apart from Kingfisher Airlines, that are large and currently stressed.

The PSU banks are facing most trouble from stalled infrastructure projects in power, coal, iron, steel and road transport. RBI said in the same report. "Though Indian banks remained well-capitalised, concerns about the growing non-performing

assets loomed large. Banks' exposure to the stressed power and airline sectors particularly added to deterioration in their asset quality."

Chidambaram accepted that at least 215 projects with investment of Rs 7 lakh crore have been delayed in the infrastructure space. Banks have disbursed around Rs 54,000 crore loans towards these stalled projects. Of the 126 new projects worth Rs 3.55 lakh crore, banks have sanctioned Rs 43,000 crore as loan.

"The underwriting and credit assessment skills of private sector banks are different from PSU banks. The private sector is particular about which sector they want to lend to or what collateral

they'll accept," says Akeel Master, head of Financial Services, KPMG India. Private bank HDFC, for instance, had a gross NPA of only 1 per cent and net NPA of 0.2 per cent as of December 31, 2012. "One of the reasons for a higher NPA among the public banks could be a corporate heavy portfolio compared to a relatively balanced mix between corporate and retail exposures for most of the private sector banks that perhaps may reduce the concentration risk. Further, the retail portfolio, mostly being secured, does not indicate as much stress as the corporate exposures," says Chief Managing Director of Care Ratings and Research D R Dogra.

