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Rajesh Mokashi, Deputy MD, Care Ratings

In an exclusive interview with The Global ANALYST, Rajesh Mokashi, Dy. Managing Director, Care Ratings, talks about what is behind India's banking sector's remarkable resilience, that have helped India's banking sector successfully fend off global financial crisis, challenges that arise from the issue of stressed assets, scope of mobile banking in the country, and his outlook on the industry. Edited excerpts:

- **The banking sector in India has shown remarkable resilience, first in the wake of the 2008 global financial crisis, and, amid concerns over structural issues in recent times. What factors do you attribute to the Indian banks' success, in general?**

The strength and resilience of the Indian banking sector may be attributed to the sound regulation that has been administered by the RBI. This has been complemented by strong discipline displayed by most banks in the country. It may be remembered that the crisis in the US market was due to the proliferation of structured products which were less understood and unregulated. The approach of RBI has always been sound where the focus was on creating a regulatory structure before allowing products to be launched. This way safeguards have been built into the system to ensure that there is no contagion. Hence, while the Indian banking system may be weak at times in the area of NPAs we have never been afflicted by a contagion due to product failure. In a free banking system it is essential that we create structures for products before allowing them to ensure that there are no repercussions in case of a failure.

- **What reasons do you see behind the sudden rise in NPAs across the board in the last few years and whether those concerns have receded completely**

The increase in NPAs may be attributed mainly to the economic cycle which has remained adverse for the last 3 years which has increased this ratio. We do not have too many instances of wilful defaults which is positive news. Now RBI has pointed out to sectors such as mining, steel, infra, aviation and textiles as the vulnerable sectors. These companies have been affected by a variety of reasons.

- First, stalled projects in the infra space have backward linkages with several sectors which causes an increase in NPAs.
- Second, there have controversies on areas such as mining covering iron ore and coal which are in the process of being resolved. This has also had a negative impact on the quality of assets.
- Third, demand conditions have been downbeat affecting companies' profits.
- Fourth, high interest rates at some point of time affect even running companies outside infrastructure as they find it hard to service working capital when profitability is low.
- Fifth, the government has cut back on project expenditure which is linked to the fortunes of several private companies whose P & L are affected.

These concerns are being addressed partly by policy measures. But we need to have the business cycle turn around for a reversal to take place. It will be gradual and hopefully we will see some moderation in the restructured assets when the economy recovers in FY16.

- **PSBs, in particular, have made significant breakthroughs in in their recovery efforts. What is your opinion?**

The progress is good, though there is still a long distance to go. These banks have tended to have relatively more exposures to corporates while private banks have diversified well in the retail space. Therefore, the challenge for PSBs is greater. We still need the economic conditions to improve so that these levels come down. Some companies are also selling off assets to repay loans which is a good sign.

- **With the Indian economy expected to do better than rest of the world, going ahead, a view already endorsed by several global rating agencies as well, how do you see the growth prospects for the banking sector in general?**

There are two aspects to this issue. First, a better performing economy will help the banking sector control the quality of assets. Second, the business levels will improve as both credit and deposits are stagnating today. this will change once the growth in industry picks up and household incomes stabilize with lower inflation. This said, the challenge for some PSBs will be raising capital to meet this growing demand for credit especially as the Basel III norms kick in. The government has cut back on the amount that will be supplied through the budget for recapitalization. Therefore, they have to fend for themselves.

- **What is your opinion on the financial inclusion? How do you think banks could further their efforts to take FI to the next level?**

Financial inclusion is a two-step process. The first is providing access to a bank, which has been done well through the Jan Dhan scheme. The setting up of small and payments banks will help in ensuring that more households have access to a bank account. The second part is credit.

The challenge is how do we provide credit to a section of people which has not had access to the banking system all these years. This role was for the MFIs in the past and banks need to take a positive step here to enhance FI. They need to build new credit models to evaluate this section of people.

- **Mobile banking has huge potential, though it is yet to fully take off? What needs to be done further to take it to masses?**

There are two issues here. The first is education and the second is training. This has to be done to make banking accessible. In countries like Brazil such efforts have been taken with considerable success and we need to do this here.

We have seen an increase in the use of mobile phones in the interiors and making banking possible is the logical extension. However, we have to address the security issues to ensure that a safe gateway is provided for this purpose.

- **What is your near-term outlook on the banking sector?**

The outlook appears stable in the positive direction. While business levels look to improve and NPAs come down as the economy recovers, getting capital will remain a challenge. For PSBs in particular both NPAs and capital will be issues to be sorted out in FY16 in an expedient manner.

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