

## No plan to extend deadline for banks to clean up balance sheets: SS Mundra

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S. S. Mundra, Deputy Governor, Reserve Bank of India (file photo)

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*Corporate sector leverage is source of big concern, says RBI Deputy Governor*

Hyderabad, Jan 29:

The RBI is not contemplating any extension of the March 2017 deadline for banks to reduce their non-performing assets (NPAs) and clean up their balance sheets, SS Mundra, Deputy Governor, RBI, said here on Friday.

Banks have already started the process in the quarter ended December 2015. "It will be painful in the short term but will benefit them in the long run," he added.

When asked about the delay in selling assets of corporate defaulters seized under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 by banks, he said the present legal system allows big defaulters to delay the process while, at the same time, is harsh on petty defaulters. The new bankruptcy law, now on the anvil, will correct this anomaly, he added.

### Highly leveraged

Earlier, while speaking at the inaugural session of a banking research conference at the ICFAI Business School (IBS) campus, he said corporate sector leverage has currently become an issue of great concern for the economy in general and the banking system in particular.

"As we notice now, several indiscriminate corporate houses continued market borrowing with a view to increase their market share and to expand capacity without any regard to domestic and global demand situation," he said. In fact, the rate of sales growth of the corporate sector, particularly of listed manufacturing companies, declined from an average of 28.8 per cent in Q1 of 2010-11 to 11.4 per cent in Q2 of 2012-13 at a time when inflation averaged around 10 per cent. Some of these borrowers necessarily fall into the category of Ponzi borrowers, the Deputy Governor pointed out.

Stating that the return on assets in public sector banks was "weak", he said new areas of untapped potential, such as financial inclusion, should be identified, and banks should innovate in technology and products.

### Research focus

Banks should focus on bread and butter issues in business and more research should be taken up. He identified

agricultural credit, micro, small and medium enterprise (MSME) advances and risk mitigation, among others, as important areas for research.

J Mahender Reddy, Vice-Chancellor, ICFAI Foundation for Higher Education (IFHE), said banks had a key role in ensuring GDP growth.

The conference was jointly organised by IBS and Gokhale Institute of Politics and Economics.

(This article was published on January 29, 2016)

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