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SBI may house bad loans in separate company

By [Biswajit Baruah](#) & [Sangita Mehta](#), ET Bureau | Updated: Jun 07, 2016, 01:52 AM IST

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MUMBAI: The country's largest lender State Bank of India (SBI) is considering a proposal to hive off its stressed-loan portfolio into a separate company, freeing it of a massive bad-debt burden, said people aware of the matter. SBI has seen interest from sovereign wealth funds and private equity players in acquiring stakes in such a so-called bad bank, which would house Rs 1.37 lakh crore of non-performing assets (NPAs), or 9% of total advances.

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Besides that amount, State Bank of India has also put Rs 31,000 crore of loans on a watch list, implying that these are currently categorised as standard but could go bad.

There was no response to an email sent to the SBI management. If the NPAs were to be taken off its back, SBI could concentrate on core banking services as it seeks to absorb five associate lenders and build itself into a bank of global size. Ballooning **bad loans** had compelled the management to consider various measures such as a bad bank.

Rising Burden		
Full Yr Results (₹ Cr)	31.3.2016	31.3.2015
Gross NPAs	98,172	56,725
% Of Total Loans	6.50%	4.25%
Net NPAs	55,807	27,590
% Of Total Loans	3.81%	2.12%
	31.3.2016	Change %
Net Int. Income	56,882	3.3
Non Int. Income	28,158	24
Net Profit	9,951	-24
Total Provisions	33,307	26

"It is in the thinking stage and no decision (has been taken) on this yet," said a senior SBI executive. What might complicate plans are the reservations that Reserve Bank of India Governor Raghuram Rajan has expressed over the bad-bank concept. Rajan said in September last year that a bad bank may not be relevant for India since much of the assets backing banks' loans are viable or can be made viable.

In February, he said: "Unless the bad bank is going to do a job of either pricing, or recovery or it is done in a transparent way that public does not start getting angry, unless we can have structures in place to assure us of that, it is not clear if it solves any problem that we have."

Still, some experts said the move might prove beneficial for SBI. "This is a very good move from State Bank of India," said Tirthankar Patnaik, chief strategist and head of research, India, Mizuho Bank. "The bank can free up capital and use resources for prospective credit growth while making efficient allocation of capital."

SBI reported a 66.32% drop in net profit to Rs 1,260 crore for the March quarter from the year earlier on account of higher-than-expected provisioning for bad assets.

Provisions for the quarter stood at Rs 13,174 crore, of which Rs 12,138 crore was kept aside for non-performing assets (NPAs). Gross NPAs jumped to 6.5% of gross advances from 5.1% in the December quarter and 4.25% in the year-ago quarter.

Shares of SBI have dropped 21.6% over the past one year, underperforming the ET Bank Index that has remained almost unchanged. The state-owned bank's valuation is currently pegged at 0.85 times price to book (P/B) value based on 12-month earnings. That compares with 4.01 for HDFC Bank and 4.09 for Kotak Mahindra Bank.

If SBI does separate its bad loans, the move won't be without precedent. A similar exercise was conducted when IDBI was converted into a commercial bank in 2004. Bad loans amounting to Rs 9,000 crore were taken off its books and put into a Stressed Asset Stabilisation Fund to help IDBI Bank start off with a clean slate.

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