

Bank of India charts out turnaround plan

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Will start with claiming amounts disbursed against standby letters of credit issued by other banks, says MD



Dinabandhu Mohapatra, MD and CEO of Bank of India PTI

Mumbai, December 27:

Bank of India has chalked out a Prompt Turn Around (PTA) plan to come out of the Reserve Bank of India imposed sanctions under the Prompt Corrective Action (PCA) framework at the earliest.

Under PTA, the public sector bank will resort to a host of measures including claiming back the entire amounts disbursed against standby letters of credit (SBLC) issued by other banks, focusing on financing low-capital consuming and low-risk quality assets and rationalising unviable branches and ATMs.

The PTA is aimed at helping it emerge as a 'better and stronger' bank.

Taking full responsibility for the imposition of PCA, Dinabandhu Mohapatra, Managing Director and CEO, in a communication to employees, said on the basis of the RBI inspection certain big accounts were downgraded leading to significant increase in non-performing assets (NPAs) and consequent provisioning as on March-end 2017.

As a result, the bank's CET (common equity tier)-I capital decreased and net NPA increased substantially. Return on Assets was negative consecutively for financial years 2016 and 2017 because of the huge losses reported during these two years.

On December 20, Bank of India (BoI) informed stock exchanges that following an on-site inspection carried out for FY2017, RBI had placed it under the PCA framework.

"This (action) is in view of high net NPA, insufficient CET1 Capital and negative ROA for two consequent years. This action will contribute to the overall improvement in risk management, asset quality, profitability, efficiency, etc of the bank," the bank had said.

As of March-end 2017, BoI had net non-performing assets (NNPA) of 6.90 per cent; common equity tier (CET) - tier I capital of 7.17 per cent; and return on average assets (RoAA) of -0.24 per cent (in FY17) and -0.94 per cent (in FY16).

Invoking SBLCs

Mohapatra, who took charge of BoI in May, observed that a major portion (around 65 per cent) of downgraded accounts pertain to loans disbursed against SBLC issued by other banks. He emphasised that these were not exposures on borrowers but exposures on other banks.

“We will claim back the entire amount from the (SBLC) issuing banks after the notice period, which will reduce the divergent amount as well as consequent provisions by around 65 per cent.

“In fact, we have already invoked SBLCs in the normal course of business and have recovered around Rs.200 crore,” he said. On CET-I, Mohapatra reasoned that when provisions get reversed to profit and loss account after receipt of the claimed amount from SBLC issuing banks, BoI’s CET-I position will automatically improve significantly.

Explaining the working of SBLC, a senior BoI official said “For example, if an Indian oil company wants funding overseas, typically what happens is that an Indian bank’s overseas branch, say BoI London, will give funding against SBLC issued by other Indian banks, which do not have branches abroad.”

SBLC is a financial commitment. Now, if the said oil company does not service the loan then BoI’s London branch can invoke SBLC and other banks have to make payment to the branch.

“If the SBLC is not invoked then only it will become NPA. But then they (BoI) will invoke it if the borrower defaults because SBLC is a ready commitment,” said the banker.

Lending: Focus on quality

While PCA will put restrictions on unsecured and risky lending, the BoI chief said normal lending activities including to retail, small and medium enterprise, agriculture and good rated corporates will continue albeit with more focus on quality.

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