

Axis Bank to focus only on better-rated borrowers as bad loans soar

The bank is one of the worst-affected in the private sector after the Reserve Banks asset quality review

Press Trust of India | Mumbai February 26, 2018 Last Updated at 02:02 IST



Private sector lender Axis Bank is looking at transferring some lumpy bad loans to stronger sponsors through NCLT resolution next year, as it follows a strategy of serving only the better-rated borrowers, a top official has said.

The bank is one of the worst-affected in the private sector after the Reserve Banks asset quality review, which led to a huge increase in bad loans over the past two years. It was also found to have under-reported impaired assets of over Rs 10,000 crore by the RBI after the elevated NPA recognition.

"Our view is that more than greenfield investment, the next 12 months could really be around extracting value from these stranded assets," managing director and chief executive Shikha Sharma told PTI in an interview here.

Referring to the nearly 40 accounts being mandated to be resolved under the provisions of the recently passed insolvency law in the National Company Law Tribunal (NCLT), Sharma said these assets can be "sweated better" once they land in the hands of stronger sponsors.

She advocated doing this is much better for the economy than chasing greenfield projects, terming this as a "capital efficient growth."

When asked if such resolutions will lead to write-back of the huge quantum of provisions done by the bank over the past two years, she said it may be a bit early to comment on and the first of the resolutions expected by mid-2018 should give a better idea on that.

Sharma hinted that the bank will, however, stay away from doubtful borrowers and serve only the better-rated corporates as part of its strategy on risk management.

"We are moving to better quality corporates even though the returns are lower because we feel we need to change the risk towards lower risk assets in the corporate book," she said, adding the bank is moving towards a better mix on the risk front.

Without stating what that mix will be, she said, "right now, until we get the balance right, we are shifting towards less risk."

She, however, said there is a cause to be optimistic on the asset quality front from the new credit cycle which will begin now as the market infrastructure is better now.

Drawing parallels from retail lending, where introduction of credit bureaus helped get a hold over asset quality, Sharma said creation of the Central Repository for Information on Large Credits (CRILC) database will be of help in the future.

"We have the equivalent of a credit bureau, we have better data that we can use in terms of underwriting," she said, adding some of the high-profile frauds happened because of lack of availability of data which ended up with multiple banks "getting blind-sided" in lending to them.

"Now, it is for each bank to figure out what are the lessons they have learned in terms of what risk they understand, they want to take or don't want to take, price the risk correctly, what should be the proportion of the risk," Sharma said, when asked about how banks' approach will be different in this cycle.

She, however, said Axis Bank will be willing to take higher risks in the lower ticket-size segment where it can manage recovery better.

The bank, which has seen a faster growth in retail loans to now account for 45 per cent of the book, does not have any targeted level on this front, she added.

Better liquidity management in the system has helped revive credit demand for banks, which has crossed the 10 per cent level, she said.

However, tightening of the liquidity has an impact on the lending rates and Sharma said we should look at some hardening of the rates in the future.

To the criticism that banks do not pass rate benefits to end-borrowers, she said the present MCLR system also is less of a "judgement" and is based on a formula based on cost of funds, which gets transmitted.

At present, around 30 per cent of the banks' book is under the older base rate regime, Sharma said, when asked about the impact of the harmonisation move by RBI.

On the overall economic situation, she said note-ban and GST had an impact on the growth but there is a reversal from the setbacks now.

The bank is not looking to enter any newer segments of business like promoting an asset reconstruction company which has been done by its peers or getting into insurance, Sharma said, stressing that it considers banking as its "core business."

There is no plan to monetise past investments by listing any of the subsidiaries either, she added.

Asked about the slew of negative headlines made by the bank since demonetisation, including officials getting caught, the bank being a probable merger candidate and the results leak over WhatsApp, Sharma declined to comment.

To a question if she feels Axis Bank was targeted, she said, "I dont occupy my mind with things that I cannot influence. I dont have that much amount of energy. I have a limited amount of energy, I should focus on things that I can do something about. Spending my time on other stuff is not productive.