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21 PSBs cloning each other not the way to do business: Rajnish Kumar, Chairman, SBI

BY [SALONI SHUKLA](#), ET BUREAU | UPDATED: JUL 04, 2018, 08.35 AM IST

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State Bank of India chairman [Rajnish Kumar](#) spoke to [Saloni Shukla](#) in an interview about corruption allegations against bankers and the banks-led resolution plan announced on Monday night. Edited excerpts:

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The SBI Conclave theme this year is Corporate Banking—Issues and Way Forward. What are the issues and how can they be fixed?

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The last three years have been unusual as we never had such high NPAs (non-performing assets) in the [corporate banking](#) segment and because of that a lot of challenges have surfaced. Addressing the stressed assets has taken up most of the time. Flow of credit to the corporates is another major issue. Apart from that the introduction of IBC (Insolvency and Bankruptcy Code) in 2016 again changed the whole process. Then came a framework for large exposures. After that came the stressed asset resolution framework RBI released on February 12.

Looking at all these developments, several issues arose around who will do corporate banking? There are 11 PCA (prompt corrective action) banks and many others are not in the best shape. Who will do infrastructure financing in the country?

Where are those institutions? Can three or four banks alone do corporate banking? What are the steps that banks internally need to make so that they don't repeat mistakes of the past?

Now if we leave these gaps, then there will be a problem because we need corporate lending, you need flow of credit if the economy has to grow. The key issue before us is who does what in what manner. We have to do what I call "safe lending" but at the same time we

have to ensure that the flow of credit to meet the requirements of industry remains uninterrupted. That is a challenge and we will deliberate upon it during the conclave.

When these decisions were taken, no one could have predicted that the story will turn for the worse. Everyone thought that project finance was a good bet. Everyone wanted to be a part of it and then things did not work out the way we thought it would.



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How do you see the proposed asset management company (as part of Project Sashakt) for bad loans taking shape?

The recommendations that have been made are based on the current scenario. The major issue is the fragmentation — in one asset there are 20-30... as high as 53 banks. How do you build consensus in such cases? There are asset reconstruction companies (ARCs) which are also fragmented.

Till such time the asset remains in multiple hands, the resolution becomes very difficult and slow. You are always unable to conclude the resolution outcome, because somebody has a different view on the matter.

The attempt is to consolidate these assets both on the seller (bank) and the buyer (ARC) side. In the whole process, ARCs are being used as an intermediary vehicle to restructure the asset because under the Sarfaesi Act, only banks and ARCs can do that. Alternative Investment Funds can't do the restructuring. That is why this arrangement has been thought about.

A good asset management company, an investment fund, whoever is willing to invest and ARC — the combination of the three on the buyers' side has to happen so that the asset gets consolidated. In 60 days' time, the asset should be out of the books of the banks at a price which is market determined and fair. There will not be any bilateral deals — this AMC and AIF is expected to become a market maker that will add to the competition in the market... but it is open to all.

Who will provide the capital?

We don't need much capital for the AMC. The investment in AIF attracts 150% risk weightage... but when one puts capital, they expect

higher return as well to take care of the investment. There are institutional investors, pension funds, distressed asset funds — so I believe there is considerable interest today in the Indian stressed asset market both from domestic as well as foreign funds. Anybody can contribute to the AIF but no government money will be involved. I can participate as well but if a smaller bank would like to keep away then they can — this is all optional. The advantage is if an asset does well, it turns around, then you will get the upside.

By when do you see this taking shape?

We are trying that in the next three-six months some assets get picked up.

Several current and retired bankers have either been arrested or implicated in wrongdoing related to loan defaults. Is this investigative overreach?

We have to look at both sides... are there are bonafide commercial decisions that were taken? If they are examined after five years once it becomes an NPA, then every decision can be questioned. Investigative agencies have a different mindset. They have to determine whether an act was bonafide or malafide, that is not an easy task. There is a problem definitely on this count and under the aegis of the Indian Banks' Association we are working on some suggestions.

The approach of all the bankers and IBA is that nobody wants to protect anyone whose decisions are not bonafide but there is definitely a need for very clearly distinguishing whether it was a bonafide mistake or it was done with a malafide intention. Not every NPA is an act of criminality. We also know that we need people of very high integrity in the financial system but mistakes will happen during decision making.

Decisions are taken in a certain context. When it is looked at in hindsight, then every decision can be questioned when it has gone wrong. There is no premium if the decision is right — we don't get any credit for that. There is no record for good decisions because your job is to take right decisions. The problem emerges when the decision turns out to be wrong. We have to see the person, his intent, his image, his integrity. Each and every person in the system has an image — due credence has to be given to that.

How do you see the consolidation of state-owned banks evolving?

More or less, there is some sort of a consensus that in today's time when we need to compete, need capital, need latest technology, which requires considerable amount of investment... So there are only two options — either you are very big or you have a niche.

Twenty-one [public sector banks](#) cloning each other is not the way to do business. Consolidation is also a way forward but if a bank can find a niche in agriculture, retail, SME (small and medium enterprise) or a particular region, it may be a good idea for them to do niche

banking.

What about strong banks like SBI — can you absorb more banks, especially when you are just coming out of a big merger exercise?

Right now, I don't think that we have even applied our mind to taking over another public sector bank. As of now, it's not on the table because last year we merged six banks — March 2018, the entire merger related work was completed. Even if we have to look at any opportunity it will not be about weak or strong bank — it should be a strategic fit for SBI. It will not be guided by the fact that because the banking sector has to consolidate so State Bank of India should pick up one or two banks. It has to be a strategic fit — there is no doubt in my mind about that.

In your letter to shareholders, you said FY19 will be a year of hope. What are the hurdles that SBI will have to cross?

Our biggest challenge has been asset quality. I believe at the end of March 2018, at least for State Bank of India, that was the peak. We expect that NPAs and provisioning requirement will be substantially lower. Last year, we made a provision of Rs 70,000 crore. I expect that to be anywhere between Rs 20,000-40,000 crore (this year). Our operating profit last year was Rs 60,000 crore. Presuming it will be the same this year, we will be definitely make profits.

Quarterly numbers may vary because of various factors. One is the mark-to-market on treasury — there may be some provisioning requirement, which we may want to do upfront.

Also, where we have made recoveries but the final order is pending, we don't intend to write back the provision until such time the order is finalised. But during the year we will be in the black, there is no doubt about it. There are other challenges, like how do we remain competitive?

We have to keep pace with evolving IT systems, there is huge competition among banks. NBFCs have taken a fairly good chunk of the credit market, so how do you remain a very responsive organisation? These are constant challenges.

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