‘GST data should be available to lenders to vet loan proposals’

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The banking sector is expected to continue its focus on retail loans due to the relatively lower risks involved and expand MSME lending on the back of availability of granular GST data in 2019. With four-five of the 11 weak public sector banks likely to be unshackled from the Reserve Bank of India’s restrictive prompt corrective action framework on the back of capital infusion from the government, these banks are expected to step up lending activities. VG Kannan, CEO, Indian Banks’ Association, says bankers have turned conservative when it comes to lending to non-banking finance companies, preferring to take direct exposure to only those entities with good quality assets and having solid promoter-backing.

In an interaction with *BusinessLine*, Kannan, who took charge of the association in January after retiring from State Bank of India as Managing Director in July 2016, observed that while large public sector banks will continue to operate as universal banks, the smaller- and medium-sized lenders are expected to focus on areas of their core strengths, such as retail, agriculture, and MSME following recapitalisation. Excerpts:

How is the credit cycle panning out?

The focus of banks in the last four years has been more on (loan) recovery and rehabilitation / restructuring and making provisions rather than on credit growth. Most of the bankers never spoke about the huge credit growth, except in the retail sector, which has been growing steadily, healthily and comfortably.

There is discomfort among many bankers when it comes to the NBFC sector (post the IL&FS imbroglio). However, good quality assets and good quality promoters are not being discriminated against. Banks continue to lend to this segment (of borrowers). Banks have started using securitisation (buying receivables) to support NBFCs. So, I think, this will ensure that normalcy is restored in the financial system. There will be a slowdown in NBFC lending for some time. It will again pick up later.

Will MSMEs' GST data help banks in loan appraisals?

For the MSME sector, especially with the advent of Goods and Service Tax (GST), we are proposing that GST-related data should be available to banks to vet loan proposals. On that basis, we will have turnover and cash flow-based financing. So, rather than depending only on a balance sheet drawn up by an auditor, we will have something (financials) more, which is vetted, first-hand, real-time information. So, I think, more and more lending to MSMEs is in the offing.

But having said that, many of the MSMEs also depend on large sectors / industries. So, if some of these sectors turn around, for example, steel has turned around, I think the MSME sector will also start doing well. I am confident that most of the banks will start focussing on the MSME sector.

How will the farm loan waivers announced by some State governments impact bank credit to the agriculture sector?

In the case of agriculture, it is not loan waiver, but loan repayment by the government (to banks). Who normally waives off a loan? Only a lender can waive off a loan. Here, the lender is not waiving off the loan. It is the government which is coming forward to repay the loan of the farmers to a limited extent. This could lead to a future scenario of someone again defaulting in expectation of further such arrangement by the government.

If the payment is not made in full, then the credit cycle may not continue. This has been the case in a few Sstates, where only one-fourth, or 40 per cent of the farm loan has been paid, resulting in bankers being unable to lend to such farmers because there are dues already against them. However, the long-term solution is to find some other means of giving some benefits to the farmers rather than going for this loan repayment process – building better markets, introducing a direct benefit transfer (DBT) kind of solution whereby farmers' accounts are credited directly on the basis of their landholdings, and creating quality storage facilities to increase their holding power. Today, middlemen are the ones who are getting the benefit and farmers are actually selling their produce at throwaway prices. So, farmers are unable to pay loans.

Are banks satisfied with the IBC route for resolving stressed assets?

We were quiet hopeful that the Insolvency and Bankruptcy Code (IBC) would work out quickly. I am still hopeful of the IBC, but the process has been unduly delayed. We thought the larger cases would get resolved by June.

What is your take on the latest recapitalisation announcement by the government for public sector banks?

The recapitalisation by the government is a welcome feature in the sense that banks will get additional capital, and they will also be in a position to start lending. But I am sure that the government would also have given clear indications regarding the earlier directive saying that banks should organise themselves in such a way that some will do all kinds of businesses while others will be selective. I am sure many of the banks will start following it.

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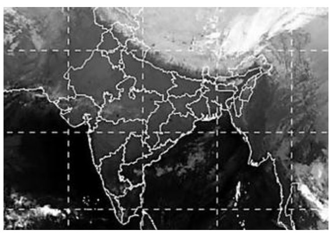

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