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Market Watch

SBI has a plan ready to cash in on India's shadow bank crisis

BY BLOOMBERG | UPDATED: MAY 30, 2019, 04:56 PM IST

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By **Suvashree Ghosh**

India's largest lender is hoping to capitalize on the country's shadow banking crisis by building its mortgage and small business loan book as the non-banks are forced to pull back.

State [Bank of India](#), which is slowly emerging from a period of massive provisioning on loans to large corporates like Essar Steel India Ltd., sees opportunities in taking business from the shadow banks without creating new asset quality problems, according to Chairman [Rajnish Kumar](#).

"We are not shying away from any business but that does not in any manner mean that we are going to dilute our underwriting standard," Kumar said in an interview. "And I believe there is sufficient business that meets our underwriting standards."

India's shadow lenders have been under pressure since last year, when a series of defaults by Infrastructure Leasing & Financial Services forced the government to intervene and exposed weaknesses in the sector. The crisis has forced non-banking financial companies to sell assets and restrict new loans, giving state-owned lenders an opportunity to claw back market share they have lost over the past decade.

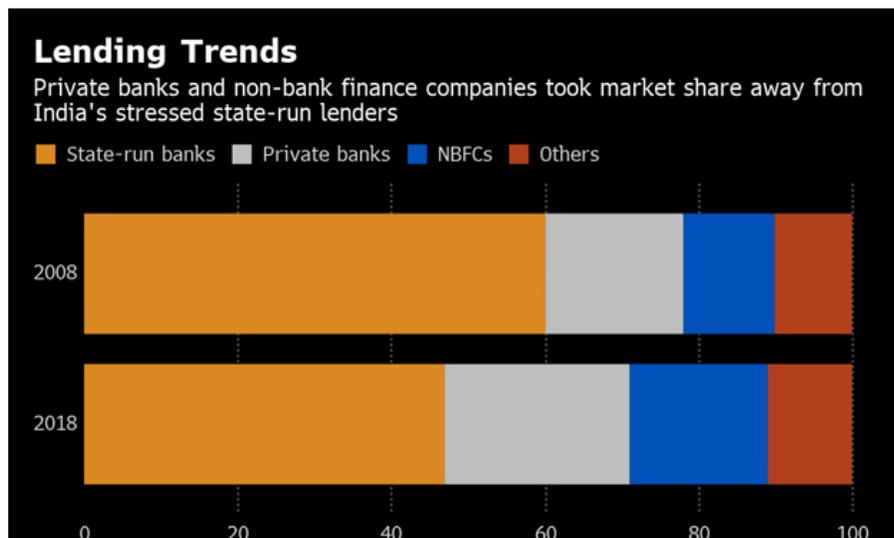
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Kumar said SBI's strong capital gives it the leeway to seek more mortgages and small business loans, which had been a focus for the NBFCs before the crisis erupted. That should help the bank attain its target of 11% loan growth for the year to March 2020, Kumar said, slightly lower than the 12% growth of the previous fiscal year.

Privately-owned banks are also showing greater caution, providing another opportunity for SBI, Kumar said. "In a situation where many private sector banks have become very, very cautious, it has opened up lot of headroom available for corporate credit growth for the bank," he said.

Home loans and other consumer lending accounted for Rs 6,48,000 crore (\$93 billion), or 32.5%, of SBI's total domestic lending as of March 31. Advances to companies in India accounted for another 43% of the book, while SME lending was 14.5%.

Government Measures

Despite seeing opportunities in the problems faced by shadow lenders, Kumar said the government needs to take steps -- such as providing partial credit guarantees to the NBFCs -- to prevent wider damage to the economy. The loans provided by India's shadow banks can't fully be substituted by the regular banks, he said.

SBI had outstanding loans to NBFCs of Rs 1,87,000 crore at the end of March, the majority of which were backed or owned by the central and state governments or by large private sector institutions.

"We recognize that NBFCs were a good conduit for credit growth, and incremental lending has slowed down," Kumar said. The banks are unlikely to resume lending to weak NBFCs unless the government provides backstop measures such as partial guarantees, he said.

If SBI or other banks are required to provide such loans "then probably lenders will be looking for some comfort from the government," Kumar said.

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