

Govt must provide capital to banks on upfront basis: United Bank CEO

Shobha Roy Kolkata | Updated on June 14, 2019 Published on June 14, 2019



Says the NBFC crisis may snowball into a ‘serious problem’ if not handled properly

Banks have to be cautious while lending to non-banking financial companies (NBFCs), as there are still concerns regarding resolution of the ongoing crisis in the sector.

“After the IL&FS crisis, it was expected that action would be taken and the shadow banking space would recover. But more companies have faced rating downgrades and other issues in recent times. This is creating serious concerns,” Ashok Kumar Pradhan, MD and CEO, United Bank of India, told *BusinessLine*.

Outstanding exposure

United Bank of India has a total outstanding exposure of ₹9,000 crore to the NBFC sector. Of this, its exposure to IL&FS is close to ₹900 crore, and it has fully provided for the same. Unless the issues in the sector are properly

addressed, either by way of regulatory action or via intervention by the government, it may snowball into a “serious problem”, he said.

While on the one hand the crisis is a cause of concern, on the other, it also presents an opportunity for the banking sector to step up lending.

“It was public sector banks which allowed NBFCs to take up this space, as they were unable to reach out to some sections of people who needed finance. It is now time that we take up at least a part of the space which has been created due to some of the NBFCs exiting or slowing down,” he said.

United Bank will look to step up lending to the housing finance sector, which is asset-backed.

Public sector banks will be able to step up lending and fill in the vacuum created by the exit of some NBFCs only if there is adequate capital support.

Pradhan felt that the new government should provide adequate capital to banks on upfront basis. “It (capital) should not come in bits and pieces but in one go, so that banks know what their resources would be like and plan their lending operations accordingly,” he said. The government should take a look at the stalled projects and ensure that work commences soon. This would not only generate adequate funding requirement leading to credit growth, but will also create employment opportunities.

“Stalled projects are a cause of concern for banks. Some of these stalled projects in sectors such as road and power, among others, should be brought out of cold storage as huge amounts of money is locked up in these projects,” he pointed out.

The new government should also focus on ensuring timely resolution under the Insolvency and Bankruptcy Code (IBC). This would help free up a large amount of funds currently locked up in such stressed assets, which, in turn, will bring down the capital requirement of banks from the government.

Delays in resolution of cases under the National Company Law Tribunal (NCLT) is causing serious concerns for banks.

“IBC was considered to be an epoch-making legislation. But the way resolution is getting delayed is causing serious concerns. Of the 12 cases referred by the RBI in the first list involving close to ₹2-lakh crore, only three have been resolved so far. The Finance Minister should pay attention to this,” he said.

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