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We can't be too liberal; in these times it can't be business as usual: Rajnish Kumar, SBI chairman

BY SALONI SHUKLA & MC GOVARDHANA RANGAN, ET BUREAU | AUG 05, 2019, 08.10 AM IST

State Bank of India chairman Rajnish Kumar spoke to Saloni Shukla and MC Govardhana Rangan. Edited excerpts:

You are meeting the finance minister on Monday. What issues will you take up?
I expect we will discuss how we should improve the flow of credit to various sectors of the economy. There are issues around service tax, around the bankruptcy code process.

What is your assessment of the slowdown in the economy?
There is an obvious slowdown in demand – it's visible in every sector. The auto sector has been affected and there is an urgent need to fix this fall in demand. The first half is always slow but this year particularly consumption credit, which was driving the credit growth of all banks, has taken a hit. But we have done reasonably well in housing loan and loans against salary.

I was studying the project finance pipeline for State Bank of India. There are a number of proposals from the oil and gas sector, especially city gas, fairly good proposals for renewable and roads sectors.

What is the project finance pipeline?
The total projects are exceeding Rs 2 lakh crore. Assuming that around 50-70% of that will be funded, SBI will have a 20-25% share out of this. But these are all long-gestation projects. If you start a city gas project today, it won't draw the money today, it will be a three-four-year disbursement. For any project finance, there will a funding time lag of six months to a year. For example, financial closure for HPCL's Rajasthan refinery... it's a Rs 26,000 crore bank lending project but as of now there is no drawdown.

In your latest earnings, almost 100% of your corporate growth has come from government companies. Where is the private sector growth?
The major spending thrust will come from the government. Once that starts reflecting on the ground, I am hoping that private sector investments will follow. Even in the past few years, infrastructure and consumption credit have led credit growth… manufacturing sector demand has been absent.

I believe the government may now be in a position to step up funding for the infrastructure sector. As well as the tax sops and other measures taken to promote affordable housing, that should help the construction sector. I am hoping that, as the festive season starts, there should be a pick-up in demand in the auto sector.

In any conversation, the fear of investigative agencies is talked about the most. Are you experiencing any fear?
If there is a mala fide… I don't think that investigative agencies and banks are not on the same side but there is some sort of a disconnect. This is where I think there should be a more cooperative approach between the lenders and investigative agencies to understand each other – that is the need of the hour. We all support the objective to weed out corruption and irregularities. But when it comes to procedures or commercial decisions going wrong, then there has to be an understanding (about) the category under which such a case is treated. I have heard in the news that in one case 250 bank officers have been named… that causes problems. I don't see a situation that 250 bank officers from different lending institutions colluded together to help one person divert funds. How is that possible? Are we taking this to the other extreme?

HDFC chairman Deepak Parekh said that there is a risk aversion on the part of banks that is clogging the system. What is your take
We can't be too liberal. In these times it can't be business as usual, we have seen the consequences. In each sector, we have reviewed

our policies and if clients conform to those policies, bank credit will be available to them. Obviously, there will be a tightening around the monitoring of funds, which has become a big issue. We have come across a lot of problems because of diversion of funds and as per RBI also it is treated as fraud. More than sanction, it is the post-sanction monitoring which has been a cause of big problems. How do you keep a strict oversight on funds we provide to clients? We are looking to fix that. This cannot be called risk aversion.

Today, if we look at any funding proposal, we ask promoters, where is the equity? If banks are making an attempt to enforce discipline, it gets equated with risk aversion. I still believe that we can't go to another extreme and stop the liquidity tap. But everyone wants to be very careful looking at the current economic circumstances.

You have tightened credit to auto dealers – isn't that risk aversion?
We had a meeting with the auto dealers' association and tried to understand the issues faced by them. We have no problem in funding the inventory but it should be self-liquidating – you sell and you pay back. If there is an inventory build-up, we are alright with increasing the credit period from 60 days to 75 days. And if that is not sufficient, we will increase it to 90 days. If there is a short-term slowdown, we will help but there should be a mechanism where this money is rolling.

Since Infrastructure Leasing & Financial Services (IL&FS) collapsed in September last year, the non-banking finance companies' (NBFC) liquidity crisis has persisted. The government took a few measures but it doesn't seem to have solved the problem. Now we are seeing issues with a few other NBFCs ...
NBFCs play a very critical role in last-mile funding and connectivity. It's important that the flow of credit to NBFCs and in turn from NBFCs to the sectors they were funding should continue. If the flow stops, it will be a problem.

All banks have to be balanced in their approach when we deal with NBFCs. Most of them have good capabilities when it comes to risk appraisal and the ones particularly dealing with retail customers need to be supported by the banks.

I don't think liquidity is an issue for NBFCs. There are some who are facing entity-level issues that need to be resolved quickly, so that confidence in the sector comes back.

Banks gave loans to NBFCs when the going was good. Since banks have now tightened credit to the sector, they say you were fair-weather friends...
It is not a new phenomenon. We have always heard that banks are fairweather friends and give you an umbrella only when it's not raining. The question to be asked, is this a problem with such NBFCs where banks are not convinced about their lending practices or it is a tightening of flow of funds to those NBFCs where there are no issues... that distinction has to be made. If the lending practices are in order, there is a sound governance structure, there are strict underwriting standards... we have no issues lending to such NBFCs. But we can't ignore and keep on lending – that is not going to happen.

Three big names— Dewan Housing Finance Corp Ltd (DHFL), Anil Ambani-led Reliance Group and Essel Group – have added to bank's woes. Where does this stop? Big chunky accounts continue to slip...
We are trying to resolve these accounts... resolution is likely to happen but it is a complex process. The bank needs to move towards a tolerance limit for NPA (non-performing asset) slippages in a single year and our aim is to achieve that target quickly. Internally, we have done a lot with tighter underwriting, early warning signals, but if the macroeconomy does not help, then we will continue to have issues with slippages.

One is the borrower's intent to pay, another is his capability to pay, which is determined by profitability and positive cash flows. We are being very careful with the borrowers who don't seem to have any intent to pay.

It is clearly visible that corporate earnings are under pressure, so the risk in respect of the loans go up. For anyone to invest, one has to get the desired IRR (internal rate of return).

Tighter underwriting standards by banks have led to a narrative that this is killing entrepreneurship. What is your view?
It is not killing entrepreneurship – there are different business models. It's not that we have not given loans, credit has grown 12% YoY. Banks cannot lend to the startup ecosystem, conventional lending doesn't fit there. I completely agree that a business failure should be treated as a business failure. And the whole concept of limited liability is where the enterprise should be segregated from the individual. But at the same time, under the relevant clause, there are certain behaviours which are expected from the promoters. If those covenants, corporate governance practices are not followed by the promoters and we say that he shouldn't be held accountable... this doesn't work.

Are promoters showing the intent to follow these norms?
There isn’t much choice… everybody has to bring about that mindset change. We were accustomed to doing business in a certain way, that is undergoing a change.

Your thoughts on the VG Siddhartha case...
I didn’t know him personally but it is very unfortunate. I don’t know under what circumstances such an extreme step was taken. At this stage, when there is absence of facts, we shouldn’t jump to any conclusion. I feel sorry that an entrepreneur who was so successful took such a step – this has shocked the system.

The Insolvency and Bankruptcy Code (IBC) process hasn’t given the expected results. You yourself mentioned invoking the gods to free up the money stuck in the recovery process. What can be done to fix this?
IBC is a new process… for any country it takes a few years to normalise. The speed with which the amendments have been carried out is commendable. If in all matters, everyone moves with this speed, we will be a different country. It applies to all of us, including bankers.

The intent was different. When all these tribunals were formed, the intent was that the process will be different from the high courts because these are commercial cases. But unfortunately, what has happened is the treatment has been the same, so the purpose for which separate tribunals were set up is being defeated. I would say that this is a learning process and the intent that every stakeholder has to work fast so that the value of the enterprise of protected will be upheld. We have witnessed that once a case goes to the IBC process, lenders lose control. If a patient is in ICU and you don’t administer medicine in time, he will die.

If there is any consolidation, does SBI have the appetite to absorb another bank?
It’s not about appetite… I have always said that we are fairly big. SBI becoming bigger will not help the system, others need to become bigger. In that sense, consolidation will help because there is a huge gap between SBI and other banks. That gap needs to be narrowed down.

With RBI’s steps on strengthening PSU bank boards, now there is a framework which was missing earlier. When we talk about corporate governance, the starting point is composition of the board... What sort of people are there on the board and its committees... If the quality of the board and management improves, you can improve governance. The current government has been very careful in appointing people on the board.