

## SBI to shift to cash flow-based lending by April 2020

By: Shritama Bose

Mumbai | Published: December 18, 2019 6:14:10 AM

State Bank of India (SBI) will switch to a cash flow-based lending model beginning April 2020 from a mechanism where loans are given against assets, chairman Rajnish Kumar told FE.



X

“We have the framework ready and technical developments are underway because it needs certain changes. Once those are done, we will start, maybe by April,” SBI chairman said.

State Bank of India (SBI) will switch to a cash flow-based lending model beginning April 2020 from a mechanism where loans are given against assets, chairman Rajnish Kumar told FE.

“We have the framework ready and technical developments are underway because it needs certain changes. Once those are done, we will start, maybe by April,” Kumar said.

The new framework for loan sanctions will apply to large companies as well as small enterprises.

Banks in India have traditionally lent to companies against their assets.

Cash flow-based lending is widely considered to be a more efficient and safe way of mitigating risk as it reduces discretion on the part of the lender.

A few private banks adopted this framework after they burnt their hands in the first wave of non-performing assets (NPAs) that emerged in 2011-12.

Bankers explain that on paper all lending is supposed to be cash flow-based, given that banks receive quarterly reports from borrowers on their stock and receivables.

The drawing power (DP) of an enterprise borrower, or their ability to access working capital, is assessed on the basis of these numbers by bankers. However, most branch executives at public-sector banks (PSBs) lack the tools and the bandwidth to read and assess these reports on a regular basis. “Besides, the numbers anyway come on a quarterly basis and not in real time. So when there is a mismatch against projected flows, there is no way of detecting it. For real-time monitoring, you need a tech framework,” an executive with a large PSB said.

The lack of widespread use of cash flow-based lending has helped the cause of fraudsters, bankers said. There have been instances where the borrower moved loan money to the account of a group company in a violation of end use-related terms in the loan contract. The names of these group companies showed up as the source of receivables in the cash flow reports, but often went undetected by banks. Later, when such misconduct was detected by the bank, the borrower claimed to be in the clear by pointing to the stock and receivables reports submitted to the bank.

In June this year, the report of the [RBI's](#) expert committee on micro, small and medium enterprises (MSME) recommended that banks should opt for cash flow-based lending. "Operationalisation of GSTN (GST Network) has made available turnover related data. Further, when Account Aggregators (AA) get operationalised, lenders will have access to borrowers' transactions at a single point. These new architectures would facilitate cash flow-based lending. It is, therefore, recommended that banks need to move towards cash flow-based lending.

MSMEs have also made presentations to the government explaining how credit flow to them had been cut off and asked that a cash flow-based lending framework be made mandatory for banks.

Get live [Stock Prices](#) from BSE and NSE and latest NAV, portfolio of [Mutual Funds](#), calculate your tax by [Income Tax Calculator](#), know market's [Top Gainers](#), [Top Losers](#) & [Best Equity Funds](#). Like us on [Facebook](#) and follow us on [Twitter](#).

HOMEINDUSTRYBANKING FINANCESBI To Shift To Cash Flow-Based Lending By April 2020

---

## Sobha Launches 2, 3 & 4 Bed Luxury Apartments, In Sholinganallur

---