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The great bank robbery

THE FREE PRESS JOURNAL

Nantoo Banerjee, 5th Dec. 2013

Thanks to judicial protection received by those large corporate loan defaulters, stakeholders don't even learn the names of the concerned corporate promoters and their guarantors

Bank robbery always makes big news. But, not when it is craftily conducted by clever corporates. **Corporate robbery of banks even carries a fashionable nametag,'non-performing asset'**. It refers to loans that have gone sour and are not recoverable. Banks simply write them off. Unlike other categories of bank robbers who, if caught, face prosecution under a host of sections and sub-sections of the Indian Penal Code, big-time corporate bank robbers mostly go scot-free, although several of them are even known to be habitual loan defaulters.

Banks, mostly in the public sector, have restructured or written off loans worth over Rs. 3 lakh crore to favour large loan defaulters in less than the last two years of the UPA regime. The scale and depth of the recent loan write-offs and debt restructuring by banks have embarrassed even the union finance minister, the Reserve Bank and Parliamentary standing committee on finance. Thanks to judicial protection received by those large corporate loan defaulters, stakeholders don't even get to know the names of the concerned corporate promoters and their guarantors.

The rise of PSU bank NPAs, led by the State Bank of India, has been phenomenal since the last financial year, assuming almost scandalous proportions, seemingly vying with such mega scams as 2G and 'Coalgate' in terms of amounts involved and the number of high-profile business houses blowing up bank funds. According to Crisil, a top rating agency, banks' gross NPAs this fiscal may grow by Rs.1 trillion to Rs. 4 trillion in March 2014. The amount is really big if compared with RBI's estimate of gross bank NPAs since 2001 at Rs. 6 trillion. Data collected by RBI over the last one year blew the lid off what goes as banks' loan classification.

The gross bank NPAs was 3.3 per cent in March, this year. It rose to 3.7 per cent by the end of June. Crisil predicted it could grow to 4.4 per cent by March 2014, turning almost Rs. 1 trillion worth bank credit as NPAs within such a short span. Gross NPAs of PSU banks have risen from Rs. 71,080 crore as of March, 2011, to Rs. 1.55 lakh crore by the end of December 2012. Bulk of the NPAs was on account of only some 30 top loan defaulters, stated by the Union Finance Minister P Chidambaram himself. Admittedly, a key reason behind the sudden spurt in bank NPAs is the economic slowdown. But, it would be naïve to believe that banks and large corporate borrowers did not notice the early warning.

Yet, what is the government doing about it? Who are those 30 top loan defaulters? What are their business profiles? How could they access such large sums of large bank funds, despite the risk factors linked with their businesses in view of the current economic slowdown and their past loan repayment records? And, who were their guarantors? These are some of the questions long bugging stakeholders, including depositors and ordinary shareholders. They would like to have some convincing answers from those big NPA-hit banks or the government. Government banks are bleeding. Taxpayer money is being doled out to recapitalise these public sector banks. The depositors and general public are in the dark. Even the Parliamentary standing committee on finance had expressed concern over the phenomenal rise in PSU banks' NPAs in less than 18 months.

Notably, the impression one gets from recent statements-to-strictures by Finance Minister P Chidambaram, the financial services sector secretary, Rajiv Takru, and the RBI deputy governor K C Chakrabarty on the alarming rise of PSU banks' NPAs caused mainly by some three dozen large loan defaulters is that they are helpless about the way the public funds are openly stolen or taken away by some smart corporate cookies. Takru wants banks to 'act tough with willful defaulters.' Why are those banks not paying heed to the top finance ministry bureaucrat? Could it be because of some high-level political interference? Who are they? It is a common knowledge that several of the top loan defaulters are builders and real estate developers, all boasting top political connections in Delhi.

The RBI deputy governor Chakrabarty's frustration over the massive increase in bank NPAs is even more telling. At a recent bankers' meet, he spoke about how banks sacrificed over Rs. 1,00,000 crore by writing off 'bad loans' to corporates which, he said, was much higher than Finance Minister Chidambaram's farm loan waiver in 2008 before the Lok Sabha polls that invited strong criticism by big industries and their apex bodies. What is preventing Chakrabarty, himself a former chairman of Punjab National Bank, from wielding his stick against the truant PSU bank management as a deputy governor of the country's central bank? Why aren't the government and RBI naming the defaulters and attaching all their assets along with their credit guarantors'?

Bad loans are being recast like never before to save large corporate defaulters and bank themselves from public criticism in the name of corporate debt restructuring (CDR), mostly with retrospective effect, ignoring its impracticability and risk factors in many cases. CDR is often misused to temporarily window-dress balance sheets by both banks and loan defaulters.

According to a Ficci report, banks have cumulatively recast loans to the tune of Rs 2.5 trillion under the CDR exercise, mostly during the last few months. **Last year, banks had restructured loans worth Rs. 75,000 crore**, almost double the 2011-12 figure. Bankers privately fear that a good chunk could turn unproductive.
The CDR provides relief to companies which are unable to repay existing loans by extending the payback period, reducing or partly waiving the interest rate, giving a repayment holiday and the option to convert a part of loan into equity. During last April-June alone, PSU banks had restructured loans of some one dozen companies for a total amount of Rs. 20,000 crore.

How many of the PSU banks do proper diligence before sanctioning credit and how fewer of them approve CDR on merit? By the RBI deputy governor's own admission, a majority of the write-offs involve big accounts, underscoring the need to hold senior management, which clears the big loan proposals, accountable for its decisions. "Wrong appraisal is leading to diversions, leading to over- leverage, leading to fraud, leading to NPAs…they are all inter-related," he said.
Large bank NPAs in the last two years, the huge loan write-offs and the sudden spate of CDRs before the Lok Sabha election are far worse than occasional bank robbery. **They rob depositors and shareholders of better returns and the government of tax revenue to shield large corporates who have been traditionally running away with bank funds, turning companies sick and throwing workers out of jobs, all seemingly with the consent and connivance of bank management.**

AIBEA TO NAME TOP 50 LOAN DEFAULTERS

December, 4, 2013 domain-b.com we mean business

The **All India Bank Employees Association (AIBEA)** will, on Wednesday, make public the names of the top fifty defaulting borrowers who **cumulatively owe about Rs 40,000 crore to the banking system.**

Bank employees are observing an all-India protest day on Wednesday, 5 December, against increasing bad loans of banks, AIBEA general secretary C H Venkatachalam said. Bad loans of banks have increased alarmingly over the last few years, he pointed out.

Gross NPAs of public sector banks have increased from Rs39,000 crore at the end of March 2008 to Rs1,64,000 crore as of end-March 2013, while the total amount of bad loans restructured and shown as good loans rose to Rs 3,25,000 crore

With Rs 2,673 cr dues, Kingfisher is top defaulter: Bank staff union

AIBEA lists out top 50 bad loan accounts

KOCHI, DEC. 4: BUSINESS LINE, OUR BUREAU

Kingfisher Airlines tops a list of 50 top loan defaulters drawn up by public sector banks. The list, released by the All-India Bank Employees Association, says Vijay Mallya's nowdefunct airline owed Rs 2,673 crore to public sector banks. The list was released by the trade union ahead of its December 5 'All-India Demands Day' against what it calls the corporate loot of public money and to press for stringent measures to recover bad loans from corporate borrowers.

According to the union, Winsome Diamond and Jewellery Company, with dues of Rs 2,660 crore, is the second highest defaulter, followed by Electrotherm India Ltd at Rs 2,211 crore.

Some of the other big-ticket defaulters are: Zoom Developers (Rs 1,810 crore), Sterling BioTech (Rs 1,732 crore), S. Kumars Nationwide (Rs 1,692 crore), Surya Vinayak Industries (Rs 1,446 crore), Corporate Ispat Alloys (Rs 1,360 crore), Forever Precious Jewellery and Diamonds (Rs 1,254 crore), and Sterling Oil Resources (Rs 1,197 crore).

The union, in a statement, pointed out that bad loans in public sector banks had crossed Rs 1,64,000 crore. "In the name of reforms and liberalisation, banking regulations are being de-regulated; one of the adverse effects of this is the increase in bad loans in the banks where big borrowers take loans (which) they do not repay," the union said.

'Kick out bad loans before they kill the banks' is the slogan the union will highlight during the December 5 demands-day observance.

Bad loans: AIBEA to release top 50 defaulters' list

THE HINDU Business Line

K. R. SRIVATS, NEW DELHI, DEC 4:

The names of the top fifty defaulters (in value terms) to the banking system will be revealed on Wednesday.

The **All India Bank Employees Association** will make public the names of these defaulting borrowers, its General Secretary, C.H. Venkatachalam, told *Business Line*.

These defaulters cumulatively owe about Rs 40,000 crore to the banking system.

Bank employees are observing All India day on December 5 as a mark of protest against increasing bad loans in banks.

Bad loans have alarmingly increased over the years.

Gross NPAs and bad loans in public sector banks have increased from Rs 39,000 crore as at end March 2008 to Rs 1,64,000 crore in end March 2013.

According to the RBI, banks have added Rs 4,94,836 crore to their bad loans between 2007 and 2013.

AIBEA has alleged that there is a nexus between borrowers, banks and political administration.

Fix responsibility on top brass for bad loans, says union

BUSINESS LINE, OUR BUREAU MUMBAI, DEC. 4:

In view of the rising bad loans in state-owned banks, the **All-India Bank Employees Association** said the Government should set up a special investigation team to probe the decisions of their credit appraisal committees in cases where borrowers have turned wilful defaulters.

Further, the Association also wants responsibility fixed on banks' top brass for the loans that have turned bad, allow banks to share information on non-performing assets and wilful defaulters under the Right to Information Act, and declare wilful loan default as a criminal offence.

Public money at stake

Vishwas Utagi, General Secretary, Maharashtra State Bank Employees Federation, an affiliate of AIBEA, said public money is at stake when banks enter into one-time compromise settlements with loan defaulters, or write off bad loans or allow corporate borrowers to restructure debt.

Pointing out that the credit appraisal committees of public sector banks had powers to sanction single loans up to Rs 400 crore in the case of large banks and up to Rs 250 crore in the case of small banks, he alleged that promoters of large defaulting companies diverted bank loans into real estate and floated cricket outfits for competing in domestic league matches.

The Association will observe an 'All-India Day' on December 5 to create public awareness, among others, about the necessity to publish the list of bank loan defaulters of Rs 1 crore and above; make wilful default of bank loans a criminal offence; probe nexus and collusion in the grant of loans; and the need for stringent measures to recover bad loans.

"When income tax defaulters' list can be published, then the list of wilful defaulters of bank loans can also be made public. Why should banking secrecy laws apply to these defaulters when banks have given loans to them from public money (deposits)?" said Utagi at a press meet.

Bad loans in public sector banks rose four-fold from Rs 39,000 crore as in March 2008 to Rs 1,64,000 crore as in March 2013.

Protest against growing NPAs by bank staff

By Vaibhav Aggarwal, RUPEE TIMES, 4-12-2013

On December 5, 2013, the All India Day will be observed as per the plans of The All India Bank Employees Association (AIBEA) in regards to finding a solution regarding the hike in bad loans, especially in the Public Sector Banks (PSBs), the bad loans have increased drastically due to corporate and big borrowers.

In March 2008, the bad loans were at Rs.39, 000 crore, however as of March 2013, it has increased to Rs.1, 64,000 crore. Furthermore the bad loans have been rebuilt and indicated as exceptional credits and they produced for Rs.3, 25,000 crore. Of the rebuilt advances, Rs.2, 70,000 crore was in favour of corporate borrowers.

The procurements made for bad loans from the benefits earned by the banks has been developing and it has developed to Rs.43,102 crore in 2012-13, from Rs.11,121 crore in 2008-09 representing Rs.1,40,266 crore as provisioning throughout the five years.

Bank lending to small, tiny units must be stepped up, says K.C. Chakrabarty

MUMBAI, DEC. 4: BL, OUR BUREAU


K.C. Chakrabarty

'Wrong notion' that credit risk in lending to this sector is high

Banks need to urgently step up lending to micro, small and medium enterprises (MSMEs) to bridge the wide gap between credit demand and supply in the sector, which is crucial for the economy, according to K. C. Chakrabarty, Deputy Governor, Reserve Bank of India.

In 2012-13, the RBI estimated the incremental credit demand from and supply to the MSME sector at Rs 2,33,190 crore and Rs 1,64,466 crore, respectively, translating into a demand-supply gap of Rs 68,724 crore.

Chakrabarty observed that in the absence of alternative sources of funding for the sector, the role of banks is crucial in bridging this funding gap.

In this context, it is important for banks to look beyond their existing customer base and the large corporates and to reach out to the vast number of MSMEs, which are deprived of bank credit.

The Deputy Governor underscored that one of the major challenges faced by MSMEs, particularly micro and small enterprises (MSEs), is access to timely and adequate credit from the banking sector.

"The lenders are reluctant to service the MSEs for a number of reasons, the foremost of which emanates from a general perception amongst banks that the credit risk in lending to small and medium borrowers is very high.

"This, in itself, is a wrong notion that I have been trying to dispel…," he said at a workshop on credit scoring model.

The Deputy Governor observed that while the headline numbers of non-performing assets (gross and net NPAs) are higher in this (MSE) segment, if one reckons the extent of restructuring and write-offs that are resorted to in the medium and large borrower segments, the credit risk would appear to be much lower in the MSE sector.

Impaired assets

As at March-end 2013, the impaired assets ratio (IAR) of MSEs was relatively lower at 10.6 per cent, against 14.8 per cent for medium and large enterprises.

IAR is calculated as the sum of GNPAs, restructured standard advances and cumulative write-off to total advances and cumulative write-offs.

The IAR data clearly highlights that in the recent scenario of rising impairment of assets in the banking sector, it is MSEs that have demonstrated better credit discipline resulting in lower impairment.

Chakrabarty said a major constraint in banks' lending stems from the fact that the existing system of credit appraisal and related processes are not geared to appraise the financial requirements of the MSE sector.

For evaluating loan proposals and to facilitate SME financing, banks will need to employ low-cost and quick decision-making alternatives.

The use of credit scoring models can go a long way in facilitating lending decisions by reducing costs and increasing service levels, which can deliver great benefits for both lenders and MSE borrowers.

Systemically important banks should maintain higher tier 1 capital, RBI proposes

OUR BUREAU BL. MUMBAI, DEC. 2:

Domestic-Systemically Important Banks (D-SIBs) will have to maintain additional common equity Tier 1 capital ranging from 0.20 per cent to 0.80 per cent of their risk-weighted assets, according to draft framework for dealing with such banks.

Common equity tier (CET) 1 capital includes common shares; share premium resulting from the issue of instruments, including CET 1; and retained earnings.

Risk-weighted assets means a bank's assets or off-balance-sheet exposures are weighted according to risk The higher loss absorbency, met through CET 1 capital, is required as D-SIBs assume systemic importance due to their size, cross-jurisdictional activities, complexity, lack of substitutability and interconnectedness.

The disorderly failure of these banks has the propensity to cause significant disruption to the essential services provided by the banking system and, in turn, to the overall economic activity.

These banks are considered D-SIBs as their continued functioning is critical for the uninterrupted availability of essential banking services to the real economy.

The process of assessment of SIBs will be a two-step process. First, the sample of banks to be assessed for their systemic importance will be decided.

SELECTION OF BANKS

The banks having a size of beyond 2 per cent of GDP will be selected in the sample of banks. A few large foreign banks would also be included in the sample of banks to compute the systemic importance.

Once the sample of banks is selected, detailed study to compute their systemic importance could be initiated.

Based on a range of indicators, a composite score of systemic importance for each bank in the sample will be computed. The banks having systemic importance above a threshold will be designated as D-SIBs.

These would then be segregated into different buckets based on their systemic importance scores, and subject to loss absorbency capital surcharge in a graded manner depending on the buckets in which they are placed.

A D-SIB in lower bucket will attract lower capital charge and a D-SIB in higher bucket will attract higher capital charge.

AIBEA's DEMAND DAY : 5TH DECEMBER, 2013

- **Publish the list of Bank Loan Defaulters of Rs. 1 crore and above**
- **Make Willful default of bank loan a criminal offence**
- **Order investigation to probe nexus and collusion**
- **Amend Recovery Laws to speed up recovery of bad loans**
- **Take stringent measures to recover bad loans**
- **Do not incentivise corporate delinquency**

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