

PSBs MAY NEED MORE CAPITAL: S S MUNDRA



Reserve Bank of India (RBI) Deputy Governor S S Mundra said on Friday that public sector banks might need more capital beyond the budgeted total allocation of ₹70,000 crore in the four financial years through March 2019. Mundra added there was no specific timeline set by the RBI to identify additional loan defaulters on which bankers would need to start bankruptcy proceedings. ▶

PSBs need more than budgeted capital infusion: Mundra

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Reserve Bank of India (RBI) Deputy Governor S S Mundra on Friday said, public sector banks might require more than the budgeted ₹10,000-crore capital infusion from the government in the current financial year on account of higher provisioning for bad loans and haircut on stressed assets.

"I think the finance minister has always been mentioning that if there is a need we will find resources," he said on the sidelines of an event organised by Assocham.

The process of non-performing assets (NPA) resolution and capitalisation are closely associated, Mundra said, adding, it appears banks may need additional capitalisation after the exercise.

Asked about the quantum of haircut to be taken by the banks for resolution of stressed assets, Mundra said, "There is no question of maximum or minimum haircut. Haircuts have to be taken depending on the need and requirement (for resolution)." Various solutions may emerge as part of insolvency process, he said.

It could be merger, restructuring and haircut, or provisioning may be required depending on the structure which is finally adopted under the Insolvency and Bankruptcy Code (IBC), he said.

Mundra also said the balance sheet cleaning exercise could lead to increase in provision. "Quite possible. To believe that all this (cleaning) can happen without additional provisioning would be too optimistic. I would strongly say we



RBI Deputy Governor S S Mundra (right) with former president of Assocham Rajkumar Dhoot at an Assocham Bankers-Borrowers Business meeting in New Delhi on Friday

PHOTO: PTI

should be realistic rather than pessimistic or optimistic," he said.

Earlier this week, the RBI identified 12 stressed accounts each having more than ₹5,000 crore of outstanding loans and accounting for 25 per cent of total NPAs for immediate referral for resolution under the bankruptcy law. When asked about the names of the 12 accounts, he said, Internal Advisory Committee (IAC), comprising a majority of its independent board members, will come out with the list at an appropriate time.

The banking sector is saddled with non-performing assets (NPAs) of over ₹8 lakh crore, of which ₹6 lakh crore is with public sector banks (PSBs). On consolidation, Mundra said, it is purely a commercial decision and once the decision is taken it will reach the regulator for approval.

"I think these are business decisions which are to be taken by the respective bank managements,

owners. At right point of time where it needs review by the regulator, it will come. The RBI comes into the picture much later," he said.

It is to be noted that Finance Minister Arun Jaitley had announced capital infusion of ₹10,000 crore for the current financial year in line with the Indradhanush scheme.

According to the scheme, public sector banks need to raise ₹1.10 lakh crore from markets, including follow-on public offer, to meet Basel III requirements, which kick in from March 2019.

This will be over the ₹70,000 crore that banks will get as capital support from the government. Of this, the government has already infused ₹50,000 crore in the past two financial years and the remaining will be pumped in by the end of 2018-19. Additional allocation will be provided as may be required, Jaitley had said.

Co-origination lending norms being finalised, says Mundra

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IN ORDER TO strengthen credit flow to small businesses, the Reserve Bank of India is finalising guidelines for co-origination lending mechanism, deputy governor SS Mundra said on Friday.

In the co-origination model, banks not only fund microfinance institutions (MFIs) or non-banking finance companies (NBFCs) "for on-lending to ultimate borrowers, rather both of them provide loan at the borrower levels and share the loan amount at agreed percentage", Mundra said.

The advantage this can bring is the strength of two sectors together, he said, adding that the MFIs have better understanding at the ground level because they are available at last mile and banks can supplement their resources.

"To my mind, rather than simply going for re-financing or onlending, this co-origination can become an important bridge for catering to the MSME sector," Mundra said.

Mundra further said that consultations and discussions have already taken place with the banking industry on this issue. "It is



RBI deputy governor SS Mundra (right) with ex-Assocham president and MP Rajkumar Dhoot at an event organised by the chamber in New Delhi on Friday PTI

something (guidelines) which is in making. The idea is it can be an alliance of people in lending sector."

On the trade receivables discounting system (TReDS), Mundra said three entities were given permission for setting up platform for trade discounting. One has already started

operation and other two would also start operation very shortly, he said. TReDS, an automated system driven platform, is expected to benefit MSMEs by facilitating them to auction their trade receivables at competitive market rates via transparent bidding process on the platform by multiple financiers.

RBI working on co-origination model for MSMEs

Lenders need to understand the life-cycle of micro units: RBI Deputy Governor SS Mundra

KR.SRIVATS

New Delhi, June 16

The Reserve Bank of India is working towards a formal co-origination model to give a boost to the flow of credit to the micro, small and medium enterprises (MSME) sector, SS Mundra, Deputy Governor, said.

A co-origination model is not about a bank financing a micro-finance institution (MFI) or non-banking finance company (NBFC) for on-lending to the ultimate borrowers. Rather, both of them (bank and the MFI/NBFC) join at each underwriting and loan level and share the loan amount at an agreed percentage with all other structures put in place.

"The advantage is that it can bring the strengths of the two sectors together — MFIs have better understanding of the ground level and last mile reach and banks can supplement the resources," Mundra said at a

Bankers-Borrowers Business meet organised by ASSOCHAM here on Friday.

"In my mind, rather than simply going in for refinancing or on-lending, this co-origination can become an important way of catering to the MSME sector," he added.

Mundra's remarks are significant as it comes at a time when the MSME sector is faced with challenges of non-availability of adequate, cheap and timely institutional credit.

For the Indian economy, the MSME sector is the backbone. The contribution of this sector to the overall GDP is more than 30 per cent and accounts for nearly 45 per cent of the industrial output.

However, the rate of growth of outstanding credit to MSMEs extended by all scheduled commercial banks over the last four years declined from 28.51 per cent in 2012-13 to 19.66 per cent



(from left) PK Gupta, MD, SBI, Rajkumar Dhoot, Past President, ASSOCHAM, SS Mundra, Deputy Governor, RBI, and Vaidyanathan, Executive Chairman, Capital First, at the Third Bankers-Borrowers Business Meet in New Delhi, on Friday. **KAMAL MARANG**

in 2013-14 to 12.62 per cent in 2014-15 and further to 3.83 per cent in 2015-16.

Further, the outstanding credit to the MSME sector as a share of adjusted net bank credit has remained at 17.18 per cent levels during the last four years — 2012 to 2016. According to RBI data, outstanding credit

to MSMEs extended by all scheduled commercial banks rose to ₹12.16 lakh crore as on end-March 2016 from ₹11.71 lakh crore on March 31, 2015.

Mundra said it is very important for lenders to understand the life-cycle of MSMEs. "Putting MSMEs in one bracket is a misnomer as micro-enterprises and

SMEs are like comparing chalk and cheese," he said.

He underscored the need for products that meet the life-cycle needs of MSMEs and for a strong oversight mechanism in banks to see that MSME-related policies are implemented at the operating level. In respect of supporting faltering MSMEs, he

said: "Let us recognise that when we are talking about MSMEs, we are talking about entrepreneurship."

"Let us recognise that failure is an integral part of entrepreneurship anywhere in the world. Unfortunately, failure in our system is still a stigma."

For borrowers, Mundra said that they need to understand the changing economic dynamics and impact on businesses. For micro-enterprises, lenders have to be imaginative and think about other ways of assessing their creditworthiness, he said.

"If banks continue to feel that the traditional rating model they do for micro units would be their guiding principle, then it is never going to work," Mundra said.

On their part, SME borrowers have been raising the issue that banks are, in general, not sensitive to their needs. They feel that the non-performing asset (NPA) guideline of 90 days is too stringent and does not take cognisance of the life-cycle of SMEs.

