सत्यमेव जयते

RAJEEV CHANDRASEKHAR
MEMBER OF PARLIAMENT
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Vice Chairman, National Military Memorial Management Trust, Bangalore

13 September, 2013

Dear Thiru Chidambaram,

Sub. : <u>Concern over the decline in financial performance of Public Sector Banks and need for additional equity from tax payers of the country</u>

I refer to recent media reports about the increase in Non-Performing Assets (NPAs) of the Public Sector Unit (PSU) banks which have worsened significantly in the last one year, hurting their profitability. In fact, the rise in NPAs of PSU banks is disproportionately higher as compared to private sector banks.

According to reports, the ratio of gross NPAs to gross advances of PSU banks increased to 3.84% in March 2013 – up from 3.17% in March 2012, whereas for private sector banks, this ratio was 1.9% in March 2013. Over the last one year, net NPAs of PSU banks have grown by at least 52%, while the private banks' growth in net NPAs is 35%.

The gross NPAs of PSU banks, which were at Rs.71,080 crores in March 2011, increased to Rs.1,12,489 crores in March 2012 and to Rs.1,55,890 crores in March 2013 – indicating that the growth in NPAs of PSU banks has not just persisted, but more than doubled in the last two years. As of June 2013, the provisional data provided by RBI shows a NPA figure of Rs.1,75,339 for PSU banks.

A Credit Suisse report of May 2012 also highlighted that only 10 groups in India account for Rs.5,50,000 crores of debt – which is 98% of the entire banking system net worth - an unprecedented concentration of risk not seen in any other country. Reports suggest that a significant amount of this debt and more is sought to be restructured. The debt levels of these companies have increased by an additional 15% over the last year. What is further acerbating the situation is that 40-70% of the debt is forex-denominated. Thus, the downward spiral of the Indian rupee is having a further detrimental effect on the larger economy and performance of our banks.

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In a Question raised by me in Parliament last year, I had brought to light the impact that this practice of loan restructuring has on the health of the PSU Banks (which are taxpayer-owned) and on imminent capital calls on the Government and the taxpayers. However, the Government stated that although the Gross Non-Performing Assets and restructuring of loans of PSBs have shown an increasing trend, they do not indicate any systemic vulnerability.

The Corporate Debt Restructuring (CDR) mechanism was originated for companies to refinance their expensive debt when interest rate regimes shift dramatically. Instead, it has morphed into something very arbitrary and loss-making for PSU banks especially. Media reports suggest that while Indian Banks have restructured Rs. 2.5 Trillion of loans under this till date, the actual amount would be much higher and closer to Rs. 4 Trillion, and analysts are expecting that 25-30% of these loans will turn bad.

I am sure you are aware of instances that are already in the public domain of PSU banks converting debt into equity at high prices, and then seeing significant losses to these equity investments.

The NPA situation of our PSU Banks is a serious issue since it involves taxpayers' money, and, therefore, requires a joint effort by the Government, RBI and the boards and management of the Banks. With increasing awareness amongst taxpayers and citizens about how their money is utilized by Government and Government agencies, questions will be asked - today and in the future - about the performance of taxpayers' equity in PSU banks.

I, therefore, urge the Government to take immediate remedial measures and ensure that these banks recover money due from promoters, and that taxpayers are not burdened further.

Yours Sincerely,

RAJEEV CHANDRASEKHAR

Thiru P. Chidambaram
Hon'ble Minister of Finance
Government of India
New Delhi