



RAJEEV CHANDRASEKHAR  
MEMBER OF PARLIAMENT  
RAJYA SABHA

Member of Standing Committee on Finance  
Member of Consultative Committee on Finance  
Member of Parliamentary Forum on Youth  
Co-Chairman, Vigilance & Monitoring Committee, Bangalore Urban District  
Vice Chairman, National Military Memorial Management Trust, Bangalore

09 June, 2014

*Dear Arunji,*

**Sub. : Concern over the Decline in Financial Performance of Public Sector Banks and Need for additional equity from Taxpayers of the country**

I refer to 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 the reports, 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, Rs.1,55,890 crores in March 2013, and to Rs.2.03 lakh crore at the end of September 2013 – indicating that the growth in NPAs of PSU banks has not just persisted, but more than doubled in the last three years.

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 further increased 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.

In a Question raised by me in Parliament in 2012, 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 PSU Banks 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 & 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. As a part of the solution to this mismanagement of PSU Banks & Taxpayer funds, the holdings of PSU banks must be restructured with Management & Board oversight to ensure accountability and to halt this trend of politically directed lending by these Banks.

Yours Sincerely,

RAJEEV CHANDRASEKHAR

**Shri Arun Jaitley**  
Hon'ble Minister of Finance  
Government of India  
New Delhi