'We can quickly reach pre-Covid levels'

Keeping the bank's operations up and running in the last six months has been the most challenging period for **RAJNISH KUMAR**, who retired as chairman of SBI, in his 40-year career. The financial system in India has managed the situation well but needs fixing, Kumar tells **Abhijit Lele**. Edited excerpts:

After the pandemic struck, life has been challenging for people and banks. What are your thoughts about the last six months?
First thought is about keeping operations up and running in a challenging time like this when personal safety and security become very important. We have been able to do it. The morale of the staff and courage shown by those working in SBI have not been allowed to go down. The communication and steps taken for employees' personal safety and hygiene played a very critical role. In these times, emotional connect with staff matters a lot. That is what we have been able to do successfully.

With a career spanning over 40 years in SBI, how would you describe this phase of your life?
These six months have been the most challenging part of my career. The rest were financial challenges but this was very different. This was true for every organisation across the globe. We have been able to negotiate with the situation effectively.

Q&A

RAJNISH KUMAR
Former chairman, SBI

Banks and the financial system managed the pandemic challenge quite well. Is the time ripe to have concrete plans to get the economy back on track as it will also make life easy for banks?
I believe that the Reserve Bank of India (RBI) and the government of India have done a lot. The government has already given direct assistance (money) to those in need. On the monetary front, things have been managed effectively. Some people say there can be more fiscal support. It has costs. Even if the government puts more money in bank accounts, people are not spending. You have to also keep in mind that bank deposits also rose because money that came into accounts was not spent fully.

When would we be back to the level before the pandemic so far as banking and the economy are concerned?
A lot of recovery has already happened. Currently, I am not seeing too much stress on the bank's books. That is the situation with SBI. With some degree of variation, that would be the position for other banks also. This quarter, the recovery has been higher. That means the position seems to be better. So, I hope we continue on this track. And if we continue like this, then I think we can quickly come back to pre-Covid levels.

This period also comes with extreme stress, raising risks of defaults. Would we see the bad non-performing asset (NPA) levels like 2017 and 2018?
No way. There was lot of accumulation at that point of time (2017 and 2018). There is no accumulation now.

Besides the pandemic, the YES Bank saga also tested your grit. Was the option to merge feasible?
The option of merger was not at all feasible. That would have been a big mess. Merging a banking entity of YES Bank's size would not have been an issue for SBI. But culturally we are poles apart. Cultural integration would have been almost impossible.

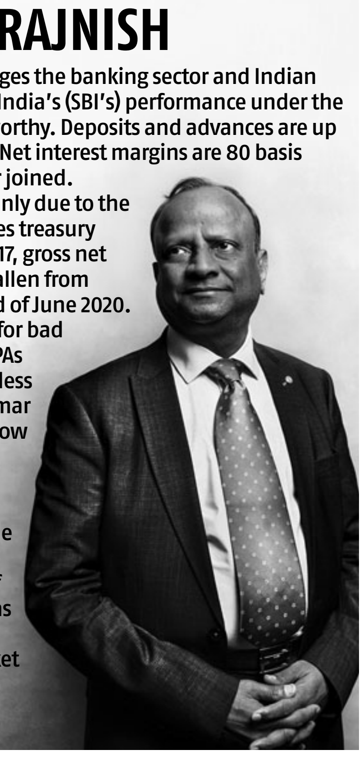
There is discussion about further reforms in the financial and banking sector. Which aspects should get priority?
We have to fix the financial system, definitely. Unless, public sector banks – which have 60 per cent share in the banking business – are strong, the financial system cannot be strong. As for priority, the issues are about corporate governance and recruitment policies in banks. The structure is very rigid but today you have to be very flexible. We need that flexibility. It is high time that they (banks) stand on their own and the government continues to stay invested. But there should be freedom, particularly in human resource-related issues.

Post retirement, how are you going to keep yourself engaged?
Will keep myself physically fit and do things that keep me mentally fit.

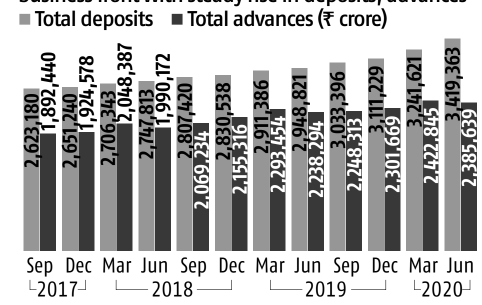
What are the many things you wanted to do but gave little attention and now would like to devote time to? Where will you settle?
For the last three years, I did not get a chance to take even one-day leave. So, I would relax for the first two months and then think about the days ahead. I am settling in Delhi as all my relatives are in and around the capital city.

SBI GREW IN SIZE AND STATURE UNDER RAJNISH

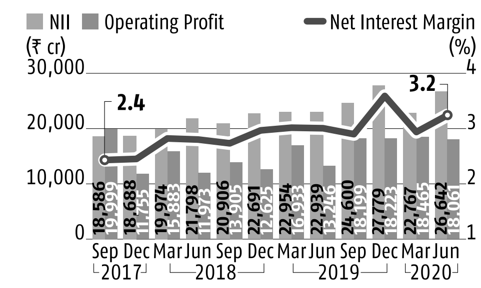
Amidst the uncertainties and challenges the banking sector and Indian economy experienced, State Bank of India's (SBI's) performance under the leadership of Rajnish Kumar is noteworthy. Deposits and advances are up 26–30 per cent since September 2017. Net interest margins are 80 basis point higher than levels when Kumar joined.
Operating profit is down though, mainly due to the fluctuating other income that includes treasury income. Notably, since September 2017, gross net non-performing assets (NPAs) have fallen from ₹1.86 trillion to ₹1.3 trillion at the end of June 2020.
With SBI providing over ₹1.56 trillion for bad loans over the past 11 quarters, net NPAs have shrunk to below ₹43,000 crore, less than half the ₹97,000 crore figure Kumar inherited. Thus, the net NPA ratio is now under 2x. Yet, profit before tax has averaged at over ₹4,900 crore in each of the past five quarters, with provisioning coverage ratio at all-time high of 86.3 per cent. Most notably, during these three years, the value of SBI's investments and subsidiaries has more than doubled to ₹1.52 trillion, which is a little lower than SBI's market capitalisation of ₹1.71 trillion.
COMPILED BY ABHIJIT LELE



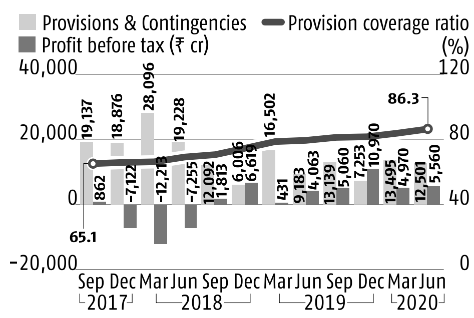
RISE IN DEPOSITS
Unlike its PSU peers, SBI has done well on the business front with steady rise in deposits, advances



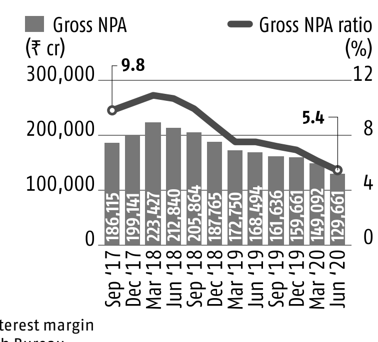
STEADY OPERATIONAL PERFORMANCE
Operational performance has been steady despite uncertain business environment



BAD LOAN PROVISIONS MOVING SOUTH
Provisions for bad loans are trending south, while provisioning coverage ratio is at an all-time high and quarterly pre-tax profit on an average now hovers between ₹4,000 and ₹5,000 cr



GROSS NPAs DOWN
Gross NPAs are down over 40% from peak; net NPA was below ₹43,000 cr in June '20 quarter



VALUABLE INVESTMENTS
Subsidiaries/investments, valued at ₹50,000–₹75,000 crore in 2017, are far more valuable now

VALUE OF SBI'S HOLDING

SBI Life insurance*	46,214
SBI Cards*	54,980
SBI AMC & SBICAPS	22,000
SBI General Insurance	10,000
YES Bank**	10,004
UTI MF**	2,800
Regional rural banks**	6,000
Total value	151,998
SBI market cap	170,996

* listed, others are unlisted
** Investment (not a subsidiary)

NII: Net interest income; NPA: Non-performing assets; NIM: Net interest margin
Source: Capitaline, brokerages, exchange; Compiled by *BS* Research Bureau

"MERGER OF YES BANK WITH SBI WAS IMPOSSIBLE. CULTURALLY, WE ARE POLES APART"

"WE HAVE TO FIX THE FINANCIAL SYSTEM. WITHOUT ROBUST PSBs THE FINANCIAL SYSTEM CANNOT BE STRONG"

WTO revises forecast for goods trade to 9.2% fall

INDIVJAL DHASMANA
New Delhi, 6 October

The World Trade Organization has revised its forecast to a 9.2 per decline in world merchandise trade volume for 2020, followed by a 7.2 per cent rise in 2021. These estimates are subject to an unusually high degree of uncertainty as they depend on the evolution of the pandemic and how governments respond to it.

The forecast suggested a projected decline for the current year that is less severe than the 12.9 per cent drop foreseen under the more optimistic of the two scenarios outlined in the WTO's April trade forecast.

Strong performance in June and July has brought in some optimism for overall trade growth in 2020, WTO said.

Trade growth in Covid-19 related products was particularly strong in these months. Conversely, the forecast for next year is more pessimistic than the last estimate of 21.3 per cent growth, leaving merchandise trade well below its pre-pandemic trend in 2021.

Trade performance year-to-date exceeded expectations due to a surge in June and July as lockdowns were eased. The pace of expansion could slow sharply once pent-up demand is exhausted and business inventories have been replenished. More negative outcomes are possible if there is a resurgence of Covid-19 in Q4, WTO said.

In contrast, gross domestic product (GDP) fell more than expected in the first half of 2020, causing forecasts for the year to be downgraded.

Rapid rail: Centre in talks with World Bank, JICA to raise $3 bn

SHINE JACOB
New Delhi, 6 October

The ministry of finance is in talks with the Japan International Cooperation Agency (JICA) and the World Bank to raise around $3 billion for funding the second Regional Rapid Transit System (RRTS) planned between Delhi and Alwar.

The project is a three-stage one and sources indicate that funding will be for the first stage of 107 km from Sarai Kale Khan to Shahjahanpur-Neemrana-Behror (SNB) urban complex.

The first RRTS – Delhi-Ghaziabad-Meerut – is already under implementation. "The second corridor between Delhi and Alwar is already in the rolling plan of the JICA. The ministry of finance has already fixed that but the World Bank is also keen to take some portion of that," said a source aware of the development.

Out of the $3-billion funding for the project, India is looking to get around $2 billion from JICA and another $1 billion from the World Bank.

The total project cost for the Delhi-Alwar route is expected to be around ₹36,000 crore. The National Capital Region Transport Corporation (NCRTC) has already prepared a detailed project report (DPR). The DPR has been approved by all the three states (Delhi, Haryana and Rajasthan). The proposal is being taken up by the central government for Cabinet approval. However, for some works like road widening, tree cutting and pre-construction activities, Haryana has already given ₹100 crore.

The total project cost for the Delhi-Alwar route is likely to be around ₹36,000 crore

For the first RRTS between Delhi and Meerut, around 60 per cent of the ₹30,000 crore projected cost is being met through multilateral funding.

Of the total funding of $2 billion, $1 billion is from Asian Development Bank (ADB), $0.5 billion from Asian Infrastructure Investment Bank (AIIB) and $0.5 billion from New Development Bank (NDB). The interest rates for the loans are attractive – between 2 and 2.5 per cent. The Centre and state governments are putting in the remaining amount.

Of the eight corridors planned by the NCR Planning Board in its transport plan for 2032, three were considered a priority corridors back in 2006.

These three corridors — Delhi-Meerut, Delhi-Panipat and Delhi-Alwar — are already under implementation. The third route between Delhi and Panipat will see an investment of around ₹30,000 crore. For this corridor, the NCRTC board has approved a DPR. It is awaiting approval from the governments of Delhi and Haryana.

COMMENT

Room squeezed out

INDRANIL PAN
CHIEF ECONOMIST, IDFC FIRST BANK

The Reserve Bank of India (RBI) is faced up with a challenging situation of a surge in inflation coming alongside a sharp contraction in growth conditions. After the August meeting, we have seen two more retail inflation prints and both have been adverse – July number at 6.73 per cent and August at 6.69 per cent. We expect no comfort to the headline CPI numbers for September, given the repeat spurt in vegetable prices. Core inflation has also remained sticky. Post the MPC meeting in August, we came to know that the GDP numbers for the first quarter was at a worse-than-expected level of -23.9 per cent.

What is important is that headline CPI inflation will now be higher than the upper band of the inflation target for six months in succession and the trailing 12-month headline CPI averages at 6.22 per cent. Minutes of the last meeting did indicate the MPC's worry on the inflation trend, with one MPC member arguing that India's adverse supply shocks appear to be more severe than the demand side shocks. Importantly, the prices of protein-rich items such as meat and fish and eggs remain elevated. It would be hard to tell immediately if the increase in the prices of protein items is due to a demand spurt or supply shortages.

RUN-UP TO MONETARY POLICY

Price trends for non-food categories, on the other hand, is also faced with uncertainties. While tax increases led to an increase in the prices of petroleum products, this could lead to broad-based cost push pressures through the transportation channel. On the other hand, there might be another round of increase in telecom tariffs (already signalled by the telecom companies) while any sustained significant reduction in gold prices, another factor that led to the firmness in retail core inflation, is ruled out. While the inflation story is extremely dynamic, our current inflation assessment points towards the fact that headline CPI inflation could continue to remain above the 6-per cent mark for a couple of months more and moderate below 6-per cent thereafter. However, given the opposite pulls from the supply and the demand sides, the pace of drop could be muted, and we now expect inflation to average at 3.8-3.9 per cent in Q4FY21. Given these uncertainties of inflation trajectory, it may be risky for the RBI to take a call to cut the repo right away. Importantly, July survey of household inflation expectations continue to indicate elevated levels of expectations one year ahead. This implies that the newly crafted MPC would, in most likelihood, play safe and continue to remain on a wait-and-watch mode.

While we expect the next policy to be a non-event so far as rates and liquidity measures are concerned, the RBI must make public its views on growth and inflation for the year, something that the RBI has desisted from doing till now. Further, the role of the RBI in the current atmosphere is likely to be challenging from other aspects, including maintaining financial stability, and that is where the critical focus of the market has to be and not merely on the rate-setting exercise.

Above reflects personal views