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BEST FEATURE IN BUSINESS JOURNALISM



Mansi Kapur

Mansi Kapur won the PoleStar Award for her article, 'Good Vs Evil', which appeared in Business Journalism, dated November 2014.

Mansi Kapur is currently heading Digital Edition with Fortune India, a globally distinguished business magazine.

After 12 years of reporting and writing, Mansi Kapur has spent the past year building the digital edition of Fortune India, a globally distinguished business brand. She comes from a rich experience of covering diverse sectors such as banking, automobiles, media, food, liquor and China. She enjoys writing on the intersection of technology and skills and loves fleshing out the drama of building businesses.

Mansi started her journalism career with Business Standard in 2003. Before joining Fortune India, she worked with Hindustan Times, Infomedia18 Ltd, The Times of India, where she also won the SNU-LG Press Fellowship in Journalism. Last year, she won the Polestar award for the best feature in IT journalism for her story on YouTube.

Good vs. Evil

State Bank of India Chairman Arundhati Bhattacharya's relentless battle against NPAs and why that could change banking.

Mansi Kapur

November 2014



BANK BOSSES DON'T usually visit debtors to recover dues, less so if they head State Bank of India, the country's largest lender. But when Arundhati Bhattacharya took over as chairman in October 2013, easily among the 10 biggest corporate jobs in the country, she faced an unusual situation: Nearly 6% of loans, higher than the industry average of around 4%, had gone bad. Worse, with the economic condition unpromising, the number was headed north.

Since then, Bhattacharya, 58, the first woman to head State Bank, has been relentlessly meeting debtors, debtors to debtors, ministers, chairmen of large public sector enterprises, bureaucrats, regulators, and anyone who can play a part in reducing her bank's non-performing loans. On one such visit she met Savitri Jindal, chairperson of the \$18 billion (Rs 1.1 lakh crore) O.P. Jindal group and a cabinet minister in the then Haryana government. A group company, Jindal Stainless, run by her third son, Rattan, was on the brink of liquidation, with its net worth eroded 95%, down to Rs 65 crore, and Rs 8,576 crore of debt outstanding to a banking consortium. One way to save Jindal Stainless from going down with a lot of the bank's capital was to have any of Rattan's other three brothers, Sajjan,

Naveen, or Prithvi Raj, bail him out. He, however, wasn't very keen on the idea.

Bhattacharya refuses to share details of the meeting given the privileged nature of the conversation. However, other bankers in the know say realising that her sons would never contest their mother's word, Bhattacharya made a suggestion to Savitri Jindal: Would she convince Rattan to let her other sons step in and save Jindal Stainless? It would avoid embarrassment for the family (and, it can be presumed, not hurt Savitri Jindal's political ambitions in the upcoming state elections; it's another matter that as a Congress candidate, she lost.) Savitri Jindal summoned all her sons for the next meeting with the bankers. It was ultimately decided that the other brothers would infuse fresh equity into Jindal Stainless and augment its net worth. The financial restructuring process is under way.



IF PATCHING UP the Jindals needed a delicate touch (she went alone for the first meeting), Bhattacharya's drive to resolve a decade-old spat between the West Bengal government and Purnendu Chatterjee of The Chatterjee Group over control of Haldia Petrochemicals was nothing short of pushy. Haldia Petrochemicals, the largest petrochemical company in eastern India, and once the darling of West Bengal industry, was staring at bankruptcy. If Haldia went down, it would not only take along hundreds of downstream plastic processing units that it supplied to, but also wipe Rs 4,000 crore off the lenders' books. "Arundhati managed the painful task of convincing the West Bengal government to sell the stake to Chatterjee. The deal needed some concessions from the Reserve Bank and she personally pushed for those," says a senior private sector banker. In September, the West Bengal government signed a deal to sell the stake to The Chatterjee Group.

As chairman, Bhattacharya has many causes to evangelise and battles to fight. Among her recent predecessors, O.P. Bhatt (chairman from 2006 to 2011) was a hard-charging man who had a grand plan of what he wanted State Bank to look like: a private sector bank. He showed aggression all round, which met with mixed results. Pratip Chaudhuri (2011 to 2013) spent most of his time reacting to what Bhatt did and then tried undoing much of it (see 'Will the Real SBI Please Stand up?' in Fortune India's August 2011 issue). He was unfortunate that the slowdown took a toll and doubled non-performing assets (NPAs)

on the balance sheet.

Bhattacharya hasn't unveiled any overarching plan yet, a big vision for where to take the bank. But the battle she has picked—to sort out bad loans—is equally crucial. Not in the narrow sense of reducing NPAs, but also initiate structural changes to ensure their incidence reduces. It is important that she take an unforgiving stance. For one, bad loans are the biggest risk that the Indian economy is facing today (see 'It's Bloody Bad' in Fortune India's October 2013 issue). Things are so bad that the next round of growth that Prime Minister Narendra Modi is pushing for may not be readily financed unless bank balance sheets are cleaned up and recapitalised. Bad loans made it to Modi's election manifesto, and since taking the top office, he has taken digs at defaulting industrialists who trigger NPAs. State Bank lends more than Rs 12 lakh crore every year, accounted for 16.65% of all outstanding loans last fiscal, and all banks in India always take their cues from it. So who better than Bhattacharya to lead the charge against the dragon? And, if her efforts pay off, she won't just build a better bank, but a better banking system. It could also shape her legacy.

Bhattacharya is uncomfortable with the idea of a grand legacy. She'd be happy if the bank can get rid of its public sector image ("It's not cool") and become more tech-savvy. But she believes she has both a business and a moral obligation to battle NPAs. The business bit is easily understood. She wants to grow the bank and "at this point of time, until I get [NPAs] cleaned up, I cannot possibly aspire to take SBI somewhere", she says.

But it's only when she describes the moral imperative that you get a sense of how she is really thinking. "In certain cases, where you see they [defaulters, or more plainly, unscrupulous businessmen] have really and truly taken the whole system for a ride, there is a moral obligation. [You feel] that you need to do something against them, because you feel that a few people doing the wrong thing spoil the entire environment, and the whole system gets tarred with the same brush," she says.

Within 15 days of taking over, Bhattacharya constituted six committees with the task of reviewing accounts that had begun to show signs of stress, but were not yet impaired. In her second earnings call, she explained the rationale: "Earlier, the Stressed Assets Management Group was only looking at 12.5% of the NPAs, that is, they were looking at resolving only the large corporate accounts, which called for hard recovery. However, we found that the stressed asset recovery branches being part of the national banking group maybe lacked a little focus."

In the initial months, these committees met every Saturday. "Seven to eight accounts were taken up every week then. Now the committees meet twice a month," says a senior executive at State Bank. Once a loan becomes an NPA (or when interest is overdue for 90 days), the chances of recovery get bleaker as

time passes; the best time to act is immediately after the first default, or in some cases, before.



The Old Guard: (From left) O.P. Bhatt, chairman, 2005-2011; Pratip Chaudhuri, chairman, 2011-2013.

A senior zone-level State Bank executive, who did not want to be named because he is not authorised to speak to the media, says that while Pratip Chaudhuri too had focussed on reducing NPAs, Bhattacharya "has taken the issue to a completely new level". Chaudhuri had a deputy managing director oversee the stressed asset management portfolio, but he never got personally involved in the discussions. Bhattacharya heads the committee that looks into accounts larger than Rs 500 crore, and conducts the meetings herself. Sometimes discussion on an account takes up to four hours. The zone-level executive says that managers like him are bombarded with e-mails, text messages, and telephone calls everyday, both from the Mumbai head office as well from their reporting bosses. A target of reducing NPAs by 15% by the end of FY15 (over FY14) has been set across the rank and file—from the four MDs [managing director, the level just below Bhattacharya's] down to the branch managers.

"So we have to use every possible trick in the book, and every possible legal remedy to recover the loans—from soft recovery, which means going to the borrower, sitting with them and simply persuading them to return the loan, to making telephone calls and lodging written complaints, to sending legal notices, to taking the promoters or companies to Debt Recovery Tribunals," he says. "Every second day there is a videoconference to discuss the outcomes of the visits, or action taken. There is huge pressure to act on each and every case."

In this battle, she is on the side of the angels, as the entire banking system—particularly the Reserve Bank and its governor Raghuram Rajan—has turned its attention to NPAs. "Rajan is happy to have a flexible approach to banking regulation, managing other elements of public debt, or currency issues, but he's hardlined on managing inflation and the structural problems of non-performing assets," says a former

FROM LOAN TO LOSS				THE JOURNEY OF A DELINQUENT ASSET				PROVISIONING FOR UNSECURED / SECURED LOAN PORTFOLIO			
STANDARD ASSETS			NON-PERFORMING ASSETS								
SPECIAL MENTION ACCOUNT 0	SPECIAL MENTION ACCOUNT 1	SPECIAL MENTION ACCOUNT 2	SUBSTANDARD ASSETS	DOUBTFUL ASSETS 1	DOUBTFUL ASSETS 2	DOUBTFUL ASSETS 3	LOSS ASSETS				
ON THE 1ST DAY OF NON-PAYMENT OF INTEREST DUE	ON THE 31ST DAY OF NON-PAYMENT OF INTEREST DUE	ON THE 90TH DAY OF NON-PAYMENT OF INTEREST DUE	ON THE 90TH DAY OF NON-PAYMENT OF INTEREST	10 MONTHS AFTER BECOMING SUBSTANDARD	BEYOND 10 MONTHS IN THE DOUBTFUL 1 CATEGORY	BEYOND 36 MONTHS IN DOUBTFUL 1 CATEGORY	LOSS IDENTIFIED BUT LOAN NOT WRITTEN OFF WHOLLY				
0%/0%	0%/0%	0%/0%	25%/15%	100%/20%	100%/40%	100%/100%	100%/100%				

McKinsey consultant. Sometime in the last quarter of FY14, RBI revised the guidelines for dealing with bad loans. It mandated accounts to be reviewed in a joint lenders' forum where interest had been pending for 61 days, so that action could be taken to prevent the loan from turning into an NPA (see graphic: From Loan to Loss). Another circular mandated banks to share details of their NPA accounts, so that risk could be priced appropriately during multiple lending.

Some results have begun showing. In the four quarters that she has declared results for, gross NPAs have climbed down from a peak of 5.7% of total assets to 4.9%, Rs 9,526 crore of NPAs have been recovered, and most important, fresh slippages (loans that have newly turned bad) have reduced to Rs 9,932 crore in the first quarter of the current financial year, compared with Rs 13,766 crore in the same quarter last fiscal. While some of this may have to do with an uptick in the economy, it's equally true that the reduction of NPAs was sharper in the first couple of quarters under Bhattacharya, when the uptick hadn't still begun. To her credit she has stemmed the flow, something that is often a direct consequence of recognising the stress before it starts showing.

Analysts say she's instilled confidence among investors. That despite her repeated refusal to provide guidance, something her predecessors usually did. In her first earnings call as chairman in November 2013, she declined—six times—to commit to a number for the quarters ahead. But most have been impressed by her openness to discuss sticky issues—be it a lower return on assets, proportion of bad loans, or even appraisal systems.

Since Bhattacharya took over, the stock has risen 66% on the Bombay Stock Exchange. After the fourth-quarter results, it hit a three-year high of Rs 2,755 on May 23 even though the bank had reported an 8% drop in profit. Ratings agency Moody's upgraded State Bank to stable from negative, reversing a downgrade it made last year. Gene Fang, vice president and senior credit officer at Moody's in Singapore, says, "The rating change reflects the capital raised earlier this year, but it is also because the rate of net new non-performing loan formation has come down."

Of course, there's still a long way to go. Bhattacharya's challenges lie as much in the lack of an enabling external environment as in aligning the bank's 223,033-strong workforce with her approach. Two-thirds of State Bank's NPAs are among small and medium-sized companies. A senior executive of a leading private bank says, "Often, what she does may not translate to even two levels below. Even if an MD has approved of a certain decision, the client will have to follow up at each level to get what has been assured." Instances of disbursements being stopped midway because a State Bank general manager felt he wasn't taken care of during a visit to the client's factory, accounts being downgraded because of competition within teams, and promoters being reprimanded for requesting escalations are abundant across the bank's 16,000-plus branches. "Because the business is so large, an SBI general manager believes he's king. That mindset hurts the bank. No amount of determination and credit discipline at the top matters if it cannot percolate down the line," says the executive.

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genial. The attribute that comes up first, regardless of who you talk to, is her people skills. It perhaps helps that she headed State Bank's human resources for a while. A longstanding State Bank board member says she is much more collaborative and better at managing people than others he's seen in that position. On a shelf behind her desk sits a plaque with a Swami Vivekananda quote that states a leader 'must accommodate a thousand minds'.

Her ability to carry people with her extends beyond State Bank. Indeed, many in banking circles point to the rapport she shares with Rajan, arguing that their camaraderie is helping resolve many of the thorny issues plaguing Indian banking today. Some of Bhattacharya's predecessors were known for their testy relationship with Reserve Bank governors. The board member also points out that she is completely apolitical and never pushes any personal agenda.

But beneath the warmth lies a resolute nature. "I think her strongest trait is [that she can] keep a cool head," says the chief financial officer of a large conglomerate who has seen her since her days as the managing director of SBI Capital Markets, her previous role. Bhattacharya says her role models are her mother and maternal aunt. They lost their parents early and had to battle it out. "My mum trained to be a homoeopath and she began to teach herself when she was in class six; my aunt began working and studying right after school. I've seen them as very tough women and that's something I remember," she says. Her friends, meanwhile, have begun complaining that her job has changed her dress sense: She wears too many "suit saris", saris which aren't very colourful.

Bhattacharya's history allows her to be objective while appraising State Bank. Though she is a lifer (37 years at the bank), immediately prior to taking over as chairman she had spent a year and a half heading SBI Capital Markets, the investment banking arm. A vice president with SBI Capital markets points out that, as an investment banker, you have a better understanding of the market, and you evaluate projects and companies in a more rounded manner than a commercial banker does. Adds a former banker: "She thinks more independently about people and companies. There's a shorter history of associations in terms of favours offered and taken, which puts her in a strong position, especially within bureaucratic circles."

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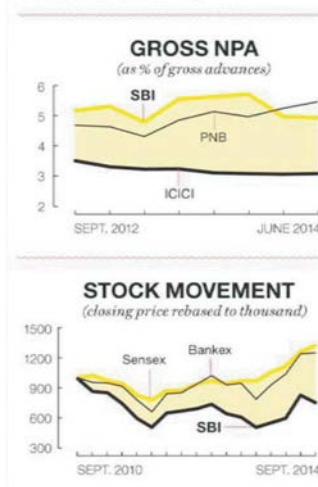
For her, there are two principal reasons behind the NPA issue. One has to do with the economy. Given its size, State Bank mimics India's economic performance closely, and when the country trips, so does the bank. The other is internal, and has to do with the bank's ability to assess risk. She argues that the quality and nature of risk has changed, and State Bank officials haven't kept pace. In her telling, sure there are procedures to follow and forms to fill. "But do I look at [risk] fast enough? [If] some news item comes up, do I immediately look at that

account and see how it impacts me? Maybe there is some natural calamity; do I have a system that can immediately cull out the accounts that will get impacted?" In the past one year, she ran 347 risk-management training programmes—that's nearly one per day—to sensitise her executives to risk. A former deputy managing director of State Bank, who has worked with her, says one of her strengths is, "She knows what the risks are in any transaction and how to mitigate them."

FRIDAY, OCT. 17, 2014. State Bank office, Parliament Street, New Delhi. A group of bankers and bureaucrats are thrashing out a solution for the Rs 5 lakh crore-plus of loans to the power sector that could turn bad as a result of the coal licences being cancelled by the Supreme Court. The meeting is chaired by the financial services secretary, Gurdial Singh Sandhu, but it has been called at the behest of Bhattacharya. She's also requested 10 other public sector heads to be present for the meeting, including the chairmen of Punjab National Bank, Bank of Baroda, Bank of India, and India Infrastructure Finance Company. "This was rarely done in the past. Because SBI is the largest, getting other [banks] involved wasn't thought necessary. But Bhattacharya insists on collaboration," says a senior public sector banker.

Mixed Bag

SBI'S NPAs ARE DOWN; THE STOCK HAS MIMICKED THE SENSEX AND BANKEX.



Meetings such as this show how Bhattacharya is mobilising the larger world of banks and financial services in her battle against bad loans. Interpret that as State Bank taking the lead, knowing that others, who are all facing the same crisis, will follow. Bhattacharya knows there are limitations to chasing down defaulters or fixing leaky processes within the bank. Unless she can move others to do the same, the impact will be limited.

Much of this, happening quietly in the background, is about enlightened

lobbying. This July, the Reserve Bank allowed banks to extend the tenure of loans used for building public infrastructure to 25 years, from an average tenure of 10 years. "Most of these assets are created for 30 to 40 years, and have concession periods that run into 25 years, but the debt has to be paid back in 10 years. The math was all wrong," says a finance director of a power company. The move came as a huge breather, both for companies as well as banks that had invested heavily into the sector. Nearly 15% of State Bank's loan book is tied to infrastructure.

Bhattacharya and her team had begun work on this last March, when she was still at SBI Capital Markets. "The Reserve Bank got the logic immediately but asked us for examples. It took us a few months to collate case studies from Australia, Japan, and

the U.S.; by then she had moved to SBI. She kept following up with the new governor," says a colleague.

Similarly, she has been arguing that the period of subvention (where the interest is shared between the farmer and the government) on agricultural loans be extended. Mostly these loans are short-term crop loans, or loans that the farmer takes for a sowing season. Bhattacharya says such subvention is needed more for long-term loans, which farmers take to develop land, or buy tractors or irrigation equipment. Long-term loans help the farmer in capital formation, which augments his ability to pay back the short-term loans. She's tying the crop loan defaults to the lack of subvention in the long term.

More recently, she has been pushing the government to recognise wilful default as a criminal offence. While Bhattacharya doesn't say much beyond the fact that folks who have retired from the law ministry are working on this, three Mumbai-based bankers say she has been lobbying the Finance Ministry hard.

For Bhattacharya, though the objectives of regulators ("They have a more macro view") and the State Bank ("I only know investors' expectations, I don't know that much of regulatory expectations") may vary, there is scope to collaborate. She describes her bank's behind-the-scenes workings as policy input. "We've been saying lots of little things to the regulator and the government. It makes a difference and action is taken," she says.

Some argue that regulations are only a symptomatic treatment for NPAs and they are more fundamentally rooted in the political patronage that pervades both the public and private sector. "In the last 20 years, government patronage has played a strong part in appointments and governance. Once the banking system gets sucked into political patronage, the credit-allocation process is very likely to result in a structural problem of bad loans," says the McKinsey consultant. The prevarication by banks, including State Bank, on declaring Vijay Mallya-led Kingfisher Airlines as a wilful defaulter, has long been associated with the political clout that Mallya, a former member of the Rajya Sabha, enjoys.

That State Bank did not take the lead to declare him a wilful defaulter—United Bank of India did—has led to a fair bit of criticism of Bhattacharya. She didn't comment on the issue, but contemporaries say SBI's stance could be due to a lack of documentation on the case, or will, or both. Or, maybe, Kingfisher is an anomaly. The very next day after Bhushan Steel's promoters were arrested on bribery charges, State Bank suggested a management buyout; Bhattacharya was vocal about bringing in an external agency to run the company. "In a clear-cut case of fraud or where the promoters are truant, SBI has always taken a tough stance. It is possible that Kingfisher wasn't as straightforward to handle," says a former banker.

But perhaps a more pertinent question is whether banks could have gone after Mallya, had the political class not abandoned him. In other words, do the banks have it in them to take to task delinquents who have their political patronage intact? A senior executive at a large private bank says, "Political patronage is often overplayed. We also get calls from joint secretaries about accounts, but they are mostly reference calls. What I do about

despite her repeated refusal to provide guidance, something her predecessors usually did. In her first earnings call as chairman in November 2013, she declined—six times—to commit to a number for the quarters ahead. But most have been impressed by her openness to discuss sticky issues—be it a lower return on assets, proportion of bad loans, or even appraisal systems.

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