

Indian Finance's Most-Powerful Woman Tackles Bad Loans

By Anto Antony Feb 25, 2014



Photographer: Dhiraj Singh/Bloomberg

Arundhati Bhattacharya, chairman of State Bank of India, attends the Annual Bankers'

When she was a village branch manager in eastern India, she was quick to grab a screwdriver to fix power outages. Now, as the most-powerful woman in Indian finance, Arundhati Bhattacharya must tackle the highest bad-loan ratio among India's 10 largest banks.

Appointed in October as the first female chairman and most-senior executive officer of the country's largest lender, State Bank of India, Bhattacharya has been combing through balance sheets riddled with 678 billion rupees (\$10.9 billion) of bad debt. Some 5.7 percent of total loans at the 207-year-old behemoth are nonperforming, the highest level in at least eight years, the earliest date for which data are available, exchange filings show.

"The war on bad loans continues," Bhattacharya, 57, said in a Feb. 14 interview in Mumbai after SBI (SBIN) reported a bigger decline in third-quarter profit than estimated. "I have no magic wand to make the nonperforming assets go away. We have to work through the pain to fight the issue."

India's slowing economy and the highest borrowing costs among Asia's largest nations are eroding debtors' capacity to repay loans. The ability of companies to generate cash and service debt is at the lowest level in five years, said Deep Narayan Mukherjee, a Mumbai-based director at India Ratings & Research, a unit of Fitch Ratings Ltd.



Photographer: Arvind Yadav/Hindustan Times via Getty Images

Arundhati Bhattacharya, chairman of State Bank of India, comes out after meeting with... A failure to curb sour debt would drag further on the lender's earnings and share price, which has slumped by almost a third in the past year. SBI's return on equity, which measures profit generated with investors' funds, is poised to end the bank's business year on March 31 at the lowest level since 1999.

Watching Numbers

Shareholders such as IDFC Asset Management Co.'s Ankur Arora are watching for Bhattacharya to revive earnings.

"We will look at the hard numbers this quarter to see how the management change will impact profitability, nonperforming assets and margins," said Arora, an IDFC manager based in Mumbai who helps invest \$6.7 billion in equities.

The bank, which is 58.6 percent owned by the government and India's largest by assets and branches, is strengthening credit-monitoring measures to identify loans that may default and is taking steps to recover them, said Bhattacharya. She is heading a new panel to work on retrieving nonperforming loans greater than 5 billion rupees.

SBI is planning a software-driven early-warning system to help identify signs of stress in various industries, companies and geographic areas, she said. The bank has tightened eligibility criteria to focus lending toward companies less likely to default, Bhattacharya said, and will increase credit to consumers for homes and vehicles, where defaults are low. Small and medium-sized companies account for 64 percent of SBI's nonperforming debt, company data show.



Photographer: Kuni Takahashi/Bloomberg

A woman walks by a State Bank of India bank branch in Mumbai.

Kept Awake

“Rising bad loans must be keeping Bhattacharya awake at night,” said Nitin Kumar, a Mumbai-based banking analyst at Quant Broking Ltd. “With the credit norms being more lax than at other large state-run banks, SBI has historically reported higher bad-loan ratios. She hopes to improve the asset quality within three quarters by tighter credit-monitoring and with a sharper focus on recovery.”

SBI’s 15,297 outlets in India are more than double the 6,175 operated by Wells Fargo & Co. (WFC) in the U.S., that country’s largest lender by branches. SBI and its five lending units accounted for 23 percent of the country’s loans as of March 31, according to the latest central bank data.

Improving worker productivity and boosting income from non-lending services such as foreign exchange and remittances are also on the agenda, Bhattacharya said. The bank is seeking to cut expenses by curbing employee travel and office energy use, as well as by centralizing equipment purchases, she said.

Not Hesitating

Bhattacharya has demonstrated a willingness to tackle difficulties. Ajit Chattopadhyay, then a clerk at the eight-person SBI branch in Nimpura, a village more than 100 kilometers (60 miles) west of Kolkata, remembers his former boss in the 1980s grabbing the toolbox and tinkering with the electricity meter whenever the power would go out.

“Of course she would have to call an electrician later, but she never hesitated to take a look first and try to fix it if she could,” said Chattopadhyay, 56, who is now an officer at an SBI branch on Kolkata’s Park Street thoroughfare.

Rather than corral herself in her office on busy days, Bhattacharya would thrive on the chatter of tellers and work alongside them taking deposits and dispensing cash at a time when account-keeping was done with ledgers and cash had to be counted by hand, he said.

Hands On

“The stint at Nimpura taught me the importance of being a hands-on person,” Bhattacharya said. “When you sit with your team to work and interact more with them, it improves the team spirit and productivity.”

A graduate in English literature from Kolkata’s Jadavpur University, Bhattacharya joined SBI as a management trainee in 1977 before being sent to Nimpura, her first managerial role.

She was based for four years starting in 1996 in the lender’s New York office, where she monitored the branch’s performance, according to an SBI statement on Oct. 7, the day she was appointed to a three-year term as chairman by India’s Finance Ministry. Bhattacharya then worked across India, from Kolkata in the country’s east to Bangalore in the south.

As chief general manager for new businesses at SBI, she was part of a team that in 2008 set up the SBI Macquarie Infrastructure Fund, a private-equity venture with Australia’s biggest bank that manages about \$900 million of investments. The following year, she helped set up SBI’s general insurance business. Bhattacharya was the bank’s chief financial officer before being promoted to chairman.

Team Player

Hemant Contractor, who leads SBI’s international banking from Mumbai, says Bhattacharya’s experience in setting up new businesses, her knowledge of the bank’s operations and her collaborative style of decision-making bolster her leadership.

“Arundhati consults the officials a lot before taking decisions,” Contractor said by telephone. “She sizes up the situations pretty well and is a good team player.”

The new chairman has won support from B.K. Awasthi, president of the All India State Bank Officers’ Federation, who met Bhattacharya with three other union officials on the day of her appointment. While he couldn’t provide specific figures, Awasthi said most of SBI’s 224,000 employees are union members.

“She told us that we are part of the same team and should work together,” Awasthi said by phone from the northern city of Lucknow, where he works. “She has put in only five months at the job but has already met us thrice. The way things are going, I can vouch that they are turning for the better.”

ICICI Bank

Bhattacharya needs union support when it comes to cutting costs. She may need to make employees work harder, according to Quant Broking’s Kumar, citing a cost-to-income ratio of 55.6 percent, compared with the 38 percent of ICICI Bank Ltd. (ICICIBC) That private bank, India’s second-largest by assets, is less than one-third the size of SBI and is also headed by a woman, Chanda Kochhar, who became chief executive officer in 2009.

SBI’s leader will also seek to avoid the type of confrontation the bank had that year when the Centre of Indian Trade Unions representing industrial and service workers alleged that the

bank barred pregnant women from being hired during a recruitment drive that drew 11,000 applicants.

The union sent a letter to Pranab Mukherjee, then India's finance minister, saying that women who successfully passed a written test and interview had to provide a gynecological history. Bhattacharya came in to head human resources the following year.

No Discrimination

"The policy at that point of time was if she is already in the family way, she should wait till giving birth before she joins," Bhattacharya said in an August interview. "The feeling was that the baby must not be compromised. After giving birth to a baby, if the doctor considers her fit to join, she is allowed to join."

SBI has resolved the issue, Tapan Kumar Sen, the CITU's general secretary who wrote the 2009 letter, said by phone from New Delhi, without elaborating on what measures the lender had taken. Sen said he hadn't met with Bhattacharya.

The bank doesn't discriminate against pregnant woman in its hiring, according to M.K. Rekhi, a Mumbai-based SBI spokesman, declining to provide further details. Since taking over as chairman, Bhattacharya changed the rules to allow female employees, who account for 17 percent of SBI's workers, to take two years off to care for children and elders. Family leave will help women return to the workforce, she said in the Feb. 14 interview.

Family Support

Bhattacharya said support from her family helped her deal with career challenges and convince skeptics who doubted a woman's ability to put in long hours at work. Her aunt moved to New York with her to provide childcare for her newborn baby, she said. Once in 2004 in Kolkata, where she worked after returning from the U.S., she spent more than 48 hours at her desk with her team to recoup about 700 errant cash transfers generated by faulty software. Her husband took care of their daughter, then eight, on such occasions, Bhattacharya said.

"At Indian state-run banks, people feel that the longer you are seen at office means that you are that much more committed," she said in last year's interview. "But staying at work for longer hours is no yardstick for productivity or performance."

The bank is taking steps to improve employee assessments to nurture talent and boost productivity, Bhattacharya said this month.

Bhattacharya also faces the challenge of ensuring SBI conforms to industry capital requirements at a time when the Reserve Bank of India is promising favorable treatment for lenders that are able to reduce nonperforming assets.

Stock Sales

SBI raised 100 billion rupees in January from selling shares to the government and institutional investors, and needs another 700 billion rupees by March 2018 to comply with Basel III rules, according to Bhattacharya.

The fundraising lifted SBI's capital adequacy ratio, a gauge of financial strength, to 12.8 percent, the bank said in a Jan. 30 statement, exceeding the 12 percent level the government wants state-controlled banks to maintain. The national average was 12.7 percent as of September, according to Reserve Bank of India data.

Banks failing to curtail soured loans will have to strengthen their capital buffers against defaults, the central bank said in a January statement. Lenders that are able to quickly restructure bad debts owed to multiple lenders will receive "better regulatory treatment" such as being allowed to spread losses from distressed assets over two years, it said.

Banks' Challenge

"The erosion in capital buffers and profitability due to rising bad loans is a challenge for most state-run banks in India," said Vibha Batra, New Delhi-based co-head of financial-industry ratings at ICRA Ltd., the local unit of Moody's Investors Service. "SBI is not different."

SBI shares have dropped 32 percent over the past year, to 1,513 rupees, dragging the bank's valuation to 0.8 times book value, an estimate of the worth of its assets. That compares with 0.6 times for the CNX PSU Bank Index, which tracks 12 government lenders including SBI, and the S&P BSE Sensex Index's multiple of 2.5, data compiled by Bloomberg show.

Net income at the lender fell 34 percent in the three months ended Dec. 31 to 22.3 billion rupees, the lowest in nine quarters, as provisions for defaults rose 24 percent, SBI reported on Feb. 14. Return on equity slumped to 11 percent in the nine months to Dec. 31 from 17.7 percent a year earlier. Reporting the same ROE for the business year that ends next month would be the lowest level since March 1999.

Part of what's needed to improve SBI's performance may remain outside Bhattacharya's control. India's economy is set to grow at 4.9 percent in the year to March 31, compared with a decade-low 4.5 percent the previous year, the Statistics Ministry said in a report this month.

"It will help if India's economy revives," Bhattacharya said. "If the growth doesn't pick up, the situation will become more difficult. But we will keep doing what we can to minimize the pain."