

PNB fraud may wipe out profit

Burden of credit:PNB may have to bear liability for issuing LoUs in favour of 3 firms run by Nirav Modi. Shashi Ashiwal

The Rs. 11,500-crore fraud at state-owned Punjab National Bank (PNB) could have a significant impact on its profitability, which is already under pressure due to an increase in bad loans.

Not too long back, in the January-March quarter of 2016 (FY2015-16), the lender had reported a record quarterly loss of Rs. 5,370 crore due to a jump in bad loans. As part of its plan to bolster capital at state-run banks, the government had recently decided to infuse into PNB Rs. 5,473 crore, which is less than half the amount involved in the fraud.

The country's second-largest lender had reported a net profit of Rs. 1,134 crore for the first nine months of the current financial year — a growth of only 6.7% over the same period of the previous year. The bank reported gross non-performing assets of Rs. 57,519 crore as of end December, which was 12.1% of its total advances.

Since PNB had issued Letters of Undertaking (LoUs) in favour of three companies run by Nirav Modi — Solar Exports, Stellar Diamonds and Diamond R Us — for availing buyers' credit, PNB may have to bear the liability and pay the other banks such as Allahabad Bank and Axis Bank.

"We are already in discussion with all the lenders," Sunil Mehta, MD & CEO of PNB, said at a news conference. "If the entire onus is on us, we are not going to back away from it. We don't have any funded exposure as of now, but whatever is our liability that will be worked out under the investigation... we will take action," he said.

Banking sources said PNB had already made some payments to other banks.

'Weak systems'

"The amount involved is substantial," Edelweiss wrote in a note to its clients. "But more worrying is the stark process lax and repeated instance of similar frauds.

"PSU banks continue to grapple with weak systems, raising questions on why the processes are not centralised, unlike most private banks where bypassing CBS [core banking solution] is not easy," Edelweiss said.

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