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# Asset reconstruction companies no relief for banks that look to sell bad loans

By ET Bureau | Oct 28, 2015, 04:00 AM IST

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By **Saloni Shukla**

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MUMBAI: State-run banks that hoped to overcome their **bad loans** problem through sale to **asset reconstruction companies**

(ARCs) remain empty handed at the end of the first half of the fiscal. ABG Shipyard and Bilcare were among dozens of companies whose debt no reconstruction company was willing to buy as the blame game between banks and stressed asset buyers heated up.

Banks, whose stressed assets are estimated to be more than 10% of their total loans, are unwilling to lower their asking price as their assets remain valued at 2008-10 levels, say asset reconstruction firms. Banks say that reconstruction firms are so poorly capitalised that they can't do a meaningful job of helping the banking system recover.

Of the nearly Rs 50,000 crore of bad loans put up for sale, just about Rs 6,000 crore had buyers, including for assets such as Karaikkal Port, and Neptune group of companies, said executives.

Last year, banks put up over Rs 75,000 crore on the block and managed to sell Rs 20,580 crore worth of assets only, data from the industry shows.

In fiscal 2014, Rs 1.25-lakh crore bad loans were put up for sale out of which they sold Rs 22,660 crore. "Banks will have to readjust strategies rather than spraying everything," said Vinayak Bahuguna, MD & CEO of ARCIL, which bought bad loans worth less than Rs 500 crore in the last two quarters. "Banks will have to get wiser on how they ought to conduct the sale. But by putting everything out at one go and by putting reserve prices that don't meet market expectations, it doesn't serve anyone as deals don't get done."

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**Banking industry** remains hobbled by bad loans as the mechanism of selling them to

ARC, which recovers them by selling, has not proceeded as the regulators thought.

Most of the restructured loans have [interest rate](#) added to the value of the asset over the past few years. But these assets in fact have lost value even at the cost level. If an asset was valued at Rs 100 crore five years ago and it had turned bad, banks over the years add the interest rate due and value them at Rs 150 crore. But potential buyers look at the project as incomplete and given that it would need fresh [investments](#), say it is worth just about Rs 80 crore. So it is impossible for the both to meet.

Furthermore, banks say that reconstruction firms just don't have enough cash to buy assets. "ARCs are short of capital, until a strategic investor brings in money they will be starved of funds to buy these junk assets," said RK Takkar, ED, [Dena Bank](#) BSE -2.97%. "Most ARCs have exhausted all resources. I don't foresee lot of bad loan sale in current financial year."

The performance of ARCs has not been satisfactory either. ARCs issued security receipts worth Rs 20,410 crore in FY14 and that number went up to Rs 22,440 crore in FY15, RBI data shows. Meanwhile, the security receipts redeemed by the reconstruction companies stood at Rs 1,190 crore in FY14 and Rs 1,650 crore in FY15. Security receipts are issued by reconstruction firms against the receipts which are redeemed after the assets are sold by the ARCs.

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