

Bad loans mountain grows, risks delaying bank clean-up

Reuters



MUMBAI, Oct 10:

Stressed loans in India's banking sector crossed \$138 billion in June, central bank data reviewed by Reuters shows, an increase of nearly 15 per cent in just six months that suggests a state clean-up effort will take longer and cost more than expected.

Fixing the mountain of bad debt weighing down India's banks is vital for Prime Minister Narendra Modi's government to revive weak credit and investment growth and put a faltering recovery in Asia's third largest economy on a firmer footing.

India's central bank has set a March deadline for banks to fully reveal problem loans on their books. When lenders disclose bad loans, they need to take writedowns that hit their bottom line and eat into equity.

The latest data obtained by Reuters through a right-to-information request showed stressed loans rose to Rs 9.22 lakh crore (\$138.5 billion) as at end-June, from Rs 8.06 lakh crore (\$121 billion) in December.

The end-December \$121 billion figure has been cited by the government and bankers as the peak of stressed assets in the banking sector.

Stressed assets include both non-performing loans (NPLs) - defined as those that have not been serviced for 90 or more days - and restructured or rolled over loans, where banks have eased interest rates or the repayment period.

India's nearly two dozen state banks, which dominate the sector and account for 88 per cent of the bad loans, already need \$27 billion in new equity capital by March 2019 to meet tougher global banking rules known as "Basel III".

Balance sheet clean-up

The surge in stressed loans will mean banks need even more cash to shore up their balance sheets - funds that will have to come from the government as their ability to raise money through stock or bond sales is constrained by low profits and poor valuations.

State-run lenders accounted for about \$122 billion of the total stressed loans as of June, while private sector lenders had \$14 billion, according to the central bank data. Local operations of foreign banks had about \$2.3 billion in stressed loans.

Bankers have previously said that, while the number of non-performing NPLs kept rising after an asset quality review ordered by the central bank earlier this year, the overall number of stressed loans was not going up - instead, loans earlier restructured were falling into the NPL category.

The numbers obtained by Reuters, however, show the overall number of stressed assets continuing to rise.

"The impression we have is that the numbers are certainly going to go up," said Saswata Guha, a director at Fitch Ratings, which estimates Indian banks' total capital requirement to be as much as \$90 billion through March 2019, with state banks accounting for the bulk of it.

Guha estimated NPLs in the current financial year would rise by 35 to 40 per cent. For the state banks it would be much higher, he said.

"The pressure of provisioning is going to be very, very significant," Guha said. "I won't be surprised if some of the banks continue to report losses in the coming quarters."

Most analysts reckon the struggling state-run lenders will need far more than the \$10 billion the government plans to inject into them over a four-year period to March 2019.

The government has yet to specifically say if it will raise the cash injection, but Finance Minister Arun Jaitley has said the administration was solidly behind the banks.

As focus on cleaning up banks has intensified, credit growth has fallen to two-decade lows, threatening economic expansion and investment.

Economic growth slowed to 7.1 per cent in the April-to-June quarter, below the 8 per cent level seen as necessary to maintain full employment and challenging Modi's pledge to create 250 million jobs over the next decade.

More pain to come?

NPLs as part of the stressed loans total jumped to about \$101 billion, from \$65 billion in December.

Adding to the banks' woes, the data shows another Rs 1.93 lakh crore (\$29 billion) worth of loans as of June that were not yet classified as "stressed" but on which borrowers are more than 60 days behind on interest or principal payments, putting those at high risk of becoming NPLs.

The central bank and the government have announced new schemes to tackle stressed assets, albeit with little success yet.

A debt-for-equity swap scheme unveiled by the central bank has found few takers, although a host of foreign investors have this year announced investments in Indian distressed debt after an easing of regulations by the government.

India's newly-appointed central bank Governor Urjit Patel has said the regulator will deal with the bad loans situation with "with firmness but also with pragmatism".

Patel's predecessor Raghuram Rajan, who had ordered the asset quality review and called for a "deep surgery" of the bad loans, had been criticised by some that the excessive focus on clean-up was choking credit growth. (\$1 = 66.5919 Indian rupees)

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