

Ministry to banks: Guide steel units out of their stressed state

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RBI schemes yet to show results; leveraged firms hurting lenders

Mumbai, October 23:

With RBI's schemes for speedy resolution of distressed assets yet to show results, the Steel Ministry has under-scored to banks the urgency of guiding steel units out of their current stressed state.

The Ministry wants long-term measures drawn up for turning around the steel sector's fortunes, said a senior public sector banker privy to the development.

According to the Reserve Bank of India, a mapping of the risk profile of select sectors as at end-March showed that the iron and steel industry was not only highly leveraged but also bent by the interest burden.

Despite the levy of Customs/safeguard duties and imposition of floor prices, import of iron and steel had risen in 2015-16 in volume terms, impacting the domestic industry.

According to the central bank, the iron and steel industry is among the half a dozen industries where the percentage of 'leveraged weak' companies is relatively high.

The RBI has already warned that such highly leveraged companies with low debt-servicing capability can exert pressure on the already strained asset quality of banks in adverse situations.

A macro stress test of sectoral credit risk by the RBI revealed that in a severe stress scenario, among the select seven sectors, the iron and steel industry (which had the highest gross non-performing assets ratio, GNPA, at 30.4 per cent as of March 2016) could see its GNPA moving up to 33.6 per cent by March 2017.

As per the latest RBI data on industry-wise deployment of gross bank credit, iron and steel sector loans amounted to ₹3,10,900 crore on August 19, 2016 against ₹3,11,500 crore as on March 18, 2016.

For speedy resolution of distressed assets, the RBI, had over the last two years come up with a variety of schemes by which 'a more sensible capital structure can be crafted for projects'. These included the 5/25 (flexible structuring of long-term project loans to infrastructure and core industries) scheme, Strategic Debt Restructuring, and the Scheme for Sustainable Structuring of Stressed Assets.

Bankers say the effectiveness of each of these schemes in turning around distressed assets through improvements to operational efficiencies and creating the right capital structure is yet to be proven.

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12

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