

‘Dealing with stressed assets will require skill and creativity’

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Modified S4A guidelines by October-end; will deal with NPA situation with firmness and pragmatism, says RBI Governor



RBI Governor Urjit Patel PAUL NORONHA

Mumbai, October 4:

The RBI has decided to treat ‘that’ portion of debt which is found to be sustainable, as a standard asset (subject to conditions), while dealing with loans. It plans to issue detailed guidelines on the issue by end-October.

The move is aimed at providing an avenue for reworking the financial structure of entities facing genuine difficulties and requiring coordinated deep financial restructuring. The Scheme for Sustainable Structuring of Stressed Assets (also called S4A) provides flexibility in restructuring, which may involve material write-down of debt and/or making large provisions under a credible framework.

RBI Governor Urjit Patel said: “The NPA situation is an important issue for the RBI in India. We will deal with the situation with firmness but also with pragmatism so that the economy does not feel any lack of credit to support growth in the economy. But we must remember that this situation has not occurred overnight and therefore will require skill and thoughtful endeavour to resolve.

“There are four stages — the identification, recording and reporting of this subject has been done satisfactorily. But resolution, which is the fourth leg, is something that we need to work more (on). In fact, back in 2007 and 2008, the banking sector lent their balance sheets to support the investments in infrastructure. Just five sectors contribute 61 per cent of the stressed assets of the banking sector — infra, steel, textiles, power and telecom.

“The sectors are each individually important and dealing with stressed assets will require skill and creativity. We will move at various levels to address the situation and we have indeed done so. We are working with the banks and the government on the subject. As you know, we have been at the forefront of improving creditor rights in India — the Bankruptcy Bill is an example of this, but like all legislations, (this too) will take some time to settle. The RBI and the government will work together to deal with some of the issues that emerge.”

The RBI said that banks which have taken up cases for resolution under the S4A have represented that the asset classification norms under the S4A may be reviewed to make the scheme more effective.

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