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Bad loan targets collateral damage amid cash crunch

By [Sangita Mehta](#), ET Bureau | Updated: Dec 06, 2016, 01.41 AM IST

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MUMBAI: Banks are so busy trying to cope with the cash crunch caused by [demonetisation](#) that the critical task of going after bad loans is falling by the wayside. Not only that, lenders are worried that the concomitant slump in asset values means that collateral is depreciating, making things worse.

Earnings in December quarter could therefore look even worse than they've been in the past few quarters, not due to a rise in defaults but because decisions are pending on debt restructuring and the conversion of loans into equity. Balance sheets have suffered ever since the [Reserve Bank of India](#) last year started pushing banks to recognise bad loans, provision for them and set their house in order.

Lenders have to decide on debt recasts to the tune of more than Rs 1 lakh crore, including those of [Essar Steel](#), [Bhushan Steel](#), [ABG Shipyard](#) and scores of others as officials struggle to meet customers' need for cash, said three people with knowledge of the matter.

"We had to rise to the occasion and deploy staff in the front office. Therefore, recovery of bad loans suffered but now we will strive towards meeting the target," said [Bank of Maharashtra MD](#) and CEO R Marathe.

The lack of cash has led to a drop in demand, thereby causing the value of assets used as collateral to fall, some experts said.

After Prime Minister [Narendra Modi](#) announced the scrapping of Rs 500 and Rs 1,000 notes on November 8, bankers cancelled meetings with large borrowers to deal with the currency crisis. Almost 90% of employees at branches have been drafted for the exercise, with even top executives pulled in to coordinate.

An added concern on recovery targets is that many employees at banks and borrowers will be going on a year-end break in the second half of December.

But now some banks are moving corporate banking officers back to their primary roles.

"Last week, we received an order from the head office to get back to normal business of recovery of bad loans," said a senior official of state-owned [Punjab National Bank](#), which has set a recovery target of Rs 10,000 crore for the second half of the current fiscal year.

An unintended consequence is that some small traders and those running mid and small-sized companies are repaying loans with old currency.

"A few banks are able to recover some written off amount of old debtors," said [Parag Jariwala](#), vice president, institutional research, Religare Capital Markets. "The reason being that these borrowers are getting their arrears from other parties in old currency to clear debt. This is good for banks but the amount is very small."

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