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Bad loans: Banks will need deep, preventive surgery?

By *Sidhartha*, TNN | Updated: Feb 25, 2016, 11:28 AM IST

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NEW DELHI: The RBI may have opened the floodgates of bad loans, but banks have been witnessing the rise of such loans to the above-danger mark for a while- and they are likely to stay at that level for some more time. That is why the central bank is keen to perform not just a 'deep surgery', as the governor Raghuram Rajan suggested, but also a preventive incision.

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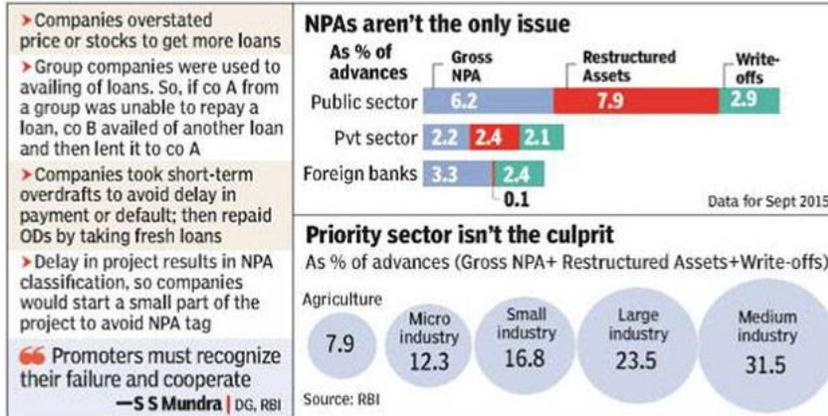
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The magnitude of the problem can be assessed from the fact that just 60 companies - that include [Essar Steel](#), [Jaypee Infratech](#), Bhushan Steel and Alok Industries - were the cause of over Rs 10,000-crore loss to eight banks during the October-December quarter. A hit of similar size is expected in the current quarter (ending March 2016) and beyond since the RBI has asked banks to set aside funds for potential losses for at least five quarters. So, expect more bonfires of bad loans in the next quarter and after.

Particularly under the scanner are loans given to 40-odd companies that have undergone restructuring. Over the four quarters of 2016-17, banks will have to set aside funds, known as provisioning, on loans extended to companies, including ABG Shipyard, Jindal Stainless, Bajaj Hindustan and Consolidated Construction even though payments from them are not overdue. "Bank will have to set aside funds just as they do for NPAs but will not classify them as NPAs," said a banker.

Lenders have been forced by the RBI to classify several companies, ranging from small biomass-based power plants to large steel sector borrowers as NPAs as part of the clean-up drive. "There are 120-130 companies, where the RBI wants us to be cautious and set aside funds to ensure that there is cushion in case something goes wrong," said an executive at a state-run bank, which has reported losses. The RBI has provided a list of companies specific to each bank comprising 20-25 loan accounts, bankers told TOI.

WHAT RBI'S REVIEW FOUND



Sources said Bhushan Steel, with cumulative borrowings of close to Rs 40,000 crore, and Jaypee Infratech with loans of over Rs 7,000 crore at the end of March 2015, are on the RBI list, where banks have been asked to make additional provisions.

The RBI zeroed in on the loans after an asset quality review for 2014-15. The review found that while some lenders had classified loans to a company as an NPA, others had not. For instance, Bank of Baroda, Bank of India, HDFC Bank, HDFC and Union Bank had classified Essar Steel, which had loans of nearly Rs 40,000 crore, as an NPA at the end of

September 2015. But other banks had not, even though loan repayment was irregular. The RBI action forced all banks to make a provision in the December quarter.

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