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RBI targets truant borrowers, extra provisions for NPAs to hit bank profit in Q3, Q4

By [Sangita Mehta](#), ET Bureau | Updated: Jan 12, 2016, 04:58 PM IST [Post a Comment](#)

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MUMBAI: The December and March quarter earnings of state-run banks may turn out to be the worst in years as they have been mandated to set aside funds not only on loans that aren't being repaid on time, but also on those that have shown signs of weakness on the books of other lenders.

This follows meetings that the Reserve Bank of India has held with banks, said two senior officials who attended the meeting.

"Senior Reserve Bank of India officials have met top managements of banks directing them to make additional provisions on corporate loans in order to bring about uniformity in treatment of non-performing assets (NPAs) and (stop) promoters that are gaming the system," said one of them. "RBI officials held a series of (such) meetings last fortnight."

A month ago, the RBI drew up a list of 150 truant borrowers and directed banks to downgrade loan accounts on the grounds that using different measures to declare an account holder a defaulter was unacceptable.

The move comes within weeks of RBI governor [Raghuram Rajan](#) projecting that banks' books will be cleaned up by the end of fiscal 2017. Commercial banks, particularly state-run ones, are saddled with a higher proportion of loans under stress, which is eating into earnings. Close to Rs 49,666 crore of earnings were set aside as

provisions by listed banks in the first half of this fiscal year and analysts expect this to go up by at least 50% in the third quarter.

The list of 150 accounts drawn up by the RBI have been broadly categorised into three:

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1. Browsers regarded as standard in the books on technical grounds but are actually facing stress
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The RBI told banks recently that they have to make provisions on all the accounts that are listed.

"Banks have to fully provide for the first list in the December and March quarters where the borrowers are in stress but the account is kept standard only technical grounds, such as paying the critical amount on the due date," said a senior banker who did not want to be named.

On those in the second list, RBI has said the divergence among banks on classification of loans is not acceptable. It has asked all banks to make this uniform based on the date of completion of the project, technically known as Date of Commencement of Commercial Operations or DCCO in banking parlance.

The RBI rule says that a bank has to classify a loan as an NPA if there's a delay in commissioning of the project even if payments are being made on time. However, in the case of infrastructure companies, loans can be classified as standard accounts for two years from the original DCCO. Here too the RBI has called for uniformity as RBI observed difference in classification among banks for same project.

With regard to restructured loans, RBI has asked banks to downgrade accounts where promoters have not met commitments on pledging shares or creating a security on the additional loan even if it's shown as a standard loan. On the second and third list, RBI has told banks to make a provision of 5% of the loans by March 2016 and 2.5% every quarter in the next fiscal year.

Listed banks earned a net profit of Rs 37,251 crore in the first half of this fiscal year while gross NPAs touched Rs 3.5 lakh crore.

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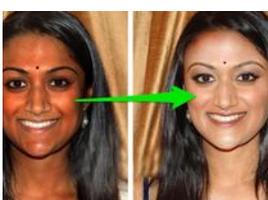
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