

Rejig schemes may mask true picture of bad loans: report

Our Bureau

Asset quality to remain vulnerable in the second half of FY16

Mumbai, January 19:

The true extent of stress in banks' asset quality will remain masked due to flexible structuring mechanisms, such as 5/25 and strategic debt restructuring (SDR) schemes, allowed by the regulator, says a Crisil-Assocham report.

The report titled 'Indian banking sector: The changing landscape' estimated that Rs. 80,000 crore of stressed loans could be structured under the 5/25 scheme during fiscal 2016.

In the first half of the fiscal, around Rs. 50,000 crore of assets have been restructured via the scheme.

However, both 5/25 and SDR schemes have the potential to mask the true picture of asset quality of stressed accounts in the banking system.

The study says that about 15 per cent of assets structured via the 5/25 method is likely to slip into non-performing assets (NPAs) over the medium term.

It also observed that the ability of banks to successfully execute the SDR scheme by finding new buyers within a span of 18 months from the time of conversion of debt to equity is yet to be demonstrated.

The 5/25 scheme allows banks to fix longer amortisation periods for loans given to projects in infrastructure and core sectors, say 25 years, based on the economic life or concession period of the project, with periodic refinancing, say every five years.

SDR allows lenders under the aegis of the Joint Lenders Forum the option to convert their existing loans into equity in order to collectively become majority shareholders of a borrower company which fails to meet the milestones set up under a restructuring package.

The study estimated that large exposures of banks remain at risk, with power (about Rs. 75,000 crore), roads (about Rs. 63,000 crore), real estate (about Rs. 30,000 crore) and steel among sectors where banks have the largest exposures. The slippages are expected to remain high at 3.2 per cent of the banking sector's advances in fiscal 2016.

The study expects asset quality to remain vulnerable in the second half of fiscal 2016 with gross NPAs and weak assets for the sector touching 4.6 per cent and 6.3 per cent, respectively, as on March 2016.

(This article was published in the Business Line print edition dated January 20, 2016)

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