

04:05 PM 06 JAN MARKET STATS ▾	SENSEX 26,759 ▼ -119.01	NIFTY 50 8,244 ▼ -30.00	GOLD (MCX) (Rs/10g.) 27,883 ▼ -65.0	USD/INR 67.96 -0.00	CREATE PORTFOLIO	Download ET MARKETS APP	CHOOSE LANGUAGE ENG
--	-----------------------------------	-----------------------------------	---	-------------------------------	-------------------------	--------------------------------	------------------------

Depreciation account: In NPA drive, banks sitting on a scrap head

By [Saloni Shukla](#), ET Bureau | Apr 13, 2016, 04.00 AM IST

[Post a Comment](#)

Last year, banks, in the course of recovering thousands of crores of rupees due, got just Rs 22 lakh from the sale of an 'asset' — not a piece of land in a remote corner of the country or a used Audi or Mercedes car, but for a defaulter's private aircraft that costs crores of rupees. Years of wait for a court ruling had rusted the machine and it had to be sold to a scrap dealer instead of someone who could have used it.

RELATED COMPANIES

[EXPAND](#)

[Kingfisher...](#)

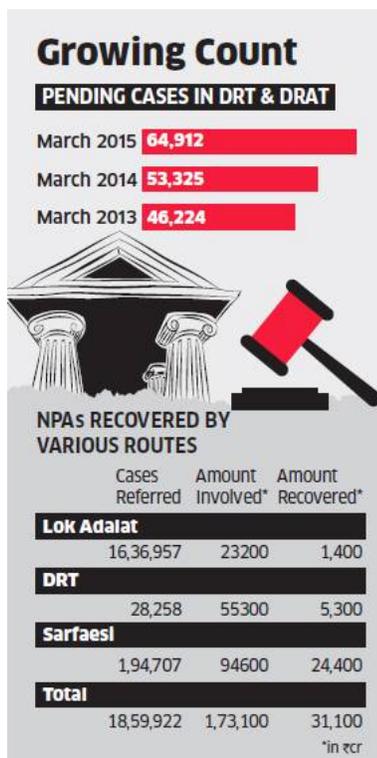
Similarly, on the premises of a locked-up, dusty four-storeyed building near Mumbai's busy Santa Cruz airport lie nine rusting cars, scores of air conditioners and broken tables and chairs. These are among assets banks have to sell to recover Rs 9,000 crore from [Vijay Mallya](#) for defaulting on loans to [Kingfisher Airlines](#), but they again may end up as scrap by the time verdicts are given.

As bankers to politicians to investigators to regulators pass the parcel on the sordid story of banks' bad loans, things such as the legal framework and it's functioning, and the freedom for bankers to act in the interests of the depositors are missing. Most of the time, an asset loses almost all its value and invariably ends up as scrap by the time lenders' get a court verdict in their favour.

"In India, we have a lot of industrial parks that are full of empty sheds," Reserve Bank of India Governor Raghuram Rajan said recently. "Those sheds are not empty because we don't have entrepreneurs who need space.

They are empty because there is some dead firm that is not allowed to die, which is the living dead. It is not allowed to go out of business. It has a hold over that shed. Can we terminate it for the benefit of all concerned and put in a new entrepreneurial firm in that shed?" Governor Rajan's lament points to the difficulties bankers face in throwing out failed businessmen, arrive at a market determined price for an asset even if it is lower than the original value, find a buyer for it and get it running again. Right kind of laws, a judicial system that acts quickly, a state vigilance team that understands business are the need of the hour.

The average duration for unwinding a failed business in India takes some 4.3 years compared to the South Asian region's average of 2.6 years. In India, recovery value is limited merely to 25%, while, in more efficient bankruptcy jurisdictions, the recovery value is greater than 60% in 1.8 years Even if bankers act swiftly, the inordinate delays and the peculiar system of keeping assets unused as disputes linger lead to deterioration in the proportion of dues that banks can collect.



Pending cases in Debt Recovery Tribunals rose 57% to 72,506 in December 2015, from 46,224 in 2013, data presented in [Lok Sabha](#) show. The amount involved is about Rs 4 lakh crore, almost reflecting the bad loans number. Against Kingfisher, there are more than 20 cases pending since 2012, on which courts have conducted over 500 hearings, and made 180 adjournments.

"Implementation of timelines in DRT and Sarfaesi cases has been a big problem, the defaulters take adjournments and unfortunately the process gets prolonged," said Birendra Kumar, MD, International Asset Reconstruction Company. "Many of the benches in DRT and DRAT today have no presiding officers, recovery officers or chairman.

There is so much crowding of cases. There is an absolute need to fill up current benches are set up new ones." Stressed assets have surged to over 11% of total loans and will only increase. Banks could report losses of Rs 74,900 crore by the time their clean up their books by March 2017, according to ratings company Moody's.

"Even if one obtains an order from the DRT court, the same is subject matter of appeal in DRAT (Debt Recovery Appellate Tribunal)," Zulfikar Memon of MZM Legal says. "And then the high court and the Supreme Court, which may take years, frustrating the entire purpose of attaching a property. The amount of money banks spend on litigation is also booked as losses."

Bankers and asset reconstruction companies are worried as the condition of scores of steel and other plants are deteriorating. While business case itself has brought down their value due to their poor cash flow generation, a lengthy shutdown results in them being taken only at scrap value.

"For some reason if you are not able to sell the asset, may be the prices have come down, may be the borrower has got a stay, may be you don't get a buyer. Ultimately, the longer the delay, the more the fall in the value," Kumar said. The proposed Bankruptcy Bill has many welcome changes for the way banks can get back their money. It provides a level playing field and enormous amount of power to creditors — government agencies such as the [Income Tax](#) and Excise departments will be placed even below the unsecured creditors.

It proposes a timeline of 180 days — extendable by 90 days — to deal with applications for resolving cases of insolvency. During this period, the management of the distressed firm or debtor could be placed in the hands of a resolution professional — a new class of professionals equipped to deal with such cases, which would be supervised by a proposed new regulator.

While the bankruptcy law winds through Parliament and government sets up the infrastructure, the administration has accepted the need to boost bankers' morale. "We have to create both political and economic environment for banks to have a healthy recovery," says Union finance minister Arun Jaitley.

"And that can't take place in an environment of suspicion. Amendments to the Prevention of Corruption Act, and an ombudsman-like mechanism is on the anvil. These both will help. This would be a body which would cushion bank officials on settlements," he said.

But as these take time to become effective, banks brace for huge erosion in the value of the defaulters' assets they own, including factories and rusting office equipment.

"The large borrowers could at least till recently thumb their noses at the creditors," said Rajan. "And, the creditors found it very hard to get their money back. Fortunately, things are changing."

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Live Market	News	Portfolio	Mobile	Live TV	Newsletter	Commodities	Speed	QnA	Blogs	Alerts	RSS
Other Times Group news sites Times of India इकनॉमिक टाइम्स छंदीनामिस टाइम्स Mumbai Mirror Times Now Indiatimes नवभारत टाइम्स महाराष्ट्र टाइम्स ವಿಜಯ ಕರ್ನಾಟಕ Lifehacker Gizmodo Eisamay IGN India NavGujarat Samay	Living and entertainment Timescity iDiva Zoom Luxpresso Gaana Happytrips Cricbuzz Get Smartapp	Hot on the Web Budget 2017 Sensex, Nifty Live Year-End Special 2016 UP & Punjab Assembly Elections 2017 Live: Currency Demonetisation Gold Rate RBI Monetary Policy	Services ads2book Gadgetsnow Free Business Listings Simplymarry Astrospeak Timesjobs Magicbricks Zigwheels Timesdeal dineout Filmipop Remit2india Gaana Greetzap Techradar Alivear Google Play								