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# Exercise caution while giving loans to discoms: RBI to banks

By [Sangita Mehta](#), ET Bureau | Updated: May 12, 2016, 04.13 PM IST

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MUMBAI: The Reserve Bank of India (RBI) has cautioned bank from lending more power distribution companies, or discoms.

In a recent letter to select state-owned banks, the regulator has advised banks to "exercise caution in giving new loans to these utilities, reminding them that "any additional exposure to discoms will result in ever-greening" and "invite supervisory measure."

RBI has also directed banks to categorise existing loans to discoms as non-performing assets, or bad loans which attract provisioning.

The central bank's missive would add Rs 1.09 lakh crore to the already large pool of bad loans in the banking sector. As on December 2015, gross NPAs - quantum of bad loans prior to provisioning - of listed banks crossed Rs 4 lakh crore.

Banks total credit outstanding to discoms is Rs 4.37 lakh crore exposure. In November 2015, the government had launched UDAY - or, Ujwal Discom Assurance Yojana scheme - to revive the financially ailing discoms.

According to the scheme, 75% of the loan would be converted into **bonds** by end of March 2017 while the balance Rs 1.09 lakh crore would be treated as loans.

The interest return on the bonds and loans would be lowered to 0.1 percentage point mark up over base rates of respective banks, from 14-15%.

Since any concession to a distressed borrower - such as relaxing the repayment terms of loans and reduction in **interest rates** -- is considered as 'restructuring', the loan have be classified as NPA, as per RBI rules. Also, banks have to set aside 15% from their **earnings** as provisions. In the letter to bank chiefs, RBI has instructed them to provide for loans to discoms (that are not converted into bonds) by March 2017.

A back of the envelope calculation shows that the banking sector will have to provide around Rs 16,000 crore - a direct hit on the bottimeline - on account of loans to discoms.

This will also be unusual case where an account -discom- will be classified as standard and sub-standard loan. Senior bank officials who did not want to speak on record that provisions could create a deep hole in their books at a time when they are struggling to recover large value loans from defaulters.

Banks will not be required to make any provisions on the bonds as RBI has allowed them to be parked in the held to maturity category which are not required for mark-to-market. This because respective state governments will takeover the debt from discoms to their books

On April 22, RBI said that 8 states have converted part of their loans into bonds amounting to Rs 98959 crore.

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