

It'll be foreign funds all the way to buy bank bad loans: Arcil CEO

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Says there's no money locally; NPAs seen surging to Rs. 10-lakh crore

Mumbai, May 8:

Asset Reconstruction Company (India) Ltd, the country's oldest buyer of stressed assets from financial institutions, said it is looking to tie up with foreign investors to fund the huge bank bad loan buys.

Arcil said it would explore the possibility of selling a stake to foreign investors, including private equity firms, or even float joint ventures with them to buy the bad loans. Banks have been increasingly putting chunks of bad loans on the block to meet the Reserve Bank of India's March 2017 deadline to clean up their balance-sheets.

"I see money coming in from overseas. I don't see money available locally. Banks don't have the (financial) ability today and the NBFCs are already leveraged," said Vinayak Bahuguna, CEO and MD of Arcil.

As announced in Union Budget 2016-17, the Centre on Saturday decided to allow 100 per cent FDI in asset reconstruction companies (ARCs) via the automatic route.

"So, where is the money here? Who is going to give it to you? It is going to be foreign capital, 99 per cent... all the way," Bahuguna said.

Industry body Assocham says stressed assets of the banks may soar to ₹ 10-lakh crore in the fourth quarter of the current fiscal from ₹ 8 lakh crore in December 2015. This is largely due to the slowdown in certain sectors, such as iron and steel, infrastructure, and textiles, and the RBI clamping down on provisioning norms.

The Arcil chief said: "Let us face it. The non-performing loans (NPL) situation has come to this because the banks couldn't manage it... Okay, they (bankers) may turn around and say the ARCs also don't have the wherewithal to manage it. Maybe, this is right... I can't manage a ₹ 20,000-crore project. I just don't have either the capital or the bandwidth or even people skills for that matter to manage projects of that scale."

"But there are global investors who have the ability. So, why are we pretending that we can find a solution for the bad loans? We can't. There is no solution without a third party."

Capital has been a constraint for ARCs, especially after they were asked to have more skin in the game. Since August 2014, ARCs are required to invest and hold 15 per cent (5 per cent earlier) of the security receipts issued by them to banks.

In dialogue with investors

Bahuguna said: “We are now going to begin a dialogue with some of these third parties to consider our respective roles, whether through direct participation (of foreign investors) in Arcil or some other mechanism, like a joint venture.

“In joint ventures, we could position ourselves as asset managers because not everyone has full-fledged teams to manage the acquired assets on the ground... So, we will just have to see how it works.” Currently, State Bank of India (19.95 per cent stake), IDBI Bank (19.18 per cent), ICICI Bank (13.26 per cent), and Punjab National Bank (10.01 per cent) are among the big shareholders in Arcil, which commenced operations in late 2003.

In the revival biz

Asset reconstruction companies buy bad loans from banks and financial institutions

There are 15 ARCs in the country

They are facing capital constraints

Budget 2016-17 has allowed 100% FDI in ARCs

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