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RBI's new debt recast norms credit positive for banks: Icra

By PTI | Updated: Jun 14, 2016, 10.35 PM IST

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MUMBAI: Reserve Bank's new debt recast norms are credit positive for banks and will help in reducing the gross non-performing asset levels by 30-100 basis points after one year, a report said today.

"Implementation of the guidelines would help bridge the gap between the actual expected losses and provisioning cover, therefore it would be a credit positive," domestic rating agency [Icra](#) said in a report here.

The new norms will also help in reducing the reported gross NPA levels by 30-100 basis points, from the current level of 7.7 per cent as on March 2016, after a lag of one year, following satisfactory performance of sustainable debt portion, it said.

RBI yesterday issued guidelines on 'Scheme for Sustainable Structuring of Stressed Assets' (S4A).

The scheme allows banks to bifurcate the debt of stressed borrowers into sustainable and unsustainable portions.

Under the norms, banks are required to maintain a minimum of 20 per cent provision on the total loan outstanding or 40 per cent of the unsustainable portion of the debt at the time of S4A.

Banks have to provide 100 per cent of the expected losses on unsustainable portion (in excess of the minimum requirements prescribed, that is 20 per cent of total or 40 per cent of unsustainable portion) over the period of four quarters.

As for provisioning requirement, while there will be no immediate relief to banks, the norms are likely to reduce incremental provisioning requirement substantially over next 1-5 years provided sustainable portion of debt is serviced satisfactorily and there is no further decline in fair value of non-sustainable portion.

"Banks with higher provision cover on stressed accounts (stressed borrower specific provisioning) are likely to benefit more," the report said.

Borrowers in power and steel sectors could be main beneficiaries of the scheme.

The report, however, said the norms could cause some moral hazard issues as banks start taking large haircuts (through conversion of debt into equity) on some large stressed accounts.

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