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# Recoveries for banks to start in second half of FY'18

By PTI | Updated: Jun 09, 2016, 04.05 PM IST

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MUMBAI: Lenders' hopes of recovering money from assets qualified as 'bad' recently will come true in the latter half of the next fiscal, once changes in redressal mechanisms are introduced, BofA-ML today said.

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The American brokerage said the banks will keep recognising more stress for up to a year more, but once all the necessary changes including the stressed asset fund become a reality, the recovery process should start.

"We think October 2017-March 2018 could end up surprising us by way of stronger recoveries, especially if get some uptick in the macroeconomy," it said in a note.

Lenders who have posted huge reverses in profitability due to an RBI-mandated increase in stress asset recognition, have been saying that they will work on accounts individually and try to reverse the provisions made for bad assets.

The deeper recognition has led to many banks posting record losses due to the high provisions for bad assets.

In the note, [BofAML](#) said the [NPAs](#) are at its peak and the focus is shifting to recovery of bad assets after the clean-up exercise, which started with the RBI's asset quality review in late 2015.

The RBI had given banks a list of 130 accounts, asked them to classify those as non performing and take the hit in the quarters ended December 2015 and March 2016.

The RBI is targeting to clean up the bank balance sheets by March 2017.

The brokerage said interventions like ensuring that the project gets right capital, a deeper restructuring under the strategic debt restructuring route and also the stressed asset fund which is talked about the most will help in the recovery process.

"While these measures are at an early stage, we think they may significantly aid the process of stress resolution currently underway amongst banks," it said, adding that they will act as an "extra fillip" to recoveries.

Once they get done with recognising the stress, the banks will also get more aggressive in stress resolution and will force the borrowers to cooperate, it said.

It added that measures like the recently passed Bankruptcy Code will also help in stress resolution.

The brokerage said private sector banks and country's largest lender State Bank of India will be the biggest beneficiaries of this exercise, adding that except [SBI](#) all the state-run banks do not have comfortable capital levels.

Nearly 11 per cent of the overall assets in the system are classified either NPA or restructured, following the AQR exercise.

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