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# Top lenders meet RBI brass, seek relaxation in bad loan norms

By [Sangita Mehta](#), ET Bureau | Updated: Apr 14, 2016, 11.03 AM IST

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MUMBAI: Ahead of the March quarter earnings season, which may see many banks' profits collapse, top lenders met the Reserve Bank of India's (RBI) executives seeking relaxation in bad loan norms. But the central bank seems to have stood its ground on the road map to clean up bank books by March 2017. On Tuesday, senior bank officials, led by State Bank of India chairman Arundhati Bhattacharya, sought approval from the central bank that they should be allowed to segregate loans of distressed companies which RBI forced them to recognise in two parts -sustainable loans and unsustainable loans.

They proposed that the sustainable loans could be classified as standard loans, while the unsustainable ones as non-performing loans. The lenders will first attempt to sell the assets of a company to recover dues, failing which they would write off that portion of the loan over a period of time. This would help them provide less for bad loans.

The banking industry , as a whole, may see its profits collapse, with state-run banks' net profit crashing 87% in the March quarter, while private banks may report a 5% growth, forecasts Kotak Institutional Equities. Revenue for private banks may advance 15%. And for state banks, it may fall 3%, it said. Last December, RBI undertook an asset quality review (AQR), where it listed out 150 companies, which are under stress and directed banks to make proactive provisions.

As a result, banks were required to make huge provisions, which took a toll on their bottomline. Due to higher provisions, a number of banks reported record losses -while Bank of India and IDBI Bank reported a loss of Rs 1,505 crore and Rs 2,183 crore, respectively, Bank of Baroda and Indian Overseas Bank posted a loss of Rs 3,342 crore and Rs 1,425 crore, respectively. The AQR would require banks to make higher provisioning in the third and the fourth quarters of 2015-16.

A number of corporates have knocked on the doors of banks stating that they have a huge share of unsustainable debt and have proposed banks to convert that portion into equity.

This has prompted bankers to approach RBI seeking a special dispensation on classification of unsustainable debt.

Thus, for example, if a company has Rs 9,000 crore loans, based on the performance if it is concluded that they can pay just about Rs 5,000 crore, then banks would classify this Rs 5,000 crore as `sustainable ` loans'. The balance of Rs 4,000 crore would be classified as `unsustainable loans' and banks will classify them as bad loans.

RBI's executives have shot down the proposal on grounds that this could be an obstacle in cleaning up bank books. At the same time, the proposal made by the banks shows that lenders are desperate to make every attempt to show better performance, considering that most banks are expected to report losses or a sharp dip in profits in the fourth quarter of 2015-16.

The meeting was chaired by two RBI deputy governors -SS Mundra and R Gandhi.Among lenders, besides the SBI chief, Indian Banks' Association chairman Ashwani Kumar and Dena Bank and senior officials from ICICI Bank and some public sector banks were also present.

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