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Banks write off Rs 2.2 lakh crore in five years, said to be highest ever

BY SATYANARAYAN IYER, TNN | MAY 27, 2017, 10.46 AM IST

PUNE: All scheduled commercial banks (SCBs) wrote off Rs 2,25,180 crore cumulatively in the five-year period ended March 2016, the Reserve Bank of India (RBI) said in an RTI reply filed by TOI.

SCBs represent all public sector banks, private sector banks, foreign banks, regional rural banks and some co-operative banks. These represent over 95% of the formal credit given out by all financial institutions in the country.

"This could be the highest ever write-off in a five-year period in absolute terms as are the total stressed assets in the banking system," said Abhishek Bhattacharya, director and co-head for financial institution India Ratings.

Banks and the RBI have often stated that these write-offs are just technical in nature and an exercise to clean up the balance sheets. They have further argued that banks continue to retain the right to recovery from these written-off accounts.

"Writing off of non-performing assets (NPAs) is a regular exercise conducted by banks to clean up their balance sheets. A substantial portion of this write-off is, however, technical in nature. It is primarily aimed at cleansing the balance sheet and achieving taxation efficiency. In 'technically written off' accounts, loans are written off from the books at the head office, without foregoing the right to recovery. Further, write-offs are 'generally' carried out against accumulated provisions made for such loans. Once recovered, the provisions made for those loans flow back into the profit and loss account of banks," the RBI said in a clarification to a media report, based on an RTI reply in February 2016.

Be that as it may, the recovery from written-off accounts constitute only a tiny fraction of the overall written-off accounts, available data shows. In the financial year 2014-15, banks could recover only 11.85% (Rs 6,968 crore) of the written-off accounts in that year and 13.8% (Rs 9,717 crore) of the written-off accounts in FY 2015-16. The data for previous three years is not available with the RBI, it said.

"The information on recovery from written-off accounts from FY 2011-12 to 2013-14 is not available with us," the RBI said in its RTI reply. Though the amount from recovered loans in FY15 and FY16 might not pertain to that financial year alone, the numbers show the actual recovery to be only a tiny fraction of the total amount written-off and also to be a long protracted process.

In each of these five years, loans written off showed an increasing trend — at an average addition of over Rs 12,000 crore each year. The worst year was FY15, when banks cumulatively wrote off Rs 16,550 crore more than the previous year. Banks reduce written-off loan accounts from their overall non-performing assets.

Adding the same back, the actual gross NPAs at banks could look a lot worse every subsequent year than it already does. Written-off loans accounted for 11-16% of overall bad loans of the bank in each of those years (see table). Since 2011, banks started lending heavily to large corporates and, according to analysts, the problem suddenly became a lot bigger as "corporate leveraged built up".

The traditional tools of recovery like debt recovery tribunals, and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, 2002, have become blunt in the face of such huge bad loans from large corporate accounts.

"Newer mechanisms are needed to deal with these big loans and they have to be dealt with on a going-concern basis. The usual recovery mechanism will not work," according to Bhattacharya. He added, "Recovery will take time and won't happen in a hurry."

The RBI said in its RTI reply that it did not have the required data on the "number" of loans written off by banks and the "sectoral break-up of reduction in NPAs due to write-offs," by SCBs for the years FY12 -16. However, most analysts believe that the bulk of the write-offs were primarily in the large corporate accounts. Also, though the percentage of written-off accounts as a share of NPAs is lower in FY 2015-16, it is primarily because the NPAs grew a massive Rs 2,56, 848 crore in the year.