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India sets rules to push struggling banks to combine with rivals

BY BLOOMBERG | UPDATED: APR 14, 2017, 02:39 PM IST

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By Ari Altstedter and Ameya Karve

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India's banks, staggering under the world's highest bad-asset ratio, may be pushed to wind up or combine with rivals if their [capital](#) levels fall below set ratios under new guidelines issued by the country's central bank.

The new framework would apply to all banks operating in India, including foreign lenders, according to a document posted Thursday on the Reserve Bank of India's website. Along with capital levels, the guidelines will assess a bank's asset quality, profitability and debt levels and allow the [RBI](#) to mandate a range of corrective actions, from requiring the owners or parent to bring in fresh capital, to restricting branch expansion both at home and overseas, to curtailing management compensation and director's fees, according to the statement.

"It's a decisive step toward a consolidation in the Indian banking industry and allows lenders to emerge stronger," Hyderabad-based Rajendra Prasad, an analyst at Karvy Stock Broking Ltd., said by phone. "Lenders will now have to follow best practices in lending, regardless of whether they are state-owned or private, and these steps by the RBI set a path to the survival of the fittest in the industry."

Asia's third-largest economy is being weighed down as soured loans on bank balance sheets hinder credit growth and job creation. Various plans proposed by the central bank to resolve bad debt have been unsuccessful with lenders reluctant to write down assets sufficiently and company owners unwilling to negotiate repayment plans.

Banks where capital adequacy ratio falls below the RBI's threshold may see the firm being merged, or wound up, according to the document on Thursday.



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Stressed or non performing assets -- made up of bad loans, restructured debt and advances to companies that can't meet servicing requirements -- have risen to about 17 percent of total loans, the highest level among major economies, data compiled by the

government shows.

"As usual RBI has woken up after the horse has bolted," said Hemindra Hazari, an independent banking consultant. "Till date all of RBI's NPA recovery mechanisms have totally failed and this too will achieve the same result."

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