

'Top 50 stressed a/cs will need Rs. 2.4 lakh cr haircut'

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This amounts to 60% of the Rs. 4 lakh crore exposure to these accounts: Crisil report



Mumbai, July 19:

Banks may have to take a haircut of 60 per cent, worth Rs. 2.4 lakh crore, to settle 50 large stressed assets with debt of Rs. 4 lakh crore, according to an analysis by credit rating agency Crisil.

The agency believes it would be in the larger interest of the economy to pop the bitter pill of a haircut than kick the can down the road. A haircut is a one-off adjustment whereby lenders agree to settle for a lesser amount when a company struggles to repay a loan.

The 50 large stressed companies are from the metals (30 per cent of total debt), construction (25 per cent), and power (15 per cent) sectors, and account for half of the Rs. 8 lakh crore non-performing assets (NPAs) in the banking system as on March 31, 2017.

The agency estimated that banks have provisioned for about 40 per cent of this loan exposure.

According to the analysis, “The sources of stress are policy or demand (power plants), lower capacity utilisation (steel plants), and over-leveraged balance sheets (construction companies).

“The restructuring tools facilitated by the Reserve Bank of India that the indebted companies had availed of earlier did not help because of very high debt levels that underscore the magnitude of stress.”

Four categories

Crisil has classified the haircuts into four categories — marginal (less than 25 per cent), moderate (25-50 per cent), aggressive (50-75 per cent), and deep (greater than 75 per cent). A quarter of the debt analysed needs marginal or moderate haircuts, while a third needs aggressive, and nearly 40 per cent, deep haircuts.

“Companies from the power sector would require moderate haircuts, while those from the metals and construction sectors would need aggressive ones,” said Pawan Agrawal, Chief Analytical Officer, Crisil Ratings.

The agency observed that the majority of the debt requiring deep haircuts belongs to companies with unsustainable businesses. So, asset sales are necessary to recover monies.

It assessed that companies needing moderate or aggressive haircuts had gone for debt-funded capex but then demand slumped, or they had projects that ran into regulatory issues, leading to significant time and cost overruns that made them unviable.

Companies needing a marginal haircut are those facing temporary setbacks, which could be corrected over time.

'Potential synergies'

According to Ramesh Karunakaran, Director, Crisil Ratings: “Some of these assets offer M&A (merger & acquisition) opportunities for companies with strong credit profiles. Also, potential synergies could allow for a significant reduction in haircuts — an aspect that has not been considered in our analysis.”

On Monday, India Ratings and Research (Ind-Ra) said Indian banks need to provide at least Rs. 18,000 crore additionally towards the 12 accounts identified by the RBI for reference to the National Company Law Tribunal

under the Insolvency and Bankruptcy Code in FY18.

Ind-Ra's analysis pegged the weighted average provisioning currently at 42 per cent by banks towards the 12 identified accounts. The credit rating agency expects the additional provisioning to eat into banks' profits by around 25 per cent in FY18.

This indicates a shave-off in return on assets of 12 basis points in FY18.

Crisil has classified the haircuts into four categories – marginal (less than 25 per cent), moderate (25-50 per cent), aggressive (50-75 per cent), and deep (greater than 75 per cent).

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