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\$30 billion hit looms for Indian banks on new accounting rule

BY BLOOMBERG | FEB 06, 2018, 06.59 PM IST

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By Anto Antony and Divya Patil

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India's lenders, already struggling with \$210 billion of stressed assets, may have to prepare for another hit as early as the coming financial year if new accounting norms kick in as planned on April 1.

The IndAS -- based on the IFRS9 standards created in the aftermath of the financial crisis -- would require banks to make provisions for expected [bad loans](#) instead of the current system where they only cover actual losses incurred. CLSA estimates that would almost double stressed advances, boost provisioning by \$30 billion and consume more than \$26 billion in capital at state-run banks and \$4 billion for private lenders.

"The new Indian accounting standards could result in sizable incremental bad debt provisioning requirements for [Indian banks](#) given their relatively low levels of provision coverage at present," said Nicholas Yap, a Hong Kong-based credit desk analyst at Nomura International (HK) Ltd. "This could pressure banks' capital levels."

Part of the requirement will be met by the government's pledge to inject capital into struggling state-run banks, Yap said. However, lenders outside the ambit of this infusion would have to fend for themselves, depending on the largesse of Prime Minister Narendra Modi's administration or left to face an increasingly hostile global bond market.

The government announced the recapitalization last October when loans were growing at about 7 percent, but the pace has since increased to 11 percent, potentially boosting banks' capital needs. A surge in bond yields is already pressuring profitability at Indian banks.



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Lenders' difficulty in meeting IndAS norms may push the regulator to defer implementation, the Mint newspaper reported last month, citing officials it didn't identify. The Reserve Bank of India didn't answer an email seeking comment. The authority is due to decide on interest rates and announce policy developments at 2:30 p.m. in Mumbai Wednesday.

Hostile Markets

If advances grow more than 7 percent or 8 percent, banks may need 890 billion rupees (\$14 billion) toward additional provisioning even after the recapitalization, India Ratings and Research estimates. Lenders needing cash would probably sell assets outside their core business and issue bonds that don't have a maturity date, said Udit Kariwala, a senior analyst for financial institutions at India Ratings.

He estimates banks would need to sell 530 billion rupees of AT1 bonds -- which are riskier and therefore costlier -- through March 2019. State Bank of India, the nation's largest bank and its only lender to have sold perpetual debt overseas, had cut its deal size to \$300 million from \$500 million after it misread demand in 2016.

"Mid-sized lenders with limited access and appetite from capital markets could face issues," Kariwala said. "These banks would continue to be dependent on government infusions in at least the medium term."

Awaiting Clarity

The transition to IndAS could be easier if the RBI staggers the provisioning impact, and banks are awaiting RBI guidelines on this. Lenders are also seeking clarity on the date of implementation, said Paul Abraham, chief operating officer at IndusInd Bank in Mumbai.

Apart from higher provisions, banks will need to amortize fees -- such as those on loan origination -- over the entire repayment period

rather than book them upfront, he said.

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