Banks may need Rs 2 lakh cr more for NPA provisions, loan book expansion

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Comments

KOLKATA: Indian lenders may need more capital — Rs 2 lakh crore in the very least. Large banks may need the funds in the next six months to a year to expand their loan books and provide cover for a fresh flood of nonperforming assets (NPA), which now threaten to swamp the banking system after the central bank's latest move to scrap earlier restructuring plans and come up with revised frameworks on resolving stressed assets. The capital requirement for the entire banking sector would be much higher.

Twelve large banks — six in the public sector and six run privately — would together have around Rs 2 lakh crore in stressed assets that are not classified non-performing, an analysis done by India Ratings suggested. "Our estimate is that a sizeable proportion of these may not be restructured as per the plan and are likely to get impacted by these guidelines," said Prakash Agarwal, director & head of financial institutions at India Ratings.

For assets under restructuring, the minimum provisioning requirement is 5%. There is no specific requirement for cases under SDR/5:25, though banks may have provided higher provisions on regulatory guidance. "The banks would require Rs 2 lakh crore of capital for making provisions and to chase a modest 8% growth," Agarwal said. The government will be infusing Rs 1.56 lakh crore out of the Rs 2.11 lakh crore in a two-year recapitalisation plan for banks that it owns. Banks must raise the rest from the market directly.

Therefore, public sector banks may need to go back to the government with a hat in hand for capital while private banks may need to tap market more vigorously. Rating agency ICRA BSE 0.77 % said that the latest regulatory move is likely to increase the volume of banks' nonperforming assets (NPA) — and the provisioning requirements to cover them — in the coming quarters. Now, if these loans are classified as NPA and referred to the bankruptcy courts, the provisioning requirements will rise to 50%.

"While in the short-term this will increase the pain for the borrowers as well the lenders, the early identification of stress and resolution will prevent future ever-greening of loans and ensure a good financial health for the banking system in the long term," said Karthik Srinivasan, group head for Financial Sector Ratings, ICRA.

"The previous restructuring schemes were not effective because banks began restructuring loans which probably would never perform as there was reluctance to take haircuts in resolution. Hence, the policy of kicking the can was convenient where no decision had to be taken," said Madan Sabnavis, chief economist at Care Ratings.

The extent of fresh NPAs and provision is likely to be an outcome of the implementation of the resolution plan for large borrowers that are currently under Special Mention Accounts (SMA) categories. If the banks are unable to implement resolution plans for the large borrowers with exposure of Rs 2,000 crore and above, these accounts will require to be referred to the National Company Law Tribunal for resolution under Insolvency and Bankruptcy Code (IBC), 2016.

To prioritise the resolution in large stressed accounts, the timeline for large borrowers with exposure of Rs 2,000 crore and above needs to have a resolution plan with ICE approved by CRA before September 1, 2018, in absence of which banks will need to initiate bankruptcy proceedings against these borrowers under IBC. For accounts more than Rs 100 crore but less than Rs 2,000 crore, the RBI will announce the timelines separately.