

RBI cuts provisioning norm for advances to large accounts now before NCLT

K RAM KUMAR

0



MUMBAI, APRIL 4

Throwing another lifeline to banks, the Reserve Bank of India has reduced the provisioning requirement for large accounts referred to the National Company Law Tribunal (NCLT) up to March 31, 2018.

This comes on fears that banks may be worse off due to bad loans provisioning when they declare their financial results for FY2018,

Provisioning for the secured portion of the large accounts (from the RBI's first and second list), which are currently undergoing corporate insolvency resolution process (CIRP) under the Insolvency and Bankruptcy Code (IBC) has been brought down from 50 per cent to 40 per cent.

This is expected to shore up the bottomline as the provisions made over the last couple of quarters get released (write-back), say bankers. However, the provisioning on the unsecured portion of the large advances has been retained at 100 per cent.

Bankers point out that there is no clarity yet on whether the benefit of the relaxed provisioning requirement will be available to accounts that are not part of the RBI's first and second list but have been referred by banks to the NCLT.

“The RBI has done us a good turn. If the benefit of the relaxed provisioning is available to all accounts referred to NCLT up to March 31, 2018 and not restricted to those from the two RBI lists, then it will be icing on the cake,” said a top public sector bank official.

As per data compiled by State Bank of India's (SBI) research team, about 35 large companies, which form part of the RBI's two lists, with bank loans aggregating ₹4,12,020 crore have been referred to the NCLT. For accounts referred to the NCLT after March 31, 2018, the provisioning will be back to normal.

The relaxation in the provisioning requirement for accounts referred to the NCLT should be viewed in the context of the RBI recently throwing a lifeline to banks that posted huge treasury losses in the third quarter and faced the prospect of posting losses in the fourth quarter too. On April 2, the central bank allowed them to spread the provisioning towards the depreciation of the bond portfolio over four quarters, commencing from the quarter in which the loss was first incurred.

According to an SBI Research report on NCLT, the most important point of IBC is that it seeks to separate commercial aspects of the insolvency proceedings from judicial aspects.

“While Insolvency Professionals will deal with commercial aspects such as management of the affairs of the corporate debtor, facilitating formation of committee of creditors, organising their meetings, examination of the resolution plan, etc., judicial issues will be handled by NCLT.

“This would reduce the burden on judiciary and would eliminate delays. There would be a time-bound settlement of insolvency, faster turnaround of businesses with commercial viability and creation of a database of serial defaulters,” the report said.

Further, IBC will make it easier for financial institutions and banks to deal with bad loans and have a faster and non-invasive resolution process.