Priority sector loan write-offs lowest: RBI

By: Shayan Ghosh | Mumbai | Published: June 19, 2018 1:45 AM

Write-offs by banks for loans disbursed to the priority sector—primarily agriculture, MSMEs and smaller homes—account for about a fourth of all write-offs. The remaining 75% or so relates to loans given to companies—working capital or project finance—and to individuals. Banks must lend 40% of their total advances to the priority sector, as per Reserve Bank of India (RBI) guidelines and 18% must go to farmers. In 2017-2018, an amount of Rs 25.5 lakh crore was lent to this segment, about 5 % higher than in 2016-17. Responding to an RTI query from FE, RBI noted the reduction in non-performing assets (NPAs) relating to the priority-sector resulting from the “write off (including compromise)” was Rs 24,682 crore in 2016-17. For the remaining loans, this was a much higher Rs 79,580 crore.

While banks do not provide a break-up of the write-offs for various loan segments, the central bank noted data prior to 2016-17 was not available. FE had reported that at a time when capital is scarce, a clutch of 10 banks has written off loans worth Rs 1 lakh crore in 2017-18, a 50% jump over the previous financial year. State Bank of India (SBI), which refers to write-offs as advance under collection account (AUCA), wrote off Rs 40,196 crore in 2017-18 as against Rs 20,570 crore in 2016-17. RBI classifies agriculture, export credit, education, housing, social, infrastructure and renewable energy as priority sectors, while the rest of the sectors like companies, personal loans, vehicle loans are classified as non-priority loans. Typically delinquencies are lower for home loans but the asset quality for education loans has seen a fairly sharp deterioration in the past few years. A couple of public-sector banks (PSBs) ended 2016-17 with bad loan ratios of as high as 18%, in the education-loans category, data released by the ministry of finance showed.

Seven state-owned banks reported a double-digit gross NPA ratio for their education loan portfolios, as on March 31, 2017, documents placed by the ministry in the Lok Sabha and numbers put out by PSBs in their annual reports and/or investor presentations, reveal. To be sure, banks are able to recover money post write-offs, since they continue to pursue the borrower. For instance, State Bank of India (SBI) recovered Rs 5,333 crore from such accounts in FY18, up 35% over the previous year. The current year could see some write-offs in corporate loans,a consequence of the insolvency proceedings initiated for larger companies to which lenders have a total exposure of close to Rs 4 lakh crore. While banks have made provisions for these assets, in keeping with the RBI’s rules, they may need to write off some portion of the loan. Lenders write off toxic assets once it becomes extremely difficult to recover them. However, these loans are fully provided for and banks are able to recover a part of their dues. Once recovered, the provisions held for these accounts are reversed. These recoveries are clubbed under other income in a bank’s profit and loss statement.

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