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Project Sashakt: Banks give shape to inter-creditor pact for bad assets

BY ET BUREAU | JUL 06, 2018, 07.18 AM IST

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Banks have finalised an inter-creditor agreement and are working on details of an asset management company as part of a five-pronged mechanism they have identified to resolve the issue of mounting non-performing assets (NPAs) under Project Sashakt.

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Banks will now take inter-creditor agreement to their respective boards for approval and it's expected to go live later this month, Punjab National Bank chairman Sunil Mehta said. Under Project Sashakt, financial institutions will enter into an inter-creditor agreement to authorise the lead bank to implement a resolution plan in 180 days.

The agreement is the bedrock of the bank-led resolution approach (BLRA) for loans between Rs 50-500 crore. This inter-creditor agreement will be a legal document and enforceable in any court of law, Mehta said. "It makes sure that there is effective, good communication amongst banks and if anyone has a difference, then they will resolve it among themselves," he said. Mehta headed a committee of bankers that drew up the NPA resolution strategy.

He noted that as long as 66%, or two-thirds, lenders who have exposure take the decision, then they will be able to take a deciding step forward. Mehta said banks of all sizes, including private banks, participated in the meeting. "The way we had articulated Project Sashakt, this is really for multi-banking arrangement. That is the whole idea of having inter-creditor agreement," he said.

On setting up an asset management company, Mehta said the matter is being looked into and next step will be discussed in the future. Earlier this week, finance minister Piyush Goyal had said the government has accepted the proposals that were contained in a report

submitted by Mehta-led committee of bankers and that there is no plan for a bad bank. One of the proposals was that banks will also set up alternate investment funds (AIFs) to raise money and back the asset management company.



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“An independent AMC would be setup, and AIF would raise funds from institutional investors,” Goyal had said, adding that the government will have no role. The report had recommended a fivepronged approach for loans up to Rs 50 crore, loans of Rs 50-500 crore and loans above Rs 500 crore. There are about 200 accounts that owe over Rs 500 crore to banks for a total exposure is about Rs 3.1 lakh crore. The committee had also suggested an asset trading platform for both performing and non-performing assets.

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