

11:34 AM | 05 JUL

LIVE

MARKET STATS ▼

சென்செக்ஸ்

35,593 ▼ -51.90

நிஃப்டி 50

10,752 ▼ -17.00

கோல்டு (எம்சிஎக்...)

30,553.00 ▼ -61.00

யுஎஸ்டி/ஐஎ...

68.72 ▼ -0.02

CREATE
PORTFOLIOஈ-டி
மார்க்கெட்ஸ்...CHOOSE
LANGUAGE
TAM

Will the NPA black hole suck in the country's entire banking universe?

BY ET CONTRIBUTORS | UPDATED: JUL 05, 2018, 06.20 AM IST

Post a Comment

by Chaitanya Kalbag

Big Change:[The end of Five-Year Plans: All you need to know](#)

With barely nine months to go before the Lok Sabha election, how serious is the crisis in our banking system? Put simply, it is not going to be resolved any time soon, although Gol is scrambling to force more medicine into the patient on life support.

RBI's latest financial stability report tries to sound optimistic. It says credit picked up in 2017-18 despite sluggish deposit growth. But it sees banks' gross non-performing advances (GNPA) ratio worsening from 11.6% in March 2018 to 12.2% in March 2019. A [Credit Suisse](#) (CS) report says banks' GNPA's climbed to Rs 10.09 trillion at end-March from Rs 8.82 trillion at end-December.

Last year, RBI placed 11 of 21 public sector banks (PSBs) on its prompt corrective action (PCA) list — in other words, under constant watch in the ICU. Over the last three years, Gol has injected Rs 1.4 trillion of capital into PSBs. The sickest banks have received nearly two-thirds, or Rs 810 billion — almost matching those 11 banks' losses in the three years. Gol has budgeted Rs 650 billion of fresh capital infusion in 2018-19, but this will not suffice.

The PCA banks' pallor is turning greyer. RBI says their [GNPA ratio](#) may worsen from 21% at end-March to 22.3% by March next year. Nine of them will see severe capital shortfalls. At the same time, PCA banks' loan books are shrinking.

Two of the 21 PSBs reported modest profits in fiscal 2017-18. But losses at the other 19 widened to Rs 873.5 billion. IDBI Bank, which

has GNPA of 28% and is piteously called the 'Industrial Dust Bin of India', will now be controlled 51% by the Life Insurance Corporation (LIC). This could be a temporary vitamin boost, because there are reports that GoI plans to merge IDBI with three other ailing PSBs.



3-year-olds inside are burnt by acid, needs urgent help!

Milaap



Samsung Galaxy A6
32GB - 16MP Selfie
Camera at best price

GADGETS NOW

Recommended By Colombia

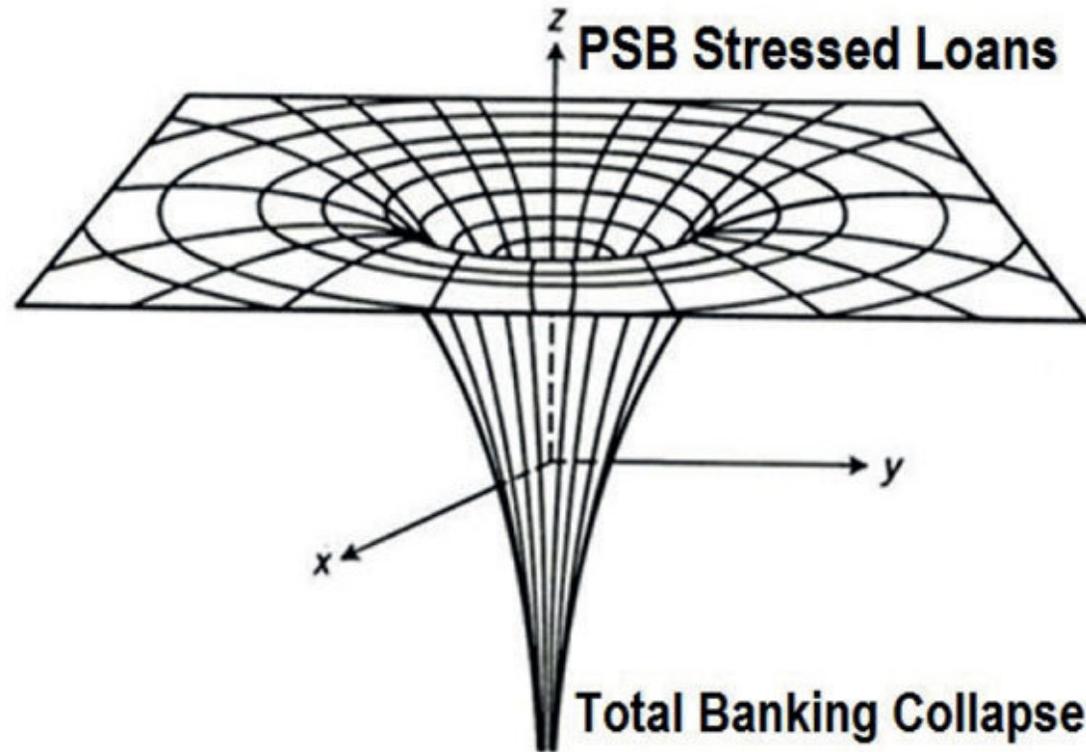
Most of our PSBs continue to be bloated, inefficient and mismanaged. CS analysis shows that operating expenses, which include salaries and pensions, now exceed 90% of PSBs' net interest income, which means the banks have almost no headroom to resume lending.

Detox for the Banks

Banks' total stressed loans, which stood at Rs 12.47 trillion at end-March, or 14.3% of their total loans, were down slightly from Rs 13.29 trillion, or 15.8%, at end-December.

To put the NPA problem in perspective, our banks' stressed assets now stand at 9.6% of our GDP, or about half of Budget 2018. Looked at another way, our banks' stressed assets equal 46 times the Budget of the ministry of health and family welfare, and 28 times our education Budget.

GoI is struggling to break the logjam. The bankers' committee it set up has ruled out a 'bad bank' that would take over all toxic assets. Instead, it recommended a combination of a bank-led asset management company, alternate investment funds, and a platform to auction bad assets. It set a 90-day limit for resolution of [bad loans](#) to small and medium enterprises (SMEs). And it proposed inter-creditor agreements to speed up resolution under the Insolvency and Bankruptcy Code (IBC), which came into force in December 2016.



Coming to a galaxy near you

The urgency is growing because the IBC pipeline is already dangerously clogged. CS noted that as of March, the National Company Law Tribunals (NCLTs) were hearing about 700 cases, of which only 37% had been referred by financial creditors, and another 2,200 cases were waiting to be admitted. Only 180 cases had been closed, and a tiny 13% of those had been resolved. Nearly half ended in liquidation, and more than 40% have been disputed.

There just aren't enough resources to tackle the mountain of bad debt and bankrupt companies. Ten NCLTs were set up two years ago. An 11th in Jaipur has just been announced. There is also a 'principal' bench in New Delhi, and an Appellate Tribunal (NCLAT). Disputed cases go to the Supreme Court. I counted a total of 2,667 'insolvency professionals' who have to be certified by the Insolvency and Bankruptcy Board of India, the regulatory body. You need to possess just a BCom degree to be an insolvency professional, which is like asking a paramedic to perform brain surgery.

One of the seven NCLT judges in Delhi told me each of the four benches in the capital was hearing an average of 20 cases a day, and

the workload was impossible. NCLTs also handle non-bankruptcy cases like mergers, and disputes between directors and shareholders. There is a 14-day deadline for admission of IBC cases, but it is observed more in the breach. Resolutions have a 180-day deadline, extendable by 90 days. But only two of the original 12 'dirty dozen' big IBC cases referred by RBI have so far been resolved.

Expensive Haircut

The good news is that in 12 insolvency cases resolved in the January-March quarter, creditors recovered about 70% of the debt. The average time for resolution was 267 days. CS says NPA levels have probably peaked and should start declining as the IBC process continues. CS estimates an average 45% haircut, or loss, for creditors on the RBI-referred 12 cases. But the central bank has named 28 more large NPA cases, and the NCLTs have admitted only 14.

With RBI tightening the NPA screws in February, CS expects another 70 big cases to be referred to the NCLTs in the July-September quarter, including 40 comatose power projects. The worst is yet to come.

Stay on top of business news with The Economic Times App. [Download it Now!](#)

Powered by

[Live Market News](#)
[Portfolio](#)
[Mobile](#)
[Live TV](#)
[Biz Listings](#)

[Industry Newsletters](#)
[Commodities](#)
[Speed](#)
[Blogs](#)
[RSS](#)

[About Us](#)
[Create Your Own Ad](#)
[Advertise with Us](#)
[Terms of Use & Grievance Redressal](#)
[Privacy policy](#)

FOLLOW US

Download it from
APP STORE

Download it from
GOOGLE PLAY

Download it from
Windows Store

Other Times Group news sites

[इकनॉमिक टाइम्स](#) | [ईकोनॉमिक्स टाइम्स](#) | [Pune Mirror](#) | [Bangalore Mirror](#) | [Ahmedabad Mirror](#) | [ItsMyAscent](#) | [Education Times](#) | [Brand Capital](#) | [Mumbai Mirror](#) | [Times Now](#) | [Indiatimes](#) | [नवभारत टाइम्स](#) | [महाराष्ट्र टाइम्स](#) | [ವಿಜಯ ಕರ್ನಾಟಕ](#) | [Go Green](#) | [AdAge India](#) | [Eisamay](#) | [IGN India](#) | [NavGujarat Samay](#) | [Times of India](#) | [Samayam Tamil](#) | [Samayam Telugu](#) | [Miss Kyra](#) | [Bombay Times](#) | [Filmipop](#) | [BrainBaazi](#) | [BrainBaazi APP](#)

Living and Entertainment

[Timescity](#) | [iDiva](#) | [Entertainment](#) | [Zoom](#) | [Healthmeup](#) | [Luxpresso](#) | [Gadget Reviews](#) | [Titanium & Platinum Credit Card](#) | [Online Songs](#) | [MensXP](#) | [Hotels](#) | [Travel Destinations](#) | [Cricbuzz](#) | [Recipes](#) | [Gaana](#) | [Happytrips](#) | [Getsmartapp](#)

Interest Network

[itimes](#)

Hot on the Web

[Share Market](#) | [GST](#) | [Income Tax Slabs](#) | [Aadhaar Card](#) | [IFSC Code](#) | [Mutual Funds](#) | [How to save Income Tax](#) | [Sensex Today](#) | [Nifty Bank](#) | [Sensex](#) | [Income Tax Calculator](#) | [FIFA World Cup 2018](#)

Services

[Book print ads](#) | [Online shopping](#) | [Matrimonial](#) | [Astrology](#) | [Jobs](#) | [Tech Community](#) | [Property](#) | [Buy car](#) | [Bikes in India](#) | [Free Classifieds](#) | [Send money to India](#) | [Used Cars](#) | [Restaurants in Delhi](#) | [Remit to India](#) | [Buy Mobiles](#) | [Listen Songs](#) | [News](#) | [TimesMobile](#) | [Real Estate Developers](#) | [Restaurant Deals in Delhi](#) | [Car Insurance](#) | [Gadgets Now](#) | [Free Business Listings](#) | [CouponDunia](#) | [Remit2India](#) | [Techradar](#) | [AliveAR](#) | [Getsmartapp App](#) | [ETMoney Finance App](#) | [Feedback](#) | [Auto](#)

In Case You Missed It

[All about PNB Fraud](#)

[Home Loan Calculator](#)

[Reliance Jio](#)

[Education Loan Calculator](#)

[Indian Railways](#)

[Insolvency and Bankruptcy Code](#)

[Income Tax Calculator](#)

[Walmart Flipkart Deal](#)

[Bajaj Finance](#)

[Income Tax](#)

[Dubai Emirates](#)

[IFSC Code](#)