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Time ripe for asset quality review of NBFCs, says Arvind Subramanian

An AQR for NBFCs, including HFCs, is necessary given the uncertainty over NPAs, says the former chief economic adviser

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Non-banking finance companies (NBFCs), which are facing liquidity challenges, are in need of an asset quality review (AQR) to know the stress level and to work on solutions for them, said former chief economic adviser Arvind Subramanian.

Subramanian, now a professor at Harvard

Former chief economic adviser Arvind Subramanian. File photo

University in the US, said the AQR for banks (in 2015-16) had an important positive effect as it brought to light the issues and the lenders couldn't hide the problem. If you hide the problem, you also can't galvanise the political will to address it, he said.

An AQR for NBFCs, including housing finance companies (HFCs), is necessary given the uncertainty over non-performing assets (NPAs).

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"There may be a push back to it AQR. The IL&FS group defaults were representative of what lies beneath. Think of the quality of the oversight that we did not know about the monster," he said in a panel discussion on the launch of his book, "Of Counsel - the challenges of Modi-Jaitley economy". The panel discussion was organised by the Asia Society.

He said that he would like the system, the government and the Reserve Bank of India (RBI) to do an AQR for NBFCs. "I think the AQR for the banks had an important positive effect as it brought to light the issues and banks couldn't hide the problem," he added.

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"If you hide the problem, you also can't galvanise the political will to address the problem. If you can do an AQR for NBFCs... because it is necessary given the uncertainty over non-performing assets and over the NBFCs," he added.

"I had come out with 4Rs -- recognition, resolution, recapitalisation and reform -- for the banking system and had come up with the Subramanian law of non-recognition. That law states that at every point in time, bad assets are 20-30 per cent higher than what you think they are. This (AQR for NBFCs) will require cooperation by all regulators, the government, National Housing Bank and the RBI," he said.

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When asked about the scale of such an exercise, given that there are over 2,000 NBFCs and HFCs, with assets under management of over Rs 2-3 billion, Subramanian said, "I think they will have to restrict it to a manageable size. In the short-run, the markets may be affected, but it will help address what they are worried about, which is why we need transparency."